
Xm2, N66Ec
N71.6.B6.
127 S11

ECONOMIC AND POLITICAL WEEKLY

A Sameeksha Trust Publication Rs 1.25 Vol VI No 36 September 4,

2216

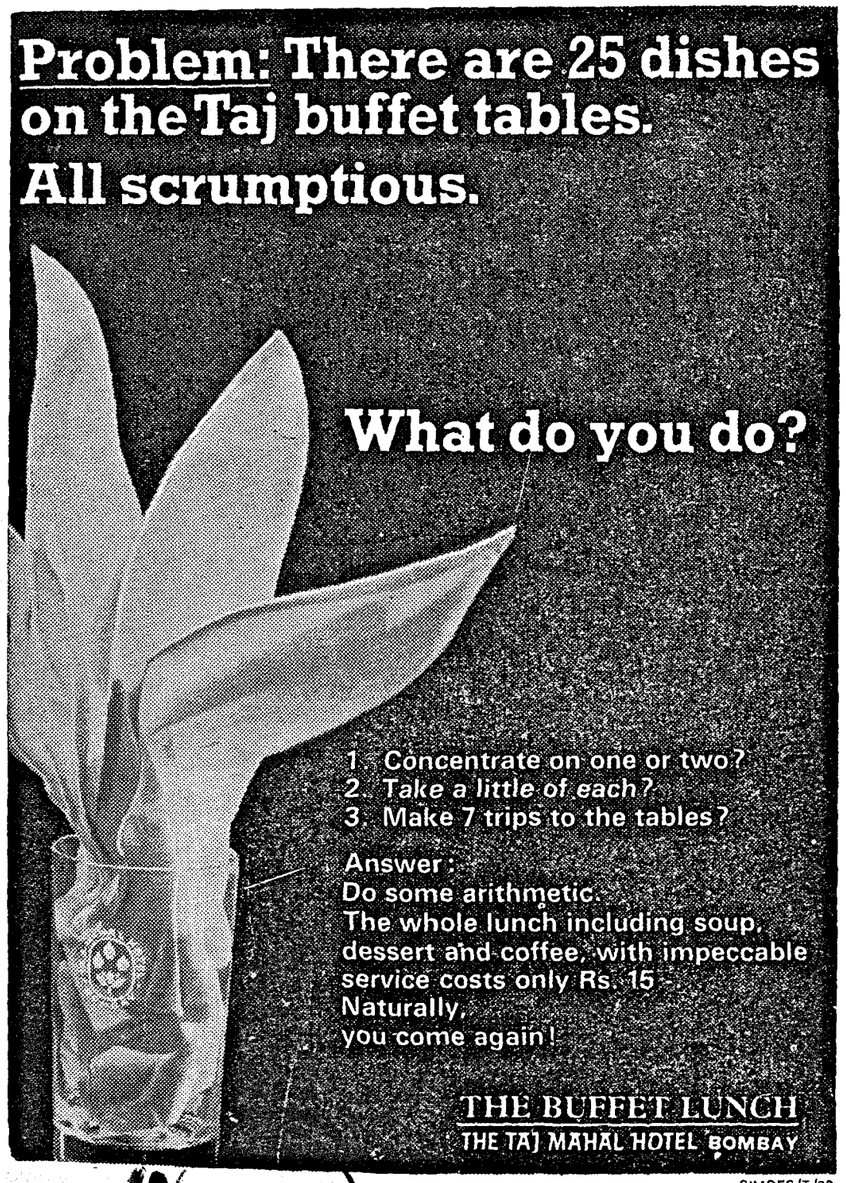
WHY MEASURE RURAL UNEMPLOYMENT?

ELECTIONS IN A RURAL CONSTITUENCY

POLITICAL SCIENCE RESEARCH IN SEVENTIE

MORE ON DIFFERENTIAL INTEREST RATES

TALKING ABOUT LABOUR



ECONOMIC AND POLITICAL WEEKLY

Founder-Editor: Sachin Chaudhuri

Vol VI No 36 September 4, 1971

Search for Complete Security—Chasing Wrong Hares — The Judge Is Ill—Soviet Gains 1894

Business 1896

Companies 1899

Capital View 1901

From Our Correspondents

New Delhi: Talking about Labour 1902

Goa: Political Playmates 1904

South: Telengana within Andhra —Mohit Sen 1905

Assam: Election Prescience 1906

Maharashtra's Somnambulant Universities 1907

Bangla Desh and India 1907

Chile's Land Reforms —Mohan Ram 1909

The Fourth Estate 1910

Review

Sampling Theory Condensed 1911

Special Articles

Rural Unemployment: Measurement for What? —N A Mujumdar 1913

General Elections of 1967 in a Rural Constituency —Imtiaz Ahmad 1915

Prospects for Indian Political Science Research in the Seventies: Work of the ISSRC —R Srinivasan 1926

Differential Interest Rates—I —Bimal Jalan 1930

Differential Interest Rates—II —Boswel 1931

ECONOMIC AND POLITICAL WEEKLY

Skylark 284 Frere Road Bombay 1

Phone 26 60 72

Editor

KRISHNA RAJ

Assistant Editors

Rajani X Desai, Jawid Laiq

Business Manager: A Fernandes

Circulation Manager: Shiv Patil

Editorial Staff

Colin de Souza, Haresh M Advani

Shireen Heerjee, Ashok Rao

Preoccupation with Form

WHEN the rate of contributions to the Employees' Provident Fund was raised in the early sixties from 6¼ per cent to 8 per cent for undertakings employing 50 or more workers, the Government had thought it necessary to follow an elaborate procedure involving discussion in the tripartite, appointment of an Expert Committee and careful consideration of its recommendation before effecting the actual increase in the rate. The enactment of the statute on Bonus prescribing, *inter alia*, a minimum bonus of 4 per cent was similarly preceded by an even more elaborate procedure. On both occasions employers in the country had strongly resisted the proposals. In the context of this past history, the proposal to raise the P F contributions rate from 6¼ to 8 and from 8 to 10 per cent as the case may be, as also the proposal to double the quantum of minimum bonus from 4 per cent, which are reported to have been unanimously approved by the Conference of Labour Ministers in New Delhi last week, appear to have got through with astonishing casualness. Is it the radical posture of the Congress or the proximity of the elections in most states that has influenced the attitude of the Government both at the Centre and in the states towards these measures which will obviously be of far-reaching impact?

So far as the proposal for raising the P F rate is concerned, the benefits to the Government are more real than those to workers. This source has long provided the Government with very large loan funds at cheap rates. The total amount already runs to some Rs 1,200 crores and a rise in the rates will bring in even larger funds for whatever use the Government might want to put them to. This is, perhaps, the most acceptable form of compulsory long-term savings which industrial workers will submit themselves to and the interest that the Government has to pay on these savings is much lower than on almost any other savings borrowed by it. For the workers themselves, the benefit of the enhanced rates will be much smaller than might appear, for, apart from the low interest earned, in an inflationary situation, the real value of the P F contributions will continue to be eroded seriously.

The proposal to prescribe prison sentences for those employers who default in paying contributions to the P F according to the law would also be welcome, but for the insistence of the state governments on retaining the powers to authorise prosecution. The state governments have shown no inclination at all to make use of these powers, though P F defaults by employers have already reached grave proportions. The reluctance to hand over these powers to the P F organisation itself is really difficult to understand.

The value of the proposal to prescribe a minimum 60-day advance notice for closure of undertakings is likely to be only formal. There are numerous cases of closures taking place without the managements following even the present requirements of notice and payment of retrenchment compensation. The Government has been found to be virtually powerless to enforce these requirements of law against an employer who does not want to run his establishment anyhow. Prolonged and frustrating litigation in various Courts by the workers or their trade unions sometimes succeeds in recovering a part of the workers' dues from the employer but never in protecting their jobs. The Government, however, is rarely of any help in this. How a 60-day notice provision can be enforced against an employer who actually closes down without any notice at all and has no intention of running his establishment or of paying anything to the workers, is not at all clear.

The preoccupation of the Government with form rather than content is also evident from the jurisdictional disputes, which seem to have figured so prominently in the Labour Ministers' Conference, among the Centre and the states about the handling of industrial relations problems in different sectors. The more important question of how these problems should be handled seems to have received little attention. The jealous safeguarding of authority which earlier led to the Centre and the state governments rejecting the National Labour Commission's unanimous recommendation for the setting up of autonomous Industrial Relations Commissions for dealing with problems in this area, now leads to a dispute over authority between the Centre and the states. In the meanwhile, there has been no progress towards devising more satisfactory ways of handling these problems than those that exist now.

It may possibly be that the Labour Ministers did not want to take any rigid positions as the whole subject of industrial relations and all the controversial questions therein is at present the subject of discussion among the three central trade union federations which expect, hopefully, to put forward agreed proposals from the side of labour. But there are undoubtedly other kinds of

problems to which the Labour Ministers might have given urgent thought without prejudging the outcome of the trade union discussions. It is well known, for instance, that violation of the welfare and safety provisions of labour laws by employers and managements is rampant. Even in a centre like Bombay, cases of workers being made to work for 12 hours a day and seven days a week without any overtime payment, non-payment of wages according to awards or on the legally prescribed pay-day, workers thrown out of employment without any notice or compensation, refusal to grant paid leave prescribed under the Factories Act, workers kept as casuals for years on end, safety provisions of laws flagrantly flouted and numerous such violations of the law are all too common. Surely, there is no Centre-State jurisdictional disputes or any controversy over policy in such cases. The basic problem here is that while the Government has progressively taken upon itself increasing responsibilities and powers through new enactments, the discharge of these responsibilities and the enactment of these powers has become progressively less effective. The Labour Ministers assembled at Delhi do not seem to have shown even an awareness of this situation.

PM's Trip to the West

Search for Complete Security

WITH the Indo-Soviet Treaty we formalised our relationship with the Soviet Union and put it on a firm, legal basis. It became necessary, in view of our declaration that we still intend to be non-aligned, that the Western states should understand the nature and scope of our new alignment. Indira Gandhi's proposed trip to the West would in effect do just this. An alignment with the Soviet Union is not an alignment against the West. Earlier, we managed with considerable success to impress upon the West that there is no real contradiction between non-alignment and bi-alignment. The West not only understood this principle but also welcomed it. It followed that we must now explain that our Treaty with the Soviet Union does not, and is not intended to, alter our equation with the West. There is no contradiction between non-alignment, alignment and bi-alignment. It is all a question of interpretation. Peaceful bi-alignment is our policy and the document we signed on the ninth of August only reinforces that policy. Presumably the Prime Minister would explain our position during her trip to Western capitals.

This explanation becomes necessary because of two factors. For one thing, there are some political groups within our own country who imagine that socialist transition is best achieved through treaties and pacts. It was time the West was told that the Treaty is not meant to bring about a transformation within our socio-economic structure. On the contrary, it is meant for its very consolidation. No matter what the detractors of bi-alignment might say here in this country, the Americans and the British should understand that our intentions are quite clear and honourable. We might need a few roubles for defence hardware but we still continue to love the dollar however shaky it might be.

Secondly, Pakistan is trying to make it look as though the Treaty neatly divides the subcontinent into the American and the Russian spheres, mostly exclusive. Of course, we do not like the continued arms supply to Pakistan by the US. However, this does not mean that we treat the US as a power hostile or inimical to India in any fundamental sense. If our defence requirements make our dependence on the Soviet Union almost complete (for which again the US alone shares the blame), we need the US for our Green Revolution. In other words, we keep our minds and door absolutely open on the subject. The West need not look upon India as an exclusive dependency of the Soviet Union.

These are the messages which the Prime Minister presumably wants to carry to the Western capitals. This again is not strictly new. We have been pursuing these policies for last few years. The Indo-Soviet Treaty does not mark a break with that tradition. It is a part of our continuing search for security—security of the system that is. A section of our people thought that an alignment with the Soviet Union meant, in effect, putting all our eggs in one basket. As that basket looked to many rather frighteningly red, it was essential to remove the optical illusion. We could not have done that by saying that the Soviet basket is really not all that red. The only way in which we could achieve the desired result was by emphasising that our trust in other baskets is not any the less genuine. It is all very well to say that these policies are necessary to ensure our security. What it means in terms of freedom we have steadfastly refused to look into. In a recent interview with the *Times Literary Supplement*, V S Naipaul gave a very apt definition of a colonial. A colonial is one, he said, who has a complete sense of security. May be it is time we paused and gave some thought to where our bi-alignment is inexorably leading us to.

Incomes Policy

Chasing Wrong Hares

A Correspondent writes:

APPARENTLY taking a leaf out of Nixon's book, the Planning Commission has convened a meeting next week to consider an incomes policy. When Prime Minister Harold Wilson imposed a wage-price freeze in the UK in 1965-66, the advisers in our Finance Ministry had persuaded T T Krishnamachari, then Finance Minister, that an incomes policy was no less needed here. An obvious advantage of the proposal, from the bureaucrats' point of view, is that a prices and incomes board would have to be set up, thereby furthering the cause of bureaucratic employment and empire-building. The idea, however, died a quiet death with TTK's exit from the Government.

Now the proposal appears to have been revived. What is being attempted in the UK and the USA is not an incomes and prices policy as such, but only a wage-price freeze (as in the USA and, that too, for 90 days initially) or a regulated system of wage bargaining (as in the UK). An incomes policy would seek to regulate, in a long-term perspective, the growth of wages so as to de-fuse a wage-price-wage inflation and, as a *quid pro quo*, guarantee real wages by keeping down price increases to acceptable levels.

This might have relevance in advanced economies where the potential for organised bargaining as well as for government regulation is large. In economies where the normal balance of countervailing forces is disturbed by extraneous factors (such as inflation), the State can use its power to restore the balance or to become a long-term arbiter.

A large part of incomes in advanced countries arise in the organised sector. Also, a large proportion of goods, including food articles, undergo 'processing' and are sold in packaged form. Unprocessed goods (like fresh vegetables) account for a very small part of total consumer expenditure. Consequently, in such economies incomes and price control are amenable to effective policing. Even in these countries, however, a temporary measure such as a wage-price freeze is difficult to administer in an equitable way. In the UK, for instance, it was found that where commodities were sold loose there was a tendency to raise prices by giving less for the same money-worth of purchase. In the USA, sales of vegetables, fish and similar raw articles have been exempted from the price-freeze.

In an economy like India's, it is precisely these kinds of situations which predominate. Organised factory employment forms 0.8 per cent of total population and most incomes arise in the unorganised sector. Let alone safeguarding wage levels in the unorganised sector (e g, hotels and restaurants, laundries, domestic service), the Government is not able even to protect employment in these sectors.

Similarly, we have had price control on individual commodities for the last 30 years. But this has only led to evasion, corruption and administrative favours for a few people. Rent control, for instance, has led to a parallel price system. In other commodities, price control has resulted in black markets and unjustified — and economically indefensible — transfers of incomes to middlemen.

Finally, retail sales in India mostly take place in loose form. When tea or spices are bought in 5 or 10 paise worth quantities, who is to check whether the grocer's thimble-full is smaller than it used to be before the planners imposed their incomes policy? Even as regards packed goods, some cement producers, for instance, systematically fill ½ to 1 kilo short-weight in their 50-kilo bags and attribute the shortage to transit losses.

An incomes policy also assumes a vigilant, capable and reasonably honest administration. In the US, Ford was denied a price-rise on its new models; in India in a similar situation we would have perhaps had some civil servant writing out a learned note stressing real and imaginary changes in the new model to justify a price rise. In the US, top executives of electric equipment companies were put in jail for breach of anti-monopoly legislation; in India, when a top industrialist was put in prison for misappropriation, we had an attorney general shedding tears, in official opinions, about the suffering the industrialist had to undergo.

There are enough real problems in India in the field of planning without the Planning Commission having to run after artificial ones. In the field of employment and wage levels, we have to recognise the fact that money wage levels in India in the organised industrial sector are the same as in other underdeveloped countries with per capita income levels two to three times India's. Is this not protection of organised labour at the cost of those who are kept out of the wage employment market? In other words, it is necessary to ask the question: what shall we maximise — employment or wages?

So also it is necessary to recognise the impact of prices on wages which are price-index-linked, as happens through the system of dearness allowance. While industry, whose profits benefit through price rises, can afford to meet such claims, the Government can meet wage increases only through taxation. There are also other issues to consider. If the economy has got bogged down in secular stagnation, the fault has not been that of the Government's social welfare policies, but of its investment and development policies. What the Planning Commission ought to be doing is to make a quick review of the economy and suggest areas of investment to raise the level of economic activity.

Cossipore-Baranagar Murders

The Judge Is Ill

A Correspondent writes:

SO the retired Chief Justice of the Allahabad High Court, B B Malik, who was to conduct the inquiry into the Cossipore-Baranagar mass murders last month has declined to undertake the responsibility. Disclosing this, the Union Minister for West Bengal Affairs, Siddhartha Shankar Ray, is reported to have said on Wednesday that "Malik had agreed to conduct the inquiry but later expressed his inability to do so owing to ill-health". How convenient, indeed!

This is not the first time that a potentially embarrassing inquiry has been scotched in this manner. In the case of the Barasat murders, widely suspected to have been the work of the police, the commissioner for the inquiry withdrew after an attempted assault on him. Naturally, it did not occur to the government to appoint another commissioner. And now the Cossipore-Baranagar inquiry ... What a coincidence!

The disclosure of the retired Chief Justice's ill-health came just as the Prime Minister began yet another of her visits to West Bengal. During the visit she will, one may be sure, speak in high dudgeon about the "politics of murder". Accusing fingers will be pointed by her, and by those in her entourage, at the Naxalites and the CP(M). And yet who were the assassins of Cossipore-Baranagar? Not the Naxalites; they were the victims. This is admitted on all sides.

The victims, some 100 of them, were not even all Naxalites. Many were suspected (by whom?) Naxalites. Many others who were butchered or had their hands and legs chopped off were only relations of Naxalites—elderly parents, sisters ... But now the "ill-health" of a superannuated judge threatens to ensure that a cloak will be drawn over the identity, personal and political, of the assassins, over the connivance of the police and the administration and over the larger political motives of the murderers and their patrons. It is evidently expected of us that we accept without question Siddhartha Shankar Ray's verdict that the mass murder (of little girls and elderly people) "was an expression of mass anger which had accumulated over a long period".

Is this, may one ask the Prime Minister, how she proposes to fight "the politics of murder"?

Berlin

Soviet Gains

THE four-power agreement on Berlin which was initialled on August 23, has run into minor trouble with the postponement of its signing last Thursday. This is not surprising as it is an extremely involved and complex agreement which has required the co-operation not only of the four powers (United States, Soviet Union, France and Britain), but also of the two Germanies. Behind the minutae of the agreement which deals with easing transit transport into West Berlin from West Germany, allowing West Berliners to visit East Berlin once again, and redefining the political status of West Berlin, there are major international trends at work.

The chief initiators of a warmer climate in Central Europe have been the Soviet Union and Willy Brandt's West German Government. Ever since the departure of Khrushchev in 1964, the Russians have been keen to

smoothen relations with West Europe and particularly, West Germany. While the Christian Democrats were part of the ruling coalition in Bonn, there was little response to Soviet overtures. But once the Social Democrats became the major partners in the Bonn Government and Willy Brandt the Chancellor, West German suspicion and distrust were reduced, and past rigidities began to dissolve.

The main goals of Soviet policy in Europe are first, the maintenance of ultimate Soviet control of the East European satellite states and second, accommodation with as many West European countries as are willing. And since the Americans, for economic reasons, are as keen to lessen defence commitments in Europe as the Russians are, accommodation with the West is not a difficult task. What is more taxing for the Russians is that the improvement in Soviet-West European relations might also lead to independent initiatives by the East European states towards closer economic as well as political and ideological ties with the West. Rumania is already a case in point. The Berlin agreement is, however, ideal from the Russian viewpoint. It improves relations with the West, makes it more convenient for the Russians to begin their own *ostpolitik* on their Asian boundaries, and at the same time reinforces the Russian hold over the East Germans and indirectly over other East Europeans, as the major Western powers have now openly acknowledged that the Soviet Union remains the only voice that counts in East Europe.

BUSINESS

Ergo, Subsidy for LIC?

INDIANS are supposed to be notoriously security-minded as reflected in the preference most of us have — or had till recently — for jobs in the government rather than in the private sector. Whether this concern for security has encouraged purchase of life insurance cover is, however, a moot question. It is no secret that most buyers of life insurance seek not only cover against death, that is, buy security, but shrewdly mix such cover with investment. This mix is clear from the overwhelming majority of policyholders buying 'with-profit policies'. Whatever else this pattern of preference might mean, it is certain that life insurance is being taken up by the well-to-do (including, in the Indian context, those in the lowest income-tax bracket) who want to maximise the return on the savings in the form of life insurance and earn a tax rebate in the bargain. Consider, for example, the fact that the average size of policy sold more than doubled during a decade to over Rs 8,000 in 1970-71. Surely, even after allowing for inflation, this would suggest that insurance is not for the poor man.

What then is the point of saying, as LIC chairman T A Pai does in his annual statement for the year ended March 31, 1971, released this week, that the Corporation did away with penal premium rates for garbage cleaners, menials in TB and leprosy hospitals, cycle rickshaw drivers, etc? Does he really expect these low paid staff to buy insurance on their present low wages? Surely, such a presumption would be unwarranted in a situation when the all-round pressure of inflation is deepening the indebtedness of the poor. At any rate, Pai cannot be unaware of the fact that just as every occupied agricultural family has its quota of the disguised unemployed, so too has the worker in the organised sector unemployed dependents. Where then is the scope for saving for those at the lower income levels either in the urban or the rural sector?

The question is relevant in the context of LIC's efforts to give life insurance the image of a product needed by the poor. Which poor — the unemployed, the casual employed, the seasonally employed or those employed who borrow to maintain current levels of subsistence? If these are excluded, the categories of relatively poor would really be the wealthy in the Indian situation. Should insurance be made attractive for them by a subsidy, as asked for by Pai? Pai has asked the Government to forgo its profit from LIC on the understanding that LIC would use the funds for a development fund. He has justified the need for such a development fund on the ground that expansion of life insurance means not only the appointment of more insurance agents but the establishment of offices for servicing policies all over the country.

Of course, insurance needs to be spread not only among the poor (whom the gods love) but also, as Pai says, among "the prosperous and affluent farmers in the villages" who provide "a potential market" for life insurance. Somewhere along the line, the prosperous farmer has got mixed up with the entire rural sector. The mix-up is even more curious since Pai himself says that urbanisation — and presumably with it the large rural conglomerations, *a la* Bernard Cohn — is proceeding apace, blurring the dividing line between the urban and the rural sectors. In sum, what Pai really means by covering the entire rural population is that the rural, i e semi-urban, market for life insurance needs to be market for life insurance needs to be tapped. For this, LIC cannot rely on its existing network of 664 offices in the country. But why should the Government subsidise this effort? Pai's argument is that LIC has to maintain the "bonus" payable to "with-profit policyholders" lest incremental business declines. And the payment of such bonus from out of its profits leaves it without the funds for the scale of development expenditure it has in mind to cover the rural sector with "with profit" policies. The argument is supported by drawing attention to the statutory limit placed on LIC's expenses as a ratio of its income. *Ergo*, the Government should forgo its share of the profit which is well above Rs 5 crores a year.

The first question that arises in discussing the claim is whether rural earners who are exempt from tax should be subsidised additionally by cheap life insurance? The second question is whether all the expenses LIC incurs are justified. This is the nub of the problem, since expenses limit the size of profits and the residual, after bonus and return to Government, available for development. True enough, LIC does not confine its business to the most profitable sectors but goes beyond this to cover factory workers through group insurance schemes and so forth. Acturially speaking, this is not really social service, considering the improvement in the average life expectancy and the health-consciousness (*via* the Employees' State Insurance Scheme) of the section of the people of interest to Pai. But Pai uses the social service argument to justify LIC's overall expense ratio which remains over 27 per cent (27.19 per cent in 1970-71 against 27.69 per cent in the previous year).

It should be conceded, however, that even after considering Pai's arguments for a subsidy for what they are worth, the case for a subsidy would still not be totally weak. As an instrument for tapping savings — not from the Harijans, menials and destitutes, but from the relatively wealthy — life insurance could be used more extensively. This would give more savings for organised investment in the bonds of land development banks, state electricity boards, or other development agencies. But what form should the subsidy take? Should not the subsidy be realised in the shape of higher yields from investments that is, through alert shuffling of investments — in a different context, Pai has bemoaned the underutilisation of capacity in a number of industrial units including those in which LIC has taken up equity — and higher premiums for, policies of, say, over Rs 25,000? Why should not premium rates rise sharply for heavy insurance policies that go to protect the very wealthy and fatten the inheritance of their progeny? Had life insurance been in the private sector, the issue of concealed subsidy to the wealthy policyholders would have been questioned. So too would have been high expense ratios.

At any rate, the issue of a subsidy fund for LIC is not as simple as it appears at first sight. It could as easily be asked why not a subsidy for banks? Just as bank deposits are influenced critically by the level of deficit spending, so too are sales of life insurance. To quote T A Pai: "The average sum assured, per policy, for the business done in India went up from Rs 7,394 in 1969-70 to Rs 8,066 in 1970-71 showing an increase of Rs 672, i e, *approximately 9 per cent.* This can be attributed to inflation". Expecting a subsidy in addition to this fiscal "growth" factor is asking for too much.

Foreign Exchange

Plugging Leaks

A Correspondent writes :

THE country loses an estimated Rs 240 crores of foreign exchange every year, according to the findings of a study team of Central Financing Ministry. The break-up of the unauthorised uses of foreign exchange is roughly: Rs 160-170 *crores smuggling*, Rs 35-40 crores travel and Rs 25-30 crores under-invoicing of imports. However, unofficial estimates made from time to time about smuggling and under/over-invoicing of foreign trade have put the foreign exchange loss much higher. Gold smuggling alone is believed to account for about Rs 350-400 crores every year. As gold smuggled is generally valued at prices prevailing in India, the foreign exchange leakage on this account would be around Rs 200-250 crores at the official rate of exchange. Exchange loss on account of smuggling of numerous other goods like watches, radios, cosmetics, etc, would be in the range of Rs 30-40 crores. As regards under-invoicing of imports, total imports on private account were Rs 646 crores in 1968-69 as against Rs 785 crores in 1967-68. A number of unofficial estimates indicate that under-invoicing of private imports are unlikely to be, on an average, less than 10-15 per cent Foreign tourists in India also get without much difficulty rupees at a rate much cheaper than the official rate. If foreign exchange loss on account of all these leakages are added they would amount to Rs 350-425 crores every year. Obviously, when an official study team attempts estimates about such an embarrassing subject as the foreign exchange leakage, its figures are bound to be underestimates.

The study team has suggested various measures to plug loop-holes through which leakages of foreign exchange take place. Some of the suggestions are such that even if they are implemented in earnest, their impact is unlikely to be felt at least in the immediate future. Take for instance, the recommendation that a central enforcement machinery should be set up to check the capacity of industrial units and the utilisation of the goods imported by them. The task facing such a committee would be so enormous and technically complicated that it would be futile to expect any tangible results to emerge. The so-called 'essentiality certificates' are not difficult to obtain and it would be not an easy job in each case to verify the genuineness of the 'essentiality'. As regards under-invoicing of imports and over-invoicing of exports, the malpractices cannot be easily curbed without delaying unduly all export/import clearances at the customs. Many thousands of commodities, the prices of which fluctuate during the year, are exported and imported throughout the year. A meticulous check of all foreign trade transactions to verify the accuracy of their stated values in the foreign trade documents would involve a tremendous effort. On the other hand, smuggling out of silver and smuggling in of gold take place through established routes. It would be perhaps a much easier task to keep greater vigil on the coastlines than check each and every foreign trade transaction. Government owes an explanation as to how such a bulky commodity as silver is so easily smuggled out of the country in large bars of 10-20 kgs and how the country is kept regularly supplied with such large quantities of gold. Much more could be achieved by strengthening the enforcement branch of the Customs Department than by resort to such devices as meticulous checking of foreign trade transactions or of capacity of industrial units and utilisation of the goods imported.

It need not be altogether denied that greater scrutiny of capacity of import-consuming units and export-import transactions and also greater effort to bring to task people who indulge in malpractices would certainly yield some of the desired results. But these measures have their limitations. The ingenuity of people indulging in smuggling and foreign exchange malpractices is such that even the Nazi regime in Germany could not put down their activities. The level of foreign exchange leakage could be safely linked to the degree of governmental control on foreign exchange transactions. With the black market rate of the rupee being slightly above one-half its official parity, smugglers and their 'fellow-travellers' can easily offer high temptations to the very people who are expected to put down their activity — whether they belong to the Customs department or to any of the other inspecting departments of the Government.

Fertiliser Corporation

In the Same Boat

FORMED a decade ago (January 1, 1961) by bringing together all the fertiliser units in the public sector to coordinate policy better and make possible unified control, Fertiliser Corporation has had a chequered career. It was thought in the mid-sixties that is could not cope with the necessary expansion of fertiliser capacity and output; so the industry's doors were thrown wide open to the private sector. Today, the Fertiliser Corporation can claim that it deserved better. First, the private sector units have neither 'arrived' fast enough nor without support of collaborations—while the Fertiliser Corporation has built up a capable Planning and Development Wing that it can bank upon for new expan-

sion, from the stage of adaptation of technology, design, and engineering, to procurement and execution. In fact, it has last year taken on consultancy work for a private firm. Secondly, the Fertiliser Corporation is one of the few public sector undertakings that is not in the red. In 1970-71, it made a net profit of Rs 1.7 crores after providing for depreciation. The Nangal, Gorakhpur and Trombay units were mostly responsible for keeping the Corporation out of the red. Their joint 'profit' (as chairman Sethna calls it), of Rs 4.69 crores, was diminished by the Rs 3.02-crore loss made by Sindri and Namrup. This despite the fact that because of the severe power cut by the Bhakra authorities, Nangal produced 32 per cent less than in 1969-70 when it had crossed its rated capacity. Gorakhpur's operations too were handicapped by irregular power supply and higher cost of raw materials. Significantly, Trombay seems to have surmounted its technical difficulties and Sethna expresses hope of even better performance by it in future. Namrup's difficulties are claimed to be those of uneconomic size and wrong location, though it did produce marginally more in 1970-71. Sindri is 'ageing' being very much the oldest plant, dating back to 1951, though 'corrective' action is under way.

The Corporation, in fact, has a sizeable expansion programme in hand worth Rs 450-500 crores (its internal resources are Rs 108 crores). This includes the Durgapur and Barauni projects, the Trombay expansion programme, and the Ramagundam and Talcher coal-based fertiliser plants where a pioneering attempt is being made in this technology. Like his private sector counterparts, Fertiliser Corporation's chairman complains of delay in the supply of indigenous equipment by fabricators, shortage of structurals and other steel items.

Like the private sector units, too, Fertiliser Corporation is feeling the change in the fertiliser supply and demand situation over the past three years. Consumption has failed to rise at the expected pace, while expansion programmes have gone ahead. With several public sector units due to be commissioned this year and next the pressure will mount. Like the other fertiliser companies, the Fertiliser Corporation has been building up a marketing and sales network. The chairman has described this at length including the mode of marketing and sales meetings regularly held to review problems of sales, supplies, distribution, credits, etc. The new pressures are also having their impact, making this public sector Corporation very management-conscious. During 1970-71, an elaborate system of Management Reviews—of Production, Materials Management, Marketing and Management Reporting—was set up.

Despite all this management-consciousness (or as part of it?), Fertiliser Corporation, like most of private industry, complains that costs are rising while prices are being depressed with Government taking off the cream of what the market will yield *via* the 10 per cent excise duty. So it seems poised to ask for a higher price on two of its products that are still controlled.

Chemicals

Not Competitive

A Correspondent writes:

AT Rs 26.5 crores in 1968-69 India's chemical exports represented an increase of 21 per cent over the previous year. In 1969-70, they increased to Rs 39 crores. This performance fostered the hope that chemical exports were poised for a strong, sustained growth and that by 1973-74 they could reach Rs 75 crores.

What has been overlooked in the enthusiasm is that the increase in chemicals exports over the last three years is not underpinned by a growing competitiveness of Indian chemical products in international markets. It was the closure of the Suez Canal that opened to India the markets of several Arab and African countries which had earlier bought chemicals mostly from Western countries. A second factor that helped chemicals exports was the large offtake by Ceylon and Indonesia financed by special credits extended to them by India. These twin factors, however, cannot be banked on for ensuring the long-term growth of India's chemicals exports.

A sustained increase in chemicals exports can be based only on the country's ability to offer a wide range of products of an acceptable quality and at a competitive price. This is no easy task given the state of the Indian chemicals industry. The weaknesses of the industry stem mainly from the exorbitant costs of almost all indigenous raw materials and their recurring shortages, the outdated technology of the major undertakings, and the uneconomic scale of operations which hikes up the unit cost of production.

There is, for instance, countrywide shortage of such vital organic raw materials as ethylene, propylene, benzene, xylene, ethylene alcohol and methanol. So also, inorganic chemicals, like soda ash which is another basic chemical, have frequently been in short supply. Projects like Hindustan Organic Chemicals, IDPL and the Durgapur complex, which produce certain basic chemicals, have failed to deliver the goods. This fact, together with inadequate imports, have been mainly responsible for the raw material shortage in the chemicals industry. The shortages inevitably led to a sharp rise in prices of raw materials. Chlorine which was about Rs 175 per tonne two years ago is now over Rs 500 per tonne. The price of naked benzene rose from Rs 800/960 to Rs 960/1,350 a tonne. Prices of naphthalene have also risen sharply—Hindustan Steel, which manufactures this item, raised the price quite substantially from Rs 600 per tonne to Rs 1,800 per tonne which is very much higher than the international price. Prices of other basic raw materials like Bix-N ammonia, nitric acid, urea and methanol, manufactured in the public sector, are also very high.

One way open to improve the availability of raw materials would be to utilise existing capacity fully. Similarly, the chemical industry will have to endeavour to produce a more complementary range of items; though the industry now produces about 160 items, it is yet to grow into economic complementarity. Technological changes in the chemical industry have been quite rapid. While it may not be possible—nor necessary—for the chemicals industry in India to adopt all these technological changes, it is important for it to undertake intensive R and D programmes both in private industry and in Government-financed laboratories with a view to adapting advanced technological processes which are more pertinent to our conditions, to suit our endowments and our markets. However, the present policy of encouraging the small-scale sector in this industry may militate against producing cheaply for export markets.

If the consortium of the manufacturers of chemicals, drugs and dyes, formed recently in a bid to capture a greater share of the highly competitive foreign markets, is to be successful in the long run, it will have to be clear that it can hope to promote and sustain export only by becoming more competitive.

Despite Government Takeover . . .

Hansavivek

INDIA UNITED MILLS, which has been under government management for about 6 years, has gone deeper into the red. With a fresh loss of Rs 2.75 crores in 1970, against Rs 2.07 crores in the preceding year, the accumulated deficit has mounted up to Rs 12.04 crores. The company's share capital is only Rs 2.50 crores. The company has not paid (a) to the provident fund authorities Rs 1.09 crores collected from workers and Rs 1.58 crores as its own contribution, (b) to the Employees' State Insurance authorities its own contribution aggregating Rs 49 lakhs, and (c) dividend for 1964 though it was demanded by the shareholders. Also no provision has been made in the accounts for bonus to employees. In accordance with the decision of the Bombay High Court, the company was exempted from the provision of the Payment of Bonus Act since it was taken over by Government. But the High Court has granted certificate to the applicant workmen to go in appeal to the Supreme Court, and the applicants have filed a petition. The decision of the Supreme Court is awaited. Moreover, among the contingent liabilities not provided for is the workmen's gratuity estimated at about Rs 58 lakhs.

During 1970, the company received further loans of Rs 80 lakhs from Maharashtra Government which has also extended the period of repayment of a temporary loan of Rs 65 lakhs by a year to March 1, 1972. Further loans amounting to Rs 1.39 crores have been received from the State Government during the current year, which, too, are repayable on March 1 next. Besides, the State Government has extended the dates for payment of all the previous loans granted to the company till November 28, 1971, and renewed the moratorium on payment of interest on the loans of Rs 213.50 lakhs for a year till the end of November next. The company has requested the State Government to grant a moratorium on payment of interest on the remaining loan of Rs 2.84 crores for a "further suitable period". The company has received a loan of Rs 1.15 crores from National Textile Corporation, New Delhi. It has not received any fresh loan, however, from the Union Government during 1970. Since 1969, the company has not paid interest on the Union Government loans amounting to over Rs 5 lakhs for 1969 and Rs 17 lakhs for 1970. The Union Government had granted a moratorium for payment of interest till the end of last March. Here again, the company has requested extension of moratorium for a further suitable period.

The Authorised Controller's report ascribes the disappointing results in the latest completed year to all-round increase in costs, particularly in prices of cotton and cost of dearness allowance. The rise in DA from Rs 187 to Rs 195.78 over the year left a strong impact on the profitability of the company employing more than 16,700 persons. The report states that prices of cotton registered "unprecedented levels" in the early months of the current year and that DA reached a new peak of Rs 201.13 for the period January to June 1971. During 1970, the company exported cloth valued at Rs 177 lakhs. The UK Government's decision to impose, from January 1972, import duty on cotton textiles imported from India and to scrap the quota system will hit the company's exports. At present the main markets for the company's exports are the US, Sudan, and Russia. It is feared that the continuous rise in cotton prices will adversely affect Indu Mills' exports.

ZENITH STEEL PIPES' three directors, S G Nevatia, I K Kejriwal, and S M Mohta, have recently resigned from their board, D M Dahanukar and M S Davar have been taken on the board to fill the casual vacancies caused by the resignations of Kejriwal and Mohta. The vacancy caused by Nevatia's resignation has not yet been filled. Nevatia was associated with the company from its very inception. Also B K Birla resigned as chairman though he continues to be on the board. No reason has been given for these important changes in the board. The report, however, says that an application has been made recently to the Company Law Board for excluding the company from the list of large industrial houses referred to in the Dutt Licensing Enquiry Committee report, and that CLB's reaction is awaited. The company complains that its application for manufacture of pipes of larger diameters, for export, has been rejected by Government on the plea of shortage of indigenous steel while applications of some other parties have been sanctioned even though these have been based on the home market. The company is seeking Government's approval for setting up a pipe manufacturing plant in Indonesia; it has already received approval of the Indonesian Government. The electric resistance welding process has been replaced by the high frequency welding unit, and the new equipment is now operating satisfactorily after initial troubles. The change has reduced production costs and improved the quality of tubes. The tools manufacturing division of the company has recently obtained an industrial licence for manufacture of 300 tonnes of industrial knives per annum. During the year ended April last, Zenith's production suffered on account of shortage of steel and irregular supplies of zinc. The increase in import duty on zinc, by about Rs 1,100 per tonne listed in the last budget, will "substantially" increase the company's cost of production.

SWADESHI COTTON complains that last year its Naini unit had to work intermittently and partially because of irregular and inadequate supplies of viscose staple fibre by the only supplier, Gwalior Rayon, even though the Central Government has directed that company to supply 4 lakh kg per month to the unit. The supplier also raised prices. The working of the company's Kanpur unit has not been satisfactory owing to "abnormal rise" in the cost of production. The Udaipur unit showed satisfactory results, but the Pondicherry mills' working was affected by frequent low voltage in power supply and workers' strike for a few days. The new mills at Maunath Bhanjan went into full production in the later part of the year and suffered from lower productivity as the labour has not attained the required degree of skill. Swadeshi incurred losses on Government orders worth Rs 1.69 crores because orders were booked at fixed prices and by the time they were executed, cotton prices had increased. Despite increase in sales, gross profit declined. The company spent Rs 1.15 crores on modernisation, renovation, and expansion. It has got an industrial licence to set up another textile mill at Rae Bareli. Production at the Kanpur mills has been partly switched over to fine and superfine varieties in the later part of last year following installation of high production combers. The company's working in the current year has been affected owing to further rise in cost of

cotton and a power-cut imposed by the UP Government from January, which affected the Kanpur, Naini and Maunath Bhanjan units. Diesel generating sets were installed at these last two units The power-cut has been withdrawn from June 26. The Government scheme of a cash subsidy at 50 paise per square metre of controlled cloth packed during June-August 1971, if continued, is expected to bring some relief to the mills.

UNIVERSAL CABLES complains that the problem of idle capacity in PILC cable plant will be aggravated when the change-over is made, from PILC to XLP cables upto 11 kV, as required by Government. The industry, it says, installed mostly imported plants at heavy cost to create PILC cable manufacturing capacity only a few years ago, and these plants would be rendered redundant. The company suggests that the position could be retrieved if the industry is allowed to manufacture telephone cables which are at present heavily imported. The company has applied for the import of plant and machinery for manufacture of cross-linked polythene cables. The technical collaborator, British Insulated Callender's Cables, has agreed to extend the technical know-how agreement to cover the manufacture of XLP cables. During the year to March 1971, the company experienced brisk offtake of cables on account of intensification in rural and railway electrification programmes. Demand for cables for engineering and industrial applications, however, remained depressed. The company has obtained a 'carrying-on-business' licence for manufacture of 1,500 tonnes of AAC/ACSR conductors. Owing to shortage of E C grade aluminium, especially in the earlier part of the year, the company could not fully utilise the capacity of its properzi plant for manufacture of redraw rods. With the subsequent expansion of the primary aluminium output in the country and with substantial imports of E C grade aluminium, the metal supply position has eased and the mill is now working at full capacity. "Unhealthy agitiation by unscrupulous union leaders" provoked a strike at the company's works, resulting in stoppage of production and assaults on some of "our devoted officers and staff". Since such labour trouble had become a recurring feature at the works, the management declared a lockout on March 17. Work was resumed from March 29 and the plant is working to full capacity.

INDIA TOBACCO's chairman, A N Haksar, says his company was among the first in the organised sector of industry to recognise trade unions and to enter into a series of long-term agreements with them covering terms and conditions of service of employees. Recognition, once conferred on a union, must be sacrosanct. Multiplicity of trade unions, according to him, is perhaps the one factor that has been most responsible for unhealthy industrial relations in the recent past. He urges Government to discourage not only the formation and growth of multiple trade unions, but any attempt by an employer to negotiate with more than one recognised union. Haksar says that long-term agreements have been concluded in 19 out of 20 branches of his company, and the last agreement is due to be finalised shortly. In this round of agreements, the basic wage has been further enhanced and the variable dearness allowance constitutes an even smaller component of the total pay packet. All earnings, besides the basic wage and dearness allowance, are for each member of the workforce linked to productivity — in the case of the annual productivity bonus it is linked to the productivity of the company as a whole, and in the case of monthly productivity payment at the factories it is linked to the productivity of each factory.

The Week's Companies

(Rs in lakhs)

	India United Mills		Zenith Steel		Swadeshi Cotton		Universal Cables	
	Latest Year 31-12-70	Last Year 31-12-69	Latest Year 31-3-71	Last Year 31-3-70	Latest Year 31-12-70	Last Year 31-12-69	Latest Year 31-3-71	Last Year 31-3-70
Paid-up capital	250	250	140	140	210	210	126	105
Reserves	165	163	191	135	401	440	140	97
Borowings	950	703	120	68	818	671	142	229
of which Term borrowings	650	453	8	1	205	173	92	108
Gross fixed assets	844	827	292	245	1294	1184	434	420
Net fixed assets	179	191	207	174	689	636	170	189
Investments	2	1	1	1	198	198	12	12
Current liabilities	679	577	193	135	254	228	83	73
Current assets	659	570	437	303	795	714	308	304
Stocks	575	513	363	218	507	504	207	184
Book debts	76	48	66	71	275	204	92	111
Net sales	1775	1752	695	673	2090	1811	762	610
Other income	31	26	118	121	15	16	41	59
Raw material costs	996	808	458	458	1144	941	514	428
Wages	676	662	53	47	410	372	50	40
Interest	98	58	3	4	73	62	17	20
Gross profit(+)/loss(—)	—247	—176	187	127	51	71	101	74
Depreciation provision	28	30	15	13	63	55	32	37
Tax provision	—	—	110	69	4	—	16	—
Net profit(+)/loss(—)	—275	—206	62	45	—16	+16	53	37
Development rebate provision	2	—	3	1	19	32	6	26
Transfer to reserves	—	—	42	30	—35	—16	32	16
Dividend								
Amount	—	—	17	14	—	—	15	10
Rate (per cent)	—	—	12	10	—	—	12	10
Cover (times)	—	—	3.47	3.14	—	—	3.13	2.60
Ratios (per cent)								
Gross profit/sales	—	—	26.91	18.87	2.44	3.91	13.26	12.13
Net profit/capital employed	—	—	13.75	13.12	—	1.21	12.99	8.58
Inventories/sales	32.39	29.28	52.23	32.39	24.26	27.83	27.16	30.16
Wages/sales	38.08	37.78	7.63	6.98	19.81	20.54	6.56	6.56

The Touring Season

Romesh Thapar

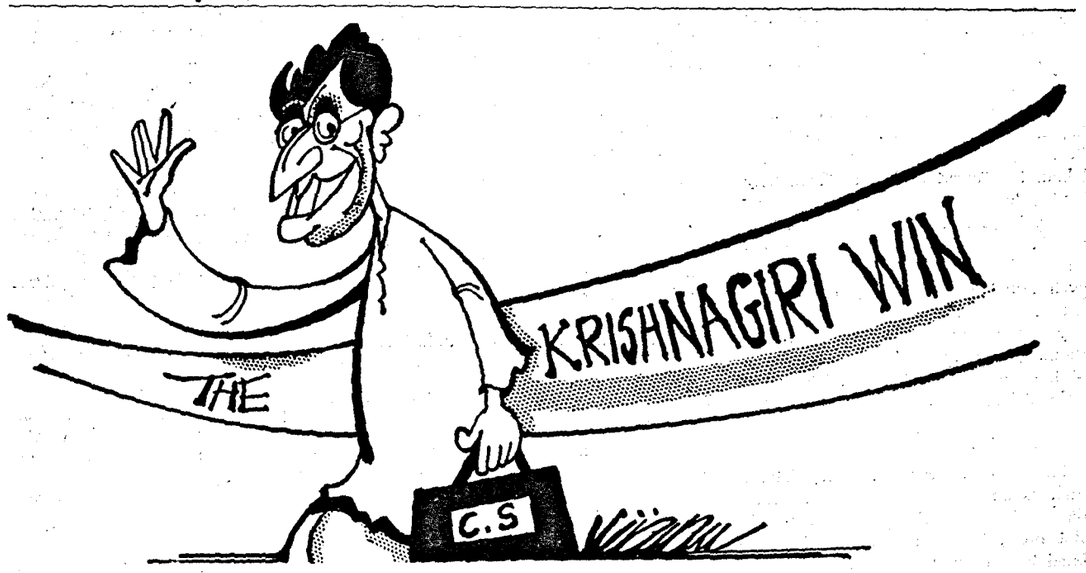
EVEN though an economic crisis of considerable gravity is beginning to mature, and the crises around Bangla Desh take on a sharper focus, life in the Capital goes on very much as before. Yes, Indira Gandhi is finding it more and more difficult to sample the opinions of all and sundry as time has become valuable, but her ministerial colleagues are not nearly so obsessed with work. Indeed, all manner of tours, internal and external, are under way.

The PM had only to suggest that she would be visiting countries in the West and the USA — possibly to offset the widespread impression that India is now aligned to the Soviet Union — when a host of ministers began to lobby for their own tours. Some had ailments of a kind treated only in their favourite holiday spots. Others were anxious to study "in depth" certain new developments in areas which provided a good holiday atmosphere. A few still expanded on the need to explain "our position" on Bangla Desh, forgetful of the changes that have taken place. And, of course, there were those who, like the ministers of Madhya Pradesh, could not organise hospitality abroad and were content to order a mass exodus of bureaucrats and their appendages to the vale of Kashmir for conferences and discussions.

Delhi is extremely cynical about all this intense tourism by ministers and their props—also of the PM's connivance at a huge wastage of foreign exchange — but what really got the locals aflutter was the global tour announced by none other than the Minister for Planning, C Subramaniam. The announcement, as it appeared in the Times of India, needs to be reproduced:

> "New Delhi: August 27: The Planning Minister, Mr C Subramaniam, will leave on a global tour on Wednesday visiting nearly half a dozen countries in about three weeks.
>
> While the purpose of the tour is to attend the board meetings of the International Rice Research Institute in Manila in the first week of September and of the International Wheat and Maize Improvement Centre in Mexico a fortnight later, Mr Subramaniam is taking advantage of the opportunity to meet political leaders in the West to apprise them of the Bangla Desh problem..
>
> A meeting with the US President, Mr Richard Nixon, is very much on the cards and the Indian Embassy in Washington is making the necessary arrangements. Mr Subramaniam will also call on Senator Edward Kennedy.
>
> The discussions with the US authorities will cover not only Bangla Desh but also Indo-US relations, especially those having a bearing on economic co-operation. When the Planning Minister reaches Washington, the Finance Minister, Mr Y B Chavan, will also be there to attend the Fund-Bank meetings. They may together have talks with some US leaders.
>
> After the Manila meeting, the Planning Minister proposes to go to Singapore to visit the Government housing colony there and see how it has been planned. He will return to Delhi on September 7 before restarting for Mexico on September 16. En route, he will visit Tokyo and have discussions with the Japanese Government and industry in regard to the Indo-Japanese committee meeting in Delhi in December.
>
> From Mexico, Mr Subramaniam will go to Washington and then to London before returning home towards the end of September".

I only hope "the system" will be able to make effective arrangements for our ministerial meanderings. Only the other day we learned that when our Foreign Minister passed through Singapore and requested a meeting with the Prime Minister of this city state, he was offered "fifteen minutes". In our relaxed condition, we tend to forget that in other lands people work very hard and to tight time-tables. When they go on



"It's as exciting to win with somebody else's votes as to plan with somebody else's resources!"

a holiday, they actually say so . . .

Of some significance in all this touring is the strange decision suddenly to invite the executioner of the Sudanese Communists, President Nimeiry, for a State visit to this country. The theories are many, but the most popular is that the PM is making clear that she is no one's stooge—*and certainly not* of the CPI which has been gloating rather openly about the alleged "coup" that it has staged in this country.

If all the *tours of our ministers* take *off, and they are mostly in the direction of various* well known and exciting destination points, we should be fairly busy this winter entertaining an odd variety of emissaries, and persuading them that nothing has changed in India. Nothing has, in fact, except that we seem to be roller-skating without any sense of direction.

So, why not go a-touring . . .

August 30

FROM OUR CORRESPONDENTS

NEW DELHI

Talking about Labour

INDUSTRIAL relations have been deadlocked for a long time now. And the new Union Labour Minister, R K Khadilkar, seems well aware of this. He has, of course, been very anxious and earnest about breaking the deadlock and establishing a more workable policy framework. But initiatives in this direction seem to have petered out. In place of the significant reorientation and reformulation of labour policy which is badly needed, we now hear high-sounding verbiage and expressions of lofty sentiments without much substance. This was all too evident at the two-day conference of state Labour Ministers held under the chairmanship of the Union Labour Minister in the last week of August.

Khadilkar opened the conference with impressive talk of a "*qualitative* change in the situation", of it being time for labour to "assert itself", as "monopoly capital had influenced very deeply our economic planning during all these years". The proceedings of the conference and its outcome, however, did not even remotely suggest any relationship with such talk. There was no hint of any escape from the *status quo*, notwithstanding the professed need for reform of the law and machinery relating to industrial relations.

No Breakthrough

Proposals for social welfare legislation, such as on the provident fund, were discussed and decisions were reached. But these, by themselves, signify no breakthrough in industrial relations. It was decided that PF rates should be raised *and that PF* scheme should cover a larger segment of business and industry including units employing only 10 persons. There was a consensus in favour of all-India legislation on gratuity for industrial employees; there were voices in favour of plugging the loopholes in the Bonus Act which employers use to deny fair bonus to workers. It was also proposed that the move to impose some restrictions on closure of industrial establishments in West Bengal be extended to the rest of the country since closures are often resorted to not so much for serious business reasons as to blackmail workers during industrial disputes. According to the proposed restrictions, employers would be required to give notice — of say, 60 days' — of their intention to close down an establishment during which time Government could investigate and possibly prevent the intended closure. There is no reason why such notice should not be required of employers when workers have to fulfil the same condition before going on strike.

While all these measures may be welcome to the trade unions, they are of marginal significance even within the established framework. When it came to tackling the problem of industrial relations, the conference failed to make any move forward. In fact, the entire outlook and approach of the Union Labour Ministry as well as of the state governments remained traditional and fixed. It was clear that the proposals made by the Union Labour Minister in this field were designed mainly to secure a greater say for the Central Government in handling labour relations and a greater leverage with respect to state governments.

It was suggested, for instance, that there should be greater uniformity in labour laws and that the Centre should exercise greater initiative. This was the general proposition presented to advance the more specific idea that labour relations in Central Government undertakings — particularly the larger ones which have several units located in different parts of the country — should be the business of the Centre instead of being, as at present, under the respective state governments. The Centre has been asking for this change for several years and this time it was most forceful about its proposal. The states predictably remained adamant and refused to surrender any part of their powers. They were unwilling, too, to relinquish control over the operation of the provident fund scheme — even resisting the suggestion that the Fund Commissioner should have authority to launch prosecutions in the event of defaults by employers under the PF Act, of which there are many. The state governments insisted that they retain this prerogative on the grounds that they were better informed about the conditions of individual units and the causes of defaults. But, they were very willing to let the Centre make the penalties under the Act as stringent as it might wish.

Public Sector

It is, of course, true that industrial relations in the public sector enterprises are in a very bad state. But they cannot be eased by the simple expedient of transferring the administration of the relevant labour laws from the states to the Centre. Uniformity in administrative practices and approach would, no doubt, be helpful where national level agreements are operative, but such centralisation could also lead to disregard of local circumstances and bureaucratisation of the administration of the agreements. Also, if state governments are considered competent enough to handle industrial relations of private sector units spread among different states but having common ownership, they could also deal as effectively in the case of public sector units. Finally, is there not a case for the disbanding of the present half dozen, multi-unit public sector giants for the sake of efficient management of the productive units under them?

While these jurisdictional matters were debated at length and with much passion at the conference, neither the Union Ministry nor the state governments displayed much thought or initiative on the major issues of labour policy and industrial relations which have been

hanging fire for a long time. Khadilkar spoke of the possibility of new legislation on industrial relations in the light of the recommendations of the National Commission of Labour. The Commission submitted its report nearly two years ago and it has remained on the shelves since then. In respect of industrial relations, the Commission had also taken a very hesitant and conformist view within the confines of the established framework of tripartite consultation, regulation and adjudication of industrial disputes. Its only new recommendation was that the machinery for adjudication should be made more independent of executive authority and be placed under judicial direction and control. The Central as well as state governments did not favour such a prospect at all and it has, therefore, been all but scuttled. This proposed move did not find support with labour either, with the exception of the Indian National Trade Union Congress whose entire philosophy banks on arbitration and adjudication. The militant sections of the organised trade union movement have been trying to remould industrial relations on a completely new basis which would break with the set patterns of the last two decades. Instead of constant third party intervention by the Government, a real advance towards healthy industrial relations can only be made on the basis of bilateral relations and collective bargaining between labour and employer with intervention by Government machinery and adjudicators reduced to a minimum.

Backsliding

The crucial element in any system of industrial relations is, of course, the question of union recognition by the employer. A measure of advance in solving this issue appeared to have been made when a consensus in favour of secret ballot to determine the degree of representativeness of rival trade unions began to emerge. It now appears that the Union Labour Minister has begun to backslide and the discussion on this issue at the conference remained totally vague and pointless.

Meanwhile, it will be worth noting that the present Labour Ministers' conference itself was held, unlike in the past, without convening either of the tripartite bodies—the Standing Labour Committee and the plenary Indian Labour Conference. The tripartite bodies in fact ceased functioning some time ago and it would probably be pointless to activise them on the old basis. If the new Labour Minister finds it inconvenient to hold a formal session of the tripartite bodies, this is only indicative of the inability even to approach the problems of evolvng a new labour policy framework.

The labour situation meanwhile is becoming difficult and strained. The rising price line, coupled with the attempted freeze on wages, even if it is not formally enforced, is likely to cause much labour resentment in coming months. Labour leaders appear to be preparing for this. While the CPI(M)-led CITU will attempt to act as the main organiser of labour demands, AITUC and the HMS are trying to come together to hold their own in this situation. Whatever their sympathies for the Central Government they will not be able to keep aloof. A preview of this could be seen in the recent West Bengal Bandh, when the uncompromising stand of CITU led all the trade unions, except INTUC, to reject the appeal of the Union Labour Minister to desist from adhering to the Bandh, even though some of them very much wanted to respond to his appeal.

The constraints under which Khadilkar has to function are underlined by the latest move to further restrict the participation of some segments of the labour movement in the tripartite bodies by stiffening the criteria for participation. This is in sharp contrast to his first attempt to enlarge the represeutation on the consultative bodies of the Labour Ministry. He had then called together, at a special conference, even those central trade union bodies, such as CITU, which are not represented in the Indian Labour Conference. There has now been an about face on this matter also.



GOA

Political Playmates

THE key to the understanding of Goa politics today is one word — fear. The pervading fear haunting each political party in the union territory is that another party will steal a march over it. There is also the fear of the future. (What is in store after the Assembly elections?) More generally there is the fear of political instability. It is the sum-total of these fears, that probably explains the continued existence of the Bandodkar Ministry despite the defection of seven legislators from his Maharashtrawadi Gomantak Party (MGP) in June 1970. The conflict between the Chief Minister, Dayanand Bandodkar, and the President of the Goa Congress(R) and MP, Purushottam Kakodkar, stems basically from the latter's fears of the Chief Minister's recent consolidation of his party and government. The compelling reason for the current fight in the open between the two — both are engaged in hurling serious allegations against each other — is the threat to Kakodkar's very political existence arising from the political advantage Bandodkar is likely to gain as soon as he manages to win back the seven Assemblymen who had defected from his party. And it looks like he will manage that quite soon.

The crux of the Goa Congress(R) leader's worries is the imminent break in the understanding reached at the time of the last Lok Sabha poll between his party and United Goans Party (UGP) led by Jack Sequeira. The UGP has now decided to fight 15 seats in the coming Assembly elections. This will give short shrift to Kakodkar's ambition to form an alliance with the UGP and thus defeat the MGP at the elections. Also, Kakodkar's attempt to prevent entry of Bandodkar and his followers into the Congress(R) has been frustrated by the UGP's refusal to merge with the Congress(R). The leadership of the UGP is actually conscious that its standing among the Christian population in the union territory is based on its anti-merger platform and on its opposition to Bandodkar. A majority section in the UGP is opposed to a merger with the Congress(R) as it feels that any departure from its present postures will cost it the support of the Christians who constitute the majority of UGP followers. Many Christians feel that they will lose their power of political leverage and their separate identity if the UGP merges with another party.

Kakodkar's main concern is the persistent reports of the MGP's imminent merger with Congress(R). Kakodkar knows for certain that these reports have substance, coming as they do from quarters close to the Congress(R) High Command and particularly to Indira Gandhi. Kakodkar and his followers fear that if Bandodkar joins the Congress(R), he will carry his large following with him as well as cause the anti-Kakodkar faction of the undivided Congress which became the Congress(O) after the split — as Kakodkar joined Indira Gandhi's camp — to join the Congress(R). This would reduce the Kakodkar group to a hopelessly minor entity.

While these moves continue to harass Kakodkar, he has not been able to patch up his differences with his colleagues in the party and build it on a sound footing. In order to divert public attention from the infighting in the Congress(R), Kakodkar recently resorted to making serious allegations of misuse of power by the Chief Minister. But these tactics have not helped as Bandodkar has launched legal proceedings against him.

Bandodkar is undoubtedly pleased about the possible break-up of the Congress(R)-UGP understanding, but his troubles with the Centre are still bothering him. What has indeed exasperated him is the annoying silence of the Centre — notwithstanding Indira Gandhi's support and sympathy for him — over his demand for filing the vacant posts in his Cabinet, desite several representations. Two of his Cabinet colleagues having resigned to join the Congress(R) in June 1970, the Chief Minister now heads the one-man Cabinet consisting of himself. He has one colleague who is merely a minister of state. The shrill quarrels between the Chief Minister and the Lt-Governor, Nakul Sen, have not helped to further the interests of Goa. Bandodkar has revived his demand for the recall of the Lt-Governor. Apart from the personal clash between the two, there is an all-round feeling that Nakul Sen interferes unnecessarily in the day-to-day administration of Goa. This has led Bandodkar to demand 'working statehood' for the union territory. The demand has received widespread support as the achievement of this status will bury once and for all the idea of merging Goa with Maharashtra.

Another important development, which has generally gone unnoticed, is the steady rise of the Jan Sangh. It is now concentrating on winning over Bandodkar by harping on the strong anti-Bandodkar feeling among the Christians. And Bandodkar has partly responded to the Jan Sangh's sympathy for him. The Jan Sangh has a shrewd idea that Bandodkar is quite capable of bringing his entire following into the Sangh. This is considered ominous by the Congress Party's Central leadership, particularly by Indira Gandhi. The leadership's fear is that if Bandodkar is not soon allowed to join the Congress, he will, out of sheer exasperation, join the Jan Sangh. As soon as the Chief Minister manages to get his defectors back into the MGP fold, the Central leadership is likely to invite him and his party to join the Congress(R) and overlook any embarrassment that might be caused to Kakodkar. With the elections fast approaching, this merger is going to take place quite soon.

Meanwhile, Goa is preparing to celebrate the tenth anniversary of its liberation from Portuguese rule on December 10, 1961. But among the people there is a general indifference to politics as many of them feel that democratic processes have not brought economic prosperity to their region.

Lamp Caps and Filaments

LAMP CAPS AND FILAMENTS is setting up a plant at Nasik with an installed capacity of 150 million metres of tungsten filament wires per annum. At present, there is only one organisation in India to manufacture these wires. Total cost of the project is estimated at Rs 75 lakhs, of which is 40 lakhs will be raised as share capital and the balance by loans. Of the share capital, equity shares of the value of Rs 10 lakhs have been subscribed by directors and their associates and equity shares of Rs 5 lakhs have been reserved for the collaborator, Oy Airam AB of Finland, and equity shares of Rs 15 lakhs and preference shares of Rs 10 lakhs carrying right to fixed dividend at 9.5 per cent per annum will be offered to the investing public through prospectus. The subscription list will open on September 10 and close on September 21, or earlier, but not before September 13. The entire public issue is underwritten. V K B Pillai, is the chairman and S A Trasy the managing director.

SOUTH

Telengana within Andhra

Mohit Sen

THE search for a solution of the Telengana problem persists. But the accent is now on giving Telengana a special position within Andhra. And it is the Chief Minister who now emerges as one of the main obstacles to the finalisation of the terms of the solution. So much so that some Telengana Praja Samiti leaders now quip that the biggest separatist is now Brahmananda Reddi himself. And here is a great deal of truth in that quip.

It has not gone unnoticed that just when the negotiations between the Prime Minister and Chenna Reddy, the leader of the TPS, were at a delicate stage and when the latter was being persuaded to postpone the demand for separation till 1977, the Chief Minister tried to cause embarrassment to the TPS leadership by publicly congratulating them for having given up the slogan of a separate Telengana. He knows very well that the price of postponement would have to be paid for by his quitting his post. Indeed, it was not so much to plead against separate Telengana as to plead for the retention of the present Chief Minister in his post that a large delegation of Congressmen from the state were despatched post haste to Delhi. And it is no secret that Brahmananda Reddi has told his closest colleagues that it would be better to separate than to give Telengana a special status within Andhra.

Of course, what he is really bothered about is the possibility of the coming into being of a separate Telengana Congress organisation or, at the least, of a distinct Telengana regional Congress committee within the APCC with the right to distribute tickets in the coming elections. This would mean that his power over Telengana would be substantially curtailed and this is the prospect he is not prepared to face.

No Mass Activity

These Chief Ministerial sorrows apart, what is the mood in Telengana? It is difficult to gauge but there is little reason to suggest that there has been any shift from after the mid-term poll. There is no mass activity around the issue, either for or against. And the response to the negotiations between the Prime Minister and the TPS has been one of hope, indeed, of expectation that some kind of compromise would be reached that would be an effective safeguard against the injustice and the domination of the delta that had been such a marked feature of the past 15 years. The realisation had grown that a separate state would now be difficult to achieve against the background of the massive voice of the Congress as well as the change in the national mood which has begun to concentrate simultaneously more on all-India problems and on social issues.

Thus, while it may outwardly seem as if Bangla Desh is rather far away and a concern of Delhi and West Bengal, there is in Andhra a great deal of feeling around the issue as well as a sensing of the fact that India is in danger of being attacked by Pakistan. True, the feeling is by no means as intense as in the north or the east but the feeling is there. An indication of this was provided by the successful march organised by the TPS in Hyderabad recently and the response by a usually politically apathetic mass to the series of meetings in support of the recent Indo-Soviet Treaty. There is a feeling that India as a whole is very much on the eve of significant developments and that to participate in these would be worthwhile. This is the mood of the youth, especially of the students and it is they, above all, who had taken up the banner of separate Telengana. Political commentators, to say nothing of political activists, would be led seriously astray if they missed this mood. And the mood is of Andhra, not of Telengana alone.

Added to this feeling for the nation there is the hunger for growth and the quickened aspiration for equality. For a time it looked as if the drought would create such a serious situation that all else would be well-nigh submerged in it. But the recent onset of the rains gives reason to hope that the monsoons would maintain their normal pace. And, contrary to some inexperienced opinion, it is not only between hunger and anger that the edge is thin, it is also between expectation and reality.

This explains the failure of any opposition to cohere against the move for radical land reform legislation proposed in the Andhra Assembly by the CPI. Partly, of course, the failure of the opposition to cohere is due to its cynicism. They feel that whatever the law not much would change at the village level. And this cynicism is justified so long as there is no mass movement of the toiling peasantry and the agricultural labourers at the grassroots level. But given such a movement progressive legislation has very considerable potential. And the movement is certainly helped forward by such legislation. If a progressive government is in charge of the administration as in Kerala, then, the mass movement, the law and large sections of the administration move together to accomplish significant social change, e g, the virtual abolition of landlordism. Even where the administration is not under the control of a progressive government radical legislation can secure a certain neutralisation of the state power—and this is a state power which habitually is on the side of the landlords—and give an added leverage to the mass movement. This is not to be taken to mean that a prospect of smooth gradualism now opens out. On the contrary, the prospect is of clash and of crisis and equally one of operating on the ground of reality, of utilising all the contradictions in the system.

CP(M) Splinters

It is the failure to even have an inkling of this particular ground of reality that has led to the virtual disappearance of the Naxalite movement in the state. Srikakulam is over and the Nagi Reddy and other trials drag on in the midst of public indifference even though there is the feeling, which is pretty widespread, that drastic sentences are no way of dealing with the problem or these particular detenus. There is the widespread feeling that some kind of Presidential amnesty would be the best way out. But this is sympathy and not support for the Naxalite cause.

Failure to come to clear terms with this ground of reality and wobbling around the issue has led to further splintering of the CP(M). Practically all its members and cadres from Khammam District led by Rajab Ali, MLA, have withdrawn from the party. This has reduced the party's representation in the Assembly from nine to five and seriously reduced its effectiveness as a mass force in the Telengana districts.

Finally, it is the failure to appreciate the complexity of this ground of reality that has led to the breakdown of Brah-

mananda Reddi's opportunist manoeuvre to try to set up an Andhra Congress more or less along the lines of Biju Patnaik's venture in Orissa. This abortive move never got off the ground though it shows the extent to which the Chief Minister is prepared to go in his game of blackmail and blandishment.

ASSAM

Election Prescience

WITH Assembly elections fast approaching, the parties in the state are gradually stirring. The most agitated and divided party is Congress(R), whose performance in the mid-term Lok Sabha poll had raised legitimate hopes in the minds of its leaders. The infighting between the Chaudhury and Bhagavati factions is not only still going on in the organisational wing of the Congress, but is being extended to the governmental wing. A 20-page press note issued by the Government of Assam last July, brought the bitterness and virulence of the continuing civil war to the surface. A tape-recorded speech made by Moinul Huq Chaudhury, the Minister for Industrial Development in the Central Cabinet, in his home district, Cachar, infuriated the entire Assam Cabinet and led to instant retaliation. In his speech, Chaudhury had accused the State Government of deliberately neglecting Cachar's industrial development and scuttling a paper mill project.

The long press note is a refutation of Chaudhury's charges of conscious neglect and it is now his turn to deny that the Central Government was in some way responsible for short-circuiting Cachar's development. The press note hinted that the implementation of paper, pulp and Barak Dam projects was being delayed not so much due to neglect by the State Government, but due to reasons beyond its control, including the Central Government's processing delays.

Whatever may be the merits of the press note or the heroics of Chaudhury, the plain truth is that the controversy has brought to the surface the inner struggle for power within the Assam Congress at a time when elections are around the corner. Chaudhury's strenuous efforts to consolidate his position continue. But he still does not have much influence in the State Congress. The President and the Secretary of the Pradesh Congress, Bijoy Chandra Bhagavati and Sarat Chandra Sinha, seem to be now in control of the State Congress organisation and both are working at present as a team to usher in a change of Assam's representatives in the Central Government. The controversy over Cachar's development therefore is an indication of the intensity of infighting over mobilisation of organisational and popular support for the two factions.

Chaudhury's idea of leadership is that of an energetic field officer ready to grasp any opportunity. He does not believe in discreet generalship from the rear like Chaliha did. The strategy of the Bhagavati group is subtle manipulation of top level and grassroots workers. Senior ministers of the Assam Cabinet rushed to New Delhi to meet Indira Gandhi while the controversy over Cachar was still hot. They feted her at Assam House (evidently the first Assam House dinner ever attended by the Prime Minister) and presented her with a memorandum filled with old demands like increasing Assam's quota of oil royalties and of central taxes, lowering the rate of Central excise duty on tea, building an infrastructure and quickening the pace of industrialisation. All these demands seem to be attempts to get reassurance of continued Central support for the State Government in the face of a Central Minister's (Chaudhury's) open denunciation of the Assam Government.

Indira Gandhi's actions in West Bengal and the Home Ministry's move to foist a supra-government in the shape of the North-Eastern Council, with the Governor of Assam as its head, on the states of the region, are sufficient indications of a major impending administrative change. Indira Gandhi's desire to change the complexion of the party and its leadership in Assam has never been explicitly stated, but Chaudhury's open denunciation of the Assam Government can be rightly interpreted as a step in that direction. These open controversies may or may not be a healthy sign of parliamentary democracy, but the lack of inner organisational and personal rapport is certainly an index of weakness of the Congress party as a political instrument.

Indira Gandhi's followers in Assam apparently indulge in faction fighting in the name of socialism. For the Congress party's coteries, aspiring for power, socialism has become a code word whose meaning is clear only to Congressmen. The weakness of Congress' socialism is the main plank on which the two Communist Parties and the newly formed United Socialist Party are functioning in Assam, although the last mid-term poll clearly revealed their limitations as socialist alternatives to the Congress. None of them improved their strength and the minorities and the middle classes seemed to have swung towards Congress. In some constituencies, the Bengali voters, apparently tired of the violent politics of West Bengal, expressed a clear choice in favour of a party which would maintain a *status quo* and stability. For instance, Phani Bora, the Secretary of the CPI, lost his previously sizeable support in his constituency (Nowgong), while Hem Barua of the PSP failed to mobilise the support of the Muslims. The result was clear defeats. If the tendency to support a *status quo* party persists among Muslims and some of the labouring classes, then Congress is likely to sweep the Assembly polls again.

The prospect of another defeat has caused a change of strategy on the part of the Leftists in the state. Both the CPI and the CPM are now united in a front and they are inviting the Socialists to join it. The Socialists are in the process of merger and their election strategy will not be known till the end of August. The Leftists in Assam have no choice but to join together in a front to fight the Congress. If the front is able to forge itself into a cohesive force, then at least 14 seats out of 126 may be won over by it. In the 1967 elections, both Socialists and Communists together got 14 seats, but at that time, the Muslims overwhelmingly favoured them. This time the Muslims may not vote for them, because both the acknowledged leaders of the Muslims are Congressmen — Fakhruddin Ali Ahmed and Moinul Huq Chaudhury. An overwhelming number of Muslims in Assam are, however, dissatisfied with the Congress stand on the Bangla Desh issue, but this is no reason for switching to the Leftists, whose policies are pronouncedly more radical on Bangla Desh. Popular dissatisfaction over the budget is growing, but as experience shows, votes alienated on this count can be easily manipulated by the party in power by stirring up feelings over stock emotional issues like communalism and foreign aggression.

Maharashtra's Somnambulant Universities

(From a Special Correspondent)

STUDENT trouble is non-news in most parts of the country, particularly in the north and north-east. Strikes by students and/or by staff, closure of a university, boycott of examinations, gheraos of officials, do not rate substantial newspaper space unless there are casualties in the process or unless the agitation is for a non-academic issue such as Telengana.

The situation was different in Maharashtra till recently. Whatever the reasons, educational institutions in the state led a fairly peaceful, if not somnambulant, life and local academics felt justified in indulging in occasional smirks of self-congratulation. Even at the height of the agitation for Samyukta Maharashtra, educational institutions were free from major trouble. However, in the past year or two, there have been several indications that things are not as quiet as they seem on the campuses.

Perhaps appropriately, the first rumblings have come from the agricultural universities in the state. Our genius for creating a caste system in any sphere of human endeavour has worked well in the educational sphere also. With the students of the medical colleges and the IITs forming the 'chosen' communities, agricultural students come way down the ladder. As such, it should surprise no one that they have also been the first to rise against the authorities.

Vidarbha's Agricultural University

This first happened about two years back when students in the Vidarbha region launched an agitation for the location of the agricultural university there. Although the Government did not yield immediately (which government does?), the demand was generally approved of, even in other regions of the state, especially because the chosen location in Ahmednagar district was so indefensible. Finally, the Government saved face and also yielded to the agitation by starting another agricultural university in Vidarbha. However, it is significant that despite their efforts, the local politicians did not succeed in converting the agitation into a movement for a separate Vidarbha. Evidently, Vidarbha is no Telengana.

Now it is the turn of the agricultural students from the western region. After a strike at the Agricultural University at Rahuri lasting over three weeks, the students are back in their classrooms after having forced the vice-chancellor to resign and after having most of their other demands accepted. The immediate reason for the eruption of student resentment was the blatant nepotism shown in admission to post-graduate courses. The son of the vice-chancellor himself and that of a Central minister were admitted out of turn. Other grievances of the students were also genuine enough. In fact, if we did not already know about the workings of our colleges and universities, it would be hard to believe that students have to agitate for such things as books in the library, equipment in the laboratory, lightbulbs in the hostel, bathrooms in working condition and so on.

Short Truce

The resignation of the vice-chancellor and the acceptance of most of the other demands of the students has brought peace to the agricultural university. However, this is likely to be of short duration if the educational authorities in the state fail to stir themselves in good time. Already, there are rumblings at other universities in Maharashtra. The grievances are distressingly familiar — nepotism in admission to prestigious courses, poor library and laboratory facilities, insufficient and poorly qualified staff, substandard living conditions in the hostels, irrelevancy of classroom instruction to the job situation later, etc. In addition, in many colleges, the teaching community itself feels aggrieved due to the behaviour of college and university managements.

The Government of Maharashtra proposes to start two new universities in the near future. However, for over a year now, it has not been able to select a vice-chancellor for one of the existing universities — Marathwada University at Aurangabad. Judging from this, even after making the highly unlikely assumption that the Government will find the resources to sustain the new universities properly, the problem of finding the requisite personnel will still remain. The resignation of one vice-chancellor should be enough of a warning about the dangers of choosing administrative personnel of poor quality, even though attracting high quality academic personnel is difficult.

Meanwhile, recent findings of employment agencies point out that despite widespread unemployment, there is a shortage of Devnagari typists, operators of punchcard machines, statistical assistants, persons with some knowledge of agricultural engineering for soil conservation and bunding operations, etc. Evidently, neither the universities nor the Government feel that teaching students a few marketable skills is part of their job. The basic tragedy of the situation is that what passes for education now does not prepare students in skills that are in demand even today, let alone those skills which would be needed say five or ten years hence.

Bangla Desh and India

A Special Correspondent writes:

IN the past month, a number of articles have appeared in the Indian Press, bewailing the 'inaction' and 'spinelessness' of the Indian Government in regard to the Bangla Desh crisis. Although the Indian Government does not obviously emerge from this crisis covered with wreaths of diplomatic or other glory, the lamentations of our bourgeois journalists cannot be taken too seriously by anyone who recalls their own performance in the earlier phases of the conflict in East Bengal. Mukti Fauj victories by the score, hundreds of villages and towns liberated, Dacca and Chittagong radio stations 'captured' on at least five different days! Our pressmen have only themselves to blame if their wishful thinking and cooked up stories have not come true. The poor freedom fighters of East Bengal who on more than one occasion told friendly Indian journalists about their future battle plans and had the mortification of watching them transmitted to the Pakistan Army *via* Indian newspapers which announced them as "great victories" in advance, must have ruefully wondered: "With friends like these who needs enemies?". Thus our national Press, now busy berating the Government, should look back carefully to the not very far off days when it treated every piece of bazar gossip as proven fact and no rumour was too fanciful for it to be held up as the truth.

Whose 'National Interest'?

Leaving the breast-beatings of our popular dailies aside, articles in a similar vein calling for 'positive action' on the part of the Indian Government have begun to appear in more serious magazines. In a recent issue of this journal,

J Bhattacharjee has presented a cogent and well-argued case for Indian military intervention in East Bengal to drive the Pakistan army out.[1] Because it is cogent and lucidly put forward, in contrast to the usual journalese, it deserves serious analysis. At the outset, it is necessary to state that the arguments for Indian army action appear, at first sight, so forceful and overwhelming that one begins to wonder why the Indian Government has not acted so far. It is childish to assume that these arguments have not occurred to policy-makers in New Delhi. Indeed, one is forced to look further and probe more deeply into the Government's policy of 'inaction'. In doing so, one discovers interestingly enough, also the limits of bourgeois analysis (like, e g, that of Bhattacharjee's) which, while considering conflicts between nation-states, takes as its sole standpoint the question of 'national interest' alone.[2] In such a viewpoint, the set of men constituting the governmental regime are presumed to act in favour of a certain well-defined national interest and if they fail to do so, they are guilty of irrationality, misconduct or spinelessness. This viewpoint, however, neglects to take account of the fact that, in bourgeois States, classes exist and the Government of such States represents the overall interests of the upper, ruling classes. In Marx's famous characterisation "the Government is the executive committee for managing the affairs of the bourgeoisie". The interests of the ruling classes do not, in general, coincide with those of the lower classes to which they are, on the contrary, directly opposed. In exceptional circumstances, however, such a coincidence of interests can occur as, for example, in a national independence struggle from foreign rule. Only in such cases is one justified in speaking about a 'national interest' existing. Otherwise, the phrase only serves to mask and obfuscate the underlying reality of the class struggle. It projects the bourgeois government as standing *au-dessus-de la melee*, as representing the interests of all classes in a single 'national interest', which is precisely the notion that bourgeois social democracy has tried so hard to put forward.

What are the 'national interests' of India, for example? Will Indian military intervention in East Bengal serve the interest of, say, a landless peasant of Midnapore district or a jute magnate of Calcutta? In arguing his "case for Indian military intervention" Bhattacharjee appears, though perhaps unconsciously, to identify our 'national interests' with those of the Indian ruling class. Among the reasons in favour of military intervention he mentions that "A friendly Bangla Desh will provide a natural market for Indian goods... and give a substantial filling to the sagging economy of West Bengal...". In other words, a "friendly" Bangla Desh will provide a happy hunting ground for Indian capitalists. Later on in the article, talking about the dangers of a protracted war, Bhattacharjee says that the "... leadership of the guerilla forces would *necessarily* pass into anti-Indian hands". Anti-Indian here clearly means anti-Indian ruling class. There is absolutely no reason why the broad masses of Indian peasants and workers should be apprehensive about the emergence of a genuinely leftist, guerilla movement in East Bengal.

We can now turn to a concrete examination of the Indian Government's policy *vis-a-vis* Bangla Desh in the light of the arguments of the proponents of military intervention. The Government is surely aware of these. Why, then, does it not act? Is it merely spinelessness — a propensity to moderation or non-violence? Certainly it has not shown lack of spine or violence in swiftly combating its antagonists within its own borders, whether in Srikakulam or in West Bengal. So why does it hesitate to act outside its borders? Especially, when, as we have shown, the arguments in favour of military action are pro-ruling class arguments. The reasons are twofold. One of them is related to the position of the Indian ruling class within the orbit of international capitalism, which robs it of the capacity for independent action. The other reason is related more specifically to the genesis of the conflict within Bangla Desh itself and the relative strengths of the various factions within it which are opposing the Pakistan Army. We shall take the latter reason first.

Awami League Defunct

After its overwhelming victory in the December elections, the Awami League emerged as a mass party enjoying widespread support in favour of its six-point programme of autonomy.[3] As the leading spokesman for Bengali nationalism opposed to the West Pakistan military junta, the Awami League occupied a position in Pakistan politics, and had a leadership and class composition similar to that of the pre-Independence Congress Party in India. As Mohammed Ayoob points out: "From this character of the party flowed certain weaknesses which became very clear during the closing days of the Yahya-Mujib parleys of March 1971. An open, amorphous organisation with a middle-class, city-based leadership, while eminently suited for fighting and winning elections and even leading a civil disobedience movement, was not the sort of organisation that could either prepare contingency plans for armed resistance or hope to lead a resistance which was bound to turn into a guerilla war."[4] Thus, once the situation in East Bengal had passed beyond the stage of bourgeois politics (electioneering, bargaining over power in the Assembly, etc) to armed confrontation, the Awami League became, in a sense, historically defunct. This is illustrated by the disintegration of their organisation soon after the massive Pakistan Army assault and the flight of many of their leaders to safety in India. The incapacity of the Awami League to successfully lead the armed resistance is also reflected in their inability to properly direct and command the military forces at their disposal, particularly in the early stages of the conflict.

The main interest of the Indian Government lies not only in getting the Pakistan Army out of East Bengal but also in getting the Awami League installed in power. (Given the present situation in West Bengal, no other active political group in Bangla Desh, who are all well to the left of the League would be acceptable to our Government.) At the present time, even if the Indian military actively intervened, it is difficult to see how this could happen since the resistance forces actively combating the Pakistan Army are not likely to agree to simply hand over power to whoever our Government would like. Another difficulty for Indian military action at present would be the relatively large-scale nature of the intervention required. The Indian Government, consequently, finds itself in a dilemma which proponents of armed intervention, like Bhattacharjee, should appreciate before rushing to castigate it. The longer the struggle continues the less likely it is that forces acceptable to the Indian ruling class could come to power in Bangla Desh. But the time when Indian military action could have put the Awami League in power is well past. Actually, the optimum time for the Indian Army action (from the viewpoint of our Government) was in the first two or three weeks after March 25 when a relatively small-scale operation of putting a few airfields out of commission and blockading Chittagong port would have sufficed to nullify the activities of the Pakistan Air Force as well as prevented reinforcements from reaching the Pak Army units. If one recalls that the Awami League was in effective control of most of the district administration at the time (ever since Sheikh Mujib's order of March 1) it becomes clear that such an operation would have effectively accomplished the policy aims of the Indian Government.

Why did India not act then? One can, of course, ask what the reaction of X, Y or Z power would have been in the event of such an action. But such a question only begs another. Why should the Indian Government be so inhibited in taking actions which are in its own interests? Although a number of different points may be raised in this connection, the main reason, we believe, lies in the extreme dependence of the Indian bourgeoisie on foreign capital for economic growth and the consequent social and political consolidation of its rule over the country. This dependence substantially circumscribes the freedom of action of the Indian ruling class particularly in international conflicts where its creditors may also be interested. Recent events bear ample witness to this fact. Which independent and self-confident bourgeois power would have sent emissaries scurrying all over the globe offering pitiful 'explanations' and 'clarifications' as a substitute for an independent self-assertive policy? Bhattacharjee is quite correct in deriding this non-policy which masquerades under such vain-glorious euphemisms like 'real-politik', but he fails to perceive that the logic of the Indian bourgeoisie's international position does not leave it with much choice.

Notes

1 "Bangla Desh: Case for Indian Military Intervention", *Economic and Political Weekly*, July 3, 1971.
2 The following arguments also apply to the views expressed by Ashok Sanjay Guha in his article "Bangla Desh and Indian Self-Interest", *Economic and Political Weekly* May 15, 1971.
3 See Mohammed Ayoob's essay 'From Martial Law to Bangla Desh' in "The Challenge of Bangla Desh" (Popular Prakashan, Bombay, 1971) for a very readable account of the developments leading to the Pakistani military offensive.
4 *Ibid.*

Chile's Land Reforms

Mohan Ram

IN the Latin American context, even limited 'bourgeois-democratic' land reforms of the kind contemplated in India, can go a long way to polarise property relations. But Chile, under a communist-socialist Popular Unity coalition is attempting something new—a radical agrarian reform programme to be pushed through in not more than two or three years. As its Minister for Agriculture, Jacques Chonchol, said recently, "agrarian reforms are like surgical operations. You can't do them little by little for fear that the patient will die during the operation." President Allende has described agrarian reform in his country as "Chile's second independence."

Because of its geography, Chile has always had a physical imbalance between cultivable land and total area. Of more than 75 million hectares constituting national territory, apart from the Antarctic regions, only 12 million hectares could be used for agriculture and cattle farming. Of this, only 5.5 million hectares are, in fact, used for agriculture.

Chile has four agricultural sectors, ownership-wise: the small farmers and *minifundists* who own upto five hectares each accounting for 190,000 farms and 9.6 per cent of the land; two thousand peasant settlements which include one thousand farms that the government will expropriate this year, accounting for 22.6 per cent of the land; the medium size farmers, who own from five to eighty hectares with irrigation facilities accounting for 38,500 farms and 35.3 per cent of the land; and finally 2,800 *latifundia* accounting for 32.5 per cent of the land.

One of the aims of the agrarian reform programme is to correct the imbalance in tenurial relations and to make the land produce its full potential. Much of the land is not being fully exploited due to low technological levels. So far the growth of agriculture has been lower than the population growth. Now with a higher purchasing power among the people and inflation curbed by the Popular Unity government, the demand for food products is certain to go up. In the 1934-39 five-year period, Chile exported agricultural products valued at 30 million dollars and imported food products valued at 15 million dollars. In recent years, Chile exported the same value but imported annually 200 million dollars worth of agricultural products. In short, Chile has an extensive type of agriculture, with small capital investments and low productivity. The big fortunes in the past few years were made, not in agriculture but in trade and industry. Chile's problem therefore is one of pumping in more capital into agriculture along with instituting agrarian reform.

As for this year's programme, Chile will expropriate one thousand farms. Until now, over 520 farms with an area of 1.5 million hectares have been expropriated. This is six times higher than the Christian Democratic Government expropriated in all its six years. Chile will also set up this year a state farm of 500,000 hectares expropriated from the Livestock Association of Tierra del Fuego, another state farm with 260,000 hectares from the Forest Complex of Panguipulli, and two or three others with stockbreeding cattle.

Of course, the agrarian reform carried out by the Popular Unity Government is within the framework of the law passed by the earlier Christian Democratic Government in 1967. It has serious limitations. The law in its present form provides for compensation to private owners of natural forests. The new Government does not see any sense in this because it thinks forests were created by nature and their only true owner is the nation, the people. The new Government also wants to shorten the time-lag between the decision to expropriate a farm and its implementation, which under the present law is as much as two months and more.

A unique feature of Chile's agrarian reform programme is the role of peasant organisations in drawing up policy. The peasant councils participate in a dialogue with the Government on issues of agrarian policy. As Jaques Chonchol said "We don't want only the technicians and bureaucrats to draw it up, but everybody."

The implementation of Chile's agrarian reform programme has resulted in tensions and conflicts in the countryside. The *latifundists* are leaving farms unplanted but the Government is determined to intervene in such cases. Secondly, the right-wing opposition is leading a campaign to denounce the seizure of land by Mapuche Indian communities in the southern parts of the country, in spite of the law in favour of the Mapuches. The Mapuche land has been usurped by others for a long time and the aim of the law is to restore the land to Mapuches. In the wake of this law, the Mapuches have been occupying land that justly belongs to them because they had been illegally evicted at the end of the last century and early this century. The Government now proposes to modify the law to accelerate the restoration of land to the Mapuches. Small groups of *latifundists* who want to defend their anarchist privileges are using armed violence against agrarian reform officials and the Mapuches.

A Matter of Supplements

Nireekshak

FOR a number of years now, newspapers have managed to get by without expressing any special Independence Day thoughts of their own on August 15. The accent rather has been on the thoughts of others in the form of specially written articles in I-Day supplements, and, more specifically, on advertisements which only a once-a-year supplement can attract. Something seems, however, to have happened this year to slightly upset the established practice. To begin with, not many supplements were issued on the occasion and, probably because it was a Sunday, even such supplements as were issued were almost indistinguishable from the usual Sunday supplements — especially in the bigger metropolitan dailies some of which, like *Times of India* and *Statesman* may be criticised for ignoring the day altogether. *Amrita Bazar Patrika* and *Hindustan Standard*, however, are notable exceptions to the general rule.

It is a matter of speculation whether the neglect is the result of any resistance on the part of advertisers or the nonavailability of newsprint, or both, but there seems to have been a lack of any special effort to produce I-Day supplements. There is no evidence that the newsprint position is more difficult this year than in previous years; it is, if anything, better. If advertisers have begun to regard the usefulness of these annual supplements with more than usual scepticism, it is an interesting development. The reader, however, has little cause for regret.

Another feature of I-Day 1971 is that the lofty sermons of yesteryears have returned to the editorial columns, but interestingly enough, again, only in the smaller metropolitan and provincial newspapers. The theme of the sermons varied, but they were influenced by recent developments — domestic as well as international — affecting the security and wellbeing of India. It was also probably not fortuitous that two of Calcutta's dailies, *Amrita Bazar Patrika* and *Hindustan Standard*, concentrated attention on the special problems facing the border states as a consequence of the upheaval in Bangla Desh.

As *Standard* put it, "war clouds that have gathered on the horizon of east Asia may at any moment pour death and destruction however much India may abhor an armed conflict". Eternal vigilance was, therefore, the watchword, and "no efforts should be spared to make our defence arrangements foolproof and knave-proof." *Patrika* while emphasising that 24 years of "political separation cannot cut off the multicoloured links which make the people of Bangla Desh our kith and kin", called the country to its "noble tasks", *viz*, "defending" it against aggression, "reconstructing" its economy, "revitalising" the system of its education and "enriching" the "precious legacy" of its culture. *Tribune* seemed to agree that, "with war drums sounding across our frontiers", I-Day this year was "indeed a sombre one". But it directed attention to the country's socio-economic problems more than to the problems of security. The country was still "far from achieving the basic purpose of political independence which Mahatma Gandhi (had) described as 'wiping out the tear from every eye'," it wrote, adding that the leaders might yet discover that "hastening slowly, with a profound sense of the practical, is a wiser course despite the lack of drama, than rousing high expectations through formulas far beyond the nation's resources." *Mail* took a somewhat similar though more negative view, saying: "With resolute leadership, a nation of 500 millions, united and hard-working, could have consolidated its independence in 24 years and bid defiance to any aggressor. India has not done so, and both leaders and masses must take the blame." The hard work theme was uppermost in the thoughts of *Hitavada* also. "By coinciding with a Sunday," it said, "Independence Day has curtailed a holiday and thereby has brought a message that more work is necessary to make our Independence everlasting"!

While the "biggest democracy" in the world was observing a sombre anniversary of its Independence Day, the "mightiest democracy" was facing trouble with the almighty dollar. And the echo of that trouble was loud and clear in the Indian Press. "Though the beleagured dollar has at last fallen", sagely observed *Times of India*, "it is still far from certain precisely how or when it will hit the floor. ... The package of drastic measures announced by President Nixon can at best keep it for a while in mid-air". Most of these measures, the paper added, "are clearly meant to give a much-needed shot in the arm to American industry and to stimulate employment". However, the "suspension of the reserve currency role of the US dollar is bound to give a sharp jolt to the international monetary order. ...." *Indian Express* was more forthright in its comments. In an editorial titled 'The God that Failed', it saw Nixon's measures as a "desperate bid to avert the demise of the dollar". The fact, however, was that "the dollar stands humbled". For, by "inviting the world's most powerful economies to revalue their currencies *vis-a-vis* the dollar, the United States has in effect devalued the almighty dollar, albeit through the back-door". And, "even if the crisis blows over shortly, there can be no escape from the fact that the world has to evolve sooner rather than later a more reasonable and workable solution to the problem ... of the basic disequilibrium in the international monetary system".

Only *Statesman*, it seemed, had any sympathy left for Nixon and the dollar. "Displaying once more the flexibility for which he is rapidly acquiring a reputation", the paper remarked, "Mr Nixon has announced a package of measures that will go a long way in reducing the pressure on the dollar ... The suspension of dollar convertibility opens up the prospect of a realignment of currency parities." Japan, it noted further, may have to revalue its currency while the Europeans will resist revaluation of theirs. "A compromise move (in the circumstances) could well include a small devaluation of the dollar and upward adjustments in the strong currencies." However, the "acid test of Mr Nixon's policy package will be whether it succeeds in improving the USA's international competitive position." And here, according to the paper, "the President is treading a tortuous path ... trying simultaneously to improve the balance of payments, increase employment, and reduce inflation .... These goals may prove mutually contradictory." In point of fact, *National Herald* seemed to add, "Nixon's package of sweeping measures to save the dollar amounts to a frank admission that the United States economy faces a crisis .... The present crisis is a sharp reminder that America has not yet seen the end of its economic problems. It remains a country in which incomes rise, prices rise higher, expectations higher still, and discontent soars skyward ...."

Sampling Theory Condensed

"SAMPLING Theory of Surveys with Applications", by P V Sukhatme and B V Sukhatme, is a revised edition of a book written by P V Sukhatme some 16 years ago. During the intervening period, several developments have taken place in the theory and applications of large-scale sample surveys. In India, the National Sample Surveys were organised and continued contributions were made, mainly by the Indian Statistical Institute and the Statistical Wing of the Indian Council of Agricultural Research. A revised edition of an earlier book on sampling theory and applications is, therefore, a welcome development. The Sukhatme brothers have special expertise and practical experience in this field, and these are amply reflected in the lucid exposition of the theory, the illustrations, and the compilations of exercises at the end of each chapter.

As the authors have pointed out, the revised edition retains essentially the same character as the first, "except that algebra has been somewhat condensed and exercises have been added at the end of each chapter". Chapter 1 in this revised edition is essentially Chapter 1 and Part A of Chapter 2 of the first edition. The partitional notation discussed in the latter does not appear in the revised edition, whereas two interesting sections — on (i) how to work out the variance of a function of two random variables and (ii) negative binomial or inverse sampling — have been added.

Chapter 2, dealing with sampling with varying probabilities, corresponds to Part B of Chapter 2 of the first edition. This subject is almost entirely rewritten and several new results which have appeared since the writing of the first edition have been incorporated. Although reference to Horvitz-Thompson's estimates and to Yates and Grundy's estimates is made in the first edition also, the limitation that, in both types of estimates, estimate of the variance may give negative values for some samples has been now indicated. Although the temptation to use proportional probability to size (PPS) is great, as the authors rightly stress, sampling with PPS and without replacement involves heavy and complicated computations, especially when the size of the sample is large. In this connection, it needs to be noted that Hansen and Hurwitz's article in the *Annals of Mathematical Statistics* (1948), Volume 14, describes formation of Primary Sampling Units (PSUs) in human population surveys as heterogeneous within and as homogeneous as possible among themselves so that only one PSU can be selected with PPS. While this reduces some of the difficulties in the estimation of the total or mean values and their variances, considerable pre-planning, grouping of properly mapped areas, and other preparations would be necessary before such a PPS design can be used. In its reference list in Chapter 8, the book under review refers to this fundamental article.

Additional matter in Chapter 3 on stratified sampling relates to formation of strata. An interesting aspect of the new material presented is regarding deep stratification. It is shown that for the proposed procedure of allocation over a two-day stratification, a given sample size n which is not large enough to provide an allocation to each such stratum can ensure a more efficient design than in the case of one-way stratification. Yet another interesting topic is the allocation of sample to different strata when several characteristics are being estimated. This problem is a constant headache to statisticians, since one is usually confronted with difficult choices of allocation procedures—particularly when the characteristics are not positively correlated. No final solution could be expected from this book, but suggestions regarding different types of allocation which could be considered and how a likely choice could be worked out will be interesting to readers. Interesting too are the sections on the method of collapsed strata and controlled selection. In the first section, the 'collapsed strata' topic is discussed in Chapter 8 on sub-sampling.

Chapter 4 on the ratio method of estimation introduces 'unbiased ratio-type estimate' and examines its efficiency *vis-a-vis* the usual ratio estimate. It brings out the conditions that, the former is more efficient than the latter if and only if the regression co-efficient β is nearer to $\frac{1}{N}\sum_{i=1}^{N} Y_i / x_i$ than to $R_N = \bar{y}_N / \bar{x}_N$. If $\bar{r}_N = R_N$, then the variances of the two estimates are equal. This result is due to Goodman and Hartly (1958). Since these conditions are restrictive, Quenoville's weighted estimate of ratios derived on the equally split samples (i e, two samples, each of size n, from a total sample of size 2n, the two samples being evolved by random allocation), as also the ratio based on the total sample, is of considerable interest. The weights are derived to yield an unbiased ratio-type estimate, the efficiencies of which are examined. The case of ratio-estimate when two auxiliary estimates are to be used to increase precision has been discussed. Another new section is on double sampling when the population mean of the auxiliary variable is not known. The conditions under which gains in efficiency due to double sampling may be expected are given.

Chapter 5 on the regression method of estimation covers more or less the same ground as in the first edition.

In Chapter 6, dealing with cluster sampling, the new result appears to be the one in the section on clusters of unequal size. Here, a third estimate defined as

$$\bar{y}_n = y_n + \frac{N-1}{N\bar{M}} \cdot S\bar{M}_y$$

has been formed on the lines of unbiased ratio-type estimate of Chapter 4 and is shown to be unbiased also. Its variance to the first order of approximation and the estimate of this variance have been worked out.

Chapters 7 and 8 relate to different sampling systems, and to two and three stage sampling. Some of the results obtained after the first edition appeared are given as exercises. The most important portion of these chapters is on the more complicated designs, because two or three stage sampling with varying probabilities at primary and/or secondary to ultimate level in a stratified sample are a common feature in practical applications. From this point also, the additional material on self-weighting designs should be of interest to the applied statistician.

In Chapter 9 on systematic sampling, two new items appear. One is on systematic sampling in two dimensions and another is on auto-correlated population which introduces the correlogram.

The last chapter on non-sampling errors is a considerably re-written Chapter 10 of the first edition. The discussion on the type of errors is considerably expanded and illustrated with more examples of various types of errors. The later portion of the Chapter

also discusses in greater detail the methods used to estimate the effects of *non-response in surveys*. Part D on the "recent experiences in sample censuses of agriculture" is a wholly new addition *in this book*.

In this last Chapter, there is sufficient warning for applied statisticians not to gloss over or minimise the importance of the practical side of the organisation of surveys. Introduction of unknown biases in measurements and observations made by the enumerators, and the additions to variability on this account (even when in the extreme case the biases cancel out), are indeed some of the most important aspects to which the survey organisation should give due attention. Carefully organised, and equally carefully imparted, training appears to be one of the most essential features of any large-scale survey. The theoretical model developed in the book, to measure the contribution of enumerators' biases to the variance of the characteristics, is itself based on the assumption that the enumerators are a random sample out of a large population of enumerators and allotted randomly to the selected sample units. This condition is hardly ever met in large-scale sample surveys. Moreover, even when there is knowledge of existing biases among enumerators, it is almost impossible to adjust the estimates. When one is concerned with a large number of enumerators, the only hope is effective and more effective training of the enumerators, and adequate supervision over them.

This brings us to the topic of interpenetrating sub-samples. One can sense in the writing of Chapter 10 that the authors do not think much of this technique. Sections 10.10 on the limitations of the method of replicated samples in surveys is a critique on the perhaps over-used technique of interpenetrating samples in the large-scale surveys designed by the ISI, Calcutta. This section describes in considerable detail the virtues of better supervisory agencies rather than application of interpenetrating samples in a routine way as a method of control. "Replicated samples are no alternative to supervisory check, though the latter can be" say the authors (p 416).

The authors do not explicitly state anything about another claim which is that the division of an overall sample into interpenetrating samples facilitates computation of an unbiased estimator of the variance of the estimated mean of the characteristics. Mean square between sample means, which can be easily calculated, then provides an unbiased estimator of the variance of the overall mean. However, it appears that if the contribution of 'biases' to the variability is to be measured separately, more detailed calculations, however time-consuming and expensive they may be, may be necessary.

On crop-cutting surveys the book observes: "When a crop is unevenly sown as in India, sample-harvesting it by *small plots* [italics added], such as those marked with a portable frame, may result in overestimation of yield." This is presumably an oblique reference to the circular cuts of small sizes propagated by the ISI, Calcutta, as against the fairly large-sized cuts of rectangular or square shape propagated by the ICAR, where P V Sukhatme developed the crop-cutting techniques.

Both these topics, the one on the subject of interpenetrating samples and the other on crop-cutting plot sizes were once subjects of raging controversies between the two schools, *viz*, the ICAR and the ISI. On a comparison of this book with the other one by M N Murthy of the ISI, Calcutta, one sees that these differences continue.

It may be that the book under review does not deliberately omit some major developments in India in regard to large-scale sample surveys. But some omissions need to be indicated. Non-use of the term 'interpenetrating sub-samples' which is quite fashionable with the ISI has already been mentioned. Murthy's book on the other hand mentions this term in about a dozen places as can be surmised from the index at the end of his book. Similarly, the other omission is about 'fractile graphical analysis' which finds detailed account in Murthy's book. Furthermore, the NSS surveys are conspicuous by their almost total absence of any detailed descriptions in the book. Murthy's book is replete with descriptions thereof. To cite another 'bias' of the book, Lahiri's (also of ISI, Calcutta,) method of selecting units with probability proportional to size is mentioned but the proof of how it ensures PPS is to be found in Murthy's book.

In a way, it is necessary for one to study both these books to get a more comprehensive picture of applications of sampling theory to surveys conducted in India and of the special problems which have held the attention of both these schools in designing the surveys.

If any criticism is to be made, it is only from the point of view of applications which relate mainly if not solely to agriculture. This is no doubt due to the special expertise of the authors in this field wherein they have made very outstanding contributions. However, for a text-book and reference type of book, more varied applications would have been welcome. In this regard, perhaps the book by Hansen, Hurwitz and Madow (1953) entitled "Sample Survey Methods and Theory, Volumes I and II" is really outstanding. One finds therein applications of the theory of sample surveys from finite populations from several fields like agriculture, human populations, industry, etc.

There is no doubt, however, that the book will be very widely read with interest by students, research workers, government statisticians and all those who are generally connected with the conduct of large-scale sample surveys. The references at the end of each Chapter make for a useful bibliography, although perhaps a single list of references at the end would have avoided duplications of references and would have been more satisfying to the readers.

The book is priced at Rs 32. A student of modest means may have to depend on a library even if he wanted to possess the book for ready reference. It may be worth considering publication of this and similar books as paperback editions — specially on the lines of "low-priced Indian editions of American Text-books."

Books Received

Ayoob, Mohammed, Aniruddha Gupta; Rahmatullah Khan, G P Deshpande, B Narayanan and Sisir Gupta: Bangla Desh—A Struggle for Nationhood; Vikas Publications, 1971 pp vi+194; Rs 20.

Das Gupta, Lokaranjan: Our Society Conflict and Cohesion; Indian Associated Publishing Company, 1971; pp 64; Rs 7.

Haynes, William Warren, Vasant L Mote and Samuel Paul: Managerial Economics—Analysis and Cases; Vakils, Feffer and Simons, 1970; pp xiv+848; Rs 21.

International Monetary Fund: International Reserves—Needs and Availability; IMF, 1970; pp xiv+552; $ 6.

Murty, Varanasy S: Perspective Management—A Conceptual Framework; Lalvani Publishing House, 1971; pp viii+287; Rs 36.

Menon, K P S: Russia Revisited; Vikas Publications, 1971; pp vii+109; Rs 15.

Sen, P K: Natural Justice in Indian Domestic Enquiries; Navman Prakashan, Aligarh, 1970; pp vi+363; Rs 25.

Upadhyay, S: Growth of Industries in India; National Publishers, 1970; pp 248; Rs 20.

Rural Unemployment: Measurement for What?

N A Mujumdar

To the dismay of the purists, it has been difficult to provide a precise assessment of the dimensions of rural unemployment in India. But is precise measurement the sine qua non of formulating policy measures designed to begin solving the problem?

A pragmatic approach to the estimation of the broad orders of magnitude of rural unemployment, on the basis of available data, is necessary for immediate policy formulation.

A more sophisticated estimate of rural unemployment is no doubt welcome for the purposes of long-term planning. Even here, it is not sufficient if the approach is merely disaggregative; it has also to be dynamic. At present the total rural labour force is artificially inflated by the participation of what can be called the "distress labour force".

For any secular planning for full employment in the rural sector, this point has to be taken into account.

[The views expressed in this note represent the personal views of the author and not those of the institutions with which he is associated.]

TO the dismay of the purists, it has been difficult to provide a precise assessment of the dimensions of rural unemployment in India. But is precise measurement the sine qua non of formulating policy measures designed to begin solving the problem? Are there no available data, on the basis of which a rough-and-ready estimate could be obtained for the more immediate purpose of formulating policy measures? These are some of the basic questions which arose, after reading a recent article[1] in this journal, reviewing the Report of the Committee of Experts on Unemployment Estimates. Rejecting the unidimensional measure of unemployment at present adopted by the planners, the Committee has suggested that a fresh estimate be carried out, presumably through an intensive Survey,[2] on the basis of more appropriate concepts and definitions. One is therefore likely to be left with the impression that unless such a detailed field investigation yields its results, nothing much can be done by way of formulating programmes to relieve unemployment or (confining the discussion to the subject of this note) rural unemployment at any rate. The purpose of this note is to put forward the view that the formulation of a meaningful programme designed to tackle the problem of rural unemployment need not await the results of a neatly-designed All-India Survey of Rural Unemployment, howsoever welcome such a Survey might be.

It is well known that rural unemployment, as distinguished from urban unemployment, presents certain inherent difficulties for measurement. Hence attempts to measure rural unemployment with the help of concepts or tools designed to measure urban or industrial unemployment are hardly likely to yield meaningful results. All this is by now well known and hence, while criticising the current procedures of estimating the extent of rural unemployment, the Committee appears to be treading on familiar ground. In fact M L Dantwala himself had raised some of these conceptual issues as early as in 1953.[3] Similarly, the "Manual on Statistics of Labour Force, Employment and Unemployment", issued by the Central Statistical Organisation, has also been subjected to critical examination, quite some years ago, at any rate with reference to certain underlying concepts.[4] Admittedly, several developments have since taken place and therefore the experts are entitled to sharpen their tools but is not the rural unemployed entitled to ask: While expertise accumulates what happens to him?

The provocative undertone is deliberate. In the light of the country's commitment to the abolition of poverty, the task of tackling rural unemployment should assume a sense of urgency. Viewed from this perspective the question that naturally arises is: For the purpose of immediately formulating some programmes to relieve rural unemployment is it not possible to estimate the broad orders of magnitudes of rural unemployment, on the basis of available data? The author, for one, would submit that this is possible.

Let there be no misunderstanding. To argue on these lines does not certainly amount to denying the need for a more scientific estimate of rural unemployment, based on more meaningful concepts, as proposed by the Committee. Such a detailed Survey should not only prove useful for long-term planning but also could provide, if carried out periodically, a quantitative indicator of the impact that each Five-Year Plan makes on the extent of rural unemployment. All that is sought to be driven home is that the planning, conducting and processing of data, etc, of such an intensive Survey will take some years; and in the meanwhile for more immediate planning a pragmatic approach to the whole question of estimating the broad orders of the present level of rural unemployment, on the basis of available data, however imprecise they might be, seems warranted.[5] Admittedly, such an approach will necessarily mean that some degree of precision has to be sacrificed. But after all, the end-use of such rough-and-ready estimates justifies the means. The almost obsessive pre-occupation with precision has therefore to be tempered by the test of "immediacy". Thus the pragmatic approach has no real quarrel with what might be called the purist approach. In this context pragmatists could as well be defined as theorists in a hurry and purists as theorists without the mandate of more immediate policy formulation.

How does one go about obtaining rough estimates of the present level of rural unemployment? Before sketching the broad outlines of the approach, it is necessary to indicate what might be called a "policy given". Ensuring full employment in the rural sector in the short run, say, during the next three or four years has perhaps to be ruled out

as a realistic policy objective. Employment cannot obviously become the sole objective of planning, notwithstanding the recent emphasis on the "dethronement of the GNP" as a development criterion in favour of the more pressing need of employment. How impracticable such a programme of full employment would be was demonstrated, some years ago, by V M Dandekar with reference to agricultural labour. On the basis of the data from the Agricultural Labour Enquiry (1950-57), he estimated that a total outlay of Rs 500 crores was needed annually, even if incurred on the most labour intensive schemes, if every earner in the agricultural labour family were to be provided with employment for 350 or 300 days in a year.[6] Thus the investment required was slightly larger than the *entire* annual outlay of the First Plan. The point in referring to this study is to stress that the short-run objective of policy will have to be necessarily one of tackling rural unemployment on a rather selective basis that is, areas and/or sections of population where the incidence of unemployment is greater will have to be accorded priority.

Viewed from this perspective, the problem boils down to one of identifying areas and/or sections of population where the incidence of rural unemployment is significant. In this limited context one could reasonably argue that it is possible to utilise the available data for arriving at rough-and-ready estimates.

The Committee's point that the aggregate figures of unemployment mentioned in the Plan, what the Committee seems to be apparently referring to as "unidimensional measure", are of little assistance in the formulation of policy is conceded.[7] A disaggregating dynamic approach is therefore needed in which the estimates of unemployment could be made with reference to age, sex, region, etc. Once again, it should be pointed out that such disaggregative estimates are *not* altogether absent. Of course, if one is looking for an omnibus survey yielding the data for all such components of unemployment, one is in for disappointment. The point is that several independent investigations have thrown up data on different aspects of rural unemployment; what is therefore required is a meaningful collation of the relevant data from these different investigations.

As illustrative of this approach, the case of agricultural labourers may be considered. In fact it would not be far wrong to say that the problem of rural unemployment is primarily the problem of unemployment among agricultural labourers — landless or with some land. Unemployment among non-agricultural workers there surely exists but in terms of dimensions, unemployment among agricultural labourers is of overwhelming importance. What are the basic data required to formulate programmes like, say, the Rural Works Programme, to tackle unemployment among agricultural labourers? Initially four items could be specified: regional distribution of agricultural labourers, average number of days of wage-paid employment in a year in respect of male and female workers, proportion of labourers totally unemployed and wage rates. The two Agricultural Labour Enquiries did provide these basic data. Such data were provided not only with reference to the country as a whole but also with reference to different zones, States and smaller regions within a State—and with reference to male and female labourers. In this sense therefore disaggregative data on unemployment are available, in respect of agricultural labourers. Of course, these data are out of date by now; but it should not be difficult to bring them up-to-date with the help of data from other inquiries. For instance, even the data from the 1971 Census might be useful in providing the present picture of the regional distribution of labour. Again, the various studies conducted by the Agro-Economic Research Centres might provide, with reference to some areas, data about changes in employment-pattern and the identification of the "off-season". Admittedly the concepts and definitions adopted by the different investigations differ and hence might raise problems of comparability. Some data thrown up may not be directly usable but may have to be re-worked to meet the requirements of this approach. With all these conditioning factors, it does seem that a working basis for the formulation of such programmes could be evolved from out of these data.

Although the immediate provocation for writing this note stemmed from the Report of the Committee of Experts on Unemployment Estimates, the main purpose here has not been to comment upon their recommendations as such. Rather, the purpose has been to emphasise that a pragmatic approach to the estimation of the broad orders of magnitude of rural unemployment, on the basis of available data, seems necessary for immediate policy formulation. A meaningful collation of data thrown up by various inquiries might provide a working basis for such policy formulation. In this context, it was pointed out that disaggregative data seem to be available, at any rate with reference to agricultural labourers.

A more sophisticated estimate of rural unemployment is no doubt welcome for the purposes of long-term planning. Even here, it is not sufficient if the approach is merely disaggregative; it has also to be dynamic. At present the total rural labour force is artificially inflated by the participation of what can be called as the "distress labour force". In some cases, women and children take to gainful work or "are available for gainful work", simply because they have to. Employment of these persons is an expression not so much of their ability and willingness to work as the necessity and compulsion to work. The reason for their employment is the extreme poverty of their families.[8] As the general level of farm incomes rises, therefore, probably this distress labour force might tend to disappear. For any secular planning for full employment in the rural sector, this point has to be taken into account.

Notes

1 "Measuring Rural Unemployment to Provide Guidelines to Policy-Makers", S V Sethuraman, *Economic and Political Weekly*, June 12, 1971.

2 I must confess, at the outset, that I have not had the benefit of reading the text of the Committee's Report and hence I have based my comments on the summary provided by Sethuraman's article referred to earlier.

3 "Notes on Some Aspects of Rural Unemployment", *Indian Journal of Agricultural Economics*, March 1953; see also the Chapter entitled 'Problems in Measurement' in the author's book "Some Problems of Underemployment", Bombay, 1961.

4 For instance, see the *Indian Journal of Agricultural Economics*, October-December 1956 and January-March 1957.

5 It is not suggested that the Committee should have explored the possibilities of undertaking such an exercise. Presumably, its terms of reference prevented the Committee from going into estimates provided by other inquiries.

6 "Use of Food Surpluses for Economic Development", V M Dandekar, Poona, 1956.

7 Such aggregates are perhaps useful only if they are the end-results of the aggregation of various components of unemployment estimated independently.

8 For a detailed discussion of this point see the author's note "Economic Backwardness and Labour Force", *Indian Journal of Agricultural Economics*, July-September 1957.

General Elections of 1967 in a Rural Constituency

Imtiaz Ahmad

This study reveals that the loyalties of religion, caste, kinship and factional grouping serve as a basis for the organisation of political support in rural areas. All these loyalties work simultaneously but they are situationally determined and operate at different levels. For instance, communal loyalty becomes operative whenever the main conflict is between Hindus and Muslims. In a situation where the conflict is between the members of the same religious community, internal cleavages come to the fore and crystallisation of political loyalties follows the line of sectarian or caste distinctions.

Political ideology plays relatively little part in determining voting behaviour in the rural areas. It is however, difficult to say whether the value or importance of caste, religious and kinship ties is merely sentimental or emotional. Perhaps, a more detailed and empirical study will reveal that there are often very practical reasons behind a particular religious community, caste or kin group becoming active politically.

[This paper is part of a project on the general elections of 1967 undertaken by the Department of Sociology, University of Delhi, with the help of a grant from the University Grants Commission. The project was directed by M N Srinivas and A M Shah who, with E A Ramaswamy, also did the initial editing of the paper.]

EVERY political party in the country issues a manifesto before the general elections outlining its political ideology and approach to major national problems. It is expected that voters will make their electoral choices according to the policies proposed by the different political parties. Several politicians in Uttar Pradesh to whom I talked before the 1967 elections felt that the electorate in India had not attained the level of political maturity where electoral choices are made entirely on the basis of ideological considerations, and that political ideology rarely played a crucial role in determining the voting behaviour of the Indian voter. More generally, they said, a candidate's chances of success in the election are determined by his general appeal as a representative, his personal background, his social links in the constituency, and his ability to manipulate the traditional social loyalties in his favour. The general election which followed a few weeks later clearly showed that policies and programmes were not the issues at the election (da Costa, 1967). The system of political spoils, which earned Congress rule in the State the name of 'quota-permit Government' and in which opposition members shared, corruption in all spheres of administration, and the political protection which corruption received, of course, figured as issues. Nevertheless, the real issues were, by all accounts, religion, caste, kinship and factional ties of the candidates (*Statesman*, March 14, 1967). In this paper[1] I shall present an account of the manner in which candidates manipulated traditional social relationships towards attaining political ends, and the crucial role which particularistic group loyalties such as religious community, caste and kinship played in determining voting behaviour in the election.

The analysis presented here is based on a study of the 1967 election in the Rudauli Assemby constituency in Uttar Pradesh. This constituency has been traditionally a stronghold of the Jan Sangh. In both the 1957 and 1962 general elections a Jan Sangh candidate was elected from here, defeating locally influential candidates contesting the election either as independents or on the Congress and other party tickets. Although the Jan Sangh more than doubled its strength in the UP Legislative Assembly in 1967, the sitting Jan Sangh MLA from Rudauli was defeated by a relatively young and politically inexperienced independent candidate by a margin of more than 2,000 votes.[2] The defeat of the Jan Sangh candidate[3] was considered a blow to the position of the party in the district. A meeting of the party workers held a few days later came to the conclusion that the defeat was mainly caused by the alignment of political forces somewhat differently from that in the earlier elections. In the discussion which follows, I shall show what this alignment of political forces was and how it came about.

Constituency

I shall begin with a brief description of the constituency and the pattern of political alignment which obtained in it in the previous general elections. The Rudauli Assembly constituency is situated in the Barabanki district in eastern Uttar Pradesh, the economically backward part of the State. Geographically, it is divided into two parts: the level upland plain sloping gently from the north-west to south-west and the submontane tract called tarai. It is predominantly rural in character, and the whole area of the constituency, except the low-lying areas along the river beds which are liable to flooding, presents a broad sheet of level land dotted with hamlets and villages. The principal town in the area is Rudauli, the headquarters of the pargana and the constituency. It was a large town of over 13,000 inhabitants in 1961. Rudauli was the scene of a great fight in 1442 between the Muslims of Rudauli and Muhammad Saleh, ancestor of the ex-talukdars of a neighbouring village. The tombs of those who fell in battle still exist in the town. It also has a fine imambara, a mosque, and the shrines of Ahmad Shah and Zohra Bibi, famous Muslim saints. Annual fairs are held in their memory and attract Muslims from different parts of the district. Rudauli is, however, mainly rural in character and lacks most of the features of an urbanised town. Lucknow, the capital of the state, is only forty-nine miles away and its urban influence radiates over the entire region. The constituency is well-developed in communication and transport facilities. Only the villages situated along the river Gharga are relatively cut off and remain inaccessible during

the monsoon season.

The population of the constituency is predominantly Hindu, although Muslims constitute a large minority with over 20 per cent of the total population. Scheduled Castes constitute over 31 per cent of the Hindu population according to the 1961 census. Both Hindus and Muslims are divided into castes. Of the Hindu castes most numerous are the Ahirs, Pasis, and Kurmis. Others largely represented are Chamars, Lodhas, Brahmins, and Thakurs. The Muslims include Sheikhs, Julahas, Behnas, Pathans, and Saiyads. A large number of villages in the constituency are dominated by Muslim high castes such as the Saiyads, Sheikhs and Pathans.

Before Independence, the Rudauli Assembly constituency was a talukdari and zamindari area. The principal talukdars and zamindars were Saiyad and Sheikh Muslims, Thakurs, and Brahmins. Around 1935, Barabanki district witnessed the emergence of an incipient kisan movement against a rise in the already high agricultural rents. The kisan movement was led by pro-Congress Sunni Muslims living in Rudauli town, but they had great difficulty in mobilising the kisans of the area. The Hindu cultivators lacked the economic standing and educational position to rise against the talukdars and zamindars. The Muslim kisans living in talukdari and zamindari villages were strongly in favour of the Muslim League, which enjoyed the support of Muslim talukdars and zamindars, and refused to respond to the kisan movement. The abolition of talukdari and zamindari tenures since Independence has produced some significant economic and social changes. On the one hand, some of the old talukdar and zamindar families have lost land to the Kurmi and Ahir cultivators, although the precise extent of land transfers is difficult to estimate from existing records. On the other hand, there has been a definite loss of status, position, and economic standing for the talukdars and zamindars. For instance, the Saiyad and Sheikh Muslims, who had been granted land as rewards for services to the ruling Muslim dynasties in Delhi or Oudh, were mainly non-cultivating landowners. Since the abolition of the zamindari system they too have taken to cultivation, although the rich Muslim families among them still show some aversion to manual labour. This change has been accompanied by a growing self-consciousness among the traditionally backward castes, such as the Kurmis, Ahirs, and Muslims Julahas.

The Rudauli Assembly constituency and certain parts of the adjoining Gonda district together form the Ramasanehighat Lok Sabha constituency. In 1967 the Ramasanehighat Lok Sabha seat was reserved for a member of the Scheduled Castes and there were three candidates belonging to the Congress, Jan Sangh and the SSP contesting for it. Because all the candidates belonged to the Scheduled Castes, the Lok Sabha contest did not arouse much interest and enthusiasm among the public. Nor did the candidates attempt to carry out an effective election campaign. It was generally believed that as opposition to the Congress was weak throughout the Lok Sabha constituency and the influence and popularity of the Jan Sangh was confined only to Rudauli, the Congress candidate would win the seat by a comfortable majority. Since the main interest at the time of the election in the Rudauli constituency centred on the contest for the Assembly seat and there was no significant inter-relationship between the Lok Sabha and Assembly contests, I shall confine myself to the Assembly contest.

At the time of the first general election, there was little opposition to the Congress in Barabanki district. There were five Assembly constituencies in the district from which seven members were to be elected, two constituencies being double-member constituencies. The Rudauli constituency was part of a double-member constituency. For elections to the Lok Sabha, Barabanki district formed part of the double-member constituency known as Lucknow-Barabanki constituency. The Congress captured all the Assembly seats, except one which went to an SSP candidate, and Congress candidates were elected to both the Lok Sabha seats. The total votes polled by the Congress for the Assembly seats numbered 131,903 out of a total of 263,656 valid votes polled, i e, about fifty per cent of the total popular vote. In general, the Congress Party enjoyed almost absolute dominance in the politics of the district and there was no political party to threaten this dominance.

By 1957, opposition to the Congress in Barabanki district was still deeply fragmented by personalities, factions and parties. Yet the performance of the opposition candidates in the election turned out to be quite impressive and they succeeded in reducing the hold which the Congress had over the Assembly seats in the district by carefully planning their electoral strategies and campaigns. As a result, independents captured four seats, the Congress three, and the Jan Sangh one, of the seven Assembly seats from the district. But the Congress continued to retain its hold over the two Lok Sabha seats.

The lone seat secured by the Jan Sangh in Barabanki district in 1957 was the Rudauli Assembly seat. At that election there were three contestants: Congress, Jan Sangh, and independent.[4] The Congress candidate was a locally successful kisan leader and social worker who had been an active member of the Congress party since the early thirties, and had participated in the freedom movement. A Sunni Muslim by religion, he enjoyed considerable popularity and support in the constituency. He was favoured for nomination by the UP Congress Parliamentary Board probably because as a prominent nad influential Muslim he was in a position to secure all the Muslim votes for the party besides retaining the support of the Scheduled Castes who were strongly pro-Congress on account of the benefits they had received from the party's welfare activities. The Jan Sangh candidate was a Bania by caste and belonged to one of the prosperous trading families in Rudauli town. Educated in Lucknow, where he had come in contact with the Jan Sangh leader, Atal Behari Vajpayee, he had been an active member of the Jan Sangh since Independence, and generally linked with the forces of traditionalism and Hindu orthodoxy in the district. The independent was a Shia Muslim belonging to Rudauli town. He had at one time been a staunch Muslim Leaguer and had been calling himself a PSP-type socialist since Independence. However, he did not enjoy any political standing in district politics. It was alleged that he had been sponsored and financed by the Jan Sangh candidate in a bid to avoid a direct contest with the Congress candidate and to prevent all the Muslim votes from being polled in favour of the Congress. In any case, his candidature was not taken seriously by anyone and the real contest was between the Congress and the Jan Sangh. Both the parties tried hard to win over the so-called fluctuating votes which were going to tip the balance, but in the end the Jan Sangh candidate came out successful, defeating his Congress rival by a margin of only 1,001 votes. The Jan Sangh strategy of splitting Muslim votes succeeded in so far as the Shia Muslim independent candidate polled 4,015 votes which might otherwise have gone to the Congress.

In 1962, the electoral contest in the Rudauli constituency was more intense and complicated than in 1957. There were seven candidates for the Assembly seat. First, there was the Jan Sangh incumbent who had carried this constituency in 1957. Next was a new Congress choice who, although not a notable figure in the politics of the area, enjoyed considerable popularity and influence. He came from one of the richest talukdar families in the district and his family was famous for the construction of the imambara, the mosque, and many other religious monuments in Rudauli town. He belonged to the Shia sect among the Muslims. In general the relationship between the Shias and Sunnis is characterised by a certain amount of hostility, the members of the two sects occasionally coming to blows. In the context of the election, however, it was likely that sectarian conflict would be subordinated to supra-communal loyalty. There was a Swatantra candidate who filed his nomination at the last moment when the effort of the Jan Sangh to arrive at an electoral alliance with the Swatantra party failed. He was a Thakur belonging to an ex-zamindar family. The political left was represented by the PSP and the SSP. Both the PSP and the SSP candidates were Sunni Muslims. The PSP candidate reportedly had personal differences with the Shia Congress candidate, and it was said that he was running in the election as an act of personal vendetta. In addition to the candidates contesting the election on party tickets, there were two independents in the field. One of them was the Bania who had withdrawn his candidature in 1957. He tried to get the SSP ticket with the help of Ram Sevak Yadav, a prominent Socialist leader of the district, but the SSP national and state leaders gave the ticket to a Sunni Muslim. The other independent candidate was a member of the Scheduled Castes, a Chamar, belonging to the area. It was said that the Jan Sangh candidate had bribed the independent Chamar to enter the contest in a bid to split the Scheduled Caste votes and the Congress had matched his strategy by encouraging the Bania candidate to run as an Independent. This time again the main contest was between the Jan Sangh and the Congress, the other candidates being relatively unimportant. The Jan Sangh candidate won the election over his Congress rival by a narrow margin of 492 votes.

In 1957 and 1962 the Congress candidates in Rudauli suffered a defeat not because the party had become unpopular with the electorate, nor because the Jan Sangh had established itself as a very strong political force. It was the electoral strategy of the Jan Sangh which had enabled it to capture the Rudauli seat on each occasion. Both in 1957 and 1962 the Jan Sangh made cow slaughter a major issue in its electoral campaign, and the elections were fought on a purely communal basis. It was alleged that before the elections Jan Sangh workers had gone round the villages in the constituency carrying a calf on a jeep and made all the influential Hindus swear that they would vote for Jan Sangh to ensure the protection of 'mother cow'. It was also said that Jan Sangh workers gathered sizeable audiences through reading from the Gita, and then called for all present to swear on the Gita to vote Jan Sangh.[5] There is no way of verifying these allegations. The Jan Sangh workers vehemently denied having done any such thing, although there were several informants who repeated the allegation. However, there is considerable evidence to show that the Jan Sangh appealed to Hindu voters and planned its election strategy and campaign in such a manner that the election centred on purely communal issues. In the first place, it confined the campaign to the predominantly Hindu villages. During their round of the villages in the constituency, the Jan Sangh workers generally bypassed Muslim villages and did not try to appeal to Muslim voters for their support. A supporter of the Jan Sangh candidate, whom I interviewed in 1962, said "We would like Muslims to vote for our party but we know very well that they have no sympathy with our cause and that they will not vote for us. What is the point in wasting our energies on them when we know that they will all vote for Congress?"

A factor which favoured the Jan Sangh propaganda was the association of the Congress with the Muslims. Before Independence the Shia and Sunni Muslims were divided on the basis of support to the Congress. The Shias usually supported the Muslim League under the leadership of the Rajah of Mahmudabad; the Sunnis largely supported the Congress. After Independence the Shia supporters of the Muslim League, who stayed on in large numbers as the area was not directly affected by communal violence, joined the Congress. It thus came to be increasingly dominated by Muslims. The Jan Sangh workers propagated that a vote to the Congress would be a vote to Muslims who would again bring about the partition of India. Given the political background of the 1962 Congress candidate, such a charge seemed credible to voters.

The propaganda carried out by the Jan Sangh had considerable influence on the campaign of the Congress candidate both in 1957 and in 1962. In 1962 I had the opportunity of witnessing the election. Congress party workers were then initially concentrating on economic issues in their campaign and trying to appeal to the voters by pointing out the progress brought about by the Congress during the period since Independence. However, when the Jan Sangh campaign became exclusively centred on the communal issue the Congress workers were placed on the defensive. They tried to refute the allegation that cow slaughter would increase if a Muslim was elected from the constituency on the Congress ticket and pointed out that UP was one of the first states to have passed the Anti-Cow Slaughter Act.

It is possible that the Jan Sangh propaganda about cow slaughter might have been less effective if the Congress nominee was a non-Muslim. Since he was a Muslim the propaganda proved effective among the villagers. Moreover, the communal solidarity prevailing among the Muslims also helped the Jan Sangh candidate. The Muslims were over-whelmingly in favour of the Congress and mass Muslim support for him had the effect of generating an opposing solidarity among the Hindu voters. It is difficult to say that the Muslims were supporting the Congress candidate primarily or simply because he was a Muslim himself. In the first general election when the Congress candidate from this constituency was a Hindu, Muslims had voted for him *en bloc*. One of my Muslim informants, the Pradhan of the Gram Panchayat in the village where I did my field work, said that he would have voted Congress even if the Congress nominee was a Hindu, because no other party would care as much for the Muslims as the Congress and the security of the Muslims lay in the continuation of Congress rule. In any case, block Muslim support for the Congress candidates both in 1957 and 1962 coupled with the Jan Sangh propaganda about cow slaughter had the effect of bringing about a more or less direct identification between the Congress and the Muslims on the one hand, and between caste Hindus and the Jan Sangh on the other. When it came to voting, inter-caste cleavages obtaining among the Hindus almost disappeared, and caste Hindus all voted for the Jan Sangh. On the other hand, Muslims generally voted Congress, although Muslim votes were

split by Muslim independents on both the occasions. Scheduled Caste votes by and large went to the Congress, the party which had promoted Harijan uplift, although in those villages where the influence of the dominant caste was pronounced, patron-client relationships were strong, and the patrons were pro-Jan Sangh, the Jan Sangh candidate was able to secure some support among the Scheduled Caste voters.

New Political Situation

The political situation in Rudauli constituency at the time of the fourth general election was significantly different from that in the earlier elections. For one thing, the Jan Sangh MLA had gradually lost popularity and several party workers and sympathisers who had worked for him in the earlier elections were now antagonistic to him due to what they described as changes in his behaviour and temperament. Some of them complained that his success in two consecutive elections had bred in him a sense of invincibility and absolute power, complacency, intolerance, arrogance, and unresponsiveness to the wishes of his partymen, supporters and the public. By the life he led, the way he acted in political matters, and the associations he kept, he had moved away both from his supporters and the electorate. There were some who also suggested that he had become a corrupt politician since his second election as MLA, and instead of sharing the advantages of his position with the party workers he had used his influence only for securing quota-permits for his family and kinsmen and a few chosen favourites. In other words, his unpopularity was growing and a strong opposition was building up against him. Nevertheless, the Assembly ticket was once again allotted to him. It was alleged in close party circles that he had succeeded in getting the ticket through the influence of one of his kinsmen who was a member of the UP Jan Sangh Parliamentary Board. In any case, the announcement of his candidature was looked upon as an imposition of an unpopular candidate on the constituency and it resulted in many peripheral workers and supporters of the party becoming alienated and deciding to work against him.

Another significant factor which played a crucial part in altering the pattern of political alliances was the absence of an influential Muslim candidate in the electoral arena. We have seen that in the two preceding elections the Congress nominees from this constituency had been influential Muslims and their presense in the field had created a sharp cleavage along the lines of communal affiliation. Political solidarity is a highly situational kind of solidarity, and Hindus and Muslims tend to interact as single political entities only in those situations where the main conflict is along the lines of religion. On the other hand, in situations where the conflict is confined to members of the same community, the cleavages prevailing within the community tend to become sharp and the crystallisation of political cleavages follows the lines of caste, kinship, etc. As there was no Muslim candidate in the field this time political solidarity did not follow communal lines. The internal relationships and cleavages within the communities became the basis of political alignments and the high caste Hindus who had cast their votes earlier in favour of the Jan Sangh candidate were now divided castewise, this division itself resulting in a much more complex voting pattern.

Finally, the political situation in the Rudauli constituency in 1967 was altered by the emergence of the Muslim Majlis-e-Mushawarat. I have elsewhere discussed the role of this organisation in some detail, but a few general remarks will be useful in understanding the electoral process in this constituency. The Majlis-e-Mushawarat was started by some Muslim leaders in 1960 following the communal riots in north and central India. Initially, the aim of the organisation was to create a consciousness of the problems facing the Indian Muslim community among the national political leaders and to call for the creation of adequate safeguards to protect the community from repeated outbursts of communal frenzy. Although the character of the organisation had been communal from the beginning, it had abjured political objectives and had decided to work only for the welfare of the Muslim community. In the course of time, however, the leaders of the Majlis were unable to keep the forces set in motion by them entirely under their control and the distinction between politics and general welfare activity could not be maintained effectively. The Majlis which had originally started as a non-political organisation soon found a pathway into politics by participation in the general election.

As a prelude to its entry into the electoral arena, the Majlis-e-Mushawarat formulated a nine-point charter at a meeting held in New Delhi early in 1967. It is unnecessary to enter into any detailed discussion of the various demands embodied in the charter or even to evaluate its underlying motivations. Suffice it to say that the charter contained a programme seeking special concessions, including acceptance of separate electorates through proportional representation for Muslims. There was some difference of opinion among the leaders of the organisation regarding the objectives to be achieved by the charter and the role which the Majlis should play in the forthcoming elections. Syed Mahmud, the President of the All-India Majlis-e-Mushawarat, maintained that the Majlis, being a non-political organisation, should keep out of the elections and allow Muslims to exercise their franchise as individual citizens. The controversy between the two leaders went on for some time until it was set at rest by Faridi unilaterally deciding to organise the Majlis on a provincial level with a view to wards political consolidation and electoral participation.

The political tactics of the Majlis-e-Mushawarat in Uttar Pradesh were based on the principle of bargaining. Before the elections the leaders of the Majlis presented a nine-point charter to national political leaders including those of the Congress for acceptance and approval. It was argued that in the earlier general elections the Muslims had stood solidly behind the Congress and that such unconditional support would not be forthcoming any longer. Prior acceptance of the charter was to serve as a basis for the continuation of Muslim support for the Congress in the 1967 elections. Having failed to receive the approval of the Congress, the Majlis entered into political alliances with individual candidates and supported them against the Congress candidates. In the state as a whole it supported a number of independents, several Socialists and Communist and a few Republican nominees. In Rudauli, it supported an independent candidate who was finally elected. The leaders of the Majlis-e-Mushawarat toured the constituency advising Muslims to vote in his favour. It is difficult to say that all the Muslims in the area voted for the Majlis-supported candidate, because Muslims did vote for the Congress and the SSP. Nevertheless, the Majlis-e-Mushawarat was quite successful in alienating a large number of Muslim votes from the Congress, opening up the possibility of a realignment of political support.[5]

The three factors which I outlined above were responsible for introducing significant changes in the electoral situation in the Rudauli constituency. For instance,

TABLE 1: CASTE AND OCCUPATION OF THE CANDIDATES IN RUDAULI ASSEMBLY CONSTITUENCY IN 1967

Candidate	Caste	Occupation	Per Cent of vote
IND 1	Brahmin	Agriculture	25.23
Jan Sangh	Bania	Trade	20.73
Congress	Thakur	Landowner	20.68
SSP	Kurmi	Lawyer	13.28
IND 2	Lodha	Agriculture	13.20
Swatantra	Bania	Lawyer	5.04
IND 3	Kayastha	Agriculture	1.82

they created a socio-political situation in which it became necessary for caste loyalty to play a far more important role in the election than it had done earlier. It would therefore be interesting to study the manner in which the traditional loyalties of caste and kinship were exploited by the candidates, the appeal they had for the electorate and the interaction between representative political institutions and traditional social groups. In the remaining part of this paper I shall discuss the career and background of the candidates, the organisation of their election campaigns, and the dynamics of the election generally.

New Electoral Strategy

Because of the dominant position enjoyed by the Congress in the politics of the country, it is usual for the opposition parties to announce the names of their candidates only after the Congress has announced its list. The election strategy of the opposition parties is mainly directed against the Congress candidates and an opposition party in any particular area is often required to change its candidate at the last moment so as to be able to offer a keener contest to the dominant party. In the Rudauli constituency, however, it was the Jan Sangh candidate who constituted the stable factor in the political arena, and consequently the election tactics of all the parties or candidates likely to enter the contest were directed against him. We have seen that in the past the Jan Sangh candidate was successful owing to the combination of two distinct factors. First, the main contest on both the occasions was between the Jan Sangh and the Congress. Second, the crystallisation of political forces had followed the lines of communal affiliation, resulting in a more or less clear-cut identification between the caste Hindus and the Jan Sangh on the one hand, and between the Congress and the Muslims and Scheduled Castes on the other. In the 1967 election the strategy of all the candidates likely to enter the contest for the Rudauli seat was directed towards avoiding a direct contest and preventing the election from becoming a purely communal contest.

In 1967 there were seven candidates in the Rudauli constituency. The Jan Sangh candidate who had won the election from this constituency in 1957 and 1962 was attempting to repeat his victory. During the previous decade he had used his position as an MLA to strengthen his influence in the constituency and he was considered a serious candidate by all standards. One of the important advantages enjoyed by him lay in the organisation of his party in the constituency. It had a network of branches covering the area, and party workers had tried to popularise its political ideology in practically all the Hindu-dominated villages during the past decade. It was expected that, apart from the caste Hindus whose support the party enjoyed traditionally, the members of the Scheduled Caste would also vote for the Jan Sangh as its political activity had lately been directed towards the latter. Prior to the election, the Jan Sangh leaders expressed the view that while the contest was going to be keen, their party candidate was going to emerge victorious by a margin of over 3000 votes.

The Congress choice for Rudauli was a big landowner belonging to the Thakur caste. He was recognised as a man of influence in the politics of the district. At the time of his nomination he was a member of the Educational Development Committee of the Barabanki District Board, and Pramukh (Chairman) of the Rudauli Community Development Block. In the UP Congress he identified himself as a member of the Tripathi faction, and had been allotted the Congress ticket in preference to another applicant belonging to the Gupta faction. He had close kinship ties with the Thakurs who enjoy a position of dominance in the villages in the central part of the constituency, and he expected his major support to come from his kinsmen and the Scheduled Castes and Muslims. Congress party workers thought that he would win the election by a comfortable majority.

Apart from the Congress and the Jan Sangh, the SSP was the only other party which had some organisational base and political backing in Rudauli. The following of the SSP was mainly concentrated among the Kurmis and Ahirs because Ram Sevak Yadav, a prominent SSP leader of the state, was an Ahir by caste and belonged to the district. The SSP candidate from the Rudauli constituency was a member of the Kurmi caste and he counted on the support of his castemen and of the Ahirs, a caste allied to the Kurmis. He was a lawyer practising in the District Court and had been a member of the SSP since its inception. It was believed that all of the six to seven thousand Kurmi and Ahir votes in the constituency would be cast in his favour and if he succeeded in securing some of the Muslim and Scheduled Caste votes he even had a chance of winning the election. As his running mate for the reserved (Scheduled Caste) Lok Sabha constituency was a member of the Chamar caste, it was expected that the latter would reinforce his compaign publicity.

The official candidate of the Swatantra party was a member of the Bania caste, the caste to which the Jan Sangh candidate also belonged, and he lived in Rudauli. He had at one time been an active member of the Jan Sangh and had also served as the Secretary of its district executive committee. He had also, at one time, been an associate of the Jan Sangh candidate but had broken off his association with the party, it is believed, due to some disagreement with the former and was now standing in opposition to him. The Bania community in Rudauli town was strongly pro-Jan Sangh and it was extremely unlikely that the Swatantra candidate would be able to split the Bania votes of the Jan Sangh. Otherwise also the Swatantra party had no following in the area. As a result, he was not likely to win the election, although he surely could be instrumental in splitting some of the other Jan Sangh votes in the neighbouring villages where he had kinship links and Jan Sangh influence was weak. Apparently, this was his major aim in contesting the election, for he had not forgotten his quarrel with the Jan Sangh candidate and wanted to see him defeated.

In addition to the official candidates of the different political parties, there were three independents who were also contesting the Assembly seat. One of them, to be called IND 1, was the son of a dissident Congressman belonging to the Gupta faction in the UP Congress. His father had intended to contest the election and had applied for the Congress ticket from this constituency. However, his application was rejected in favour of a member of the Tripathi faction and so he had decided to put up his son as an independent. IND 1 was a relatively young and inexperienced politician and had no personal following. However, he was recognised throughout the constituency as a man markedly secular in outlook with an obliging temperament, and people respected him a great deal. He was considered a good friend by the Muslims in particular and he enjoyed considerable support among them. It was alleged that he had saved several Muslim families in Rudauli from getting into trouble. Once, for example, when a cow was lying slaughtered in the house of a Muslim butcher and a police party was going to raid his house at the instance of some Jan Sangh leader, he had gone ahead of the police party to warn the butcher family of the impending danger. He was a Brahmin by caste and enjoyed the support of his castemen also. In this part of the country the Brahmins are rich landowners but, as they are forbidden by religious taboos to engage in cultivation, they cultivate their land through farm servants. It was expected that his castemen would use their influence and position as patrons and secure the votes of other castes too in his favour. It was estimated that he would command between seven to eight thousand votes belonging to his own castemen, his Muslim personal friends and supporters, and the clients employed by his castemen in the villages.

The second independent candidate (IND 2) was a member of the Lodha caste. The Lodhas are a caste of cultivators and farm labourers in the area, and constitute an estimated five to six thousand voters in the constituency. The appeal of IND 2 was largely confined to the members of his caste and, by all accounts, it was expected that he would not poll more than three to four thousand votes. However, the Lodhas have a strong caste panchayat and it had commanded all the Lodhas to vote for the candidate of their caste. Any Lodha who did not vote for his casteman was threatened with being made outcastes. It should be noted that from the point of view of the election his candidature was significant only insofar as it served to neutralise the Lodha votes.

The third independent candidate, IND 3, was a Kayastha, against whom there were several allegations. The Jan Sangh workers alleged that he had been bribed by the Congress candidate to contest the election to split Jan Sangh votes. On the other hand, the Congress workers alleged that he enjoyed the Jan Sangh's financial support as one of that party's tactics to split Congress votes. It was difficult to ascertain who his actual sponsors were but it was sufficiently clear that he was a dummy candidate. Although he filed his nomination, he did not carry out any campaign publicity, and he clearly did not want to waste whatever money he had received from his sponsors in organising an elaborate election campaign. Seen in the perspective of the total electoral picture and the final outcome of the contest, his candidature was insignificant.

By the time the names of all the candidates likely to enter the contest for the Assembly seat from Rudauli became known there was a more or less clear-cut identification between each candidate and the communal or caste group to which he belonged and from which he expected to derive his major support. The SSP candidate, for instance, belonged to the Kurmi caste and he was primarily banking upon the support of his own castemen. Similarly, IND 2 believed that his main support would come from the Lodhas, and the identity between him and the Lodha caste was so clear-cut that even others thought that he would only get the votes of his caste and none else. Moreover, each candidate had an approximate idea of the number of votes he commanded in the constituency.

In a system where many candidates stand and each candidate has the support of a block of voters, quite small groups can become important through the electoral system and victory can be obtained on a minority vote. This is particularly likely when the support of the different parties or candidates is more or less evenly balanced. In Rudauli the electoral campaigns and publicity of the various candidates were naturally directly towards two objectives: first, to strengthen and mobilise the allegiance of the group from which the candidate hoped to derive his major support, and second, to win over the uncommitted voters to his side.

For purposes of our analysis it is necessary to classify election campaigns into two kinds. First, there is what might be called the formal campaigning on the part of the candidates. It consists of the publication of leaflets, publicity through public meetings held throughout the constituency in the weekly markets and important villages, parades, entertainment programmes, and street-corner rallies. In some cases national party notables are invited to visit the constituency and speak at public meetings. The formal type of canvassing and campaigning begins quite early in the election, generally soon after the candidates have announced their candidature. Party workers and supporters start moving through the villages distributing pamphlets, posters and handbills, making announcements about their candidates and their party ideologies, making contacts with the influential leaders in each village and requesting them to support their candidates. Sometimes, these supporters also go from door to door and try to contact the heads of households in the villages. In the rural areas the weekly markets serve as a useful place for canvassing and these are often chosen by the supporters for organising election meetings. Sometimes the candidate himself comes and addresses the audience, but more generally it is the supporters who address the villagers and try to convey the candidate's policies to them. The market place is considered a suitable venue for campaign publicity by the candidates because people from different villages congregate there enabling news to travel far and wide.

Unlike in the past, the formal campaigns of all the candidates were almost entirely focused on economic issues. The Congress candidate tried to project the image that his was the only political party with the political experience and influence to rule such a vast country as India. He emphasised the role of his party in the national movement and the reconstruction of the country since Independence. He stressed the contribution made by his party in raising the living standards of the people through community development, agricultural and irrigational work and social welfare activity despite the many difficulties through which the country was passing. In particular, he referred to the introduction of democratic institutions at the village level, abolition of begari and exploitation of the cultivator by the non-cultivating landowner, and protection against alienation of landholdings.

On the contrary, the opposition candidates condemned Congress rule and highlighted the economic depression of the country. In order to make their campaign more effective and meaningful to the electorate, they tried to translate the national problems into issues which directly impinged upon the common man. Thus, they emphasised continuously rising prices, food shortages and drought in the areas adjoining the constituency, rampant corruption in government offices and law courts, and gangsterism which enjoyed political protection and produced increasing insecurity in the countryside. All the opposition candidates promised that they would try to work for the economic betterment of the people, reduction in the rate of land taxation and land revenue, and construction of public amenities such as schools, hospitals, roads, etc.

The extent of formal campaigning tended to vary according to the support and financial resources of the different candidates. Political parties such as the Jan Sangh and the Congress, which have an elaborate political organisation, large financial resources and a large number of party workers, were able to conduct a far more intensive and elaborate campaign than their independent counterparts. Nevertheless, compared to other candidates, IND 1 carried out an extremely intensive campaign although his financial resources were almost entirely personal and his supporters were mainly his friends.

In a mature democracy a candidate uses the formal campaign as a means of establishing mass contact with the electorate. In the rural areas of Uttar Pradesh the channels of communication are poorly developed and no candidate can expect to reach and establish contact with every voter even through a highly systematic organisation of village-rounds by his supporters. Moreover, the social situation is such that the individual voter is simultaneously subject to competing social loyalties, and he is often influenced by social considerations rather than a rational analysis of political programmes in choosing his candidate. In that situation, a candidate is required to find means of appealing to the traditional loyalties of his voters. Broadly speaking, the major social institutions that a candidate tries to exploit for this purpose are the religious community, caste and kinship.

The appeal to the traditional loyalties of the voters is generally made in the informal election campaign. It consists of making personal or direct contacts in the villages with the village leaders and their supporters. In recent years, a number of scholars have referred to the existence of vote-banks and pointed out that throughout the countryside there exist influential persons who enjoy the support of groups of people and can get them to vote in favour of a particular candidate. Informal electioneering is generally directed towards securing the support of the heads of these vote-banks in favour of a candidate and the politicians try to make their contact through these leaders. Candidates and their backers consider informal electioneering carried out through the party organisation or helpful individuals to be crucial to the final outcome of the election.

The most important aspect of informal electioneering consists in appealing to the voter through particularistic and traditional loyalties like those of caste, religious community or kinship. Where cleavages of various kinds operate simultaneously the candidate finds it difficult to compose a message which would seem constructive, much less, pleasing, to everyone. Any overt effort on the part of a candidate to ask people to vote on the basis of caste or religion amounts to a 'malpractice' which disqualifies a candidate. Yet, religious community, caste or kinship are crucial factors in the electoral process, and a candidate often has to make an appeal to all these competing loyalties in any electoral contest while he pays respect to the letter of the law. This type of appeal is made in informal campaigning. Informal campaigning is also used for purchasing votes, passing on bribes, pressurising the voters, etc. It is interesting that much of the expenditure incurred in the informal campaign is not included in the statement of election expenses which every candidate is required to submit to the Election Commission both because it would swell the expenditure far beyond the limit set by the law, and even more importantly, the items on which it is spent are not permitted under the law.

In the 1967 election all the candidates in Rudauli constituency tried to make an appeal to the voters on the basis of traditional loyalties although the specific technique varied from candidate to candidate. The main strategy of the Congress candidate was to approach the locally influential leaders such as Pradhans, Sarpanchs and landlords in the villages, and use their authority and power to influence voters belonging to the intermediate and lower castes.

In the past, approaching the electorate through the dominant castes worked well because their hold on the lower castes whom they employed as artisans, agricultural labourers and farm servants was quite firm, and a candidate who succeeded in securing the support of the dominant caste patrons automatically secured the support of the intermediate and lower castes. But in this election the dominant caste approach did not always work effectively. During the last decade, due partly to the periodic elections themselves, the intermediate castes had undergone a high degree of politicisation and they were no longer prepared to follow the dictates of the dominant castes. Whenever a candidate or his supporters approached the voter through the dominant caste patrons he enthusiastically agreed to abide by the wishes of his patrons, but when it came to voting he overlooked the command of the patron and voted for the candidate of his own choice, his choice of course having been determined by his allegiance based on his caste or kinship affiliation.

Some candidates sought to make a more direct use of caste in their electoral campaigns and even utilised traditional caste allegiance and channels of communication for enlisting the support of a whole caste group. The SSP candidate and IND 2 are cases in point. Both of them belonged to caste groups which have strong caste organisations, and they tried to approach their voters through their respective caste organisations. The SSP candidate approached the leaders of the Yaduvanshi Kshatriya Mahasabha and got them to issue an appeal in his favour. This appeal was widely publicised among the members of his caste and all the Kurmis and Ahirs worked for him. Similarly, IND 2 approached his voters through the caste panchayat. The Lodhas in this area have a strong caste panchayat and at one of its meetings before the election the panchayat decided that in the forthcoming elections all the Lodhas should vote for IND 2 who was a member of that caste. The political decisions of the panchayat spread quickly in this area and within a few days the entire Lodha caste was wholly behind IND 2. It should be noted here, however, that a candidate tried to make a direct appeal only to the members of the caste to which he belonged because he enjoyed a direct identity with them. For approaching the members of another caste the technique adopted was almost always indirect, although it happened in most cases that a whole caste group was behind a candidate even when he did not belong to the caste.

In addition to caste links the candidates also tried to explore and exploit kinship relationships for mobilising political support. Party workers and supporters of the various candidates went

TABLE 2: CASTE OF THE VOTERS AT MAKHDUMPUR POLLING STATION

Caste	Number of Voters
Ahir	140
Bania	63
Brahmin	6
Kurmi	59
Lodha	40
Murao	10
Muslim	169
Scheduled Castes	151
Thakur	28
Others	75
Not known	41
Total voters	782

to the villages where they had kinship ties and made an effort to secure votes for their candidate by invoking these ties. Whenever a candidate was faced with a situation where a leader of a caste or political faction openly declared himself in his favour but secretly worked for another political party or candidate, the problem was solved by finding an influential kinsman and making him counteract the machinations of the leader. It is significant that kinship loyalties often overrode loyalty to political faction and party. The Congress candidate from the neighbouring constituency in this election was a Brahmin and was related to IND 1. Although as a Congressman he should have canvassed for the Congress candidate from Rudauli, he used his contacts in the constituency to canvass support for IND 1.

It has been mentioned that the Muslims constitute a sizeable proportion of the population in Rudauli. In the earlier elections they voted for the Congress *en bloc*. It is quite likely that this time again they would have voted Congress but for the emergence of the Majlis-e-Mushawarat. The stand of the Majlis was that the Congress should be defeated, and all the leaders of the organisation tried to prevent Muslim votes from going to Congress candidates. They argued that, though the Muslims had solidly stood behind the Congress in previous general elections, their problems had failed to attract the attention of the Government. The Muslims were being increasingly isolated economically. They did not enjoy any significant place in the economic structure of the country, and their economic position was deteriorating rapidly. Moreover, there were also threats to the distinct social and cultural identity of the community. For example, the leaders pointed out, Urdu was fast dying out, and the Government had not taken steps to provide facilities for the study of Urdu. The Muslims should support candidates who agreed to work for their interest. As a result of this change in Muslim political orientation, other candidates who were not entirely regarded as representative of the communal Hindu organisations, such as the Jan Sangh, stood a fair chance of securing the support of the Muslim voters and winning the election. All the candidates in the constituency with the exception of those from the Congress and the Jan Sangh therefore tried to win over the support of the Majlis-e-Mushawarat.

The Majlis had devised a particular procedure through which its support could be secured by a candidate. At the beginning of his electoral campaign the candidate soliciting the Majlis' support was required to make out an application expressing his acceptance of the Charter of Demands formulated by it, pledging that in the event of his election he would work for the acceptance of those demands. A committee of the Majlis constituted for the purpose of deciding whom the Muslims in a particular constituency should support then considered the application and decided whether or not to support the candidate. Whenever there was only one application for the Majlis's support, it was readily given to the sole applicant. But when there were several candidates seeking support, the matter was discussed and one of the applicants selected. The Majlis generally selected those candidates for support who were even otherwise likely to win. In the Rudauli constituency four of the seven candidates sought the support of the Majlis and it was finally promised to IND 1.

How effective was the influence of the Majlis-e-Mushawarat among the Muslims in the Rudauli constituency? The Majlis was founded as a pressure group only a few months before the general election and its political influence hardly had time to penetrate into the rural areas. The Urdu newspaper founded by the Majlis to popularise its political ideology had an extremely limited circulation in Barabanki district and its readership was largely confined to the major towns. But the Majlis enjoyed a strong hold over the Muslim voters in the Rudauli constituency for a very special reason. Most of the leading Muslims in the constituency were strongly in favour of the Majlis and they were willing to deliver the Muslim votes controlled by them to the Majlis-supported candidate. Once the Majlis announced its decision to support IND 1, the leading Muslims carried out an effective campaign for him and tried to convince the Muslim populace of the desirability of voting for him. Moreover, statements signed by the leaders of the Majlis and pamphlets appealing to Muslims to support and work for IND 1 were distributed in the villages.

If IND 1 stood to gain by the Muslim votes, it was to the advantage of the other candidates that those votes should be split up. They tried, therefore, to make certain tactical moves to woo the Muslim votes. Many of the candidates tried to influence Muslim voters by bringing some pressure upon the leading individuals who were supporting the Majlis. The attempts made by the SSP candidate to win over the Muslim votes in one particular village provided a good example of how votes were sought. In this village the Muslims constituted more than fifty per cent of the voters and they were all likely to vote for the Majlis-supported candidate. The campaign for him was vigorously carried out by two leading Muslims who were influential among the villagers. One of them, a medical practitioner living near the railway station about two miles from the village, was widely respected by the villagers. The other was a landlord of a neighbouring village which is grouped with this village and the two together form the 'revenue village'. In the past he held considerable land in this village and several villagers were bound to him by ties of clientship. Lately, he did not enjoy any economic power over the villagers but they were bound to him in ritual relationships. He was a Saiyad *pir* and many of the villagers were his *murids*, devotees who had pledged their loyalty to the *pir*. The relationship between the *pir* and his *murids* is usually a very strong one and it was natural that the villagers should have been influenced by it.

TABLE 3: CASTE BASIS OF ELECTORAL SUPPORT

Candidate	IND 1	Jan Sangh	Congress	SSP	IND 2	Swatantra	IND 3	Invalid Votes
(a) Votes Polled	147	84	184	268	37	20	12	30
(b) Attributed Caste Base	Brahmin 6		Scheduled Castes	Ahir 140	Lodha 40			
	Muslim 169	Bania 63	151	Kurmi 59		—	—	—
	Murao 10		Thakur 28					
(c) Discrepancy	38	21	5	69	3	—	—	—

At the beginning both the medical practitioner and the Saiyad *pir*-cum-landlord were canvassing in the village for the Majlis-supported candidate. The SSP candidate who had a large following in a neighbouring Kurmi-dominated village attempted to split the Muslim votes in this village by securing the backing of one of the influential men working for IND 1. It is alleged that he negotiated with the Saiyad landlord to secure his support and even passed on some money to him. While it was difficult to ascertain whether he was actually bribed, it was striking that the landlord who was till then supporting the Majlis' candidate suddenly changed his mind and went about urging Muslim voters to support the SSP candidate. It may be mentioned that the change in the position of the Saiyad landlord posed a conflict of loyalties among the Muslim voters in the village and many of them resolved it by abstaining from voting. As one informant said, "If I went to vote, the medical practitioner as well as the Saiyad landlord would have tried to pull me to their camp and this would have embarrassed me. I did not go to vote so that I would not be embarrassed." Polling was very poor in the village as a result, only 310 out of 991 voters actually exercised their franchise.

On the eve of the election there was a more or less clear-cut identification between the different candidates and the different main social groups with the exception of the Jan Sangh candidate who was expecting diversified support. The Congress candidate believed that, apart from the Thakur caste to which he belonged, his main support would come from the Scheduled Castes. Although the Majlis-e-Mushawarat had been successful in consolidating the Muslims in favour of IND 1, the Congress candidate still expected that some Muslim votes would be cast in his favour. The SSP candidate and his supporters believed that their main support would be from the Ahir and Kurmi voters. The hopes of IND 1 centred around the Muslims and the Brahmins. He believed that if he succeeded in securing the votes of some of the Kahar and Murao voters whose support he had tried to enlist through their caste organisation, he would win the election. IND 2 enjoyed the backing of his caste panchayat and it was certain that his support would be confined to his caste-fellows only. It was clear that polling was going to follow the line of caste and religious affiliation and the candidate who succeeded in bringing most of his supporters to the polling booth would win the election.

It was widely believed that the main contest was going to be between the Jan Sangh, Congress and IND 1, although the SSP candidate was considered to be a close contestant. Both the Jan Sangh and Congress candidates had an edge over IND 1 insofar as both belonged to fairly established political parties and had been able to use the resources of their party organisations for election purposes. They had no paucity of workers and their campaign publicity had been carried out even in the most remote villages of the constituency. IND 1 did not have the resources of an established political party and he was also short of workers. Although he tried to make up for this shortage by the intensity of his campaigning, it was said that his entire campaign was going to fall apart on the polling day when he would not find sufficient workers to put up tents opposite every polling station to fill out the voter's registration cards and give the crucial, final push to the voter to vote for him. It seemed, on the whole, that the chances of IND 1 depended very much on his ability to bring his voters to the polling booth because the Jan Sangh and Congress candidates were certainly likely to have an edge over him in this matter.

Results

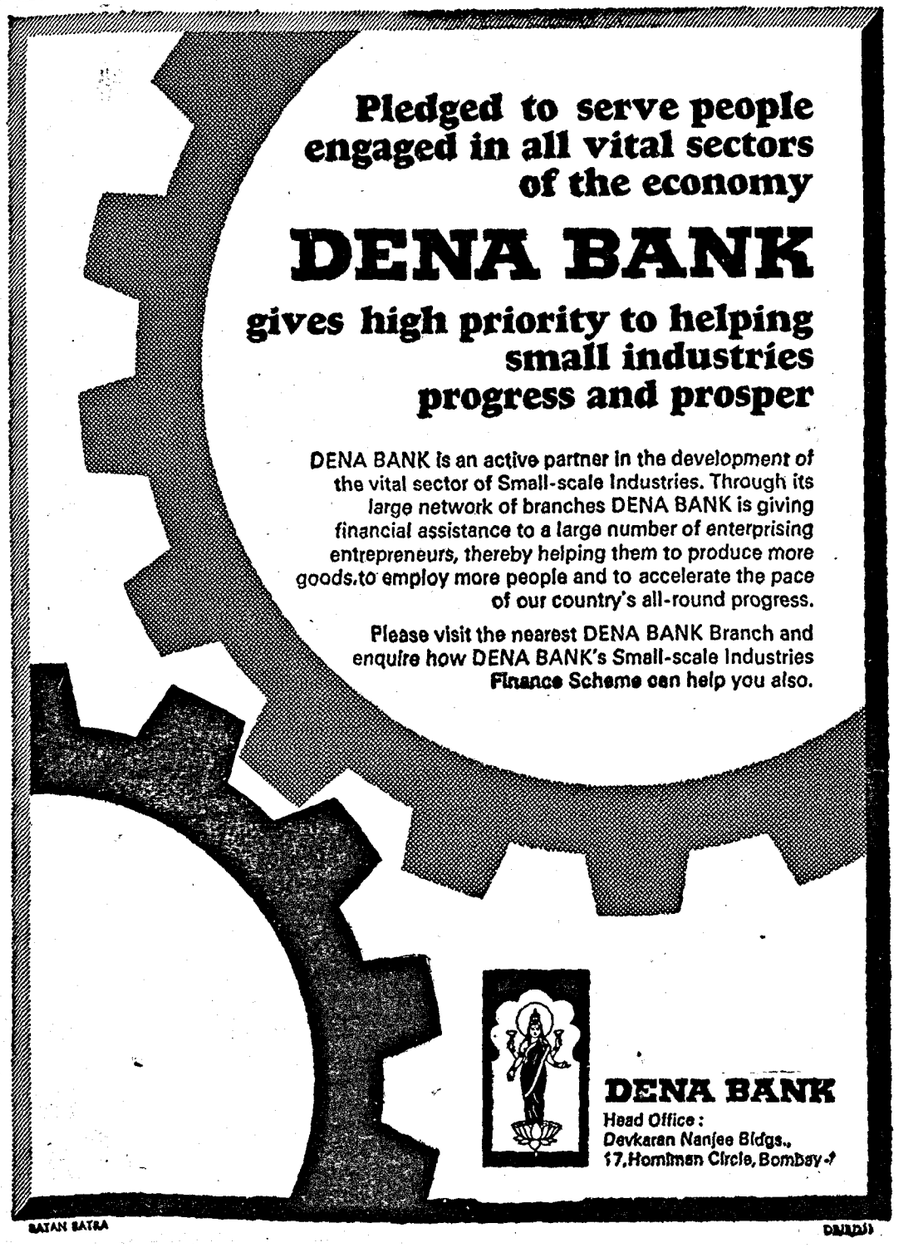
IND 1 won the election by a margin of 2,150 votes over his nearest rival. He secured 25.23 per cent of the total valid votes polled as against 20.73 per cent and 20.68 per cent by the Jan Sangh and Congress candidates respectively. The SSP candidate polled 13.28 per cent of the total votes, but he and the remaining three candidates lost their deposits. The contest was an extremely close one and the victor won by a margin of only 4.6 per cent of the total votes. The earlier speculation that IND 1's campaign would fall apart on the polling day on account of his inability to put up tents near every polling station was proved wrong. In fact, the rural voter proved more intelligent and subtle than was usually imagined. On the polling day the Congress and Jan Sangh tents in several places were busiest; but IND 1 led at all these places. It seems that a very large number of voters accepted the help of the Jan Sangh and the Congress workers but voted for IND 1.

What were the factors responsible for the success of IND 1 in the election? It will be recalled that in the earlier elections the Muslims and Scheduled Castes had supported the Congress, and the caste Hindu voters favoured the Jan Sangh candidate. At this election the Scheduled Castes again supported the Congress candidate but the votes of the caste Hindus were split three ways. The SSP candidate successfully attracted the Kurmi and Ahir votes, and IND 2 deprived the Jan Sangh of Lodha support. The caste Hindu votes secured by the Jan Sangh candidate were neutralised by the Scheduled Caste votes of the Congress candidate, and consequently both the candidates lost the election although both succeeded in getting almost an equal number of votes. Because the support of all the candidates was evenly balanced, the Muslim votes played a crucial role. Although some Muslim votes were polled by the Congress and SSP candidates, they largely went to IND 1. If there had been no Kurmi and Lodha candidates in the field, it is most likely that these votes would have gone to the Jan Sangh, enabling its candidate to win the election again. The defection of the Kurmi, Ahir and Lodha votes from the Jan Sangh, and the *en bloc* Muslim support for IND 1 paved the way for the defeat of the Jan Sangh candidate and the election of IND 1.

Although many of the candidates for the Assembly seat from Rudauli belonged to all-India political parties, the political ideology or programmes of these parties did not play a very significant part in the election. On the contrary, religious community and caste were the most influential determinants of voting behaviour. This is brought out most vividly by a casual glance at the number of votes polled by the various candidates at the various booths. By and large, the Congress and Jan Sangh candidates did uniformly well at all the polling stations, except that the votes polled by the Jan Sangh candidate were reduced in those areas where Muslims were preponderant. The SSP candidate led in those villages where the Kurmis and Ahirs were found in large numbers. In those areas where the population of Ahirs and Kurmis was particularly thin,

the SSP candidate polled very few votes. Booth-wise figures of votes polled by IND 1 reveal that he led from all the polling stations having a large Muslim population. In other areas he polled some votes and obviously these were those of the other groups who supported him.

Unfortunately, data on the caste or religion of voters for each polling station in a constituency is not available. However, an analysis of the caste of the voters can be attempted on a more limited scale. In Table 2 I have presented the caste of 756 out of a total of 782 voters who exercised their franchise at one of the polling stations, and I shall try to discern the relationship between caste and voting pattern on the basis of this voting. It may be mentioned that these data were obtained from the political parties who had set up their tents near the polling station. Before going into the booth the voters take their registration cards from these tents and the names of the voters are marked by the workers in their copy of



the election rolls. I obtained the names of all the voters who had exercised their franchise from these election rolls and then found out the caste or religious affiliation of each voter from the village to which he belonged. I had the data on the castes of the voters from two of the three villages which were included at this polling station, and I subsequently collected the information for the third village from the Pradhan of that village

If the total number of votes polled by each candidate at this polling station is seen in relation to the castes of the voters, it is found that there was a remarkably close relationship between the castes of the voters and the candidate whom they voted. I have presented this relationship in a tabular form in Table 3.

Table 3 gives the total number of votes polled by each candidate and the number of votes cast by each of the main caste or communal groups from whom he was expected to receive his major support. It is seen that IND 1 secured only 147 of the 185 votes belonging to the groups which were expected to support him, 53 votes being polled by other candidates. In this area, I have already mentioned, the SSP candidate had tried to split some Muslim votes and these 53 votes may be those of Muslims which were cast in favour of the SSP candidate. It seems more likely to have been the case when it is seen that the SSP candidate gained 69 votes more than the total votes of the Ahirs and Kurmis whose support he was promised. In the case of all other candidates, caste groups seem to have voted *en bloc* and the link between the candidate and the caste groups which voted for him was clear. If the Jan Sangh candidate, for instance, secured more votes than there were Bania voters, he definitely would have secured these extra votes from among the groups whom we have included under the category 'others'.

The part played by caste was both direct and indirect, although the increasing politicisation of the rural voter led to a more direct relationship between caste and electoral politics. The direct role of caste in the election was dramatically brought out by an incident which occurred at one of the polling stations in the constituency. A Lodha voter cast his vote for the Assembly seat for IND 2 whose election symbol was a lion. When he failed to find the lion on the ballot-paper for the Lok Sabha seat he returned to the polling officer and asked him why the symbol of his candidate was not there. The polling officer tried to explain to him that the candidate with the lion as his symbol was not contesting for the Lok Sabha seat and asked him to make a choice from among the candidates listed on the ballot paper. The voter looked puzzled and said, "If the symbol of my candidate does not appear here, I shall not cast my vote. I do not want to be excommunicated from my caste at this old age." And he walked away without even bothering to put his ballot paper into the ballot box.

It will be observed that the rate of polling in the constituency was extremely low. Only 52,156 out of the total electorate of 106,099, that is to say only 49.2 per cent, voted in the election. What were the reasons for the low polling? I am not in a position to offer any general explanation which may be applicable to the whole constituency, although some understanding of the reasons may be obtained from the situation in the village where I did my field work. In the first place, the rate of polling in the village was low on account of the failure of the candidates to bring the voters to the polling station. In the rural areas a voter does not generally come to the polling station on his own but it is rather the responsibility of the candidates to bring him in to cast his vote. This is particularly true in case of women voters who are unwilling to walk up to the polling booth and require some kind of conveyance. In this election there was considerable confusion regarding the candidate whom the villagers were likely to support. Originally, IND 1 was expecting the support of the villagers but after the SSP candidate's efforts to split his votes he thought that he was not likely to get much support, and so did not send bullock carts to fetch the voters from the village. On the other hand, the SSP candidate was not altogether sure of his backing and did not seem particularly keen to waste his resources on fetching the villagers. In fact, he thought that so long as the villagers were not going in his favour it was to his advantage that they should also not cast their votes.

Abstention from exercising his franchise is seen by the rural voter as a way out of a situation where his political loyalties are in conflict. We have seen that the support of the medical practitioner and the Saiyad landlord for IND 1 and the SSP candidate, respectively, posed a conflict among the Muslim voters in the village. They resolved the dilemma by abstaining from voting.

Conclusion

There are two main conclusions which emerge from the foregoing analysis. In the first place, it is seen that there are a number of loyalties which serve as a basis for the organisation of political support in the rural areas. These loyalties are those of religion, caste, kinship, and factional grouping. All these loyalties are operative simultaneously but they are situationally determined and operate at different levels. For instance, communal loyalty becomes operative whenever the main conflict is between two religious groups, i e, the conflict between Hindus and Muslims. In a situation where the conflict is between the members of the same religious community, internal cleavages come to the fore and crystallisation of political loyalties follows the line of sectarian or caste distinctions within the religious community.

Our analysis also shows that there is a tendency among the Muslims to turn away from the Congress, the party they have supported since Independence, under the influence of the Majlis-e-Mushawarat. While Muslims in the past stood behind the Congress and Muslim support constituted an important element of the Congress vote, they are now becoming politically organised as a separate group. It is difficult to say that all the Muslims in this constituency voted against the Congress at the 1967 election; in the northern part of the constituency the Congress certainly succeeded in securing some of the Muslim votes. Nevertheless, the role of the Majlis-e-Mushawarat has not been altogether ineffective; it has continued its activities in the region even after the election and it is quite likely that in course of time the influence of the Majlis may result in greater consolidation of the Muslim voters.

One last point. Our analysis shows that political ideology plays relatively little part in determining voting behaviour in the rural areas. On the contrary, caste, religious and kinship ties determine the way in which individuals vote. It is, however, difficult to say whether the value or importance of such ties is merely sentimental or emotional. Perhaps, a more detailed empirical study will reveal that there are often very practical reasons behind a particular religious community, caste or kin group becoming active politically. Apparently, politicisation of traditionalistic social groups is a corollary to the introduction of representative political institutions in a society where distinc-

tion between 'social' and 'political' is still inadequately developed.

Notes

1 This paper was first written in 1967. It is published here in its original form. I wish to thank the Principal, Delhi College, University of Delhi, for academic leave to conduct field work on which this paper is based. I am also thankful to Lloyd I Rudolph, Mckim Marriott, and Nur Yalman for helpful suggestions on an earlier draft of this paper. I am, however, alone responsible for the many deficiencies in it.

2 It seems that sitting MLAs usually lost the election in UP. Of the 24 Jan Sangh members of the Assembly who were re-nominated, 17 were defeated.

3 I have used party labels throughout this paper and not proper names in order to disguise the identity of the candidates.

4 A fourth candidate had filed his nomination as an independent, but he withdrew his candidature at the eleventh hour. A Bania lawyer from Rudauli town, he was alleged at the time to have been sponsored by the Congress candidate as part of a strategy to split Hindu votes. According to several Congress workers, he was persuaded by the Jan Sangh candidate to withdraw his nomination on the understanding that the former would support him in the next election.

5 Angela S Burger reports, "Village respondents of the two parties reported that a Jan Sangh activist came to the villages and, gesturing with his sacred thread, said, 'you are Hindu; I am Hindu. Therefore you should vote Jan Sangh'" (Burger, 1969, p 147).

6 The support of the Majlis-e-Mushawarat was certainly not always a blessing. In many instances block Muslim support produced a Hindu reaction from which the Jan Sangh benefited the most. In Bahraich district the Jan Sangh made a clean sweep of the nine Assembly seats where it previously had none, and the Swatantra party and the Congress had five and four respectively. In Basti, the Swatantra party lost one of the three seats it had held and the Congress three of its nine. In the Rudauli Assembly constituency, however, there was no strong reaction to the Majlis's activities.

References

Ahmad, I: "The Political Role of the Muslim Majlis-e-Mushawarat". To be published.

Burger, A S: "Opposition in a Dominant Party System", University of California Press, Berkeley and Los Angeles, 1969.

Da Costa, E P W: "Poll Results Herald Second Indian Revolution", *Statesman*, March 9, 1967.

Prospects for Indian Political Science Research in the Seventies

Work of the ISSRC

R Srinivasan

A FUTURE historian of the social sciences in India will certainly date the establishment of the Indian Social Science Research Council as the beginning of a new era in social science scholarship, when a new sense of direction was massively introduced in Indian social sciences. Several proposals for research are invited, scrutinised, and supported financially. A systematic centralised collection is being made to house all scholarly materials in the social sciences, like Ph D theses, etc. More important, research is being systematically mapped out, bibliographies of research done commissioned, scholarly items which are languishing in distant corners of the country are being tracked and made available to the world of learning. A number of papers are being written on particular areas in the different branches of social sciences, and regular seminars held to help the scholarly world to make itself more rigorous in its work and research perspectives.

Top level committees in the different fields of social studies were originally commissioned by the Council to indicate important research areas. In the different fields such as sociology, economics, law and political science papers have been written or are being written to survey the research work that has been done, the direction in which research is moving ahead, and neglected areas where no research is done at all. On the basis of these papers seminars in the different fields are being periodically held.

ISSRC and Indian Political Science

In the field of political science, three seminars have been proposed of which two already are over (in Public Administration and Political Science) and a third on International Politics and Area Studies is under preparation. A comprehensive bibliography of nearly 15,000 scholarly items not easily tracked down is being compiled. The papers that have been commissioned in the three branches of political studies, many of which are at present being revised, will be published in five volumes, each of 500 pages. (For the social sciences as a whole there would be sixteen such volumes.) The papers are not to be regarded as bibliographies and should not be expected to be exhaustive. They are to indicate the work done in the different areas, evaluate their quality and finally focus upon researchable items. The presumption appears to be that those who will engage in research in political science in the future will tackle those problems that have not been looked into in the past and that political studies will be comprehensive in their coverage and will gain in intensity in research. Since Indian social scientists, particularly political scientists, are not trained in rigorous scientific methods, a whole paper will look into the problem of methodology.

Readers of *Economic and Political Weekly* will be familiar with the proceedings of the seminar held on Public Administration, (*vide*, "What Ails Public Administration?" June 10, 1971). More recently, a large political science Seminar, large even by Indian standards, was held in Delhi between August 11 and 14, 1971. This was attended by nearly 80 social scientists. The Seminar programme and the timetable were directed by Rajni Kothari of the Centre for Study of Developing Societies, Delhi. An executive committee of the ISSRC had commissioned the papers and got them written. A unique feature of the Seminar was that it had a very wide range of participants from other disciplines—sociology, area studies, public administration, community development, political philosophy, all were represented by specialists. However there appeared to be few historians present—and this appears to reflect the general neglect of historical studies by social scientists in our country. Another distinct feature of the Seminar was that it was dominated by people in their thirties and forties. There was a great deal of critical debate and none was spared. Rajni Kothari, the moving spirit behind the seminar, had to face scholarly salvoes when he presented his papers. But by and large, it was good humoured. Another good thing about the Seminar was that ceremonials were totally absent. The three-day session was exhausting and one felt that had it been extended by at least two days there would have been a more relaxed atmosphere and more of frutiful exchanges between participants outside the seminar halls. There was little time to have leisurely cups of tea with one's colleagues across the subcontinent. Exhaustion was seen on the penultimate afternoon when the participation in the Seminar was almost non-existent, in contrast to the lively discussions on the first two days.

It would have been good if at the beginning of the Seminar some details had been presented about the findings in the earlier public administration seminar. (There appears also to be some reluctance on the part of the political scientists to regard public administration as an important part of political science.) It is quite likely that identical problems were raised in the Seminar on political science and in the earlier seminar, just because of lack of knowledge. It is to be hoped that in the later seminar to be held on International Politics, a brief resume would be made on aspects that might interest the participants, but which have been covered already.

Political Science Survey

The Seminar was called Political Science Survey and its total range was very comprehensive. In the appendix to this report is reproduced the titles of the papers presented in the seminar. This must be regarded as the most comprehensive of evaluations made in India of the state of political science. Many thought that it was indeed a memorable moment, even as perhaps Diderot felt on his completion of his Encyclopaedia. Though it was essentially an exercise in inventory making, it was at the same time something more than a mere inventory. Such attempts, in the past, had never been satisfactory. It was argued that henceforth political science in India will move forward with a sense of confidence that it lacked till recently. A participant remarked: "The level of performance of the papers is striking and they will stand well in comparison with any international group of papers. As a political scientist, I am proud to be here. It is a moving experience. The time is now to move forward."

Like adolescents who feel that they have become adults, there was a pathological concern about equality of status with Western political scientists. This was expressed time and again by many participants and valuable time was spent on trivial issues like whether a separate paper should be written on the contribution by Western scholars on India. That *ferenghi* and *desi* political scientists belong to a larger species of scholarship with identical standards of academic performances and failings was not stressed by even a single participant. Another amusing thing that was noticed was that almost all the participants agreed in general that political science in India had come of age, but when engaged in analying the work done in any particular area complained that there was very little of indigenous scholarship in the field analysed.

Themes and Panels

Since there were twenty papers, it was inevitable that they had to be grouped. Two panels were devised and participants attended such sessions as interested them. In the first panel were papers that are traditionally associated with political science—the Constitution, Parliament, Nationalist Movement, Party System and Elections, State Politics, Local Government, Indian Political Thought, etc. The second panel was concerned with the dynamics and processes of politics. A large number of sociologists were in the second panel. The subjects of these panels were Scheduled Tribes, Caste and Politics, Students, Political Culture, Violence, Religion and Politics, Leadership, Contributions to Political Theory, Performance of the Political System, etc. It was felt by several participants that the contribution of the papers as well as the discussions in the second panel were consistently of a higher order than in the first panel.

A surprisingly large number of papers in the first panel were disappointing, compared to those in the second. It was an extremely refreshing thing that the panel asked one of the paper writers to either rewrite his paper completely anew or hand over the job to someone else. Generally such exacting demands are seldom made in seminars. Two papers on the Indian National Movement and Political Thought of Modern India were again criticised and will have to be written again. It must be accepted that these were done rather indifferently. The paper on Federal Politics in India came too late to be circulated but it was summarised at short notice by a senior academic and it too was rejected as not at all being upto the standards of the panel. Papers in Local Politics and State Politics were surveys indicating the work done.

Annotated Bibliography

The paper on Institutions of Parliamentary Democracy in India while indicating exhaustively the work done in the field, suffered from having to cover a very vast canvas. It was inevitable that in the later parts of the paper it should read like an annotated bibliography. One of the authors of the paper maintained that he had adhered to the terms of reference that were given him for writing the paper. The exact terms of reference given to the participants were not available to the participants. This made the task of evaluating the papers difficult. For instance, while the paper on Leadership was criticised, it was defended on the ground that the writers had kept themselves within the ambit indicated by the terms.

Animated discussions took place on three papers in the first panel—on Comparative Politics, Party System and Elections and on Institutions of Parliamentary Democracy. Lack of empathy in understanding other political cultures and institutions, the need for comparative studies over time and space and above all the dangers of a parochial study of politics were stressed. It was urged that the study of castes and regions *qua* castes or regions should be given up and a wider framework adopted. The study of comparative politics has been generally restricted to studying Anglo-Saxon institutions and the need for exploring non-English speaking areas, particularly Latin America, was emphasised. The fact that election studies are mere *post facto* exercises and do not test hyoptheses, the dangers in the sampling procedures adopted, the neglect of party-building activities, the richness of the data collected and the poverty of the analysis were deplored.

The Second panel of the political sociologists started with an extremely well-written paper on Caste and Politics. It surveyed the research work stressing the continuity of the traditional social structure, the rich analyses of the differentiation that have come about in the social structures, thanks to the stimulation that has come from the outside. Lastly it looked into the politicisation of castes. The extremely wide connotation given to the concept of caste and the need for using the concept as a heuristic device were stressed.

Three papers on violence and politics, the political culture on India and students and politics indicated rich areas of research. The discussion on the political culture of India got bogged down mainly because of a long discussion on what political culture is. The writer of the paper, a psychologist, offering a narrower frame of reference than what is generally adopted was not acceptable to the sociologists who tended to view political culture from a larger prespective. Students and politics was a theme on which, it was discovered, a great deal was being written and analysed mainly by psychologists. It was said that there were nearly 1,500 papers on students but they cumulated into almost nothing of any great significance. It came as a revelation that bodies concerned with education, such as the University Grants Commission, did have a great deal of material that was highly useful but not generally used by the scholars.

Violence and politics was a theme on which the paper began with a consideration of the theory of Kornhauser on Mass Society. It pointed out that reporting on violence was mainly the work of newspaper correspondents. To at least more than one reader it gave the impression that a claim was made that social scientists are better qualified than journalists to look into these problems—a point which needed more defence than was put into the paper. The paper did not look into the psychological dimensions of individuals prone to violence and this is an area that is widely neglected.

Indian political theory is generally regarded to be highly underdeveloped, and the paper of Kothari provoked many to challenge his premises. Some feared that he has become an apostate to behaviouralism. It was suggested that philosophy may degenerate into ideology. It was again criticised that the shift from behaviouralism to normative political theory was not easy. The discussion between the relations between ends and means, a perennial theme, again came up.

Kothari's paper on the performance of the system and political development again raised controversies. Concerned with the political dimensions of the performance of the economy, it was inevitable that the paper should raise differences and controversies. A number of participants alleged that the author tended wholly to ignore critics of the planning processes and that he was highly selective in the evidence that he presented.

The executive committee of the Council was faced with the problem of six themes which remained uncovered by the papers. These were political socialisation, political participation, political recruitment, communication, coalition-making and decision-making. Satish Arora was asked to write on them and he wove them into a paper entitled the processes of politics, perhaps the longest paper presented in the seminar. It covered great ground and in a masterly manner and indicated research areas and priorities.

Religion and politics was a paper on which a great deal of acrimonious debate appeared to have taken place, though the paper itself was unexceptionable. The author argued that power was a central issue that motivated the religious elite to enter into politics. The Hunter thesis that Muslims did not take advantage of educational opportunities in British India, a theme often worked to great detail, was finally laid to rest by the paper-writer by citing their educational and service openings in UP.

Participants and Programme

Certain general observations need to be made on the seminar. In the first place it was essentially one that was dominated by the not-so-young Turks. There was a generation gap and the political scientists in their sixties with one or two exceptions were notably missing. The oldest member present regrettably cut a sorry figure when he did intervene. Unfortunately, the older members who had witnessed in their own professional life a shift from one type of political theorising to another just failed to correct the excesses of the behaviouralists.

The general temper of the Seminar appeared to be that political science in India began in 1960; here was an opportunity for the older members to correct the highly limited approach of the epigoni who sat in judgment of their professional elders with a totally inadequate study of their writings. But the elders failed in this. It was left to the younger generation to protest and to press for a survey of the work done by an earlier generation of political scientists. Occasionally, when an elder political scientist intervened to make a point it was most timely. For instance, K V Rao had to point out that several allegations have been made by political parties aout the working of the Election Commission and this needs to be looked into. Again a senior political scientist with long years of experience in educational administration did intervene and to good effect.

Another impression that one got from the proceedings was that too many papers were presented in too short a period. The programme was very much crowded and the discussions did flag towards the end. It is to be hoped that in the next seminar to be held on international politics, there would be some leisure offered to the participants. The important thing about these seminars is that the participants meet outside the proceedings, exchange notes on work done and of current developments; even gossip can be valuable. None of the participants had the time to meet in a relaxed atmosphere over a cup of tea. More, there was little time available to the participants to read those papers that were delivered late and to ponder over them. Again, the area covered was too large and more than three seminars could have been held on the themes discussed.

Some Persistent Themes

In all the papers some themes tended to repeat themselves over and over again, and it may be worthwhile recapitulating them. Almost everyone felt that the need of the hour was to develop an interdisciplinary approach to research. A participant called this a non-disciplinary approach. (It was again amusing to see political scientists of some sophistication stressing the need for an interdisciplinary approach. The best writing on political science always has been interdisciplinary and elementary acquaintance with the classics would reveal this.) Here the performance of the sociologists was particularly striking. Their interventions were always timely and insightful. One sociologist reminded the participants that political science research seems to lag behind sociological research by a decade. He gave the instance of how while political scientists in the fifties were engaged in institutonal studies, sociologists were studying the dimensions of caste. While the sixties saw them abandoning caste and moving to other fields, the political scientists have taken to caste with great seriousness. He argued that while the sociologists tended to be tentative in their conclusions, the sense of certainty with which political scientists, put forward their views certainly would not be conducive for the development of research in political science.

Yet while there was a general agreement on the need for an interdisciplinary approach, a few purist political scientists feared the sociologists interloping into their terrain and they regarded them as poachers. But such fears, fortunately, were not shared by the group as a whole.

Like King Charles's head the problem of using data cropped up again and again. The available data are not being used fully. What is more lamentable is that the data once used are allowed to gather dust and are not squeezed out to yield more. The need for using the cumulative data available in government reports, etc, was touched upon. Again, the function of the proposed data bank was explained. The pressing need is for scholars from centres to re-use the data gathered by different academic bodies and Rajni Kothari welcomed anyone who would be prepared to use the enormous data that his Centre had collected over the years.

Some Insightful Studies

The need for studying political phenomena in a comparative framework, both space- and time-wise, was stressed in more than one session. Here, the difficulties of having comparative data of similar dimensions were indicated and it was reminded that such a comparision has not been done extensively even in the West. Time-wise, the anthropologists have done some insightful studies and it was suggested that the political scientists do likewise.

It was feared that there is a likelihood of political scientists concerend with the political system as a whole overlooking sensitive areas, radical proposals, and generally impatient gestures on the ground that these would disrupt the system. A young radical political scientist from Delhi time and again offered the timely reminder that behavioural studies might descend to being apologia for the *status quo*. This again brought into focus the question of ends and means which engaged the attention of the participants in more than one session.

There were a few muted complaints which occasionally burst out into the open. It was feared that Delhi was over-represented and the papers were written exclusively by those in Delhi. It must be accepted that Delhi and Rajasthan did get the lion's share of paper writing; but then it was not clear whether in scholarly efforts there should be regional representation. However, generally the papers from Delhi were of a standard that was more than commendable—the same could not be said of all the papers that came from the other centres.

Again, it was felt that a threefold level in the world of scholarship in political science was developing and it was questioned whether this would do good to the discipline as a whole. While advanced research is done in a few whole-time research institutions, some very competent work in the universities, the colleges were not doing much by way of research. Between these Centres and the University departments there are continuous scholarly exchanges of research findings, but these just do not percolate to the colleges. They were being removed from the main lines of contemporary research.

It was also alleged that the Council itself was becoming elitist.

Theoretical Framework

The papers presented in the seminar could be broadly divided into two groups. Those, that started with a theoretical framework and starting from this perspective engaged in the task of inquiring into the work done in the area. Others, started with description of work done and indicated the gaps. Competent papers as well as indifferent ones were written from both perspectives. The latter approach could descend to being a barely organised annotated bibliography. There appeared to be nothing distinctively superior about either method. The need for a theoretical framework in the writing of papers can be overdone. It should be stressed that a theoretical framework is no end in itself. Some subjects may lend themselves better to this approach and others may not. A warning was never more necessary than now when the need for a theoretical framework tends to be regarded as a golden calf. It was good that the writers were given the freedom to freely adopt whichever method they wanted. Both could be used with advantage to indicate gaps and researchable areas.

However, a number of writers when criticised for their performance for not writing their papers within a framework complained that they kept within the terms that were given to them. Obviously, the Executive Committee failed somewhere to indicate exactly what was wanted; it is also likely that there was a misunderstanding of what was expected of them. This was evident most readily in a paper that was presented in the seminar.

While inaugurating the seminar, J P Naik said that this was essentially an exercise in stocktaking, in indicating neglected areas of research and an attempt in prognosis. He also said that periodically such recapitulations would be necessary if the social sciences are not to get stuck in a rut. Considered from these points, the seminar has made an excellent beginning and the prospects for political science research in India are indeed very bright. All agreed that political science in India had come of age, in that the practioners have a sense of confidence that they can contribute significantly to the understanding of Indian politics.

Appendix: List of Papers Presented

Panel I

(1) Institutions of Parliamentary Democracy in India
(2) Party System and Elections in India
(3) Constitutional Development in India
(4) Indian National Movement
(5) Political Thought in Modern India
(6) State Politics in India
(7) Local Politics in India
(8) Urban Politics in India
(9) Federal Politics in India
(10) Comparative Politics

Panel II

(1) Caste and Politics
(2) Politics of Scheduled Castes and Scheduled Tribes
(3) Student and Politics in India
(4) Political Culture in India
(5) Violence and Politics in India
(6) Studies of Leadership
(7) Performance of the System and Political Development
(8) Contributions to Political Theory
(9) Process of Politics
(10) Religion and Politics

Differential Interest Rates—I

Bimal Jalan

CONCEPTUALLY, one can think of four circumstances in which there is an economic case for subsidising interest rates to certain borrowers. First, such a case exists when the commercial rate of return in any "socially" desirable activity is lower than the prevailing rate of interest. For example, if it can be shown that (a) small-scale farming or small industry is socially desirable, and (b) that commercial returns in this activity are lower than the ruling interest rate, then there is a clear case for interest subsidy. This is the principal economic rationale for low interest loans for urban development or road building in both developed and developing countries.

Secondly, there may be a good case for interest subsidy when commercial return in any preferred activity is higher than the ruling rate of interest, but there are other less desirable activities where the returns are even higher. This may arise because market prices do not reflect social preferences and costs, and in such cases, the interest rate mechanism may be used to change the direction of private investment among sectors or among regions. This may be the rationale behind lower rates of interest for longer-term investment (as against trading) and exports (as against stocks), or for investment in backward areas.

Thirdly, there may be a case for subsidy on considerations of "creditworthiness" of the borrower regardless of the economic returns to the activity being financed. This consideration may work in opposite directions: from a commercial point of view, those who are financially strong would be charged a lower interest rate; from a social or economic point of view, however, those who actually *lack* creditworthiness may be given an interest subsidy. The first variant is a common feature of commercial banking throughout the world, the latter has now become an accepted principle in international lending. Thus "lack of creditworthiness" is one of the explicit conditions of eligibility for interest-free loans from the International Development Association, of which India has been a major beneficiary.

Finally, the case for interest subsidy occurs when particular borrowers are poor or disadvantaged, and it is an object of social policy to raise their standard of living *beyond* the level that would normally result from the act of borrowing and investing on market terms. An interest subsidy in this case is a way of subsidising the consumption of the borrower or enabling him to borrow less in future by increasing profits at the expense of interest in the value-added. This is the rationale for low-interest loans for housing in poor areas, and also for low-interest international loans to the poorer among the developing countries.

In this note, I propose to examine the report of the Committee on Differential Interest Rates with reference to this general framework.

II

Although the economic rationale for interest subsidy has not been formulated precisely either in the majority report or the note of dissent, from frequent references to social justice, the poor, the rich, and "correcting the historical perversity", one can deduce that the Committee's rationale for lower rates of interest is based on considerations of equity rather than the nature of the project or the borrower's inability to pay or the desire to influence the direction of investment. At one point, the note of dissent does refer to the project considerations and the rate of return: "a struggling engineer or artisan who wants to prove himself ... may find it difficult to attain straightaway a rate of return necessary to cover the high interest on loans contracted" (para 13). However, the basis of subsidised interest still remains the person and his initial means rather than the project being financed.

This means that a subsidised interest rate is strictly a subsidy and a transfer payment to a certain class of borrowers rather than an incentive to invest or a device to equalise the social and private rates of return. There is nothing wrong in principle with subsidising the poor or giving them dole; however, in the present Indian context it does raise an important issue of social policy. This is whether the poor who borrow (the struggling engineer or the small landholder) should be subsidised at the expense of the poor who do not participate in the economic life of the country — and, therefore, do not borrow and invest (the landless labourer or the struggling illiterate).

This is an important point and should perhaps be elaborated. It is a mistaken nation that a subsidy or a transfer payment to the poor engineer is at the expense of the rich who pay high interest, for the rich could have been charged a higher interest rate anyway. If the minute of dissent is right in claiming that the rich enjoy a large unearned rent because of high profitability in certain sectors, then the correct thing is to charge a high enough rate of interest or use fiscal policy to tap the unearned surplus. However, from this it does not follow that the additional resources raised in this manner have to be used to subsidise only the consumption of those who happen to be in need of a loan. This is a separate decision and must be considered in relation to other alternative ways of using the additional resources, including the subsidisation of consumption of the poor who do not borrow.

One can readily agree that all instruments of policy — monetary as well as fiscal — should be used to promote social objectives. However, these objectives are not always well-served by thinking of issues piecemeal or in terms of equalising incomes or consumption of people engaged in simliar pursuits (e g, big industry *vs* small industry or palaces *vs* bungalows). The vast majority of the Indian poor have neither a palace nor a bungalow, nor are they engineers or doctors or small-scale industrialists. Similarly, while the point regarding correcting the "historical perversity" whereby the banking system discriminated against the poor borrowers is unexceptionable, it does not follow that the present generation of small borrowers must reap the benefits of social subsidisation *vis-a-vis* those who are perhaps more needy and more poor, but do not borrow.

The point is simply that those who have should be made to pay for social and economic development of the country, and all instruments of policy have to be used to that end. However, use of resources thus raised is a separate matter, and must conform to our notions of equity in the society as a whole rather than equity *within* different sectors or districts. Divorced of its project rationale, an interest subsidy is an unrequited social transfer whose distribution among potential beneficiaries should be a matter of deliberate social policy, rather than be incidental to the allocation of credit.

In my view, both the majority report and the note of dissent propose the wrong thing for the wrong reason. I would, therefore, prefer "a fiddle here and a scratch there" to the far more interesting and quantitatively significant — but alas! equally partial — proposals of the minute of dissent.

Differential Interest Rates—II

Boswel

THERE is obviously much point in Ashok Mitra's criticism that the majority Report of the Committee on Differential Interest Rates in fact is for the *status quo*. What it has suggested is really nothing very different from what exists already though the majority Members are not quite prepared to say so frankly. On the other hand, it also appears that Mitra's scheme, while elegant as a model, has erred by overstating the case. It is, of course, always difficult to judge whether such overstatement is tactically useful or otherwise.

Both the majority and the minority agree on the basic point that the average lending rate of banks must cover the costs of operations. The majority wants to take the average cost of banking operations as the minimum lending rate and to have the differential range from about 8½ per cent to 12-13 per cent. Mitra wants that the rate should vary from 1 per cent (in the case of agriculture, ½ per cent) to 20 per cent. Both sides agree that softer terms for loans are at least as meaningful as cheap credit, if not more. The majority therefore suggests the sanctioning of unsecured loans and acceptance of certain unconventional items as security. Mitra, "purely for the sake of symmetry", suggests that the traditional policies of the banks of providing soft terms to affluent borrowers need a review. Mitra's objective is to use the lending policy of banks as an instrument of redressing 'at least partly' the wrong rendered through the decades.

Higher Deposit Rates

One of the points that is ignored by both sides is whether the average lending rate itself is an appropriate one, specially when one takes note of the scarcity of capital in the country and the need both to induce more savings and to channelise them to the organised banks and similar institutions. Is a rate of interest of 3½ per cent to 4 per cent offered by banks on savings accounts, and of 5 to 6 per cent on term deposits the best method of attracting more savings so as to increase the availability of funds to the banks? While one can easily concede Mitra's point that the returns on capital in many areas of economic activity are very high, why does he not then think of a structure of interest rates where the average rate itself is very much higher? Even if one leaves aside the fear of continued inflation on the present scale, can one say that our interest rates structure at present is such as to induce increases in savings as against consumption, specially on the part of a large number of persons such as certain categories of farmers, skilled industrial workers and government employees, whose family incomes have been increasing?

It would thus be useful to think of a structural change in the interest rates by way of general increase in their levels by a large margin. Would not, for example, an increase in the rate of interest offered by banks by 100 per cent, combined with inducements of the type already provided under the Income Tax Act (exemption of Rs 3,000 of interest income from income taxation) lead to a much greater flow of funds to the banking system and make the whole attempt of providing more credit to new productive sections very much easier and economical? It is true that this was not a question directly put in the terms of reference of the Committee; but surely it is a very important and relevant question.

Such an increase in the interest rates would probably make the expansion of bank branches an economically worthwhile and not merely a socially useful proposition. It will also cut down to some extent the large element of rent at present enjoyed by the fortunate few who are in a position to obtain bank credit for uses which give them returns varying from 25 per cent to 100 per cent. Finally, such a step would also help create a climate where the real scarcity of capital in the Indian economy would be actually felt by those who take decisions about using it and this may induce some effort at economising its use. All talk of intermediate technology to use more labour and less capital in keeping with the relative factor availability in an economy like ours becomes so much empty phrase-mongering in a situation where the price of labour is raised through various measures of State intervention, while the price of capital is kept low — at least for the lucky ones who can obtain it from institutional sources.

The main justification provided by Mitra in favour of very low interest rates for certain sections is that where the rate of interest appears to be forbiddingly high, prospective creditors in the lowest income groups tend to opt out. The barrier in his view is more than just a psychological one. A struggling engineer or an artisan who wants to prove himself in a small enterprise "may find it difficult to attain straightaway a rate of return necessary to cover the high interest on loans contracted" It is therefore that he suggests very low rates for certain types of borrowers. For similar reasons, he suggests a rate of even ½ per cent as the lowest lending rate in the agricultural sector.

Mitra has not made it clear whether in effect his proposal is to maintain this rate at this level for certain types of borrowers all the time, or whether his view is that this would be a kind of temporary promotional rate in the case of any individual borrower so that he should be enabled to set himself up in the production process with the use of required credit, and in the course of a few years lift himself by his bootstraps, so to say, so as to be able to pay a more reasonable rate.

Mobility Among Rates

Reading between the lines, one may assume that in the case of an artisan or an engineer, the idea would be that he should move from the category where a very low rate of interest is charged to a higher interest category within a few years. But what about a small farmer or tenant? The objective situation as judged by, say, the acreage under his control or the terms of his tenancy might remain the same. Would the approach be that this is a permanent arrangement? Or is it expected that as a result of adequate credit at low interest, it would be possible for even such a marginal farmer to bring about some improvement in his position and that therefore he should also gradually move from the lowest interest category to higher interest categories? The answer to this question is important because it would determine whether the very low interest rates are to be treated as a kind of permanent subsidy to certain sections of the population, or as a promotional activity by which, as a result of temporary subsidy, certain handicapped sections are enabled to come to the proper level of economic activity and standard of life.

If the latter approach is what underlies Mitra's suggestions, this would really be quite an appropriate activity for banks to undertake. By doing this, the banks would not be giving up their basically commercial position as purveyors of credit; they would only be looking for customers from among sections which they ignored before. The low interest rates would be charged on the

assumption that, as a result, a potentially good customer is induced to obtain credit and use it to build up his business properly. After an appropriate period of time, he would be expected to become an unsubsidised customer. One could even think of interest rates in such cases not being low as such. The banks would provide a facility for deferred payment of interest after a gap of a reasonable period of time. The person may be ultimately expected to pay a rate which would cover the average cost of bank operations; but for the initial period he may pay only a low rate, one quarter or 1/5th of the normal rate, making up the deferred payment through subsequent instalments. Would this not be far better than a permanent subsidy?

If Mitra's scheme is in reality only meant to use the banking system as an instrument of providing an indirect subsidy to the poorer and handicapped sections of the population, it appears to be a misuse of the institution of banking. No one can deny that there are very large numbers of the poor and the needy with us and, as he points out, they may continue to be with us for some more time 'despite national goals and objectives'. They certainly need to be assisted by the less needy and less poor, not to speak of the rich and the affluent. The question is — why use the banking institutions for this welfare task of subsidisation? Why not organise subsidies more directly through other programmes specifically arranged for that purpose? Mitra's concept of a permament class of low interest groups seems to be a kind of modern version of famine relief—do not give a dole but make people do some work and pay them a subsistence wage. It is not at all clear that the banks are the best institution for organising such relief to distressed sections.

While agreeing with Mitra about the necessity to charge much higher rates of interest to industry and trade — what the traffic can bear — and thus supporting the idea of a considerable jacking up of the interest rates, one cannot go so far as to accept his basic approach of using the banking institutions mainly as an instrument for correcting the historical perversity in respect of availability of credit. Nationalisation of banks has certainly got to be used to prevent the diversion of loanable funds which hitherto favoured certain groups. It must also be used in an enterprising manner to ensure that the sections of the population which are potentially capable of making a worthwhile economic contribution but could not do so because of lack of credit facilities are now enabled to do so as a result of the new direction of credit policies. But to try to use the banking system to provide a kind of poetic justice across the generations — to use them mainly to subsidise the poor at the cost of the rich—is to my mind a perverse approach. This is not the function of the banks. In any case, historical wrongs cannot be righted in this way.

While one can therefore support much of the criticism that Mitra levels at the *status quo* approach of the majority of the Committee, and one can even go a certain way along with him regarding 'what is feasible being practicable', one cannot but observe that he is trying to stretch the use of the nationalised banks to an area which is outside the banks' purview. Providing credit to everyone who is, *albeit* over a period of time, potentially capable of economically and profitably using that credit is certainly the function of banks. Indian banks have miserably failed in the past to carry out that function in the case of major sections of the Indian community. That is why they had to be nationalised. But it is certainly not the function even of nationalised banks to act as instruments for permanently subsidising certain sections of the population — however deserving they may be — at the cost of others, however undeserving.

FROM THE CHAIR

The South Madras Electric Supply Corporation Limited

Registered Office : Power House, Tennur, Tiruchirapalli—17

Speech of the Chairman, Thiru K A P Visvanatham

FOLLOWING are excerpts from the Speech delivered by Thiru K A P Visvanatham, Chairman, The South Madras Electric Supply Corporation Limited, at the 31st Annual General Meeting held on August 28, 1971:

LADIES AND GENTLEMEN:

It is my privilege once again to extend to you a warm welcome to this 31st General Meeting of he Company and to report to you that the affairs of the Company have been satisfactory.

The Company's licence, known as the Trichinopoly-Srirangam Electric Licence 1925, stands extended up to 12th January, 1982, as the Electricity Board has not exercised its option to take over the Company on 12-1-1972.

In the year under review, investment on capital works was lower at Rs 25.62 lakhs as compared to an investment of Rs 33.80 lakhs in the previous year. The fall in the pace of progress in this behalf during the year under review may be attributed to the uncertainty as to whether our licence was intended to be terminated on the expiry of the licence in January 1972. The growth rate of sale of energy, however, compared favourably with the previous year. being 7.12 per cent and the 4.802 numbers of service connected up were almost the same as in the last year.

With the introduction of a large number of capacitors in the system, the power factor of supply as well as tail-end voltages were substantially improved, resulting in reduction of line losses. The effective working of the Cyclic System of billing increased the efficiency in consumer bills service as well as collections. The effect of these improvements as well as the operational economies exercised enabled the Company to give rebates to consumers on their January, February and March bills to the extent of Rs 4.5 lakhs. In the current year the Company has proposed substantial system and administrative improvements.

The extension in the period of the tenure of the Company has cast added responsibilities on the Company with respect to satisfying the demands for power in the area of supply. There are yet 16 villages in our area to be electrified and it is hoped to electrify these during this year. Special attention is being paid to street light extensions and as also to supply to Harijan Colonies.

To meet the additional capital requirements of all these increased activities, the Company proposed to utilise the balance of Rs 9 lakhs, in Fixed Deposits in the Banks out of the Mayavaram-Mannargudi-Tiruvarur Electrical Undertaking compensation amount, this year and, for further capital requirements in the future years, we shall seek recourse to borrowing from Government or the Financing Institutions or seek your permission to utilise further compensation monies as may be received, in a manner that may be most advantageous to your interests.

I would only like to emphasise that so long as the tenure of our licence continues to remain with us, it behoves on us to fulfil our obligations as licensee.

The Arbitrator appointed by the Government to hear the disputes between ourselves and the Government on the quantum of compensation as well as the deductions made therefrom has taken charge of his office. The Company's statement of case would be filed on 1st September, 1971, before the Arbitrator.

Our Counsel has filed the required petition and affidavit before the High Court for the reduction of capital of the Company by the repayment of First Preference shares.

There has been unstinted co-operation from the Management, all the Officers, staff and workers and I would like to express here my thanks and appreciation to all of them.

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

The Jay Engineering Works Limited

Statement of the Chairman, Lala Charat Ram

THE following is the statement of Lala Charat Ram, Chairman of the Jay Engineering Works Ltd, delivered at the thirty-fourth Annual General Meeting as also to supply to Harijan Colonies.

FRIENDS,

I am happy to welcome you to the 34th annual general meeting of the company.

OPERATIONS

The directors' report for the year along with the annual accounts has been with you for some time, and you will have noted that we ended the year considerably better than we had thought possible in the wake of the long production stoppage at Calcutta factories. This is mainly due to two factors. For the first, I should straightaway express my appreciation of the officers and workers of our two factories in Calcutta, who helped in quick normalisation on resumption of work, and indeed set up new production records in the fan factory. The second factor which helped us was the rapid progress made at the company's Hyderabad and Agra units in stepping up production. This was the proverbial silver lining in the gloomy situation created by the work stoppage at Calcutta. It is gratifying that the company's policy of geographical diversification has been vindicated so early.

DIVIDEND

On account of improved results, the directors have recommended an increased equity dividend from 8 per cent last year to 10 per cent. We are aware that this is still considerably lower than what an investor could earn by judicious deposit planning. I hope that we will be able to so manage our corporate affairs that the dividends will at least match deposit interest rates.

CALCUTTA UNITS

While we have been able to cut to some extent the losses of the long work stoppage, we have no reason to look back with equanimity over what had happened in the Calcutta factories. I had dealt with the position at our last annual general meeting, and would only like to add that it will still be quite some time before we can completely repair the damage. The most serious loss has been to the company's marketing position in India as well as in foreign countries; and literally a gigantic effort is being called for to re-establish the position. I am stating this so that no one may form the wrong impression that the work stoppage passed off without leaving a scar. The workers were equally sufferers in this misadventure. For the sake of the company as well as its employees, the thousands of small-scale industries and traders, associated with our work, I hope that the futility of anti-production activity would in future be kept in view by those whom the unsuspecting workers entrust with decision-making in their behalf.

The situation in Calcutta continues to be less than encouraging. Apart from the alarming prospects to one's life and limb, the warfare between the militant groups of trade unions has caused frequent strikes on one pretext or the other. There is an unending stream of interruptions to normal factory activity, and not a day passes when one or the other part of Calcutta city is not held to ransom with the result that production activity is at a constant discount. Clearly strikes and bandhs are no longer instruments of protest but constitute a part of a design so that these are also now resorted to in the name of causes on which all Indians think alike and there can be no mutual grouse or cause for protest. I am not a politician, but it seems somewhat plain to me that counter-productive activity can never serve our country and our people, and inter-party competition in such activity can only lead to unmitigated disaster.

OTHER UNITS

In contrast to the situation at Calcutta, the company's factories at Hyderabad and Agra have been making good progress. Local situation is conducive to growth, and relations with the workers are healthy in a normal sense. There is a great deal of dynamism in these units which makes it possible, to take progressive action for production increase, introduction of new models, improvement in manufacturing methods, and cost reduction measures. In the days ahead, these units are bound to become increasingly significant in the company's operations.

OPERATING SITUATION

The return to power of New Congress with a decisive majority is a good omen for our country because it could be a move in the direction of political stability. That is the first requirement after so many years of instability and lack of a sense of direction. Whatever our poli-

tical persuasions may be, we can only welcome a situation in which the party in power is in a position to act purposefully without having to enter into tactical compromises. A reflection of the change in the situation at the Centre is discernible in Bengal also, at least in structural terms, and I hope that this will lead to decisive action for restoring the state on a sound political and economic footing.

Working Capital

Of the problems at present facing the industry and your company, as a consequence of governmental policy, the problem of working capital is the most important. There is an undeclared embargo on increase in cash credits and bank advances. Consequently the supply of funds available to us for financing increased inventories is lagging behind the growth of business. Even temporary increases to meet seasonal requirements which were available so far are now being denied. This is having the result of diversion of surplus funds from asset building purposes to working capital requirements, and this is bound not only to retard the rate of investment in plant and equipment, but will endanger the current level of operations in real terms, because the requirement of funds is rising with rising prices even at constant physical levels of production.

Costs, Prices and Prospects

Costs of production are increasing constantly. This is the result of spiralling governmental levies, increase in freight rates and other secondary factors over which we have literally no control. For your company alone, this year's budgetary levies are likely to increase costs by over Rs 40 lakhs per year. It is not possible to recover all such cost increases by increasing prices. Already consumer resistance is a formidable factor in the way of expansion of business. In my opinion, there is now a need for the formation of 'consumer associations', for resisting increases in taxes by the government, and irrational price increases by manufacturers; this is imperative if the consumer is to at all survive as a consumer, and more importantly, if the government's policy of increasing employment and holding the price line are to have any meaning.

Shortages of all types of materials are increasing in their dimensions, quantitatively and qualitatively. Steel, special steels, ball bearings, copper, aluminium and most other materials are in short supply, or their prices have sky-rocketed, and in many cases industrial operations are being conducted on a hand-to-mouth basis with no long-term planning being possible. Our operations are also affected by this situation.

In spite of the difficulties which I have enumerated, I am glad to say that as a consequence of improved organisation and management techniques, we are maintaining a progressive trend, and I am optimistic about the prospects for the company in the short run as well as the long run.

Industrial Relations

In the highly uncertain and volatile situation prevailing particularly in the Calcutta region in the matter of industrial relations, I feel that I should attempt to explain somewhat the understanding of your company in this matter.

Industrial relations problems will plague any country until the leaders of labour and management understand and respect the survival needs of each other. Management has deep convictions about the principles of sound management. Labour leaders have equally deep convictions about the principles of effective unionism. Each is convinced that if he compromises his principles, he encourages a threat to his own survival. The labour leaders believe that if unions become the kind which management labels 'sound', they will cease to be real unions. Employers believe that if management yields to unions pressure, it will cease to be real management. These beliefs keep both in a fighting mood basically. Each group sees in the attitudes, actions and policy of the other a threat to its own survival. When the survival structure is threatened, the parties do not want peace until the threat is removed. This is in my view the basic problem. Men will not co-operate with those whose actions they believe threaten their survival. They may have the skills and brains to co-operate but they will not use them for that purpose. The basic issue in labour-management relations at the moment, then arises from the fact that each party is concerned primarily with its individual survival. All attention is focused on the means to that end. The leaders of each group are trying in every industrial negotiation and every political manoeuvre not merely to solve a specific problem; they are trying to solve it in a way that preserves their own structure of living intact. They are expecting peace on terms consistent with the maintenance of their own sovereignty. Preoccupied with that expectation and the effort to implement it, they have forgotten a very fundamental truth that "sovereignty in a democracy must be shared, not exclusively possessed by a particular group". Many have neglected the fact that partnership is essential to a democratic relationship in industrial as in political and family life; and that if one would be a partner, the other partner's interest must become one's own, at least to that degree which permits co-operative effort towards a common goal. Peace in industrial relations must mean co-operation.

Understanding the behaviour of the other party does not imply the necessity for approval. But to know why the other behaves as he does is to be armed with useful knowledge upon which intelligent action can be based. In the day-to-day development of workable relations between management and labour, it is more important for each to know why the other behaves as he does than to have convictions about how he ought to behave. Knowing such facts as they are, not as one would like them to be, is the first step towards achieving industrial peace. It is only the first step; but until it is taken, the nature and direction of further progress can not be determined intelligently. It will test the realism of knowledge each party has of the facts which determines the actions of the other. It will demonstrate whether both really want peace consistent with those facts. It will challenge the best skills and wisdom that practical men have. It will prove whether civilised men in labour and management can supplant the techniques required for self survival through domination with the skills and wisdom required for mutual survival through co-operation.

The task is hard, but not impossible. The chances for success are reflected in the satisfactory relations of scores of managements and unions all over the country. Whether or not they develop the will to succeed in the Calcutta situation is not a matter of choice for union leaders who desire the survival of free unions and for management leaders who desire the survival of free management. For the result of failure to work out the means of mutual survival will not be the elimination of one by the other, but the elimination of both as free institutions by public regimentation.

Personnel

Before I close, may I say that our greater asset is our pool of technological and managerial resources and dynamic operating personnel at all levels. This is our assurance against transitory malefic influences and of a steady upward trend transcending over the obstacles placed from time to time by clever people who now constitute the new priesthood of politicalised unionism. We continue to give concentrated attention to the augmentation of this pool.

Our officers and supervisors and other personnel have been doing an excellent job in the face of great difficulties and pressures and I have no doubt that you would want me to express our appreciation of their work.

Note: The above statement is not a document purporting to be a report of the proceedings of the Annual General Meeting.

The Fertilizer Corporation of India Limited

Speech of the Chairman, Mr H N Sethna

THE following is the speech of Mr H N Sethna, Chairman, The Fertilizer Corporation of India Limited, on the Report and Accounts for 1970-71, delivered at the Annual General Meeting held on August 31, 1971 at New Delhi.

Gentlemen,

I have great pleasure in welcoming you to this, the 15th Annual General Meeting of the Corporation. The Directors' report and audited Statement of Accounts of the Corporation for the year ended March 31, 1971, 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 1970-71 your Corporation made a gross profit of Rs 17.07 crores which, after providing for depreciation (Rs 11.82 crores) and interest (Rs 3.58 crores), resulted in a net profit of Rs 1.67 crores. The turnover of the Corporation has increased to about Rs 78 crores as against Rs 66 crores during the previous year. Against an Authorised Capital of Rs 200 crores, the Corporation's paid up capital stood at Rs 115.55 crores.

Profits at Nangal and Gorakhpur declined mainly due to drastic power cut in the former and power interruptions and increased costs of raw materials and utilities in the latter. Trombay made a recovery this year showing some profit. These three Units together with the P&D Division made a profit of Rs 4.69 crores. However, Sindri and Namrup Units have together made a loss of Rs 3.02 crores.

Drastic Power Cut

The production at Nangal during the year was 53,926 tonnes of Nitrogen as against 79,765 tonnes during the previous year. The production loss at Nangal was entirely due to the drastic power cut imposed by the Bhakra Management Board and this Unit which exceeded the rated capacity last year, was thus forced to sustain a heavy loss of profit to the extent of about Rs 2 crores.

The production at Gorakhpur during the year was 67,752 tonnes of Nitrogen as against the previous year's 72,710 tonnes. In the case of Gorakhpur also there were serious power interruptions which adversely affected its performance. Your Directors are deeply concerned over the non-availability of the required quantum of power, especially at Nangal, and have approached the Government for their intervention.

Trombay's production during the year was 57,646 tonnes of Nitrogen and 24,145 tonnes of P_2O_5 as against the previous year's production of 48,012 tonnes of Nitrogen and 16,988 tonnes of P_2O_5. Trombay has significantly improved its performance during the year and it is anticipated that it will improve further.

In the case of Sindri, which is an old plant, problems peculiar to ageing still continue. The production during the year was 84,474 tonnes of Nitrogen as against 87,306 tonnes of the previous year. Your Directors have taken various corrective steps to remedy the problems and these are in various stages of implementation.

Namrup Unit's performance with a production of 27,659 tonnes of Nitrogen has improved marginally over that of last year's production of 25,821 tonnes. The initial teething troubles at Namrup are being got over; but this plant, because of its low capacity and locational disadvantage, may not significantly improve in profitability till the proposed expansion has been completed.

Cost Increase of Inputs

Your Directors are deeply concerned over the all-round increase in the cost of various inputs, *viz*, increase in the electricity rate, increase in naphtha prices, increases in freight, labour cost, etc, without a corresponding increase in the sale price of fertilizers, which, in some cases, as you are aware, is controlled under the Fertilizer Control Order.

To make matters worse, recently there has been decrease in the price of Urea by Rs 20 per tonne which will significantly reduce the profits of the Corporation in future as Urea-based plants with substantial capacity are being built up. It is significant to note in this connection that although the Government is rightly anxious to reduce the price of agricultural inputs, like fertilizers, in the overall interest of development of agricultural production in the country, there has been continuance of the 10 per cent excise duty on fertilizers which has been passed on to the consumers.

In other words, your Corporation is adversely hit on both fronts that is, continued increase in the input cost and a reduction in the price of products, while the Government retains the benefits of what the market can bear through the imposition of Excise Duty. It is significant to point out in this connection that your Corporation had paid an amount of Rs 5 crores as Excise Duty on finished products during the year.

Your Corporation's internal resources generated since the commissioning of the Corporation's oldest Unit at Sindri amount to Rs 107.92 crores, including Rs 91.27 crores as depreciation and Rs 15 crores as Development Rebate Reserve. The Internal Resources generated in 1970-71 was Rs 12.28 crores.

Your Corporation has been awarded an amount of Rs 100.52 lacs by the Court of Arbitration, The International Chamber of Commerce, Paris, in a dispute with Messrs St Gobain. The Corporation is deeply indebted to the dedicated band of its employees who were responsible for this effort.

Seven Projects Being Built

During the year, your Corporation had seven major projects under construction. These are Durgapur, Barauni, Rationalisation Project at Sindri, Namrup Expansion, Ramagundam, Tal-

cher and Trombay Expansion. This task, which is expected to cost approximately Rs 450-500 crores over a period of approximately 4/5 years, is being carried out entirely by our Planning and Development Division, an achievement unique in this country.

Of these, Durgapur is expected to go on stream in the end of 1971, initial trial runs having been already started. The projects at Barauni and Namrup are expected to be commissioned by the end of 1972. Delay in the supply of indigenous equipment by the fabricators, shortage of structural and other steel items and problems of contractors' labour at site have severely affected the completion of the project on schedule.

Though some of these problems are not uncommon in the initial stage of a developing nation, yet such difficulties in regard to inadequate capacity for indigenous fabrication, non-availability of structural steel, etc, will pose problems for timely execution of the projects.

Why Coal-based Plants?

A mention may be made in this connection about the two new coal-based plants at Talcher and Ramagundam. These two large fertilizer plants based on coal are being put up for the first time in the country, and this has considerable importance from the socio-economic point of view. Since the projects are based on coal, which is abundantly available in the country, there is no recurring foreign exchange involved in the use of raw materials.

Apart from this, the development of coal mines catering to these projects will generate additional employment potential in the coal mining industry to the extent of about 3000 persons in each area. These two projects together with the coal mining industry would contribute to the development of all infra-structure industries and trade from which the industry will derive substantial benefits.

Our Planning and Development Division at Sindri continues to play its important role in research and development, planning, designing and engineering, procurement of plants for all the major projects in hand, as well as some of the minor projects forming part of the diversification schemes of the Units. Planning of new projects at Haldia, Nangal Expansion, Capacity Stabilisation Schemes for Gorakhpur and Trombay, Sindri Modernisation and Paradip has also been undertaken. This year the Division has accepted a consultancy assignment from a private sector company for the design of a plant to manufacture Sodium Nitrite and Sodium Nitrate based on our know-how. We probably the only organisation in India which is capable of catering to its own demand for complete design and engineering services including indigenous process know-how and also making it available to other organisations.

Marketing Expanded

The Marketing Divison of your Corporation is on the threshold of large scale expansion to take care of he marketing needs that will come up in the next few years. The Eastern Marketing Zone catering to the Units in the eastern sector has at present about 1,000 dealers and 5,000 retailers. Regional offices have been established at Durgapur, Gauhati, Bhubaneswar, Patna and Raipur. This Zone is being geared to meet the seeding programme for Durgapur, Barauni and Talcher projects. Similarly, the Trombay Marketing Zone is being further developed to meet the market development and promotional activities relating to Trombay Expansion and Ramagundam projects. Nangal and Gorakhpur factories are marketing their production.

During the year, the Unions at Namrup, Durgapur and Barauni have signed agreements with the Management binding for a period of five years for continuing Government of India scales of pay and dearness allowance with a minimum wage of Rs 170 per month as in the case of other Units which entered into similar agreements last year. An agreement was also signed with the Trombay Union in the matter of linking the dearness allowance with the Bombay consumer price index. During the year, generally speaking, the industrial relations have been somewhat satisfactory.

New problems which have cropped up during the year are local situations leading to tensions, especially in the eastern sector, on the question of employment. While your Corporation continues to bestow adequate attention and are evolving a liberal policy to meet genuine local aspirations to the extent possible, it must be pointed out that such tensions will retard the progress of projects and also affect production which will cause overall economic problems.

Fresh Management Approach

I would like to bring to your notice that during the year there has been a new approach to Management outlook for conducting your Corporation's business in all areas of activity. In regard to the problems of production, maintenance, materials planning, inventory control, sales etc. Quarterly Production Review Meetings are regularly held where problems are reviewed and discussed by the Directors with all those concerned and corrective action taken. Similarly, quarterly meetings of Material Managers are also conducted to review and control inventories in all aspects.

In regard to marketing, meetings are held quarterly with the Zonal and Regional Marketing Managers to review problems relating to sales, supplies, distribution, credits, etc. On the promotion and extension side, quarterly meetings of a panel of agronomists and scientists of the Corporation with the Directors of Agriculture of the concerned States and also with the agriculture scientists of the Universities are held to review and plan for demonstrations, trials, publicity and other promotional measures for the two cropping seasons.

The management Reporting cell established in the Central Office has evolved a rationalised system of reporting to top Management. Your Corporation has increased its reliance on computers for data processing, engineering applications, project scheduling and other commercial applications. An Executive Committee of Functional Directors comprising the Managing Director, Director (Finance), Director (Projects) and Director (Production) has been set up during the year for conducting your Corporation's business in regard to important day-to-day problems and policies. This Committee meets frequently and discusses problems in all their aspects and takes decisions in accordance with the powers delegated by the Managing Director. Your Corporation has also constituted four standing sub-Committees, viz, Operations Committee, Projects Committee, Personnel Committee and Finance Committee to scrutinize and review the specific problems and policies that come within the respective area of responsibility.

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. I also express my gratitude for the co-operation and assistance I have received from my colleagues on the Board, 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 with this co-operation, assistance and understanding, the challenging problems posed by the growing activities of an expanding organisation like yours, in the years to come, can be faced boldly and with good results.

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

ECONOMIC AND POLITICAL WEEKLY

Founder-Editor : Sachin Chaudhuri

Vol VI No 37. September 11, 1971

Too Clever by Half ?—A Problem of Strategy—Weak Propulsion 1938

Business 1940

Letters to Editor 1942

Companies 1943

Capital View 1945

From Our Correspondents

Cavalier Approach to Fuel Policy —R S Ganapathy 1946

Planning Commission and the States 1948

Colombo: Economics of Survival 1949

Dar-es-Salaam: Ideological Growth of TANU —A K Essack 1951

Singapore: 'Backstage' Meeting —Harish Chandola 1954

Not without Outrage —Farrukh Dhondy 1955

The Fourth Estate 1956

Reviews

Under-Researched Labour —Pramod Verma 1957

Oil Consumption Pattern —D C Kale 1960

Special Articles

Tax Incidence on Agricultural Sector in Uttar Pradesh —Hemlata Rao 1961

Jotirao Phule and the Ideology of Social Revolution in India —Gail Omvedt 1969

Competitiveness of Indian Steel Exports: A Comment —S A Dave S K Subramanian 1979

ECONOMIC AND POLITICAL WEEKLY

Skylark 284 Frere Road Bombay 1

Phone 26 60 72

Editor

KRISHNA RAJ

Assistant Editors

Rajani X Desai, Jawid Laiq

Business Manager: A Fernandes

Circulation Manager: Shiv Patil

Editorial Staff

Colin de Souza, Haresh M Advani

Shireen Heerjee, Ashok Rao

Only Partly about Parities

IN the three weeks since the shock treatment administered by President Nixon's economic measures of August 15, the international monetary system has remained transfixed by pulls in two directions. On the one hand, the erstwhile fixed exchange rates became untenable and the major European governments had to let their currencies float. Japan too, after numerous declarations to the contrary, climbed off the fixed exchange rate system on August 27. On the other hand, having let their currencies float, most governments have been straining to keep the effects of the decision as limited as possible. Japan, for instance, has succeeded, through central bank intervention and tightened restrictions on foreign exchange dealings, in preventing the yen from appreciating by more than 6 per cent so that it is still nowhere near its real market rate. The carefully managed floating of currencies had had other curious consequences such as the pound sterling appreciating in relation to the D-Mark and other European currencies.

Immediately after the Nixon measures threw the international monetary system into turmoil, there were those who thought that the way out of the situation lay in one of two directions: a prolonged period of floating currencies which would disclose the 'correct' exchange rates for the world's leading currencies and thus make possible eventual return to a rational structure of fixed rates; or, alternatively, a complete departure from the time-hallowed system of fixed exchange rates to one of permanently floating rates. Those who held this view argued that nothing would be achieved by discussions among governments aimed at deciding on new currency parities. However, apart from whether or not freely floating exchange rates will have provided the answers to the issues raised by President Nixon's measures, by now it has been established that none of the leading industrial countries — and certainly not Japan — is willing to give the prescription a trial by letting its currency float freely. This realisation has inevitably turned attention once again towards the prospects of a solution emerging out of negotiations and bargaining among governments.

Not that the portents here are any brighter. There has been already a flurry of bilateral talks among the countries of the European Common Market and Britain. The deputy ministers of the Group of Ten met in Paris earlier this month and the Group's Finance Ministers are to meet in London next week. A US-Japan inter-ministerial meeting began this Thursday in Washington. Finally, there is, of course, the annual meeting of the International Monetary Fund later this month which will provide enough opportunities for backstage bargaining. So far, at any rate, the discussions have borne no fruit. The European countries may be unanimous in their acceptance of the need for some rise in the price of gold (which the United States stoutly opposes) and for a revaluation of the yen, but among themselves there are sharp disagreements. France, for instance, refuses to revalue the franc, sticking instead to its two-tier exchange system (a fixed rate for commercial transactions and a floating one for financial transactions). Even among the rest, if there are to be parity changes (as there inevitably have to be), there is little agreement on the extent of change for particular currencies. The United States, for its part, would throw the entire burden of adjustment on parity changes by other currencies. And Japan, while it has accepted the inevitability of revaluation of the yen, is certainly not thinking in terms of an upvaluation of more than 8 to 10 per cent which is unlikely to make a major dent on the trade imbalance with the US.

That the currency tangle should prove so intractable is not surprising if it is seen that what seem to be arguments about currencies are in fact arguments about much wider issues. The debate is not about fixed versus floating exchange rates, or about a particular dollar price of gold rather than another, or about the dollar as the international reserve currency versus a new means of international reserve creation. What is really at stake is the preservation of the relative economic and political advantages of particular countries or groups of countries in the developed capitalist world. This is clearly brought out by the positions of the United States and Japan, the leading protagonists in the present situation.

Through its ridiculously undervalued currency — whose exchange value has remained unchanged even as Japan has transformed itself from a war ruined country into the world's third largest exporter — further buttressed by import restrictions, export incentives and foreign exchange control Japan has enjoyed an enormous economic advantage and achieved fantastic rates of export-led growth. Clearly, any lasting solution of the present crisis must involve

surrender on Japan's part of a considerable part of this advantage in the form of not only revaluation of the yen but also dilution of import restrictions and export incentives and dismantling of exchange controls. The United States, on the other hand, has enjoyed enormous political and economic benefits because the dollar's status as the world's reserve currency has enabled it to run persistent large balance of payments deficits to sustain its worldwide economic, political and military network.

It is interesting how, in the course of bargaining, both Japan and the United States hold out threats which, if carried out, would really defeat their own larger national purposes. Thus on the opening day of the US-Japan inter-ministerial conference in Washington the Japanese foreign minister was hinting to his American counterpart that, if the US import surtax was retained, Japan and other US trade partners would retaliate, leading to the collapse of free trade. Now, collapse of free trade is the last thing that Japan can wish for in its own interest, for no other country is as dependent on foreign trade to sustain its economic growth. Similarly, successive US governments have been fond of warning the rest of the world that if it did not play fair, the US would withdraw into its shell. Yet so much of the effort of each US administration is directed at sustaining and strengthening America's global role.

Just as Japan would like to come out of the currency crisis with its capability for export-led economic growth as little impaired as possible, the United States (though it may accept the inevitability of forced disengagement in Vietnam) wants its worldwide economic-political-military network to be retained as intact as possible. This is the type of conflict which lies at the root of the so-called currency crisis. Obviously, it is not a kind of problem as can be easily resolved by the Finance Ministers of the Group of Ten, or, for that matter, of all the member-countries of the IMF.

Kerala

Too Clever by Half?

THE Congress party in Kerala, which had thought itself to be in a commanding position with the state government totally dependent on its support for survival, has hardly come out with flying colours from the recent negotiations over its entry into the government. The outcome has been particularly embarrassing for the faction in the party which has been supporting the party's participation in the government. Not only has this objective been defeated, for the time being at least, but the impression has gained ground that the Congress has allowed itself to be outmanoeuvred by the other parties.

The Congress in Kerala is, as is well known, divided on the issue of joining the government. One group, dominated by the younger elements, wants the party to keep out of the coalition, expand its popular base and, at the opportune time, force an election which would in effect be a straight confrontation between it and the CP(M). The other group was able to eventually persuade the state party as well as the Central leadership to agree to participation in the government on the strength of the assurance that in the reconstituted government the Congress would be dominant. Though the Chief Ministership would be left with the CPI, the Congress would have a Deputy Chief Minister as well as four other Ministers in the Cabinet of 13, with some of the important portfolios like Home, Revenue and Industry. These terms were evidently advanced in the confident expectation that the ruling coalition, which has all along been pleading with the Congress to join the government, would agree to them.

Things turned out differently, however. The Congress terms would have required the CPI to reduce its representation in the Cabinet from four to three and also to give up the Industries portfolio held by it. This it was unprepared to do. Nor was it ready to accept a Congress Deputy Chief Minister. Similarly, the RSP was unprepared to part with the Revenue portfolio. So was the Muslim League initially reluctant to give up Home, though towards the end it seems to have relented. The coalition parties' counter-proposal was to offer the Congress six Ministerships, but in a Cabinet expanded from 13 to 15. It would get only one of the three coveted portfolios, Home, and there would be no Deputy Chief Minister. Of course, it must have been obvious to the coalition parties that the protagonists of participation in the government in the Congress would find it difficult, if not impossible, to persuade their party to agree to these terms. But this is where the Congress was outmanoeuvred. Instead of disclosing the coalition parties' counter-proposals, Chief Minister Achuta Menon allowed the negotiations to drag on till, one, the Assembly session was over and, two, the three PSP MLAs had decided to ignore the directive from the party's central leadership to withdraw their support to the state government. The PSP MLA's decision ensured that the government retained its majority in the Assembly, of course with Congress support. Now to reduce the coalition to a minority it will require a positive act of withdrawal of support by the Congress, whereas had the PSP MLAs decided otherwise the coalition would have lost its majority right away—a situation which might have been exploited by a Congress party irritated at the rejection of its demands by the coalition parties. In cleverly avoiding this contingency Achuta Menon may pride himself on a tactical victory.

However, the basic fact of the political situation in Kerala—that the political support that the coalition parties actually enjoy, individually and collectively, does not entitle them to rule the state—remains unchanged. The government will continue in power till the Congress decides that it can take on the CP(M) in a more or less straight electoral fight in which some of the present ruling parties (like the CPI) will be cut down to size and others (like the RSP and the PSP) will be altogether obliterated. For fact, the rebuff just handed out to the Congress by the coalition parties may very likely hasten the fall of their government. That the failure of the move to get into the government has strengthened the group in the Congress which had been all along opposed to the move is already evident. The joint meeting of the executives of the organisational and legislative wings of the party at Cochin on Monday demanded the summoning of the Assembly to pass the District Administration Bill. The meeting also decided to confront the government with a 'time-bound' programme for implementation.

Employment

A Problem of Strategy

EMPLOYMENT in factories increased from 2.9 million in 1951 to 4.7 million in 1968, according to a study published in the July issue of the Reserve Bank *Bulletin*. The study analyses, on the basis of published data, in depth the growth in factory employment generated during the period 1951-68. Given the considerable industrial dislocation caused in 1968 by the depression (and by labour disputes, particularly in West Bengal) it can be argued that employment potential in the factory sector at the end of the period of the study was much larger than the actual figure of employment.

Factories are defined under the Factories Act as manufacturing establishments employing 10 or more persons and using power or those employing 20 or more persons not using power. The five states having the largest proportion of factory employment in 1968 were Maharashtra (19.8 per cent of total factory employment), West Bengal (17.9 per cent), Tamil Nadu (8.7 per cent), Gujarat (8.6 per cent) and Uttar Pradesh (8.1 per cent). These five states accounted for more than three-fifths of total factory employment. Given the varying populations of states, this is no index of their respective levels of industrialisation. Per 100,000 population, only the following had more than 1,000 (that is, 1 per cent) employed in factories: West Bengal 2,014, Maharashtra 1,983, Gujarat 1,620, Tamil Nadu 1,084, Kerala 1,015 and Union Territories 1,000. The all-India rate was 912. Uttar Pradesh with 445 factory employed per 100,000 of population stood fourth from last in the list. The uneven factory employment level in the states is also evident from the growth rates of employment. While factory employment increased at 2.78 per cent per year on an all-India basis, it rose at 10.41 per cent in Mysore and 10.16 per cent in Orissa. This is evidently because of the low base of factory employment in these states in the initial year (1956).

The study raises a large number of issues relevant to planning policy. First, the rate of growth of factory employment (about 3 per cent per year) was not much faster than the rate of growth of population (2 to 2.5 per cent) during the period. As a proportion of the total labour force, factory employment increased from 2 per cent in 1951 to 2.4 per cent in 1968. As a proportion of employment in the organised sector, it declined from 31.4 per cent in 1960 to 28.3 per cent in 1968. Second, the investment cost of creating employment in the factory sector has been rising. Investment in organised industry increased from Rs 547 crores in the First Plan (upto 1955) to Rs 2,030 crores in the Second and Rs 3,632 crores in the Third, making for a total investment of Rs 6,209 crores (at current prices) in the three Plans — or almost one-third of the total Plan outlays. The investment required per additional job rose from Rs 22,792 in the First Plan to Rs 26,710 in the Second and, more sharply, to Rs 38,638 in the Third.

In a sense the country's planning effort has been geared to creating additional jobs, the strategy being not only to absorb the additions to the work-force in industry but also to divert the pressure of population in the agricultural sector. That this objective has not been fulfilled is clear from the trend of factory employment in the first 18 years of planning. The proportion of factory labour to the total work force has increased only marginally and the large increase (almost doubling in proportions) in income from organised manufacturing proves that the rise in value added in that sector has been far larger than that in employment. Even if indirect employment (in trading, tertiary services, administration, etc) is taken into account, the picture would not be much different.

There is another problem which has hardly been touched — namely, that of the growing economic disparities among the states. It is not necessary that each state must have the same degree of industrialisation, but each state faces the same problems of low agricultural productivity and the need to increase non-agricultural productivity and create non-agricultural job opportunities. Even the euphoria caused by the agricultural revolution in Punjab is likely to prove short-lived, as productivity gains taper off and labour gets substituted by machines.

The five-year Plans have never spelled out the regional or state development programmes. Given limited resources and the undefined location of industrial projects, there has been a scramble among the states for public sector as also for private sector projects. States have been bidding against each other for these projects, expecting to increase their share out of the general pool (which they are doing little to enlarge by their own efforts to mobilise resources). While tax revenues are shared and access to loans is determined on some criteria, these also lead to a fair amount of horse-trading (as, for example, happened this year in respect of state loans). Then there are the unprincipled overdrafts from the Reserve Bank which benefit the more unscrupulous among the states. Given the level of deficit financing and of foreign aid, it is necessary that well defined criteria for their sharing and for location of industrial investment are worked out — unless the tug-of-war for resources is to be allowed to accentuate fissiparous tendencies.

Yet the larger question of employment remains. Factory-industry is capital-intensive (as shown by the figures for the Third Plan in which large investment in chemical industry was planned) and the volume of investment has not risen adequately. Fifteen years after planning, the level of investment still runs at 11-12 per cent of national income with a quarter of the investment being financed by foreign aid. It is necessary both to raise the level of investment and to alter the pattern of investment in favour of low-capital-intensive programmes. On the present plan, this would involve an increase of 25 to 30 per cent in the rate of investment, and allocating this whole increase to public works programmes. The pace of progress in factory employment shows that such a programme may have to be continued for 25-30 years before factory employment (and family planning) makes a dent on the employment problem. This is not, *pace* economists, primarily a problem of resource, but one of planning strategy.

Industry

Weak Propulsion

A Correspondent writes:

EVEN as the country seems to have got a better control of its agricultural problem, the industrial situation has worsened. When, in the wake of two bad harvests and the devaluation, the industrial recession first set in, it was argued that it was transient and that with good harvests industry would resume its growth.

Since then, India has had four good harvests, but the rate of growth of industrial production has remained low. After a minor spurt in 1969, industrial production in 1970 rose at a lower rate of less than 5 per cent. This, it was argued, happened because the production index did not reflect the current industrial structure—yet was this not the case in 1969 also?—and that actually the small industry sector which is not covered by the production index had grown at the much higher rate of 11 per cent—although available evidence pointed to no sudden change in the performance of small industry.

Apart from the disappointing rate of increase in industrial production, organised industry's poor performance is also evident in the large unutilised capacity in many industries. Steel shortage has been blamed for this, though in fact there is little evidence to show that this has curbed output on a general basis. Thus, while steel-pipe output has suffered for lack of skelp, the low output of machine-tools or railway wagons is hardly the result of steel shortage. If steel were responsible for the industrial stagnation, steel imports would not be increased by only Rs 10 crores (or 5 per cent) in 1971-72 to meet the gap in supply.

Moreover, data compiled by the Ministry of Industrial Development in its annual report for 1970-71 showed not only excess capacity in many industries but also a decline in the output of some industries in that year. With mismanagement at the electricity boards,

orders for electrical goods (meters, transformers) have begun to decline. And the oil engine industry, overexpanded by the zealous supply of credit from banks and state governments, has had a recession for a year. In the first six months to June 1971, too, the rise in the industrial production index has slowed down to 1.5 to 2 per cent over the previous year.

All this has happened despite the fact that the secular increases in population and income should have helped generate demand and so work off excess capacity. Clearly some gap in the existing system is responsible for the recession being so persistent.

For the first problem of existing excess capacity, pump-priming can provide the answer. Given the sectors in which excess capacity exists — heavy engineering, machine-tools, structurals, castings, wagons—government can generate demand by lengthening its own order lists. An increase of Rs 500 crores in demand should take care of the major pockets of excess capacity in industry. But this is only one part of the problem of industry. New industrial capacity also has to be built up rapidly. If the rate of investment in industry is raised by Rs 1,000 crores, industry could start to play its leading role.

While these are the options the economy has, the risks of stagnation are far more serious than those of growth. Resource raising is a matter of economic policy and containing inflationary pressures a matter of economc management—fields in which government has failed to make much headway.

BUSINESS

With Some Concessions

TRADE relations between India and the UAR are in a state of suspended animation. The last agreement between the two countries expired at the end of last June and it is difficult to understand why negotiations for a fresh trade agreement have been delayed so long. The Government does not seem to have given as much attention to Indo-UAR trade relations as it did to the Indo-Nepal treaty. Not only was a new treaty not signed, but little effort appears to have been made to continue trade on the lines of the old treaty as was done in the case of trade with Nepal. In economic terms, trade with the UAR is much more valuable to India both for its size and its commodity-composition than that with Nepal. Part of the explanation for the slow progress of negotiations may lie in the changes in the political climate in the UAR, especially after the death of Nasser, leading to less close politico-economic ties between the two countries.

According to the official version of things, there was no breakdown in the trade talks with the UAR: they were only temporarily suspended and are to be resumed shortly. It is reported that Foreign Trade Minister L N Mishra would be going to Cairo in the second week of October. When the trade talks are resumed, a serious attempt will have to be made by both sides to remove a number of irritants that have developed over time. Total trade between the two countries is running at about Rs 85-90 crores annually; clearly, neither India nor the UAR can afford to do anything that would put this order of trade in jeopardy.

At the last round of talks, the UAR is reported to have told the Indian delegation that it was not interested in lifting engineering goods worth Rs 10 crores manufactured for export to the UAR. According to the Indian side, these goods were manufactured to the specifications of UAR importers against letters of credit opened by them quite some time ago. Another demand made by the UAR was that India should pay for the cotton and crude oil in free foreign exchange. The Indian position is that all trade between the two countries should be on rupee-payment basis. It is unlikely that the UAR would insist on this condition if the Indian side makes some concessions on other points. The UAR is reported to be interested in purchasing from India goods underground cables, rayon pulp and stainless steel items. But the Indian reaction has been that, since these commodities have a high import content, it would not be interested in selling them to the UAR. Another problem has been that the UAR has been continuously exceeding the limit of Rs 6 crores granted by India as technical credit. At one stage India had to grant a credit of as much as Rs 23 crores to enable the UAR to purchase Indian goods. During 1969-70 Indian trade surplus with the UAR was Rs 11 crores; for the period April 1970 to February 1971, the figure rose to Rs 17 crores. Unless the trade gap is narrowed considerably, it would be difficult to put Indo-UAR trade on a sound footing.

At present India imports mainly cotton and rice from the UAR. During the 11 months of 1970-71, imports of cotton were at about Rs 26 crores out of total Indian imports of Rs 39 crores. India has recently said that its imports of rice from the UAR would soon stop as a rice surplus was emerging in the country. It is not clear if this assessment of the rice supply position was made after taking into account the effect of the drought in Andhra Pradesh and the requirements of rice for feeding the refugees from East Bengal. Even when India has developed a comfortable position in rice, it may not be advisable to stop all rice imports from the UAR. Particularly, if the UAR agrees to supply crude oil, these concessions could be given without much hesitation. As it is, many of our engineering exports to the UAR do have an appreciable foreign exchange content. The UAR's requests for export of particular commodities need to be considered carefully and not turned down summarily on the ground of high import content.

Railways

Missing Management

OVER the last four years, revenues of the railways have not increased at the pace envisaged, while the growth in expenses has been uncontrolled. As a result, railways have failed to earn the 5.5 per cent on capital-at-charge which is the minimum dividend expected of them.

The railways' explanation and remedy for this situation has been surprisingly trivial. The Railway Board has often implied that the 'amenities' given to passengers—such as water, fans in compartments, etc—and not the railways' own incompetence have been responsible for the poor performance.

Also, recent moves by the railways' management suggest that—from the Railway Board down—the existing management has little clue to the kinds of solutions called for. Under the present Railways' Minister, Hanumanthaiya the first move of the Railway Board chairman was to make sudden and wholesale transfers of senior officials, with disastrous consequences on matters such as the negotiations with the Russian team that had come to discuss a tube railway for Calcutta. Now the proposal is to speed up trains, with references to 'bullet trains' such as in Japan, the UK, and the US!

But will this reduce the overcrowding in trains, make third-class tickets more easily available, reduce the railways' losses, increase wagon availability to customers, or improve the railways' relations with wagon-suppliers? It is their total obliviousness of these questions that casts doubt on the competence of railway management.

For instance, the railways, which had placed orders for 25,000 wagons in 1964-65, now plan to order only 3,875 wagons in 1971-72 — even though the annual wagon-building capacity of 30,000 wagons was established on the basis of their own calculations. The reason given for this low order-level is the slowdown in growth of railway traffic. If this is so, why has there not been greater flexibility in railway movements or improved availability of wagons to railway-users? Irrespective of the demand for railway services, the availability and efficiency of these services—such as the priority supply of wagons—remain the same.

Railways' investment decisions depict the same lack of perspective. There has been investment in dieselisation and electrification, without any impact on the railways' performance.

Unfortunately, overall pressure on the railways to improve does not exist. Nothing short of complete overhaul of the top management will yield results. Every service—goods and passenger trains, railway stations—has to be costed and factors making for bureaucratic and technical inefficiency removed. This requires a questioning attitude among top management. Two steps in this direction would be: employment of outside consultants to look into the railways' organisation-and-methods, and induction of new and younger persons into the Railway Board. Can the Railway Minister be banked on to take these steps?

Power

Making the Most of the Possible

IN its latest assessment of power availability, the Ministry of Power and Irrigation has reckoned that there will be a shortfall in generation capacity of 4.8 million kilowatts by the end of the Fourth Plan — a substantial upward revision of its earlier estimate of a 3 million kilowatt deficit.

Power shortage of this magnitude could well cripple the growth of the economy. When a 10 per cent annual growth rate for power generation was targeted under the Fourth Plan, the Ministry of Power and Irrigation had warned that, to ensure the growth rate of 5.5 per cent per annum expected of the economy, a 15 per cent growth rate of power would have to be aimed at.

Now already, the states in the northern region, viz, Punjab, Haryana, Uttar Pradesh and Bihar, face power deficits ranging from 100 mw to 300 mw. Even after inter-state transfers of power, the region's overall shortage is expected to be around 440 mw. In Punjab, power consumption for industrial purposes as a percentage of total electric power consumed in the state declined from 47.56 in 1968-69 to 39.86 in 1969-70. The consumption of commercial establishments, public lighting, and bulk supply, also came down from 20.25 per cent to 16.60 per cent during the same period.

Similarly, states in the western region will face deficits of 600 mw, which is also the extent of power shortage anticipated in the southern region although a part of the shortage in Mysore and Tamil Nadu could be met by the surplus of over 200 mw in Kerala. In Andhra Pradesh itself the shortage is likely to be about 0.5 million kilowatts.

In the eastern region, however, though Bihar and Bengal will experience power shortage, the region as a whole is expected to have a surplus of about 150 mw as a result of the utilisation of the surplus power from Orissa and the DVC power system. Elsewhere, in Rajasthan, Himachal Pradesh and Delhi, there will be a surplus of power.

The Union Ministry for Irrigation and Power has evidently yet to come to a firm conclusion on how it will go about overcoming the power shortage. What has stood in the way, partly, is the view that basically power development is a responsibility of the states and that each state government must, therefore, strive to meet its power requirements. However, with power technology undergoing significant changes, the need for central co-ordination in power development planning is becoming apparent. K L Rao, Minister for Irrigation and Power, has thus emphasised the need for a central agency to look after the generation of power and has disfavoured smaller power stations on the ground that they are not economical. The power stations to be built now are not to be of less than 200 mw capacity. At the same time, hydel schemes which generate power at cheaper rates will be given preference in the 1970s.

The need for a central agency is clear. Power development has to be planned on a regional basis rather than with the state as the unit in mind. In many states, available conventional resources have, in fact, been almost fully harnessed and it will be necessary for meeting future demand either to resort to costlier generation schemes within the states or to utilise power from economic schemes based on resources available in the region as a whole. Since the latter is more economic, the obvious choice must be regional power planning, and for this, a central power agency can co-ordinate very effectively. Further and partly as a corollary, where in the past the size of power plants was small and, therefore, uneconomical, future power projects are to be large in size.

But there have been various management factors, not strictly of a plan nature, in the shortfall in power targets. Inordinate delays in the commissioning of projects due to lags in civil works and recurring delays in supply of important equipment and machinery from both indigenous and foreign sources are two factors that are most in view. Unless there is an improvement here — and that is not easy considering the severe steel shortage — the power shortage will persist. In certain states, power shortage arose because transmission lines from the neighbouring surplus states were not installed as a result of the inadequate investment in the fields of transmission and distribution. In its report, submitted to the Central Ministry of Power and Irrigation earlier this year, the Power Economy Committee had warned that in the absence of interconnections, the unsatisfactory supply in the various power systems would continue. The Committee, therefore, recommended centralised generation as it thought the state to be too small a unit for satisfactory planning and operation in electricity. Government is yet to accept the proposal, and no early decision may be hoped for since it has decided meanwhile to appoint a new Panel to examine whether such an agency is at all called for.

The Power Economy Committee felt that one major factor retarding the growth and efficient working of the power supply industry is the gross inadequacy of research and development. While India has gone ahead in research facilities for nuclear power engineering conventional power engineering has been neglected. The Central Water and Power Commission, which is the highest technical body in irrigation and power engineering in the country, may have to apply itself to this task — especially as it is becoming increasingly clear that management of nuclear power engineering does not in fact match the promised targets of efficiency.

'Simple Question of Recognition'

KARUNAKARAN's '"Simple" Question of Recognition' (July 3, p 1320) is an unhappy example of good reasoning used to poor purpose. It is difficult to see whether he seeks to rationalise the inaction of the Government or call for a social revolution before we support the Bangla Desh struggle. Much of the sane reasoning he is offering is for the benefit of the Cabinet and their supporters. We, outside the Government, must only demand that effective support is given to freedom fighters, something which today is being done with reservations.

Perhaps the guerillas can fight better during the monsoons. Perhaps the Islamabad junta should be exhausted and bled white before we really get involved. Perhaps the junta's oppression of the West Pakistanis themselves may soon lead to a weakening in the Western wing. All this is possible. But effective assistance to fighters and to the building up of a broad democratic national front is what democratic Indians must do and what they must demand of their Government. And this must be as quick and decisive as possible; for, governments and peoples elsewhere will be inclined to recognise *faits accomplis*. The sort of arguments — either for recognition, which many others give, or implicitly against it, which Karunakaran offers — are neither here nor there and merely serve to divert attention from the major task of such political mobilisation in the country as will force Indira Gandhi to offer effective support to the fighting and the emergence of people's government in Bangla Desh, if, as one is encouraged to suspect, she is not doing.

There is a very remote possibility now that a victorious democratic movement of Bangla Desh may want to reunite with West Pakistan. We can have nothing against that. It is primarily an affair of the Bangla people. But, for the moment, the task is to help them fight. Karunakaran and all of us others must now try to see to it that the Indian Government does that. The question of recognition — now or in September — of Nazrul or Nazrul-Bhashani, matters less. I also feel Karunakaran has much exaggerated the international complications of support to the Bangla Desh struggle. The international community can as much swallow that as it has the current effort of the West Pakistani junta to clamp down an "Islami" dictatorship based on the possible support of some local Muslim groups, Biharis — and guns.

S SHUKLA

New Delhi

India and Ceylon: Generation Gap?

IN 'India and Ceylon: Generation Gap?' (May 22, 1971, p 1014) your correspondent accuses the CPI(M) of maintaining a "soulless silence" on the recent events in Ceylon. I must point out that this is a falsehood.

Your correspondent has either ignorantly, or deliberately, tried to distort the CPI(M)'s stand on Ceylon. If your correspondent looks up the May 9 issue of *People's Democracy*, the official CPI(M) paper, he will find a statement on events in Ceylon. This contains a detailed analysis of the matter and it categorically condemns the Bandaranaike Government. The statement has characterised the Sirimavo-led coalition as a reactionary, bourgeois-landlord regime. It is even more outspoken on the role of the Indian Government in rushing troops and arms to Ceylon. While not agreeing with the JVP's tactics, the CPI(M) makes it clear that only a working class-led revolution will succeed in Ceylon. The failure of the JVP insurrection lies in the fact that it failed to organise the working class and poor peasantry. I hope this will clarify the wrong impression created by your correspondent.

Further, I would only like to comment that for Marxists, society is not divided into young men and old men as your correspondent seems to emphasise. It is only for bourgeois commentators that a 'generation gap' exists. For Marxist-Leninists, it is the class of a person that matters, whether he is young or old.

P DEVARAM

New Delhi

Our Correspondent writes:

And what does *People's Democracy* of May 30 say on Ceylon? Apart from the usual mouthings about "parliamentary cretinism of the traditional Left Parties" and "Left adventurism", it grudgingly admits that "the misguided movement spread to wide sections of society, particularly the peasantry". However misguided the JVP insurrection, it came close to overthrowing the exploitative order of things in Ceylon. Much closer than the "parliamentary cretinism" of the CPI(M) has managed in this country. The Indian Left by not reacting sharply enough to the Government's armed help to Sirimavo, abetted the suppression of a movement which may not have been truly socialist, but all will admit, had much greater socialist *potential* than the United Front Government of Ceylon.

As for the generation gap, Marxist-Leninists, etc, are so tied up by dogmatic adherence to Marx's 'holy commandments' that they lose sight of the fact that if Marxism-Leninism is to lead to the good society, new factors like changes in population structure must be taken into account whether they fit into the catechism or not. Nor does the failure of a movement by itself mean that it was unMarxist.

If all this is bourgeois, so be it.

Neocolonialism and Publishing in India

MOHAN Primlani (August 28, p 1846) states that the text-books published under the Indian-American Text-Book Programme have helped to fill in gaps in the range of books published in India. I have no quarrel with this statement on a general basis, but would point out that there are some books reprinted in India which are out of date elsewhere; the quality of some books is also dubious. I am referring particularly to the field of economics.

Primlani's statement that the ELBS books contribute nothing to our publishing scene may be correct. However, some of the titles like Reddaway's 'Development of the Indian Economy' and Stonier and Hague's text-book of Economic Theory are very positive contributions as far as students of economics are concerned. Domestic authorship has not yet matched these texts in respect of quality and to view the matter entirely from the publishers' standpoint neglects the overall educational gains.

I am, however, in general agreement with Primlani's view that low-priced foreign text-books do serve a positive educational purpose.

S VENU

New Delhi

Downstream Problems

Hansavivek

POLYCHEM is still awaiting Government's decision on its application for an industrial licence to set up a merchant styrene plant and other plants for styrene based polymers at Koyali. Being one of the downstream units in the Koyali petrochemicals complex, the project is tied up with several of the other projects including the naphtha cracker. The 'letter of intent' received by the company for establishing ABS resins plant in Bombay has been cancelled by Government 3 years after submission of the company's proposals. Polychem, however, has made a fresh application for inclusion of this plant in its Koyali project. The potable liquor plant is expected to be commissioned early next year and the divinylbenzene monomer plant is to commence trial operations shortly. The company has made good progress in its research and development efforts. It has built a continuous vacuum forming machine, which is fully automatic and whose performance can compare with an imported one. Disposable articles in polystyrene, such as ice-cream cups, coffee cups, trays, etc, can be made in this machine. The company has also implemented another research project in which the Defence Department is keenly interested. Ramdas Kilachand, chairman, suggests that sponsors should be allowed to utilise fruits of their efforts to provide them with an incentive to continue and diversify research and development activity. Moreover, a small amount of foreign exchange for importing speciality instrument and chemicals should be allowed freely for purposes of research.

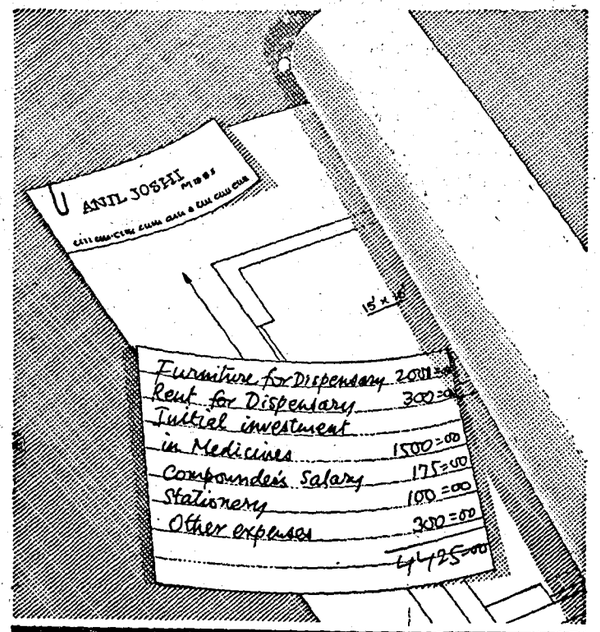
BAJAJ AUTO's application for expansion of manufacturing capacity to 1,00,000 vehicles per annum is still pending with Government. The company understands that Government has approved increase in licensed capacity from 24,000 to 48,000 scooters and three-wheelers per annum. The expansion application, however, is still pending with the Ministry of Company Affairs for clearance under the MRTP Act. The company's application for registering its project for manufacture of 24,000 numbers per annum of 50 cc Moped has not yet been approved. In response to the Government notification of last February, the company has made an application for increase in the manufacturing capacity of three-wheelers to 15,000 per annum. In spite of increase in cost of production, the company produced good results for the year to March last, with impressive advances in sales and earnings. The recommended dividend is payable on the capital as enlarged by a one-for-two bonus share allotted towards the end of the year. With the expiry of the company's collaboration agreement with Piaggio on March 31 last, the name of the two and three-wheelers has been changed from 'Vespa' to 'Bajaj'. Three directors, Shriyans Prasad Jain, Ramnath Podar, and Tanubhai D Desai, resigned. Manmohan Lal Gauba, D S Mulla, and Rishabhdas Ranka, have been appointed as directors in those vacancies.

The Week's Companies **(Rs in lakhs)**

	Polychem		Bajaj Auto		Colour-Chem	
	Latest Year 31-3-71	Last Year 31-3-70	Latest Year 31-3-70	Last Year 31-3-71	Latest Year 31-3-71	Last Year 31-3-70
Paid-up capital	160	160	157	105	275	275
Reserves	137	109	172	166	205	160
Borowings	84	88	212	135	424	362
of which Term borrowings	18	29	51	59	—	—
Gross fixed assets	514	496	454	376	652	570
Net fixed assets	182	189	202	170	435	406
Investments	1	1	—	—	—	—
Current liabilities	179	184	195	138	133	133
Current assets	375	351	534	374	601	523
Stocks	123	109	389	291	352	241
Book debts	245	241	84	43	239	282
Net sales	496	413	1163	934	868	753
Other income	1	9	12	13	13	10
Raw material costs	175	152	634	678	496	358
Wages	47	37	117	97	85	66
Interest	6	11	11	10	38	20
Gross profit(+)/loss(—)	142	112	233	193	170	130
Depreciation provision	26	41	46	41	58	30
Tax provision	65	42	113	87	47	50
Net profit(+)/loss(—)	51	29	74	65	65	50
Development rebate provision	2	4	6	5	28	9
Transfer to reserves	23	2	49	44	6	8
Dividend						
Amount	E26 P3	E20 P3	19	16	33	33
Rate (per cent)	E22 P8.32	E18 P8.32	12	15	12	12
Cover (times)	1.88	1.10	3.58	3.75	1.18	1.23
Ratios (per cent)						
Gross profit/sales	28.63	27.12	20.03	20.66	19.58	17.26
Net profit/capital employed	13.38	8.12	13.68	16.01	7.19	6.27
Inventories/sales	24.80	26.39	33.45	31.16	40.55	32.00
Wages/sales	9.47	8.96	10.06	10.38	9.79	8.76

COLOUR-CHEM lifted its output and sales to new peaks and also showed a fair improvement in earnings during the 14th year ended March 1971. These good results arose from the improved availability of indigenous raw materials which reduced dependence on import entitlement licences from the open market. Expansion and diversification programmes also made good progress, and production costs were kept under effective control. Exports, at around Rs 36 lakhs, were lower than last year's — owing largely to prolonged uncertainties concerning rates of incentives and replenishment licences for organic pigments an dto virtual stoppage of exports to Egypt during the second half of the year. Production has been firmly established at the intermediates project. The directors point out that, while output has been fairly steady in the current year, value of sales has declined by about 10 per cent compared to the same period of the previous year.

IN the development of banking in India, two banks — Syndicate and Canara — stand out for not having followed the conventional British pattern. Both banks were firmly rooted in their environment and had the originality to adapt their roles to the situation they faced. Syndicate, for example, adopted the lead bank role in the South Kanara District in Mysore much before the concept of lead banks was born. Syndicate specialised not only in financing agriculture but in giving technical assistance to farmers. It set up a demonstration farm in Manipal, carried out soil tests for farmers and advised them on crop patterns and fertiliser use. It also induced potential small entrepreneurs to enter the area of agro-industries. Many fishery projects in South Kanara have come up because of its guidance and encouragement. The Surgical Instruments Workshop at Manipal owes its existence partly to the bank; it was a brilliant idea to recruit goldsmiths and use their traditional skills in a project requiring fine workmanship. Syndicate has also pioneered new types of deposits like the Pigmy which was both a novel and a successful experiment. Recently, it has evolved new deposits schemes which are likely to set a pattern for other banks. The bank has launched a cumulative-cum-housing deposit scheme to attract the savings of salary earners or professionals who might like to save for purposes of building or purchasing a house in the course of 5 to 10 years. Another scheme which has been recently introduced is the farmers' protection deposit. Under this scheme, a farmer or a fisherman can keep his savings with the bank with interest at standard rates and is eligible to get a loan equal to double the amount kept by him in his account over the previous six months in case of unexpected losses. Syndicate's working results in 1970 have been in keeping with its past performance. Deposits rose by 16 per cent and deposit accounts by 27 per cent. Syndicate's advances to the priority sectors stood at 47 per cent of its total advances — a record for any bank. Of the increase in advances during 1970, 65 per cent went to the priority sectors. It opened 106 new branches in 1970, mostly in rural and unbanked areas. It has carried out detailed surveys in eight of the 16 lead districts assigned to it and proposes to take up three districts for intensive development work.



You are a graduate. You have a business proposition. But what is the use? Where is the money? Bank of Maharashtra will help you implement your schemes.

BANK OF MAHARASHTRA

Head Office : 1177, Budhwar Peth, Poona-2.

71/AENG

A President Prime Minister?

Romesh Thapar

POLITICAL circles are more than ordinarily agitated by the reports now current about the factional in-fights and out-fights which are under way. If these reports are to be believed, we would come to the conclusion that the world of the jungle has more discipline and decorum. What is, in fact, happening is a reflection of Indira Gandhi's battle to establish her rulership as supreme at the centre and in the states. The battle is forced upon her as she moves to consolidate her hold on the complex mechanics of the State assembly elections due early next year.

Another facet of the evolving situation which is becoming more clearly sketched as a result of these developments is the transition that the present political system is making in the direction of a presidential form. I say "form" because it is the Prime Minister who is increasingly playing the role of an all-pervasive President.

Indeed, the PM's Secretariat, as a result of the transition, has become a kind of cabinet within a cabinet. All decisions are taken at this point, and, if they are not, there is always danger that they will be repudiated. Witness the fate of the intrigue over the bill to diffuse press ownership.

In the situation that confronts India, and particularly with the breakdown of a monolithic political hold over the centre and the states (even though this may be hidden temporarily by the massive mandate at the last election), Indira Gandhi is perhaps not all that wrong in seeking *de facto* presidential-type powers. There is, in fact, no other way to cut through the obstacles to effective decision-making and movement forward.

The possibility — not to be discounted — of a major reverse in the forthcoming state elections has heightened the politicking. Indira Gandhi has chosen this moment to clean up or "surround" the factions opposed to her because the opposition parties are still recovering from their debacle in the parliamentary contests and have not realised the possibilities inherent in the state elections.

Yet to Realise

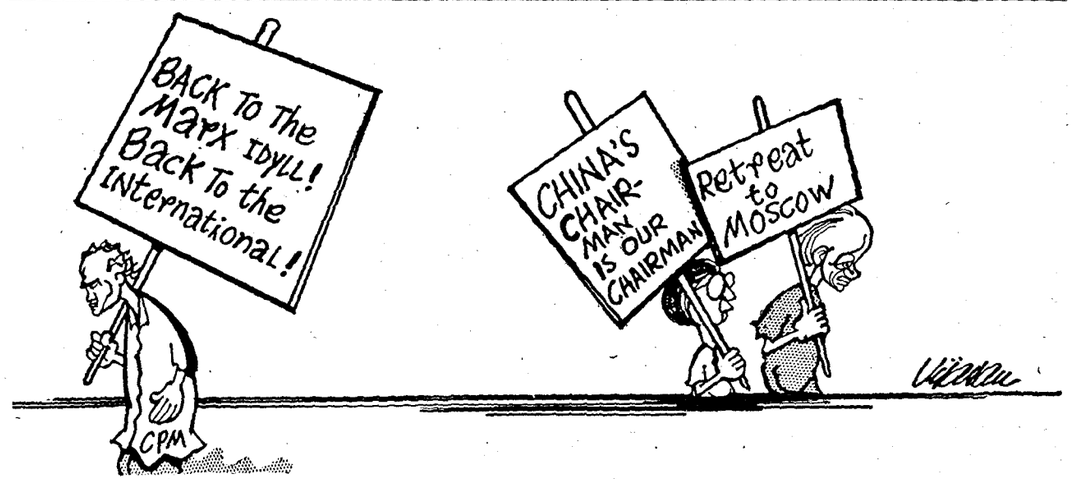
From the discussions which take place in the Capital, the politician has yet to realise that the victory of the ruling Congress party in the parliamentary elections was a dramatic vindication of Indira Gandhi's faith in the possibility of delinking national issues from parochial ones. By the same logic, regional issues, even parochial ones, are going to dominate the hustings early next year. Maybe, Indian democracy would be enriched in this way, and the federal principle reinforced, by such a diffusion of political expression. But political thinking at the moment is not nearly so convinced.

Indira Gandhi's fairly apparent bid to give the ruling Congress party an unencumbered leadership, a leadership which is above the paralytic struggle of the *dadas*, a leadership which can both talk and act, which is not helpless, constitutes a major bid to pitch the contest for the state assemblies at a level where the electorate is again made to think of the totality of politics rather than a mere facet. The task is more difficult than the earlier business of delinking the parliamentary elections from regional pulls.

We should not underestimate the passion that is being brought to bear on the build up of a President Prime Minister image. The Sukhadias, the Brahmananda Reddis, the Shuklas and the Naiks will all feel the new currents released against their all-powerful positions. The pressures will keep building until such time as the power equation which is sought to be established is accepted.

Of course, while we watch this play we wonder whether Indira Gandhi will develop the systems needed to make this kind of presidential-cum-prime ministerial set-up effective. In other words, confidence in the concentration of power is lacking. It is too often misused, even on peripheral matters. The building of this confidence is the sole responsibility of the PM herself. And it must be institutionalised.

September 6



The choice: between Primitive Communism and Slavery.

FROM OUR CORRESPONDENTS

Cavalier Approach to Fuel Policy

R S Ganapathy

THE Fuel Policy Committee was set up by a Government order in October 1970 with the following terms of reference:

(1) to undertake a survey of fuel resources and the regional pattern of their distribution;
(2) study the current trends in exploitation of fuels;
(3) estimate the perspective demand for fuels by sectors (in particular for transport, power, and domestic fuel) and regions;
(4) study the efficiency of fuels; and
(5) to recommend
  (a) the outline of a national fuel policy for the next 15 years,
  (b) a pattern of consumption and measures, fiscal and other, which would help the best use of national fuel resources, and
  (c) the measures and agencies to promote the optimum use of a fuel.

No Chairman for Months

Subsequent to the Energy Survey Committee Report (1965) it had become evident from the energy consumption pattern that there was a growing dependence on liquid fuel although indigenous coal resources were available in abundance. This had resulted in a huge drain of foreign exchange (the oil import bill rose from Rs 51.8 crores in 1950 to Rs 132.2 crores in 1969), even though indigenous production of crude oil had increased from 0.26 million tonnes in 1950 to 6.72 million tonnes in 1969. Alarmed by this tendency, which assumed crisis proportions in 1969-70, the Government somewhat belatedly set up the Fuel Policy Committee. R Venkataraman, then a member of the Planning Commission, was appointed chairman of the Committee and there were 10 members drawn from various Government agencies like Railways, ONGC, CWPC and the Department of Atomic Energy as well as from other bodies like the universities. The administrative secretariat for the Committee was set up in the Union Ministry of Mines and Metals. The Committee was supposed to submit its report within one year. The Committee set up four working groups to study various issues covered by its terms of reference.

Venkataraman resigned as member of the Planning Commission and also as chairman of the Committee on March 28, 1971. For nearly four months the Government did not appoint another chairman for the Committee and, except for some paper-work, the Committee's activities came to a standstill. Towards the end of July 1971, S Chakravarty, one of the new members of the Planning Commission, was appointed chairman. Since all the members of the Committee are part-time, it has not been possible for them to pay serious attention to the very complex problem of formulating a national fuel policy. The Committee, one understands, is nowhere near finalising its report and would probably take much longer than the one year time-limit initially set by the Government.

It is tragic that such an important area of policy planning is being handled in such a cavalier fashion. Growth in the consumption of energy is synonymous with the growth of GNP and improvement in standards of living. Hence the importance of planning for optimal use of fuel resources cannot be overemphasised. The terms of reference of the Committee are fairly comprehensive, but one does not know what the working groups or the main Committee itself have accomplished so far.

The formulation of a national fuel policy has complex dimensions and it is hoped that the Committee will consider the following issues:

(1) In the Fourth Plan, Indian energy economy takes a turn towards oil as a primary source of commercial energy and the commercial energy group as a whole gains marginally over the non-commercial group. In view of the uneven fuel resource position in terms of quality, quantity and spatial distribution, the present fuel consumption trend, if allowed to continue, will lead us in the direction of being a high energy cost economy calling for avoidable investment and expenditure of foreign exchange. A high priority in technological choice is, therefore, the development of substitute fuels to reduce imports and promote self-reliance in this strategic area. Any change in fuel will directly determine the technology of a particular industry. For example, if electricity is the only form of energy available then the production technology of fertilisers will be based on electrolysis rather than naphtha feedstock. The nature of interdependence among energy source, technology and economics of production is not at present clearly understood. More studies in this area would be necessary. However, the substitution of oil by other fuels is of paramount importance. The promising areas of work to reduce the dependence on foreign oil supplies are:

  (a) Liquefaction of coal to increase the supply of indigenous petroleum crude as natural reserves of crude are limited.
  (b) Electric traction of railways instead of the current trend towards diesel traction.
  (c) Extensive rural electrification to promote the use of electricity in lift irrigation instead of diesel engines and in domestic consumption to reduce the use of kerosene.
  (d) Production of fertilisers based on coal instead of fuel oil or naphtha.

Regional Imbalances

(2) The regional distribution of fuels in India is very uneven. Coal is mainly concentrated in eastern India and oil in north-eastern and western India. To achieve uniform development throughout the country, it is important that the price of energy at any location from any fuel source should be the same. If this were the basis, disputes like the one about the price/royalty of Koyali gas could not have arisen. Ideally, the price of energy in any part of India from whatever fuel source should be the same. This will ensure uniform development and offset locational advantages. The main obstacle to achieving this objective is, however, the legal and institutional framework in which the fuel economy operates. If all energy sources were owned by union government this would probably be very easy; but they are in fact owned by private investors, state governments and the union government. It might be necessary to introduce a complex system of subsidies and fiscal and other measures to remove the disadvantage of regions located far away from fuel sources and, at the same time, to ensure that fuel costs reflect the scarcity value of each type of fuel so as to curb foreign exchange outflows. Such a policy would promote the use of low-grade coal (which India has in abundance) in southern and western India where the use of fuel oil is going up (resulting in foreign exchange outflows) because of the shortage of coking/superior grade coal in the country.

(3) For resource conservation and adoption of more efficient methods of fuel utilisation specific R and D measures need to be taken. In the case of fuel technology there is no central R and D policy. Various agencies of Government are pursuing their own interests with no co-ordination. Since this is a vital area, this anarchy in R and D policy must end immediately.

(4) Substituting the form of energy results in changes in tradition, culture and patterns of living. For example, if one wants to prevent the use of firewood as a fuel in rural areas as it results in soil erosion and denudation or the use of cow dung since its alternative use as a fertiliser is more important or the use of kerosene which needs to be imported, the promotion of soft coke or electricity as an alternative fuel could mean adoption of practices in cooking which are radically different from the present ones. Such major social changes in the rural areas can be brought about only by extensive education and publicity. In economic model-building, expectation of use of substitute fuels without reference to the social change that will need to occur would be unrealistic.

Central Electricity Authority

(5) There are other kinds of institutional obstacles which prevent the optimum utilisation of fuel. It has been proven by the experience of developed countries that large power stations produce cheaper electricity. In India, the state electricity grids are comparatively small so that a single power station of 500 MW or above cannot be established by any one state. The pattern of consumption in particular regions can, however, support such large stations. The only way to ensure large-scale production of power and efficient utilisation of the installed capacity is to have regional grids operated centrally. Since the State Electricity Boards are evaluated on their own investment and accountable to state legislatures for their profitability and since there is much interstate rivalry, unified operation of regional grids is very difficult. The northern regional grid has been somewhat successful due to the co-operation of the State Electricity Boards.

To eliminate inter-state rivalries it may be necessary to entrust all electricity generation to a Central Electricity Authority (CEA). The CEA could operate large regional power stations and distribute bulk power to the State Electricity Boards. Such power stations along with adequate load despatch centres should form the nucleus of regional electricity grids. Eventually these regional grids can form part of the national grid. The CEA should also take over the operation of the nuclear power stations which are at present being operated by the Department of Atomic Energy — an arrangement which is highly irrational because the Department of Atomic Energy is not in the business of electricity generation and distribution; it is concerned only with the development of nuclear technology for the production of cheap power.

Similarly, the institutional structure of production and distribution of coal and oil is of diverse types, e g, in private sector and public sector with different priorities and objectives. A rationalisation and reorganisation of agencies in charge of production, distribution and regulation of fuel producing and consuming industries is called for. Unfortunately, this institutional reform does not find a place in the terms of reference of the Fuel Policy Committee except in an indirect manner.

(6) The problem of conserving the environmental quality does not find any mention in the terms of reference of the Committee. The choice of alternative forms of fuel will to a large extent determine the amount of pollution of air, land and water. Nuclear power is supposed to be the "cleanest" of all kinds of power though it creates some kind of thermal and radioactive pollution. In the Indian context pollution may not be the burning problem; but in the long range planning of fuel policy, the effects on environmental quality have to be considered.

(7) A comprehensive analysis of capital, foreign exchange and technical manpower requirements to ensure the desired pattern of development of fuels is necessary so that these are available at the right time in the right measure.

When these various issues are considered it becomes very clear that the organisation for the formulation of a national fuel policy has to have adequate resources, a competent and well-staffed secretariat, a majority of full-time members and a fairly long (say five-year) tenure. None of these conditions are fulfilled by the present Fuel Policy Committee. Fuel policy is not an *ad hoc* problem like the arbitration of a river waters dispute or an inquiry into the causes of a riot. A Committee consisting of only part-time members with a one-year tenure and an ill-staffed secretariat can hardly achieve anything substantial. Massive data collection and analysis about fuel consumption, energy technology, the institutional framework and other matters is necessary for policy formulation. Strangely enough, the Fuel Policy Committee is located administratively in the Department of Mines and Metals instead of the Planning Commission which has much better resources for collection and analysis of data.

If the Government is serious about evolving and implementing rational fuel policies, a permanent Commission with at least two-thirds of the members being full-time and with adequate resources should be constituted. This Commission should be an autonomous, statutory body outside the Government executive, reporting to Parliament through the Minister. It could be called the National Commission on Fuels and Energy. It will be the regulatory, long-range planning, development and funding authority for the fuel and energy industry. Such a Commission could formulate the national policy on fuels with alternative strategies the nation could adopt. It should get the Parliament's approval for a particular strategy so that measures for its implementation can be taken. A similar body is being set up in the United States as a result of Congressional efforts. The importance of the problem warrants an organisational structure which will have adequate authority and competence for the task.

Can one hope for a "white paper" on fuel policy from the Prime Minister proposing adequate measures in this regard?

South Madras Electric

SOUTH Madras Electric's Trichinopoly-Srirangam Electric licence stands extended up to January 12, 1982, as the Electricity Board has not exercised its option to take over the company on January 12 next. The company intends to electrify the remaining 16 villages in its area this year. To meet the additional capital requirements of the increased activities, it is proposed to utilise the balance of Rs 9 lakhs out of the Mayavaram-Mannargudi-Turuvarur electrical undertaking compensation. For further capital requirements in future years, the company will borrow from Government or financial institutions or utilise such compensation amount as may be further received.

Planning Commission and the States

(From a Special Correspondent)

ACCORDING to a Press report, an appraisal by the Planning Commission is said to have brought out the fact that the Fourth Plan's intersectoral balances have been upset "because of the repeated revisions in the estimates of multi-purpose projects". From this, the conclusion is drawn that apparently the existing arrangements for project evaluation "are not quite adequate in many States".

Obvious Gap

There is an obvious gap between the conclusion and the original premise, which is not uncommon in the Planning Commission's thinking, and obviously the reconstituted Planning Commission is also continuing this tradition. The revisions in the estimates of the multi-purpose projects have occurred for many reasons, the most important of which is the State Governments' anxiety to get both the Planning Commission and the Government of India committed to a particular project. All multi-purpose projects costing above Rs 5 crores are sent to the CWPC and the Planning Commission for approval. If the project evaluation arrangements are inadequate at the State level, what was being done at the CWPC and the Planning Commission when the schemes were approved by them? Obviously, their inadequacy could not be any less than that of the States.

The fact is that unless the anxiety to get projects committed is not removed by more rational procedures for allocation of resources between the Centre and the States, this charade will continue, no matter how expert the project evaluation organisation is made. Further, those who know the project evaluation techniques and the assumptions that are made in them would also be aware that it would be quite easy to juggle the evaluation itself so long as the basic urge to do so remains.

In the same newspaper report it is also said that in a number of cases inadequate allocations have been made for programmes falling under roads, soil conservation, housing, etc. The reasons for the States doing so are not given. The observation, however, is in keeping with another favourite suspicion of the Planning Commission, namely, that the State Governments have a tendency to starve these sectors, as well as the social services sector, in order to provide more for irrigation and power, the unstated implication being that there is some unworthy political motive behind this tendency of the State Governments. A little thought would however show that the State Governments are normally under political and local pressures for making allocations precisely for these sectors and if, in fact, they are starving these sectors and making allocations for irrigation and power, they are showing a degree of economic foresight and political courage which the Planning Commission itself seems to lack.

Not Enough Projects?

It is also mentioned that Central programmes for removal of disparities between different regions and different communities have not had an adequate impact "mainly because the local administration as well as the different credit and promotional institutions have not been geared to the task of identifying problems, formulating viable projects and programmes and implementing them vigorously". At the same time, it is stated that even though institutional finance, such as the liberal grant of loans by the public sector banks, is available some of the States have not been able to take advantage of these resources for want of properly formulated and economically viable projects, thereby putting the blame on the States instead of the financing institutions. This obviously contradicts the earlier statement that the financing institutions have not themselves been geared up. The experience so far shows that it is not the want of viable projects as much as the rigidity with which the concepts of viability are applied by the financing institutions that has stood in the way of their resources being utilised on a larger scale.

So far as Central programmes are concerned, the reason why these have not had an adequate impact is that, on the one hand, they are formulated at Delhi with an insufficient acquaintance with field conditions and, on the other, the degree of control that the Centre exercises not only delays the implementation, but completely kills the initiative of the local officials as well as of the State Government itself. There are instances like the Rural Works Programme in which schemes costing a few thousands of rupees, which in the normal course are sanctioned by the Superintending Engineer and not even by the Chief Engineer or the State Government, have now to be submitted to the Central Ministry at Delhi for clearance. Obviously, if procedures of this sort are adopted, Central schemes are bound not to have any impact on anybody except the Ministry itself, which keeps on expanding as a result of these schemes.

Successive Planning Commissions have been wise and modest enough not to search for a panacea for all the evils of our planning. However, they have not been equally wise in avoiding the temptation of trying to find at least a unique diagnosis of these ills, the diagnosis depending upon the individual predilections and the highly selective nature of the previous experience of the Planning Commission Members concerned. The assumption always has been that all was well with the plan itself, that when things went awry with our previous Plans the error had not arisen in the Yojana Bhavan but in the implementation by the State Governments. The latest diagnosis seems, from this report, to be the lack of adequate appraisal of projects. District planning and project appraisal are evidently going to be the twin engines that would hereafter push our plans forward.

From One Ivory Tower to Another?

In considering the problems of plan implementation in this limited content, the Planning Commission, deliberately or otherwise, is shutting its eyes to the basic reason for planning at the State level being weak so far, *viz*, the limitation of resources and the inadequacy of the control they exercise over the little resources that they have. The problems of planning cannot be properly analysed while ignoring the problems arising out of Centre-State financial relations. Any amount of pontification by the Planning Commission and any number of gimmicks suggested by them will not remove the basic defects in planning at the State level unless and until the problem of financial resources available to the States for developmental purposes is solved. To the extent the Planning Commission ignores this aspect it would only be living in an ivory tower and in that case its distinguished members need not have changed from their previous ivory towers.

COLOMBO

Economics of Survival

A Special Correspondent, recently in Ceylon, writes:

THE events of April 5 and 6 and the aftermath of political detention, emergency power and attempted "rehabilitation" of the disaffected merely highlight the acutely difficult situation facing Ceylon's coalition government and by Sirimavo Bandaranaike (see "Emerald Island Turned Bloody Red", Special Number, July 1971).

The underlying economic problems are not of this or the last government's creation, but are a part of the continuing drift since Independence. Ceylon's economic dilemmas are many: stagnant export earnings based on three plantation crops — tea, rubber and coconut —, rapidly rising population following directly from the post-War malaria eradication campaign, the total absence of serious attempts to introduce a birth control programme and steeply rising unemployment partly as a consequence of unlimited free access to university and secondary education.

Three Problems

These three major problems would have led to a rapidly deteriorating economic situation in themselves, but they have been aggravated by the dissipation of the foreign exchange reserves built up during the Korean war boom (reserves in 1955 of more than $ 400 million are now less than $ 100 million) on continuing high levels of consumption imports (rice, onions, chillies, canned products and synthetic textiles) and a disastrous import substitution policy which actively encouraged the establishment of sub-optimal units. There appears to be no economic planning rationale for some of the industries established. (There are seven chocolate products factories for a population of 12 million!) The results are seen not only in dissipated reserves, but in the form of crippling foreign debts, which currently absorb more than 40 per cent of the country's export earnings. The unemployment situation was considerably worsened by an insistence on the establishment of a large number of capital-intensive units, which have been operated at substantial deficits in the public sector.

Present government policies involve a cutback in consumption imports, attempts to diversify the plantation sector and to expand industrial and non-traditional exports through the foreign exchange entitlement scheme introduced in May 1968, which effectively devalues the Ceylon rupee (current parity Rs 5.95=US $ 1) by 55 per cent to Rs 9.00. However, this set of policies is doomed unless the more basic weaknesses are remedied.

The three evils are well known: population growth, widespread urban and rural unemployment and, finally, serious educated unemployment. The last led to the events of April 5 and 6 and will be repeated until remedies are found. First, the present government needs to launch as its immediate priority a birth control programme for the rural areas. Although Ceylon is losing doctors at a rapid rate it is still well-served in comparison to India, particularly in the rural areas. It is true that any campaign will not be fully operative before 1975 and so the employment aspects of "prevented births" will only be felt in 1990, but a radical cut in the birth rate from 35/38 per 1000 to 17/20 per 1000 would free fiscal resources for job creation rather than being absorbed, as at present, in educational and social welfare expenditures. Second, the provision of free education, health services and a subsidised rice ration will necessarily have to be replaced by a series of means tests, which would deprive of benefits those with family incomes in excess of Rs 800 and begin to reduce benefits on incomes as low as Rs 500 per month. Again the rationale is the provision of resources for job creation. These measures might well be considered politically more palatable if the tax rates on urban property were doubled and heavy taxes levied on all undeveloped land.

The resources raised should be channelled into diversification: in the small holder sector to tobacco, cashews, cocoa, fruit and vegetables, coffee, oil palms, sunflower and kenaf as well as minor spices. The government should finance the training and employment of the unemployed to produce these internationally tradeable crops. A major fisheries programme should be launched based not only on inshore expansion, but the purchase of trawlers and boats and the development of an integrated freezing plant to exploit the crab, lobster, prawn and tuna in Ceylon waters along the east coast of India and in the Bay of Bengal. The government should establish an Export Processing Zone to develop Ceylon's low wage potential in garment manufacture, electronics assembly, plastics, electrical products, wood products and light engineering. In the case of the export processing zone, Ceylonese resources would have to be associated with foreign capital and management knowhow and profit remittances should be allowed as freely as materials and machinery could be imported. Of course, an unpleasant political dilemma will arise: "socialism or unemployment?". Finally, the entire structure of higher and secondary education will have to be reorganised to train agriculturists and machinists rather than Pali and Sanskrit scholars and Buddhist philosophers.

These policies will not solve the desperate problem of Ceylon's political and economic structure. The level of unemployment at 650,000-700,000 out of a potential work-force of 4.2 million is far too high for easy economic answers. There is substantial overemployment in the organised sector at present and any government will be under pressure to continue inefficient manning practices and even to expand the bureaucracy by taking over parts of the private sector. Ultimately, any State whether socialist or capitalist must face the test of "economic efficiency." The state corporations and the bureaucracy in Ceylon may aspire with certain Ministerial members of the present coalition government to take over the economy along Burmese lines, but their present performance does not suggest that such measures would be in the public interest.

Persuade the People

Before introducing such a series of measures the government will have to persuade the Ceylonese that a critical situation really exists. Initially, they should announce that they have been forced to ban the bulk of food and consumer goods imports and follow this measure by declaring unilaterally a five-year moratorium on all international debt repayments. The foreign resources freed should be diverted quickly into birth control programmes, diversification and building of new plantation crops, fisheries and industrial exports from the processing zone, and restructuring of secondary and higher education. All these policies will be expensive and all will be unpopular. The absence of certain foods and consumer goods will hit everyone, not only the upper classes and the unilateral five-year moratorium will not be greet-

ed with delight by the IBRD and the Ceylon Consultative Group. There will be serious opposition to increased domestic taxation, educational reforms and birth control measures. However, some such set of measures based on the urgent necessity of job creation and economic restructuring will be required during the present phase of Ceylon's history. The politicians are unlikely to think, after the events of April 5 and 6, that masterly inactivity is the sovereign remedy for Ceylon's problem. It is possible they will abandon the limited ideas of their planners and economists and decide that the political economy of survival demands more radical measures.

V/O "TYAZHPROMEXPORT"

renders technical assistance to foreign firms and organisations in the construction of complete enterprises for *mining industry:*

Enriching concerns
Ferrous ore mines
Open-cut quarries
Enriching factories
Sintering factories
Suspended cable-ways

The work on projecting and construction of mining enterprises is carried out on the basis of the up-to-date achievements in the field of the Soviet and foreign science and engineering. The up-to-date equipment supplied by **V/O "TYAZHPROMEXPORT"** to mines including hoisting-and-transport facilities and power plants is designed with due consideration of modern requirements to safety engineering and guarantees full mechanisation of all production processes, high efficiency and economy apart from reliability in operation under various climatic conditions.

For detailed information regarding the construction of mines write to:

V/O "TYAZHPROMEXPORT"
18/1, Ovchinnikovskaya nab.,
Moscow Zh-324, USSR.
Phones: 220-15-89
220-16-10

or to

The Office of the Counsellor for Economic Affairs USSR Embassy in India,
Nyayamarg, Chanakyapuri,
New Delhi.
Tel: 77004
Telex: 492



DAR-ES-SALAAM

Ideological Growth of TANU

A K Essack

IT is said that where there is no vision, a people perish. And whose task is it to provide this vision but the most conscious of its people grouped together in vanguard parties. The people of Tanganyika needed such a party and the Tanganyika African National Union (TANU) arose to fulfil just this historical role when it was formed in 1954 with Julius Nyerere as its President.

In many cases, it is more than a decade since many national movements in Africa were given the insignia of independence and became the governments of their territories. Today many of these parties have wilted and have become shadows of their proud and eventful past. Their role has degenerated into that of mere voting machines and they are given artificial injections once in four or five years so that they can play their electoral role by harking back to their past. If TANU, after 17 years of existence is still looking fresh and vigorous, if those lofty ideals which characterised its birth—as well as that of other national movements—still burn bright, radiating light beyond their own national boundaries, it is only because TANU has continued to adapt itself to changing objective conditions in order to pursue even more forcibly its declared goals. The late sixties ushered in a new phase where the battle for economic independence and the removal of all vestiges of colonialism from Tanganyika's institutions were, together with the battle to master and increase production, given top priority. This is the only way to pull the people out of the quagmire of poverty, illiteracy and backwardness and strike out towards modernisation. The best of the country's working youth have responded to TANU's call to meet these challenges. It is their entry into TANU, through its youth wing, that continues to give TANU its vitality, firmness and vision. The young have given faith to the faltering, sustained those whose political stamina was giving way, and have taken the place of those who have fallen by the wayside.

Prior to independence, Tanganyika was not legally a colony, as it was under the United Nations and Britain was only a Trustee. But Britain treated Tanganyika as it did its other colonies and hatched plans for the intensification of exploitation in this country as well. The principal targets here were the peasants, particularly those holding land or stock. The attack came on them either in the form of open and brutal expropriation of their land or by bogus schemes, cunningly designed to seem for their benefit but in reality aimed at rendering them landless and stockless.

The government acting on the Wilson Report decided on the "redistribution of the land along the Kilimanjaro-Meru area."[1] What this meant was that 3,000 Wameru were evicted forcibly and their land given to the Europeans. The Wameru put up a magnificent resistance through their Meru Citizens Union of Free Men, but lost their land. They, however, as well as the rest of Tanganyika, gained in that their resistance led to the increase of political consciousness and awareness. Not only the Wameru became politically conscious, but also the Chagga, for instance, for they knew that they would be next.

The Wameru lost in spite of their complete unity. This brought home the fact that what Tanganyika needed was not a local or tribal association but a national party of the people whose principal object would be to fight for their political rights. The need for such a party had already been seen, as early as 1945, by people like Ali Ponda, who said that Tanganyika needed an organisation whose principal task would be to mobilise the masses for direct political action.

TANU was formed in 1954 to meet this need. It was qualitatively different from the existing organisations in that its vision embraced the whole territory and all the people and its orientation was openly political. Proceeding from the analysis that the ills that beset the people were due to the denial of political rights, TANU concentrated on gaining political power by getting rid of the British. Past experience, e g, the Meru Land Case, demonstrated that it would be futile to fight this or that piece of legislation. Even if they were successful, it would not basically alter the oppressive system of colonialism with its exploitative character. The main strategy for TANU then was to capture political power. The slogan 'Uhuru' crystallised this idea.

Nyerere said of TANU's birth: "TANU is in one sense a new organisation, but in another it is an old organisation. It has taken over from what was formally called the Tanganyika African Association, TANU . . . is a new organisation in the sense that it is a political organisation whereas the former were semi-social and semi-political."[2] The politics of TANU was to work for independence and towards this end it sought to mobilise the masses. It is its political programme that changed TANU from a mere association to a national movement.

There is little doubt that 'Uhuru' caught the imagination of the people, precisely because it expressed their aspirations. There were many bodies in Tanganyika to which people owed allegiance. But if they looked to TANU, it was because the party became identified with Uhuru. It also became an organisation of the masses because it linked itself with the aspirations of the peasantry. A United Nations team commenting on this in its report of 1954 said "Land and its use and tenure, comprise in the African mind the outstanding political and economic issue of the day."[3] The attack on the people's land came through various bogus schemes like the Mbulu Development Scheme, the Usukuma Development Scheme, the Mlalo Rehabilitation Scheme, the Uluguru Land Usage Scheme, the Iringa Dipping Scheme. Despite high sounding names and outwardly lofty intentions like soil conservation and utilisation of scientific methods of farming, the aims of these were to deprive the people of their land and cattle. And that is how the people saw it. And they resisted. For instance, it is reported, "In Sukumaland where the administration used compulsory legislation through Usukuma Federal Council . . . opposition and hostility against the rules and against the chiefs was intense . . . in Usambara mountains where the Shambas resisted compulsory ridging and terracing, hostility and unrest broke out in 1957."[4]

Opposition also arose in Uluguru, Irangi, and Iringa. As in Sukumaland, TANU championed the rights of the peasants and highlighted their grievances. In 1954 TANU was banned in Sukumaland and Lake Province, Morogoro in 1955, Irangi in 1956, Usambara in 1957, and Iringa in 1958. In fact within four years of its existence TANU earned the wrath of the authorities and was banned in eleven districts.

It is this type of activity, with its leaders being one with the people, that transformed TANU into a mass organisation. Its membership grow at a phenomenal rate and by 1958 stood at 200,000. TANU within a short period had transformed itself into a national movement with a peasant base. TANU differed from other national movements in that the masses were directly represented at the very top in the central committee. It was not a party consisting of a small educated group which had appointed themselves trustees of the people. The people, the peasants and workers had their own spokesmen in TANU. It is this that made some of the educated elite refer to TANU as an organisation of 'illiterates'.

With growing mass support behind TANU, the crucial question was how to achieve Uhuru. Two roads were open: the constitutional one or that of armed struggle. There were many people who, remembering the Maji-Maji and Hey rebellions, doubted whether freedom could be won without the gun. In 1958 TANU met, assessed the situation, and evolved its strategy, which included the possibility of winning independence through constitutional means. At Tabora it was decided to contest the 1958-59 elections. The African National Congress and the United Tanganyika Party created by the British administration were severely trounced. TANU won all seats except two. The 1960 elections were a repetition of the previous one and Britain had no alternative but to grant complete independence on December 7, 1961. TANU had within a short space of time been able to achieve Uhuru. Independence meant that TANU was in a better position to try and mould 120 tribes and varied religious, social, and racial groups into a single nation.

Most African nationalist movements which were fighting for independence had a low ideological content. The lack of clarity was not so much on the immediate tasks or what methods to adopt to achieve them, but rather on what type of society was to emerge after independence. Would it be different from what they were going to inherit from the colonialists? Would it be a continuation of the same system of exploitation with its oppression and tyranny or would it be a system free from exploitation?

Nyerere, at his inauguration as President in December 1962, realised the difficulties he was facing. He said, "Long before independence, signs of trouble began to appear. First, some people began to mutter that TANU was a party of illiterates; that there were not many well educated people on its executive committees, and that a large number of the highest positions in the party were held by members who had hardly any education at all. This was in fact perfectly true, but it was by no means a bad thing... the leadership should be representative of the country as a whole".[5]

After analysing the situation, TANU opted for socialism. The "TANU Creed" stated, "it is the responsibility of the State to intervene actively in the economic life of the nation so as to ensure the well-being of its citizens and so as to prevent the exploitation of one person by another, or one group by another and so as to prevent the accumulation of wealth to an extent which is inconsistent with the existence of a classless society... and therefore ensure that this country shall be governed by democratic socialist government of its people".[6]

TANU adopted the tenets laid down in a pamphlet, *Ujamaa* written by Nyerere, on the basis of socialism. In it, the author described in broad terms the society he would like to see emerge in Tanganyika. He wrote, "We must not allow the growth of parasites in Tanganyika... TANU government must go back to the system of landholding. That is to say that a member of society will be entitled to a piece of land on condition that he uses it... True socialism is an attitude of mind. It is, therefore, upto the people of Tanganyika—the peasants, workers, students and the leaders and all of us—that this socialist attitude of mind is not lost through the temptation of personal gain"... a true socialist may not exploit his fellow".[7]

The significance of the pamphlet as well as the acceptance of socialism as a goal should not be overrated. The President himself, six years later, said of his pamphlet, *Ujamaa*, "it described the basic attitudes of socialism but it was published in English and was never easily available to the people of Tanzania. Many active party workers as well as many of our teachers and civil servants therefore remained unclear even about the most important principles of the socialism they were responsible for promoting and serving".[8]

The period from independence to the eve of the Arusha Declaration was characterised by contradictory policies. Tanzania took certain measures consistent with its commitment to socialism, including the conversion of all freehold land to leasehold, government purchase of private electricity companies and the encouragement of marketing co-operatives. The first Five Year Plan, launched in 1964, evaded the crucial question whether economic development was to be in the socialist direction or whether Tanzania would remain a neo-colonialist state with capitalism as the dominant mode of production.

On the question of race, TANU opened its doors to all Tanzanians irrespective of race or colour. Upto 1962, non-Africans were barred from membership. This was an anomaly inconsistent with socialism and was, therefore, removed. On this point Nyerere was forthright: "In a Tanganyika still clinging to the habits of colonialism, there might be racial discrimination. But it would be a shameful disgrace to the Republic of Tanzania or the Tanganyika of *Ujamaa* for us to refuse any of its citizens the right to be members of TANU because of their colour."[9] This flowed from the belief that while fascism and racialism may go together, socialism and racialism are incompatible.

At the end of 1966, the economic reality in mainland Tanzania was that banks, insurance, food processing industries, wholesale trade of imports and exports, were all still in the hands of foreigners. These were raking away the surplus generated by the toil and sweat of the peasants and workers. True the party had turned freehold into leasehold, but that was more to forestall the development of rural capitalism than to alter radically the pattern of agricultural property relations. These were small changes, as important sectors of the economy still remained in neo-colonialist hands. TANU, however, had to tread warily, for to touch these foreign institutions was to touch the 'nerve centres' of international finance capital.

Trouble was brewing and the murmurs came this time from the mass of the people. They were getting restless for they wanted to know why TANU did not implement its "Creed" and take over the commanding sectors of the economy. TANU was trying to use capitalism and socialism at the same time. "Prior to the proclamation of the Arusha Declaration all that existed in abundance was an economic base inherited from the colonialists; all that existed was a superstructure inherited from the colonisers. The peasants and workers had either to continue existing as slaves of a neo-colonial economic structure or part with it once and for

all. The people had either to control their own destiny or have it controlled by others".[10]

But on February 5, 1967, Tanzania took a bold and decisive step with its Arusha Declaration. The philosophy of socialism was clearly spelt out. Tanzania was committed to socialism from which there would be no retreat. Within a few years after the Declaration, the government nationalised: all banks (except the co-operative bank), certain firms engaged in processing food, insurance companies, and key firms engaged in wholesale and external trade. In some other firms, government acquired a majority of the shares.

Another significant feature of the Declaration was its focus on TANU leadership. Aware that some of the TANU leaders were taking to capitalist practices which would sooner or later link them with their imperialist masters, the Declaration said, "Socialism is a way of life... a socialist society can only be built by those who believe in it... A genuine TANU leader will not live off the sweat of another man nor commit any feudalist or capitalist practices". And to nip in the bud the accumulation of capital by TANU leaders, they were forbidden from holding directorships in private enterprise or receiving salaries from more than one source. Further, it was decreed that "No TANU or government leader should own houses which he rents to others".[12]

The Arusha Declaration with its nationalisation measures did not transform Tanzania into a socialist society, but it did indicate clearly and unequivocally the direction that Tanzania had chosen.

Another question that arose was about the relationship between the party and the government. There would have been no problem if the party had been the creator of the State machinery. But that was not so. The party was the creation of the people, the State machinery of the colonialists. The functions of the two were antagonistic. The State machinery was the superstructure of the capitalist system. Thus, the entire civil service, army, police, judiciary, schools, parliament were designed to facilitate the operation of this system for the benefit of the colonialists in London. This machinery to facilitate the extraction of profits was taken over lock, stock and barrel by the new rulers without critical examination.

The State machinery represented power. Through it one could yet a good job, a good house, a big car, and a number of other benefits. Party membership had begun to be regarded as a means to a good government job and other facilities. Government departments had begun to behave as little kingdoms independent of the party. Some leaders used the party machinery, also, for their own selfish ends. The "TANU Guidelines" of 1971 were formulated, among other reasons, to deal with this problem. They stated, "The responsibility of a socialist party is to lead the people in all their activities. The government, national institutions, mass organisations are all instruments for implementing party policies... In truth we have not only inherited a colonial structure of government, but have also regarded it as our own... To lead, the party must decide on the structure of the Government".[13] Henceforth one of the primary tasks of the party would be to dismantle the State machinery which the colonialists had left behind.

The "TANU Guidelines" reiterate the supremacy of the people in all branches of life: "The party's role is not to urge the people to implement what is decided on by leaders and a few experts. On the contrary, the role of the leaders is to see that the leaders and experts implement policies agreed on by the people themselves.[14]

Notes

1 Kirke Japhet and Earle Seaton, "The Meru Land Case", 1967.
2 "Tanu Katika", Dar-es-Salaam, pp 30-31.
3 "United Nations Visiting Mission Report, Supplement Number 3", New York, 1955, p 88.
4 "Rise and Triumph of Nationalism: History of Tanzania", edited by Temu, p 204.
5 "President Nyerere's Inaugural Address" in "Freedom and Unity", p 181.
6 "TANU Creed", *Ujamaa: Essays on Socialism*, p 13.
7 *Ujamaa: Basis of African Socialism*, TANU pamphlet.
8 See preface of *Ujamaa: Essays on Socialism*, p vii.
9 See also "Guide to One Party State Commission" in "Freedom and Unity", p 263.
10 *Nationalist*, Dar-es-Salaam, February 5, 1971.
11 *Arusha Declaration*, p 17.
12 *Ibid*, p 36.
13 "TANU Guidelines", *Nationalist*, Dar-es-Salaam, February 22, 1971.
14 *Ibid*.

With best compliments from

THE LAKSHMI COMMERCIAL BANK LTD.

H Block
Connaught Circus
New Delhi

SINGAPORE

'Backstage' Meeting

Harish Chandola

THE Foreign Minister, Swaran Singh, visited Indonesia and Singapore during his Southeast Asian tour from August 12 to 15. In Indonesia he led the Indian team which held bilateral talks with the Government there and in Singapore he called on the Prime Minister, Lee Kuan Yew. One would like to write about his meeting with the Singapore Prime Minister first, because the manner in which it was arranged was really unfair to both the Prime Minister and the Indian Foreign Minister.

On August 12, Swaran Singh had passed through Singapore on his way to Jakarta and during his halt at the airport had told reporters that the Indian High Commission here had already made a request to the Singapore Government for a meeting between him and Lee Kuan Yew. On August 15, the High Commission telephoned a few reporters to tell them that Swaran Singh was meeting Lee Kuan Yew the same day. It was a Sunday and the Prime Minister was specially busy that day because he was addressing the annual mass rally of his party and later attending a party dinner. This rally is of utmost importance to Singapore because at it the Prime Minister outlines the ruling party's policy for the coming years. Lee therefore had no time to see any visitor on Sunday and his office had informed the High Commission that the Prime Minister had asked Swaran Singh to be his guest in Singapore and meet him on Monday.

But the High Commission informed his office that the Foreign Minister wanted to leave Singapore the same night, to be in Delhi on Monday to see off Senator Edward Kennedy who was leaving India after his tour. And the High Commission persisted in seeking time from the Prime Minister on Sunday itself. The Prime Minister's office then allocated 15 minutes to Swaran Singh and informed the High Commission that Lee Kuan Yew would meet him at a theatre at 8.45 pm, between his rally speech and party dinner.

Swaran Singh had cancelled a lunch with the Indian community in Jakarta, which was celebrating the Independence Day, and some other engagements in order to arrive early in Singapore. He was here shortly after 12 noon and had then to while away the day witnessing a hockey match, etc. He arrived at the theatre in time for his 8.45 pm meeting, but the Prime Minister had not concluded his address at the rally. The address ended at 9.10 pm and he then met Swaran Singh at 9.15. The meeting, as indicated earlier by the Prime Minister's office, was a brief one, because 4,000 party members were waiting for Lee Kuan Yew at the dinner.

Were there really matters of utmost urgency which Swaran Singh wanted to discuss with the Singapore Prime Minister on the latter's most busy day? Were these matters of such urgency that he had to go to a backstage room of a theatre and wait there, instead of meeting the Prime Minister in his office on Monday? This behaviour lacked dignity. One never hears of a Foreign Minister going to a backstage room for an official meeting with a Prime Minister. In doing so we certainly have made diplomatic history!

Lee Kuan Yew is certainly not responsible for what happened. He had the grace to invite the Foreign Minister to be his guest and call on him at his office on Monday. But then the High Commission had indirectly conveyed that Swaran Singh had a more important task in Delhi on Monday, which was to see off Senator Kennedy. The only time that Lee Kuan Yew had was between his speech and his dinner. It was unfair of the High Commission to bother the Prime Minister on his busiest day and then to lead their Foreign Minister to a backstage room for an official meeting. There were no outstanding problems between India and Singapore. The two countries have been very good friends and would certainly have remained so even without the clumsily arranged meeting between Swaran Singh and Lee Kuan Yew.

Indonesia Trade and Aid

After writing all this, it is really difficult to talk about the normal, annual bilateral talks between India and Indonesia. These talks consist of exchange of views on current international and regional problems and efforts to find ground for more bilateral co-operation in various fields. They are not aimed at superimposing the thinking of one country on the other.

The most beneficial result of these talks for India was the assurance that an Indonesian Minister, possibly the Minister of Trade, would visit Delhi shortly to have a look at the industrial goods available in India which might meet the requirements of Indonesia and also to examine the credit-terms the Indian suppliers were prepared to offer to Indonesian importers.

The Indonesian officials who have visited India so far for the purpose of increasing trade between the two countries have been interested only in the credit-terms India was prepared to offer and had shown no interest in having a look at the goods. After ascertaining Indian terms, these officials examined terms offered by other countries and then accepted those that appeared to be most favourable. By doing so, Indonesia obtained equipment which was perhaps not best suited to its requirements and conditions in the country. Because of apparently easy credit terms from a country, Indonesia, for example, obtained from it railway rolling stock suitable for very high speeds. But the Indonesian trains do not move at 200 km per hour and so the optimum use of that equipment could not be made.

Similarly, another country offering long-term credit was prepared to sell to Indonesia highly automated and labour-saving textile-mill machinery. But the problem for Indonesia at the moment was to provide jobs to as many as possible, and by buying the most advanced textile-mill machinery not only was it going to spend more but was also not going to improve the lot of its unemployed.

It was in this context that the Indian equipment was relevant. It was not the most sophisticated and automated. But it cost less and provided jobs to more. The Indian rolling stock too was less expensive, though perhaps not capable of bewilderingly fast movement. It moved at speeds which suited Indonesian railways.

But India was itself a developing country and was unable to provide the easy credits. In spite of that, buying from it was not going to impose such heavy burdens on Indonesia as the seemingly easy credits from more advanced countries. The Indonesian Government was now prepared to examine this aspect of trade and was willing to send a Minister to India to have a look at the goods and see if they met the Indonesian requirements.

On the political side, the talks resulted in better understanding over problems of instability that the situation in East Pakistan was creating for the whole region. They also enabled Indonesia to understand the reasons for India signing a Treaty of Peace, Friendship and Co-operation with the Soviet Union. The joint communique issued at the end of the talks did not mention that Indonesia supported this particular move of India to maintain peace in the region, but it did say that the Treaty was among the subjects discussed by the teams of the two countries.

Not without Outrage

Farrukh Dhondy

AMERICAN justice provides answers when American law has none. When it becomes impossible to stand a man up in court and frame him for murder, when it becomes impossible to release that man because of his courage and his singlemindedness in making no compromise with oppression, it becomes necessary to eliminate him. George Jackson was shot in prison last week. With the other Soledad brothers, Fleeta Drumgo and John Clutchette, he was on trial for his life and the trial was in process. The official reports of his murder say that he was killed while attempting to escape, shot in the prison yard by a guard from the watchtower after a shootout in which three prison guards and two white convicts, 'trusties' of the prison, died. Perhaps one day we shall know what actually took place in that prison. Today I can only say that I do not believe that George Jackson was a desperate man who gave his life in a last act of desperation.

Jackson knew, and often said, that he wouldn't get out of Soledad prison alive. For 10 years he had lived in the knowledge that the preservation of his right to live had passed from his own hands. He was originally imprisoned for assisting in the theft of $ 70 from a petrol station, and given a sentence of "from one year to life". His imprisonment revealed to him the political nature of his captivity, the rationale behind the meaningless arbitrary sentence he'd received.

In jail, he taught himself Chinese and Swahili, read anthropology, history politics, mathematics, and electronics, and began to understand and question the nation that was born in blood and built on slavery, the nation that resorts to both to sustain its imperial role. He wrote to his brother Jonathan inducing him to commitment, so as to live through him the life he would have himself led outside prison.

Early in 1970, two black prisoners were shot dead and a third wounded in the yard of Soledad prison by a guard on the watchtower. The wounded man who was still alive was dragged to the warden's office, instead of to the hospital, where he bled to death helplessly. Following the incident, and a subsequent statement by the prison authorities that the killings were justifiable homicide, a white guard was found strangled in the prison and George Jackson, Fleeta Drumgo, and John Clutchette were accused of his murder.

On August 7, 1970 Jonathan Jackson was killed while attempting to free a black prisoner and hold the judge hostage in Marin County courthouse. As he left the courtroom, his last words were: "All right, gentlemen, I'm taking over now. Free the Soledad Brothers by noon". Angela Davis, whom George called "my tender experience" was later accused of aiding Jonathan in the attempt.

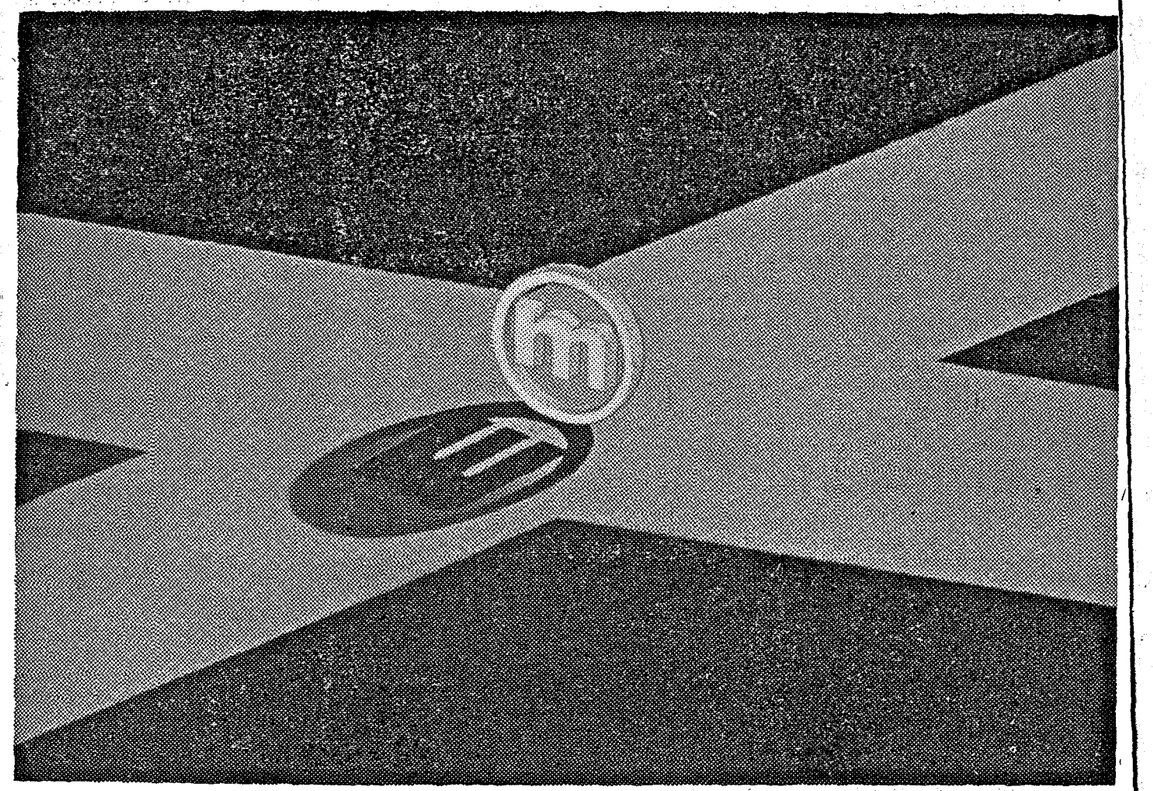
The period of George's imprisonment coincided with that of the transformation of the black struggle in America. It was while he was inside and observing, that Malcolm X broke from the narrow nationalism of Elijah Muhammed, that Malcolm himself was murdered, that black people turned from civil rights to self defence, that the Black Panther Party was born and experienced America's violence in its turn. Watching the will of the oppressed being mobilised, must have given George some hope. The guardianship of his life had been passed on to the will and consciousness of the black people. When he died, this will and consciousness failed him in an important sense; his death showed that black America is prepared for martyrdom but not ready to demand that its sons come home. Finally, America bargained him away because it knew that his death was less dangerous than his life.

It was during his imprisonment, too, that black America found its new voices — men like Le Roi Jones, Eldridge Cleaver, and Bobby Seale, who brought to the surface the message that had been agonisingly implicit in the work of Richard Wright and James Baldwin. Their work, taken together (as it must be), is the autobiography of the revolutionary consciousness of America, the parallel growth of pain and awareness and determination. It is right that, in this evolution, Eldridge Cleaver's "Soul on Ice" and George Jackson's "Soledad Brother" are unwilled books, collections of letters to parents, brothers, and lawyers, written from an imprisonment which Jackson calls the closest thing to death that one can know in this life. They are 'art' in the only sense that is real for an oppressed people — the offspring of the marriage of predicament and consciousness. Being in jail, these men were denied the possibilities of action, and they contributed to the movement of their people these notes towards the redefinition of the culture of captivity. The man behind bars symbolised the limited possibilities of life that an Afro-American is born with. The man in chains metamorphosed the slavery of his people. The books actually stimulated movements all over America. They nurture the generation now growing — men and women for whom the words 'human situation' will inevitably mean degradation, limited opportunity, imprisonment, liquidation, and, most of all, resistance to the system that inflicts these.

In a revolutionary's obituary it is customary to say that his example lives, that the light he shed will always shine. If a revolutionary is one who is willing to take life and give life in the interests of social change, Jackson was a revolutionary, one who with the wholehearted conviction of experience and conscience knew that he had no option but to preserve his dignity and that of his race in a fight for survival. Through his letters, we see how Jackson saw himself: an individual whose survival was a mere function of the survival of the society which bred him. He knew that, for him to live meaningfully, America needed a revolution.

George Jackson would have understood why his obituary must also be on the death of all the others who die in the same cause. In India, where revolutionaries don't write books, where the tradition of outrage and retaliation for the death of a single man has not been established, the only purpose in writing about him, is to restore in some small way to those nameless youths who die for their convictions, their name and title.

we are at the crossroads- to bigger things and newer markets.



Mysore Sales International Limited, a young and dynamic organisation, has successfully made its presence felt in the diverse and difficult task of marketing.

Our organisation is equipped to face any challenge in the field of marketing, any product, consumer or industrial, any entrepreneur, in the public or private sector.

We have the resources and the manpower to make a dynamic success of your selling enterprise.

We can help you explore new marketing vistas for your product in any part of India and even develop overseas markets, giving that added dimension to your turnover which only exports could bring.

MYSORE SALES INTERNATIONAL LTD.,

'Hari Nivas', 36, Cunningham Rd., Bangalore-1 B.
Phone: 28175-6. Grams: 'EXIMSALES'.

Branches:
Arun Chambers, Tardeo Rd., Bombay-34.

10-A Gobind Mansions, 'H' Block, Connaught Circus, New Delhi-1.

35/37, Thambu Chetty St., Madras-1.

mysore sales international ltd. - fills the marketing gap in a growing economy.

mcm msil/2b

pediments to labour research and what could be done to remove these impediments. Here Adams has some very interesting suggestions: expanding the Ministry of Labour library; preparing comprehensive bibliographies; collecting information on current projects; setting up a central documentation centre; and greater emphasis on improving methodology. It is to be hoped that someone, such as the Indian Council of Social Science Research, is willing and able to implement some of these suggestions.

In the appendix, "Industrial Relations as a Social System", Suresh Srivastava and Theodore M Alfred provide a brief summary of Dunlop's framework [3] and try to extend it further by attempting to introduce into it the Parson-Smelser analysis [4]. Inasmuch as the Dunlop framework was partly based on the original Parsonian formulation, this extension is only a logical sequence. Consequently, the note, as it stands, is subject to the oft-repeated criticism of the Dunlop methodology. The analysis of industrial relations provided by Dunlop is primarily static in character. Unless it is possible to introduce the dynamics of inter-group and intra-group behaviour based on some such concept as that of 'exchange' developed by Homans [5], one cannot begin to comprehend the working of the ongoing processes of industrial relations.

The volume under review is sponsored by the Indian Society of Labour Economics and its publication is supported by the Indian Council of Social Science Research. It thus assumes an important place in the literature on labour problems. But, in the opinion of this reviewer, the volume has failed to live up to the standard of publication one expects from the leading professional group in the area. Except for one paper (by T S Papola), this volume is completely outdated. One cannot help feeling that the contributors were preoccupied with highlighting their own researches conducted several years ago. This attitude does not in any way help to further the cause of quality research. Another weakness of the volume relates to the fact that no attempt was made to review the methodologies adopted by researchers. The basic question in any scientific inquiry must surely be to develop and/or to modify a methodology with a view to make it more appropriate for the purpose of testing a hypothesis [6]. Perhaps the hypotheses in respect of the Indian labour situation would be different from those in respect of the labour situation in other countries. In view of this, can we just "replicate" foreign studies? Every researcher will have his own answer to this question, depending upon the appropriateness of the methodology of a given "foreign" study. Nevertheless, such a question must be posed in any critical review of research undertaken, especially in a developing economy. Finally, the editor rightly points out that labour problems can only be treated in a multi-disciplinary framework. One significant omission in the volume under review is the absence of sociological researches in the field of labour and industry.

Despite its many weaknesses, the volume as a whole directs our attention to some of the researchable topics in the field of labour. For example, one interesting subject mentioned is: "How real wages are shaped by the particular composition of the land-structure in village societies, and how this affects the trend of wages of factory labour who may or may not maintain links with the country-side" (p 30). Another useful line of inquiry indicated is: "Small-sized unions predominate. Why? What can be the optimum size of a union? Is there any relationship between size and industrial relations therein?" (p 71). Examples such as the ones quoted here can be multiplied. However, it can be reasonably argued that a mere listing of researchable topics does not by itself constitute a significant addition to the literature. Nevertheless, such a compilation of possible areas of investigation should prove useful to researchers. It is to be hoped that the next appraisal undertaken by the Indian Society of Labour Economics will contribute substantially more to the subject.

References

[1] C Kerr, J T Dunlop, F H Harbison and C A Myers, "Industrialism and Industrial Man" (Boston: Harvard University Press, 1958).

[2] Richard Perlman, "Labour Theory", (New York: Wiley, 1969).

[3] J T Dunlop, "Industrial Relations Systems" (New York: Henry Holt, 1958).

[4] T Parsons and N J Smelser, "Economy and Society", (Illinois: Free Press, 1956).

[5] G C Homans, "Social Behaviour: Its Elementary Forms", (London: Routledge and Kegal Paul, 1961).

[6] G Myrdal, "Economic Theory and Underdeveloped Regions", (London: Gerald Duckworth, 1957).

Just Released

Latest NCAER Study

Foreign Technology and Investment

(A Study of their Role in India's Industrialisation)

Based on an analysis of all collaboration agreements approved from 1951 to 1967, this pathbreaking study of imports of technology explodes some widespread fallacies and underlines the importance of research and development as an instrument of reducing imports of technology as well as of bringing down its supply price.

Price . . . Rs. 25/- *(plus postage)*

Available from

Publications Division
National Council of Applied Economic Research
Parisila Bhawan, 11-Indraprastha Estate,
New Delhi-1.

Oil Consumption Pattern

D C Kale

Consumption Pattern of Selected Petroleum Products, National Council of Applied Economic Research, 1971; pp xiv + 152; Rs 20.

IN the supercharged atmosphere surrounding oil companies today, practical considerations run a poor second to arguments about price-rigging, overseas remittances and so on. It is good to be reminded that the primary purpose of all refining is to provide consumable products of very great strategic and practical value. In turn, unless one knows which products are going to be required, it is not possible to produce them at the right time. This study prepared by NCAER for the Ministry of Petroleum and Chemicals is therefore welcome to those who prefer cold facts to hot arguments. The field survey was conducted in the middle of 1968, and it took an unconscionably long time — over two years — for NCAER to digest the data and prepare the conclusions.

The book is full of tables, which take about 90 pages compared to the text of about 57 pages. A good description of the field study and useful Appendices are well worth keeping permanently as useful references for similar studies later. NCAER was asked to estimate the consumption of certain products sector-wise as well as by end-use. Norms were to be established for each, and checked for a base-year. The products considered are motor-spirit, HSD, LSD (as used in oil engines, not for psychedelic trips!), furnace oil, lubricants, bitumen and wax. The sectors covered are road transport, railways, shipping, agriculture, power and industry.

Part of the study received a good deal of publicity as soon as its findings were announced: it showed up the extent of crooked dealings going on in the sale of HSD, where the primary sales are 2.8 mn tonnes, as against a consumption figure of 4.0 mn tonnes. While the consumers knew all along that they were getting or using adulterated HSD, nobody expected that additives would be over 40 per cent of the original product. The survey tries to connect the ratio of dilution with the relative price levels of kerosene and HSD, and is reasonably successful. Kerosene itself is in short supply or is imported, and hence it seems legitimate to ask Indian technologists to look into two possibilities. First, can HSD be made or sold a lot cheaper than at present? Second, is it not possible to design engines which run well on kerosene? The survey has not, apparently, looked into HSD substitution in the agricultural sector. This sector, incidentally, may not show as much enthusiasm about diesel pumpsets in future years, thus upsetting NCAER's predictions.

Many persons will find an unexpected bonus in this survey, in the estimates of scrap-rates of transport vehicles and motor-cars. This rate affects not only vehicle manufacturers, but also spare-parts, tyre and service industries. In the case of cars, there is almost 'nil' mortality for the first *eleven* years, after which it is reported to be 10 per cent for the 12th year and 4 per cent per year thereafter. Mortality rates are estimated also for motorcycles and scooters, and for commercial vehicles. (American car manufacturers, if faced with similar figures, will probably get heart attacks and give up their jobs.) The proportion of diesel vehicles is shown to be rising steadily, from 17 per cent in 1960 to 34 per cent in 1968. This trend is worth watching. The population estimates made by the survey are likely to prove wrong, through no fault of the survey itself, because of low production in years following 1968 and because of the proposed new units for scooters, cars and trucks.

Coming back to consumption of petroleum products, estimates of railway and shipping consumption are also likely to go wrong. The railways' own estimates of freight are turning out to be unrealistically high year after year, and the number of diesel locos in operation is also unpredictable. The survey has given only the most cursory attention to shipping and to proposed GRT additions during the next few years. There is no mention at all of consumption by airlines, which is a fast-growing sector.

The section on lubricants has an extraordinary amount of useful data, sector-wise and by type of lubricant used. The proportion of oil and grease used is studied well. With all this, it seems a pity that no attempt seems to have been made to explain the large difference between estimated consumption (301,000 tonnes) and actual sales (463,000 tonnes).

The survey has some inexplicable gaps, considering that it was meant to act as the basis of future production and import policies. There is no mention of defence requirements or consumption, although it is known that the same sources supply civilian and defence consumers. Airlines have been ignored completely. So also, in the products, no mention is made of kerosene, gas, or LPG which are all, according to the reviewer, petroleum products. Bitumen and wax have received the most cursory treatment. Lastly, the report assumes static technology upto 1978 in the fields of transport and power stations. With all this, there is no denying that this study deserved to be made, and is well made within the limits presumably imposed on it. The total demand for petroleum products, excluding naphtha, is expected to grow by 9.3 per cent upto 1973-74, and the total demand in that year is expected to be 27.7 mn tonnes. There is clearly no time to be lost in establishing new capacity and in utilising all the capacity that there is.

Books Received

Adhikari, Gautam: Press Councils—The Indian Experience; Press Institute of India, 1971; pp xiii+68; Rs 2.

Bajpai, S C: The Northern Frontier of India—Central and Western Sector; Allied Publications, 1970; pp xiii+223; Rs 20.

Chen, Jerome: Mao Papers—Anthology and Bibliography; Oxford University Press, 1970; pp xxxiii+221; £ 2.75.

Erdman, Howard L: Political Attitudes of Indian Industry: A Case Study of the Baroda Business Elite; The Athlone Press University of London, 1971; pp 62; £ 1.10.

Kapadia, K M and S Devadas Pillai: Young Runaways—A Study of Children Who Desert Home; Popular Prakashan, 1971; pp xii+124; Rs 20.

Khare, R S: The Changing Brahmans —Associations and Elites among the Kanya-Kubjas of North India: University of Chicago Press, London, 1970; pp xxii+251; 99s.

Krishna Murty, V: Monetary Equilibrium and Economic Development; Popular Prakashan, 1971; pp vii+224; Rs 28.

Pai, M R: An Indian Economic Miracle and Other Essays; Sohrab House, 1970; pp 180; Rs 16.

Rahul, Ram: The Himalaya Borderland; Vikas Publications, 1970; pp vi+157; Rs 20.

Rustomji, Nari: Enchanted Frontiers—Sikkim, Bhutan and India's North-Eastern Borderlands; Oxford University Press, 1971; pp viii+333; Rs 45.

Rai, Hira: Bibliography on Non-violence and Satyagraha; Navachetna Prakashan, 1971; pp xv+109; Rs 10.

Saran, Vimla: Sino-Soviet Schism—A Bibliography 1956-1964; Asia Publishing House, 1971; pp xv+162; Rs 36.

Wright, Harry K: Foreign Enterprise in Mexico—Laws and Policies; University of North Carolina Press, 1971; pp xi+425; $ 15.

Tax Incidence on Agricultural Sector in Uttar Pradesh

Hemlata Rao

This paper examines the scope for additional taxation in the agricultural sector in UP. It poses the question: Does the agricultural sector have the capacity to bear additional taxation? An attempt is made to determine the intersectoral tax burden in the state. This is followed by a brief study of the contribution of agriculture to the marginal tax effort.

The analysis shows that tax effort in UP has so far been concentrated in the non-agricultural sector. The relative contribution of agriculture to resource mobilisation has been insignificant. The scope for taxation of agriculture is, it emerges from the study, considerable.

[The author is indebted to M J K Thavaraj and T Mathew for their critical comments and to her colleagues M M Jain and A Hameed for their suggestions. However, the author alone is responsible for the conclusions of the study.]

UTTAR Pradesh has now launched a vigorous and bold Fourth Five-Year Plan. The Plan envisages an outlay of Rs 951 crores, of which Rs 425 crores is to be financed through the state's internal resources. On present indications, current resources of the state available for financing the Plan would be about Rs 250 crores.[1] This leaves a gap of Rs 175 crores, to be financed from additional taxation and surpluses of public sector enterprises. As the latter is not so directly under the control of the Government, the state has to depend more on the former. In the circumstances, a study of the scope for additional taxation in the state becomes important.

The purpose of the present paper is to examine the scope for additional taxation in the agricultural sector of Uttar Pradesh. The study works out a case for additional agricultural taxation in the state. It poses the question: 'Does the agricultural sector have the capacity to bear additional taxation?'. To start with, an attempt is made to determine the intersectoral tax burden in the state. Then follows a brief study of the contribution of the agricultural sector to the Marginal Tax Effort of the state.

Tax Burden in Agricultural and Non-Agricultural Sectors

We are allocating total direct and indirect taxes, which constitute central and state taxes, between the agricultural sector (henceforth called 'A') and the non-agricultural sector (N) in the following manner:

Central Direct Taxes:— These include: (i) personal income tax; (ii) corporation income tax; (iii) wealth tax; (iv) gift tax, and (v) estate duty. Most of these taxes, except the estate duty fall entirely on the 'N' sector. However, the incidence of estate duty on 'A' sector is so small that it does not affect our analysis significantly if we group it along with other direct taxes and allocate their incidence entirely to the 'N' sector. Therefore, 100 per cent of the yield from the Central direct taxes is allocated to the 'N' sector.

State Direct Taxes:— The important state direct taxes are (i) land revenue and (ii) stamps and registration duties. The other direct taxes are (iii) urban property tax and (iv) profession tax, and these fall entirely on the 'N' sector. We allocate the incidence of state direct taxes as between the 'A' and the 'N' sectors in the following manner:[2] Land Revenue is allocated entirely to the 'A' sector. Of the yield from stamps and registration duties 20 per cent is on the 'A' sector and 80 per cent on the 'N' sector.

However, in our analysis, it is the incidence of all the direct taxes on the 'A' and 'N' sectors that is taken into account. Thus the total direct tax on the 'A' sector is the sum of land revenue and 20 per cent of the duty on stamps and registration; the total direct tax on the 'N' sector is the sum of 80 per cent of the stamps and registration duty and the other direct taxes which however are very insignificant.

Central Indirect Taxes:[3] The only central indirect tax collected in UP is the union excise duty. The collection from other indirect taxes, like customs, is nil. Of the total central indirect tax, which in this case is the union excise duty, 62.7 per cent is on the 'A' sector. The rationale of this distribution is contained in the methodology adopted for the purpose.

State Indirect Taxes:— Of the state indirect tax 57 per cent is on the 'A' sector and 43 per cent on the 'N' sector. The rationale of this distribution is contained in the methodology adopted for the purpose.

The main assumptions of our study are as follows: Although the classification 'agricultural' and 'non-agricultural' is used, data pertaining to 'rural' and 'urban' classification are used wherever data on the 'A' and 'N' classification are not available. Secondly, we are examining only the tax burden, not the fiscal burden. Thirdly, other variables, such as the distribution of wealth and income etc, are not taken into account. Fourthly, it is assumed that the capacity of any sector to pay tax can be measured by the income of that sector; we do not deduct the subsistence requirement from income primarily owing to lack of adequate data. Fifthly, only an intersectoral study is made here, not an interclass study.

Tax Burden on the 'A' and 'N' Sectors

An attempt is made to find out the relative tax burden on the 'A' and 'N' sectors, through various measures. We investigate below the direct tax burden according to these measures.

In UP, the only direct tax borne by the 'A' sector is the state direct tax, while the 'N' sector bears both the central and the state direct taxes. Among



TABLE 1 : COMBINED (CENTRAL AND STATE) TAX INCIDENCE (DIRECT, INDIRECT, TOTAL) ON AGRICULTURAL AND NON-AGRICULTURAL SECTORS IN UP, 1960-61 TO 1965-66

(In Rs Crores)

Years	Agricultural Sector									Non-Agricultural Sector									Combined		
	Direct			Indirect			Combined			Direct			Indirect			Combined			A+N and II+DT and C+S		
	State*	Central*†	Total (1+2)	State**	Central†	Total (4+5)	State (1+4)	Central (2+5)	Total (7+8)	State*	Central*†	Total (10+11)	State**	Central†	Total (13+14)	State (10+13)	Central (11+14)	Total (16+17)	State Total (7+16)	Central Total (8+17)	Grand Total (19+20)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
	LR 100% StR 20% LR+STR	—	—	57%	62.7%	—	—	—	—	LR 0% StR 80% LR+STR	—	—	43%	37.3%	—	—	—	—	—	—	—
1960-61	23.2	—	23.2	17.8	28.0	45.8	41.0	28.0	69.0	3.9	8.4	12.3	11.7	16.7	28.3	15.6	25.0	40.6	56.6	53.0	109.6
1961-62	22.1	—	22.1	58.2	27.8	45.0	40.3	27.8	68.1	4.0	10.1	14.1	23.8	16.5	40.3	27.8	26.6	54.4	68.1	54.4	122.5
1962-63	25.2	—	25.2	22.6	33.3	55.9	47.8	33.3	81.0	4.3	12.3	16.6	17.0	19.8	36.8	21.4	32.1	53.5	69.1	65.4	134.5
1963-64	26.5	—	26.5	20.5	31.9	52.4	46.9	31.9	78.8	5.0	13.2	18.2	15.4	19.0	34.4	20.5	32.2	52.7	67.4	64.1	131.5
1964-65	21.8	—	21.8	29.9	32.2	62.1	51.7	32.2	83.9	6.0	16.8	22.8	22.6	19.2	41.8	28.6	35.9	64.5	80.3	68.1	148.4
1965-66	25.7	—	25.7	35.9	32.0	67.9	61.6	32.0	93.6	6.4	17.0	23.4	27.1	19.1	46.1	33.5	36.0	69.5	95.1	68.0	163.1

Note : Detailed methodology for the allocation of central and state taxes, both direct and indirect, is given in the Appendix.
* Land Revenue+Stamp and Registration. LR=Land Revenue 100%. StR= Stamps and Registration 20 per cent 'A' Sector, 80 per cent to 'N' Sector.
** Sales Tax+State Excise, Motor Vehicle and Other Taxes.
† Union Excise Duty (Customs Duty is not taken into account).
*† Income Tax, Wealth Tax, Gift Tax, Corporation Tax and Estate Duty (Estate Duty in case of 'A' Sector is negligible).

Source : Combined Revenue and Finance Account of Central and State Governments.

TABLE 2 : PER-CAPITA INCIDENCE OF DIRECT TAX (CENTRAL + STATE), INDIRECT (CENTRAL + STATE) TAX AND TOTAL TAX (DIRECT + INDIRECT) AS PERCENTAGE OF PER CAPITA INCOME

	Agricultural Sector							Non-Agricultural Sector						
	Income Per-Capita	Per-Capita Direct Tax	Direct Tax as Per Cent of Income	Indirect Tax Per-Capita	Indirect Tax as Per Cent of Income	Total Tax	Total Tax as Per-centage of Ya	Income Per-Capita	Direct Tax Per-Capita	Direct Tax as Per Cent of Yn	Indirect Tax Per-Capita	Indirect Tax as Per Cent of Income	Total Tax Per-Capita	Total Tax as Per Cent of Income
1960-61	174	3.6	2	7.2	4	10.94	6	613	11.5	1.7	25.0	4.3	35.92	6.0
1961-62	177	3.4	2	6.9	4	10.54	6	673	12.5	1.9	35.3	4.1	47.70	7.0
1962-63	180	3.9	2	8.6	5	12.59	7	609	12.1	2.0	27.0	4.5	39.00	6.5
1963-64	196	4.0	2	8.0	4	11.60	6	776	15.2	2	32.8	3.5	43.12	5.5
1964-65	282	3.1	1.1	9.0	3.9	12.16	4	828	19.2	2.3	34.0	3.7	52.90	6.0
1965-66	260	3.5	1.4	9.4	4.6	13.25	5	886	19.0	2	29.0	5.0	56.00	7.0

the state direct taxes on agriculture, land revenue is the most important. In 1968-69 land revenue formed 18.8 per cent of the total tax revenue of the state. A study of the trends in land revenue, during 1952-53 to 1968-69, reveals that the fiscal importance of this tax has declined considerably; in 1952-53 it formed 40.8 per cent of the total state tax revenue, but its share declined to 18.8 per cent in 1968-69.[4] Besides the decline in its fiscal importance, it has also lost its importance as the largest source of revenue during 1952-53 to 1968-69. Before 1962-63, it was the largest source of state tax revenue, but after 1962-63 it became the second largest source of revenue in the state, with the sales tax occupying first place. Table 1 gives the figures for direct, indirect, and total, tax incidence on the 'A' and 'N' sectors.

The Table shows that the total direct tax incidence is more on the 'A' sector than on the 'N' sector. The absolute amount of direct tax is more from the 'A' sector; for instance, in 1965-66 the total direct tax collected from the 'A' sector was Rs 25.70 crores, while it was only Rs 23.36 crores from the 'N' sector. Thus, in 1965-66, the share of the 'A' sector in the total direct taxes was 51 per cent and that of the 'N' sector was 49 per cent. However, this does not give the complete picture of the situation. A comparative study reveals that, while 85 per cent of the population is bearing 51 per cent of the total direct tax, 15 per cent of the population is bearing 47 per cent of it. The relative burden is evidently more on the 'N' sector.

Per-capita direct tax in the 'A' sector was only Rs 3.6 in 1965-66, while in the 'N' sector it was Rs 19. Thus the 'N' sector was bearing six times more per-capita direct tax than was the 'A' sector (Table 2).

An analysis of Tables 1 and 2 reveals that between 1960 and 1966 the disparity in the tax collections from these two sectors has been considerably narrowed down. In 1960-61 the total direct tax on 'A' was Rs 23.18 crores, while on 'N' sector it was Rs 12.27 crores, i e, the 'A' sector was bearing nearly 90 per cent more direct tax than was the 'N' sector; but in 1965-66, the total direct tax on 'A' was Rs 25.70 crores and on the 'N' sector it was Rs 23.36 crores. It is thus seen that sector 'A' was bearing only 10 per cent more than the 'N' sector. Table 2 further reveals that the per-capita direct tax in the 'A' sector remained more or less constant at Rs 3.6, while in the 'N' sector it increased from Rs 11.5 in 1960-61 to Rs 19.0 in 1965-66.

TAX-INCOME RATIO

The direct tax on the agricultural sector formed approximately 2 per cent of agricultural income in 1960-61, but this declined to 1.4 per cent in 1965-66. In the same period, collection of direct taxes increased by 10.8 per cent while agricultural income increased by 73 per cent. On the other hand, direct taxes on the 'N' sector formed 4 per cent of non-agricultural income in 1960-61, and this increased to 4.6 per cent in 1965-66. In the same period the collection of direct taxes from the non-agricultural sector rose by 90 per cent while its income increased only by 51 per cent (see Tables 1 and 3).

Thus a higher percentage of the income in the 'N' sector is taken away by direct tax than in the 'A' sector. The analysis shows that the contribution of the 'N' sector towards tax revenue is more than that of the 'A' sector. It also shows that direct agricultural taxes in UP have remained largely income inelastic while taxes on the 'N' sector reflect income elasticity. The fiscal significance of direct taxes on the agricultural sector has declined significantly. In 1960-61, the share of total direct tax revenue from the 'A' sector was 69 per cent* of the total tax revenue collected in the state and for the 'N' sector it was 31 per cent. In 1965-66, this share of the 'A' sector declined to 51 per cent while that of the 'N' sector increased to 49 per cent.

DIRECT TAX AS PERCENTAGE OF INCOME

For a meaningful comparison of tax burden, it has to be studied with reference to the per-capita tax and per-capita income.

Table 2 provides the comparison data. It shows that the 'A' sector is paying about 1.5 to 2 per cent of its income (per-capita) and that the 'N' sector is also paying about 2 per cent. But if we take into account the disparity in the level of per-capita income we notice a significant disparity in the burden of taxation between the two sectors. There has been a 50 per cent increase in per-capita income in the 'A' sector, while the per-capita tax increased by 40 per cent. Against this, the tax per-capita in the 'N' sector increased by 70 per cent while the income per-capita in the 'N' sector increased by 44 per cent.

In 1965-66, the per-capita income in the 'N' sector was 3.4 times more than in the 'A' sector, whereas the per-capita tax in the 'N' sector was about 5.4 times more than that in the 'A' sector. Thus the difference in per-capita direct tax is more than the difference in the per-capita income.

Thus a cursory study of Table 1 reveals that the direct tax incidence is more on the 'A' sector, but a careful study reveals that relative direct tax burden is more on the 'N' sector. It is also seen that this burden is continuously increasing on the 'N' sector, while it has been declining on the 'A' sector. The per-capita taxes are higher in the 'N' sector than in the 'A' sector. Also, the disparity of tax collection in the 'A' and 'N' sectors has been narrowed down. The collection remained nearly constant in the 'A' sector, while it increased significantly in the 'N' sector. The disparity in the tax burden has widened during the period. The per-capita tax (direct) on the 'N' sector was four times that on the 'A' sector in 1960-61, but, in 1965-66, the 'N' sector was bearing six times more per-capita tax than was the 'A' sector. In spite of the fact that the increase in the 'A' income was more than in the 'N' income, the increase in taxes in 'A' is less than in the 'N' sector. It shows that the increased income in the 'A' sector was was not mobilised sufficiently. Direct tax in the 'A' sector is inelastic, while in the 'N' sector it is more income elastic. The per-capita tax, as a percentage of per-capita income, also indicates that the direct tax incidence on the 'A' sector is less than on the 'N' sector.

* Total direct tax comprises state + central direct taxes

TABLE 3 : PER-CAPITA INCOME OF AGRICULTURAL AND NON-AGRICULTURAL SECTORS

Years	Agricultural Sector			Non-Agricultural Sector		
	Ya in crores	Pa in crores	Ya in Rs	Yn in crores	Pn in crores	Yn in Rs
1960-61	1096.09	6.30	174	693.22	1.13	613
1961-62	1145.35	6.46	177	768.32	1.14	673
1962-63	1153.66	6.43	180	835.25	1.37	609
1963-64	1316.46	6.74	196	931.45	1.20	776
1964-65	1950.56	6.90	282	1010.95	1.22	828
1965-66	1874.01	7.06	260	1099.00	1.24	886

TABLE 4 : PER-CAPITA INCIDENCE OF CENTRAL AND STATE, AND COMBINED TOTAL TAX ON 'A' AND 'N' SECTORS IN UP

Years	Agricultural Sector			Non-Agricultural Sector		
	Central Taxes (Direct+ Indirect)	State Taxes (Direct+ Indirect)	Combined (Central+ State)	Central (Direct+ Indirect)	State (Direct+ Indirect)	Combined (Central+ State)
1960-61	4.44	6.50	10.94	13.80	22.12	35.92
1961-62	4.30	6.24	10.54	24.35	23.35	47.70
1962-63	5.17	7.42	12.59	15.60	23.40	39.00
1963-64	4.75	6.90	11.60	17.00	26.12	43.12
1964-65	4.66	7.50	12.16	23.45	29.45	52.90
1965-66	4.53	8.72	13.25	27.00	29.00	56.00

Source : Eastern Economist.

TABLE 5 : PER-CAPITA TAX AS PERCENTAGE OF PER-CAPITA INCOME IN 'A' AND 'N' SECTORS

	Ya	Ta	$\frac{Ta}{Ya} \times 100$	Yn	Tn	$\frac{Tn}{Yn} \times 100$
	Per-Capita Income	Per-Capita Tax	Ta as Percentage of Ya	Per-Capita Income	Per-Capita Tax	Tn as Percentage of Yn
1960-61	174	10.94	6	613	36.00	60
1961-62	177	10.54	6	673	48.00	70
1962-63	180	12.59	7	609	39.00	6.5
1963-64	196	11.60	6	776	43.12	5.5
1964-65	282	12.26	4	826	53.00	6.0
1965-66	260	13.25	5	886	56.00	7.0

INDIRECT TAX BURDEN ON 'A' AND 'N' SECTORS

Total indirect taxes also seem to be more on the 'A' sector as it bore about 60 per cent of the total indirect tax in 1960-61. In the 'A' sector total indirect tax was Rs 45.81 crores, while in the 'N' sector it was Rs 28.34 crores. However, this does not permit us to say that the burden of indirect tax is more on the 'A' sector than on the other. However, the tax burden is comparatiyely more on the 'N' sector. In 1965-66, the per-capita indirect tax in the 'A' sector was Rs 9.4, whereas it was Rs 29.00 in the 'N' sector — i e, the 'N' sector bore almost 3 times more indirect taxes, than the 'A' sector. During 1960-61 to 1965-66, the total indirect taxes increased by only 49 per cent in the 'A' sector, while income increased by 73 per cent; on the other hand, total indirect tax on 'N' sector increased by 60 per cent, while the income increased by 51 per cent. Thus, here again, we see that whereas the 'N' sector is contributing more and more with the increase in income, the agricultural sector's contribution through indirect taxes is not keeping pace with the increase in its income. The per-capita indirect tax, as a percentage of per-capita income, is more or less the same in both sectors. (It is so because we have taken the constant ratio for all years. For a more exact analysis we should introduce some progression in the expenditure pattern as the data are not available, we are unable to do so.)

Thus we see that the indirect tax burden is also comparatively increasing in the 'N' sector.

TOTAL TAX ON 'A' AND 'N' SECTORS

So far, we examined direct and indirect tax burden on the 'A' and 'N' sectors. It will be more meaningful to examine the total tax burden on the 'A' and 'N' sectors, so as to find out whether the 'A' sector has scope for bearing additional taxation.

Table 1 shows that the total tax burden in both sectors, shows progressivity. The total tax in the 'A' sector increased from Rs 68.99 crores to Rs 93.63 crores in 1965-66, i e, by 35 per cent; similarly, the total incidence on the 'N' sector increased from Rs 40.61 crores to Rs 69.50 crores, i e, by 70 per cent.

This means that the increase in the incidence on the 'N' sector is much higher than on the 'A' sector during the six years. The Table shows that the proportion of total agricultural tax to the total tax declined from 68 per cent in 60-61 to 58 per cent in 1965-66, whereas during the same period the non-agricultural taxes as a percentage of total tax increased from 32 per cent to 42 per cent. Thus the contribution of the agricultural sector to total taxes has been continuously declining. This is mainly because the direct agricultural tax is income inelastic. The indirect taxes do not fall sufficiently on the agricultural sector as most of the commodities which are taxed by the central government or by the state government are not consumed in large quantities by the rural population — or, in other words, that most of the items which are consumed in the rural sector are not taxed and the indirect taxes on the agricultural sector are limited to a few commodities which too are consumed there in small quantities. Another factor which might be responsible for the lower contribution of this sector is that nearly 50 per cent[5] of the rural sector is non-monetised and so be-

TABLE 6 : MARGINAL RATE OF TAX EFFORTS IN UP $\left(\frac{\triangle t}{\triangle y} \times 100\right)$

	State Income Y	Increase in Income △Y	Agricultural Income (Ya)	Increase △Ya	Non-Agricultural Yn	Increased △Yn	State Tax (T)	Change in △t	$\frac{\triangle t}{\triangle y} \times 100$
1960-61	1799.3	—	1096.09	—	703.21	—	56.6	—	—
1961-62	1913.7	114.4	1145.35	49.26	768.32	65.11	58.1	1.5	1.4
1962-63	1988.9	75.2	1153.66	8.31	835.25	66.93	70.1	12.0	16.2
1963-64	2247.9	259.0	1316.46	162.80	931.45	96.20	77.4	7.3	2.8
1964-65	2961.4	713.5	1950.56	634.10	1010.95	79.50	80.4	3.0	0.4
1965-66	2973.0	11.6	1874.01	76.55	1099.00	88.05	95.1	14.7	127.0
1966-67	3527.6	554.6	2326.86	452.85	1200.75	101.75	102.6	7.5	1.3

yond the reach of indirect taxes.

In UP not only are agricultural taxes declining as a porportion of total tax, but the sector is bearing a lower tax burden. Though absolute figures indicate that more taxes are collected in the 'A' sector than in the 'N' sector, in making a comparative study we find that the reverse is true. In the 'A' sector, the total taxes increased by 35 per cent while the income increased by 73 per cent. Only 50 per cent of the increase in income is mobilised through taxation in this sector. On the other hand, the total incidence on the 'N' sector increased by 70 per cent while the increase in income was only 51 per cent — i e, the increase in taxes was nearly 30 per cent more than the increase in income, or that the taxes increased by 1.2 times of the increase in income during these years. The disparity of tax collection has also been narrowed down. In 1960-61 'A' sector was bearing about 69 per cent more taxes than was the 'N' sector, taking the absolute amount, and in 1965-66 the 'A' sector collected only 35 per cent more than the 'N' sector.

On the other hand, the disparity between the two sectors on the per-capita tax incidence has increased considerably. Table 4 shows that, in 1960-61, the per-capita tax on the 'A' sector was Rs 10.94, while on the 'N' sector it was Rs 36, i e, the latter had 230 per cent more per-capita tax or about 3.2 times more than the 'A' sector. In 1965-66, this disparity increased considerably — whereas the 'A' sector had per-capita total tax of about Rs 13.25, the 'N' sector had Rs 56.00, i e, the latter was bearing 4.2 times more taxes. Per-capita income in the 'A' sector shows an increase of 30 per cent while in the 'N' sector per-capita income increased by 60 per cent — thus the disparity of tax incidence was increasing in this period (Table 5). Between 1960-61 to 1965-66 the 'A' sector contributed about 5.6 per cent of its income, while the 'N' sector contributed about 6.1 per cent of its income. In the same period, per-capita income of the 'A' sector increased by 50 per cent while the taxes per-capita increased by 30 per cent; on the other hand, income per-capita in the 'N' sector increased by 27 per cent while the tax per-capita by 60 per cent.

The above analysis leads to the conclusion that the incidence of total tax on the 'N' sector is more than on the 'A' sector. Intersectoral equity demands that the 'A' sector should also contribute to the tax collection, if not more, at least as much as the 'N' sector in relative terms. Agriculture has scope for additional taxation in UP. Relative incidence on the 'A' sector is much less than in the 'N' sector. Besides, disparity in tax collection has narrowed down, while the disparity in tax incidence has widened gradually as between the two sectors. Thus the incidence on the 'A' sector is declining. Since the incidence on the 'A' sector is less than that on the 'N' sector, and since it is declining, intersectoral equity demands more incidence on the 'A' sector. All this shows that the 'A' sector has scope for bearing additional taxation.

AGRICULTURAL INCOME AND MARGINAL TAX EFFORTS

The view that the agricultural sector has scope for additional incidence is further confirmed by a study of the marginal tax efforts of the state and the contribution of agricultural income to it.

A study of marginal tax efforts (MTE) reveals that the contribution of the agricultural income to the additional taxation in the state is insignificant. Table 6 reflects that the MTE is very low in the state and is subject to wide variations. In 1961-62, MTE was only 1.4 per cent while in 1965-66 it was 126 per cent. Such variations are mainly due to a change in the ratio of change in the agricultural income to non-agricultural income.

In 1961-62 MTE was only 1.4 per cent in spite of an increase in the state income by Rs 114.4 crores. This year, agricultural income increased by Rs 49.36 crores, non-agricultural income was only slightly higher than agricultural income, and the MTE was 1.4 per cent.

In the next year, MTE increased to 16.2 per cent because now the increase in non-agricultural income is insignificantly higher than the increase in non-agricultural income. △ YN (change in non-agricultural income) was Rs 66.93 crores while △ YA (change in the agricultural income) was only Rs 8.31 crores.

In 1963-64, MTE declined to 2.8 per cent, in spite of a significant increase in △YA, i e, by Rs 162.8 crores, while the △YN was only Rs 76.20 crores. MTE declined. This shows that the increased agricultural income is not mobilised through taxation. This is further confirmed — when the rate of MTE increased to 127 per cent in 1965-66.

TABLE X: PER-CAPITA EXPENDITURE FOR 30 DAYS IN UP, 1957-58 $\left(\frac{\text{in Rs}}{\text{Total Household}}\right)$

Commodity	Rural Area	Urban Area
Cotton cloth	2.38	1.38
Coffee	—	0.01
Tea	0.03	0.12
Tobacco	0.32	0.40
Matches	0.03	0.06
Sugar	0.15	0.44
Footwear	0.10	0.20
Vanaspati	0.04	0.18
Kerosene	0.13	0.18

Source : The National Sample Survey Thirteenth Round: September 1957, May 1958, No 71. Consumer Expenditure by Levels of Household Expenditure.

TABLE Y: RATIO 'A': 'N' POPULATION IN UP, 1957, 85:15.

(in crores)

Year	Agricultural	Non-Agricultural	Total
1957	5.95	1.05	7.0

TABLE Z : PERCENTAGE OF UNION EXCISE DUTY BORNE BY 'A' AND 'N' SECTORS (Rs in crores)

Items (Shared)	Agricultural Sector		Non-Agricultural		Total	
	Percentage	Amount	Percentage	Amount	Percentage	Amount
Cotton	85	3.30	15	0.58	100	3.89
Tea	59	0.05	41	0.03	100	0 08
Tobacco	82	2.40	18	0 52	100	2.92
Matches	74	1.41	26	0.50	100	1.91
Sugar	66	14.71	34	7.30	100	21 47
Footwear	74	0 04	26	0.02	100	0.06
Vanaspati	56	0 61	44	0.48	100	1 09
Kerosene*						
Coffee*	—	—	—	—	—	—
Total	—	21.99	—	9 43	—	31.42
Non-shared excise	—	—	100	3.63	100	3 63
Total non-shared	—	—	—	3 63	—	3 63
Grand total	62.7	21.99	37.3	13.06	—	35.05

* Figures not available.

Note : As the non-shared excises are 10 per cent of the total excises in 1957-58, we have allocated 10 per cent of the total excises to the 'N' sector in all the other years.

This year △ YA was Rs 76.55 crores, while △ YN was Rs 88.05 crores. Thus, in spite of a significant fall in agricultural income, MTE increased appreciably.

The above analysis shows that tax efforts are mainly concentrated in the non-agricultural sector. Whatever additional resources are mobilised are from the non-agricultural sector. The relative contribution of the 'A' sector to resource mobilisation in the state is very insignificant. The analysis also leads us to the common belief that the agricultural sector is less taxed than the non-agricultural sector.

Appendix

Methodology for allocating incidence of union excise duty on 'A' and 'N' sectors :

The commodities on which the union excise duty is levied and which are consumed by the 'A' sector are: kerosene, sugar, matches, tobacco, coffee, tea, cotton cloth, footwear, soap and woollen fabrics. As the duty on these goods falls directly on consumers, the burden is shared by the 'A' and 'N' sectors according to their respective expenditures on the commodities concerned. We assume that other commodities like glass, steel, etc, are not consumed by the 'A' sector and that the duty on these commodities therefore can be allocated entirely to the 'N' sector.

Data of per capita expenditure on the commodities listed above, for the rural and urban sectors of UP, are from the National Sample Survey collected in various rounds. Table X gives such data for 1957-58. Multiplying the figures in the Table by the population of each sector, we get the total expenditure figures on individual items in both the sectors.

The population figures for 1957-58 are not available but from 1960 onwards (mid-term estimates) are available. Therefore, projecting it backwards, we get the figures in Table Y. Using the data given in Tables X and Y we get the ratios in which the excise duty on the above mentioned commodities are borne by the two sectors there are given in the Table Z.

Taking the total percentage of union excise duty borne by the 'A' and 'N' sectors, i e, 62.7 per cent and 37.3 per cent, respectively, we have allocated the union excise's incidence on the two sectors for the period 1960-61 to 65-66. In doing so our assumption is that the consumption pattern in the two sectors has remained relatively unchanged. Thus the total central indirect taxes, allocated on the above basis are given in the Table Z.

Y = Percentage of indirect tax in En.

Now =

$\bar{Ea} = \bar{Ea} \times Pa$

$\bar{En} = \bar{En} \times Pa$ i e,

$\bar{Ea}$ = per capita expenditure in A sector

$\bar{En}$ = Per capita expenditure in N sector

Pa = Population of A

Pn = Population of N

The figures relating to X and Y and $\bar{Ea}$ and $\bar{En}$ are given in UP Taxation Enquiry Committee Report 1968-69 (p 11) for 1965. Pa and Pn are estimated taking the 1961 population ratio in UP (85:15 A:N)—Thus we obtain:

$\bar{En}$ = 308—4 (Rs) $\bar{En}$ = 372.8 (Rs)*

X = 1.68%, Y = 6.13%*

Pa = 7.06 crores Pn = 1.24 crores

$\bar{Ea} = \bar{Ea} \times Pa$

= 308.4 x 7.06

= 2177.30 crores

$\bar{En} = \bar{En} \times Pa$

= 372.8 x 1.28

= 469.71 crores.

$Ta = \frac{2177.30 \times 1.68}{100} = 36.5$

$Tn = \frac{469.71 \times 6.13}{100} = 26.7$ crores.

Total state indirect tax estimated is

37.0 + 26.0 = 63.2

Actual state indirect tax

= 63.2 (1965-66)

We can take this ratio

$\frac{Ta}{Tn} = \frac{37.0}{26.0}$

or we can take the easi way

Methodology for the allocation state taxes between 'A' and 'N' sectors in UP :

As it is common we have allocated the direct state tax burden between 'A' and 'N' sectors in this manner:

1 Land Revenue: as it is a tax on agricultural land 100 per cent is allocated to agricultural sector.

2 Property Tax: 100 per cent to 'N' sectors = t is and the other taxes are quite insignificant therefore we have included them under the head other taxes.

3 Stamps and Registration: It is allocated in the ratio of 20:80 between 'A' and 'N' sectors respectively.

Indirect taxes : Main indirect taxes in the state are: sales tax, state excises, motor vehicle tax and so on.

The usual methodology is to take the all-India per-capita tax figures for these two sectors which are given in the TEC Report of 1953, and to multiply them with the population of 'A' and 'N' sector of a state. Such methodology is adopted by Ved P Gandhi, Kerala Taxation Enquiry Committee, and by A C Angrish in his article (*Economic and Political Weekly*, January 10, 1970).

But that methodology does not give the recent picture, especially when we are applying it to a particular state. Moreover, as the per-capita tax figures are all India figures, we are adopting a different methodology. The method applied in the allocation of indirect taxes of the state is:

$\frac{Ta}{Tn} = \frac{Ea\,(x)/100}{En\,(x)/100}$

Ta = Total indirect tax collected from A sector.

Tn = Total indirect tax collected from N sector.

Ea = Total expenditure in A sector
En = Total expenditure in N sector
X = Percentage of total indirect tax in Ea

i e, $\frac{Ta}{Ti} \times 100$ ar.d

$\frac{Tn}{Ti} \times 100$

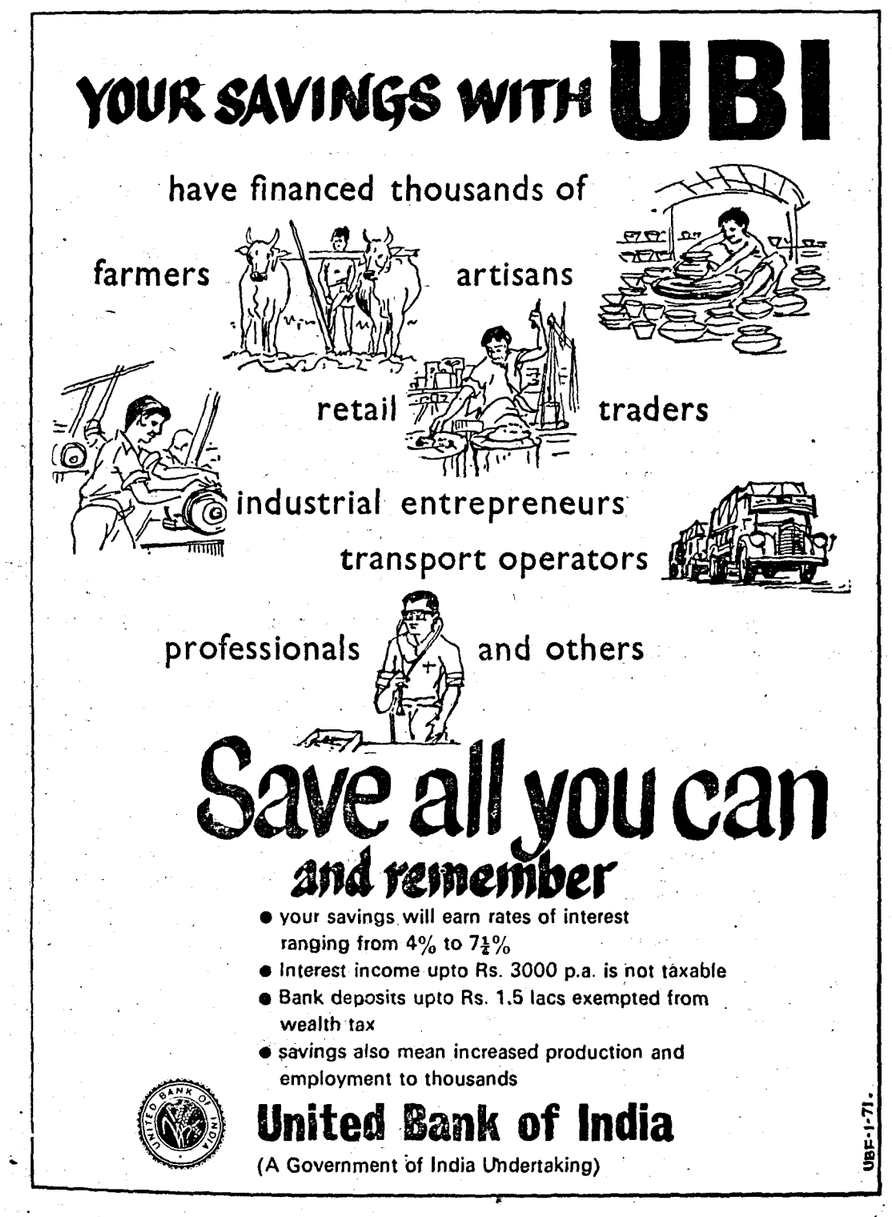
Ti = Total indirect tax of the state

Thus we find that in 1965—
Ta was 57 per cent of the Ti and Tn was 43 per cent of the total state indirect tax.

[Uttar Pradesh Taxation Enquiry Committee Report 68-69 (p 11).]

NOTES

1 Uttar Pradesh Taxation Enquiry Committee Report, 1968-69, Chapter 3, p 8.
2 Ved P Gandhi, "Tax Burden on Indian Agricultural Sector", 1966, Chapter III, Appendix A, p 80.
3 Detailed methodology is given in in the Appendix.
4 State Budgets of Uttar Pradesh, 1952-53 to 1968-69.
5 Uttar Pradesh Taxation Enquiry Commitee Report, 1968-69.



Jotirao Phule and the Ideology of Social Revolution in India

Gail Omvedt

It is one of the tragic dilemmas of the colonial situation that the national revolution and the social revolution in a colonial society tend to develop apart from one another. Jyotirao Phule represented a very different set of interests and a very different outlook on India from all the upper caste elite thinkers of the so-called Indian Renaissance who have dominated the awareness of both Indian and foreign intellectuals. The elite expressed an ideology of what may be described as the "national revolution"; it was the nationalism of a class combining bourgeois and high caste traditions. Phule represented the ideology of the social revolution in its earliest form, with a peasant and anti-caste outlook.

Phule's thought represented the fulfilment of the renaissance desire for social transformation along revolutionary lines. He, and not the later elite thinkers, from Ranade through Tilak, should be seen as the primary renaissance figure.

Any culture rests upon a class society and the dominance of a particular class. In India, Hindu culture and the caste system rested upon Brahmanism; hence Phule linked his thought with a movement of opposition to the Brahman elite. "Non-Brahmanism", therefore, represented not simply communalism or a result of British divide-and-rule policies; it represented the first expression of social revolution.

Phule, it is true, failed to provide economic analysis or political organisation appropriate for this struggle. But he had a clear vision of the need for and the basis of a liberation movement.

I

Introduction: The Indian Renaissance

"THE Indian Renaissance", as it is called, represents the efforts of the first generation of Indian thinkers under colonialism to come to grips with the challenge represented by the West and the seeming backwardness of their own society and culture. With ruthless self-criticism, they sought to lay the ground for a total social transformation, to weld science and rationality to Indian culture, to recreate India. Of this generation was Jotirao Phule, and his thought stands forth first as an expression of first generation renaissance thinking.

However, this generation was succeeded by one more concerned with the alien source of new ideas than with the errors of the old society. Perhaps this represented the solidifying of British colonial rule after the middle of the nineteenth century, which ensured the development of a narrowly based elite drawn from the upper (in Maharashtra primarily Brahman) castes, feeding in through the educational system to the British bureaucracy. This was a situation which ensured the status and power of the elite — making them concerned about threats from below to this status — at the same time as it made them restively aware that they were after all serving an alien bureaucracy but as subordinates not rulers within it. Henceforward, however much they spoke of the "Hindu tradition" or the "Indian nation", their thoughts and actions expressed the interests of a class and not a whole people: Hence they opted, as elites do, not for a revolutionary social transformation, but for a "modernisation", in other words a revitalisation, of the old society.

Their identification was as an elite of education and knowledge, as upper castes within the Hindu cultural system, and as modern intellectuals concerned about the scientific and industrial progress of India. Hence they developed an ideology which sought to use a revitalised Hindu tradition as the spiritual and moral centre around which the liberal modernism of the West could be grafted — "Eastern morals and Western science". They accepted the "Aryan theory of race" which had the implications of identifying them ethnically with their British conquerors rather than the majority of their fellow countrymen, which traced civilisation in India from the Aryan conquest, and which gave a new pseudo-scientific justification for the caste hierarchy by linking varna to race. And they developed an economic theory which looked to the capitalist development of India freed from the destructive bonds of British imperialism and therefore opposed foreign exploitation without considering the exploitation of workers by native capitalists or peasants by landlords and the lower bureaucracy.

But the majority of Indians were dark-skinned non-Aryans. The majority of Indians, in traditional varna terms, were Shudras at best. The majority of Indians were peasants and had no hope either in the near or distant future of becoming members of the bureaucratic elite or capitalists, large or small. The liberal modernisation of Hindu culture and the capitalist development of India did not speak to their interests. Peasants, tribals, workers, low-castes, untouchables were all affected (usually adversely) by the new colonial regime and responded, like the elite, with both renaissance and rebellions. But lacking access to education, lacking control over media of communication, their renaissance and their rebellion, their ideology and organisation, remained in a more incipient, crude, localised, and incomplete form. Nevertheless it may be fairly said that with Jotirao Phule the low-caste, non-Aryan, peasant masses of India came to consciousness.

Primary Renaissance Figure

To say that Phule's thought represents an "ideology" is to use the word in a sociological and not a pejorative sense. It is to say that he does not stand alone as an individualistic oddity, that he is not to be studied as an adjunct to all the other social reformers of the nineteenth century; but that he represented a very different set of interests and a very different outlook on India from all the upper caste elite thinkers who have dominated the awareness of both Indian and foreign intellectuals. The elite expressed an ideology of what may be described as the "national revolution", if we define nationalism as opposition to Western colonial rule and remember that it was a nationalism of a class combining bourgeois

and high-caste traditions. Phule represented the ideology of the social revolution in its earliest form, with a peasant and anti-caste outlook which saw its primary enemy as that very elite — and it is, in a sense, one of the tragic dilemmas of the colonial situation that the national revolution and the social revolution in a colonised society tend to develop apart from one another.

Phule's thought represented the fulfilment of the renaissance desire for social transformation along revolutionary lines. In sociological terms it makes good sense that he — and not the later elite thinkers, from Ranade through Tilak — should be seen as the primary renaissance figure. Any culture, after all, rests upon a class society and the dominance of a particular class. Hence the total transformation of culture requires the destruction of this dominance. In terms of India, Hindu culture and the caste system rested upon Brahmanism; hence Phule, who aimed for the complete destruction of caste, superstition and inequality within Indian tradition, linked his thought with a movement of opposition to the Brahman elite. "Non-Brahmanism" in India, therefore, represents not simply communalism or a result of British divide-and-rule policies; it traces its origins to the Indian renaissance and represents the first expression of social revolution in India.

II

The Moral Basis of Society: Revolutionary Values

To comprehend the extent to which Phule's thinking was revolutionary from a cultural point of view, we can note one simple fact: in almost all of his writings, he never uses the term "Hindu". Contrary to practically every other Indian of his day and the vast majority of his followers, he does not take his standpoint from within a valued tradition and seek to locate the essence of it from which other aspects can be criticised. Rather, he takes a stand from without and judges the whole culture in terms of two ruthlessly applied values, rationality and equality. This is not to say that he was speaking as an alien to Indian society; his actions, language and writings show a clear placement among and identification with the masses and their traditions. He does not take a stance outside the *society* but rather one outside the *cultural system* which had for so long dominated that society.

From the point of view of equality, the entire caste system and the authoritarian family structure was to be condemned. From the point of view of rationality, the whole system of superstition and religious traditionalism was to be overthrown, the whole corpus of religious writings stripped of authority. With this as his beginning point, Phule is saved from a good deal of unnecessary arguments, qualifications, compromises and logical inconsistencies. He does not, for instance, waste much breath arguing over the relative merits of different parts of the Hindu sacred scriptures. He simply treats them as legends which may offer *some* insights into past Indian history and as products of a group (Brahmans, Aryans) seeking to establish control over the minds of the people.

Use of Religion

In dismissing totally the dominant religious tradition of India, Phule accepted the assumption that something had to be put in its place: even a revolutionary culture required a moral-religious centre. He does not reject the idea of *dharma* but rather attempts to establish a universalistic one. *"Sarvajanik Satya Dharma"* expresses this concept completely (and the introduction to this book suggests that the appropriate translation might be "True Religion of the Community"): the moral basis of society had to be centred on truth, or rationality, and it had to be one that unified all men and women as equals rather than fragmenting and dividing them into separate social groups with separate responsibilities and rights (as the traditional idea of *dharma* did in separating the castes). The world is seen as good and holy, in contradiction to the Vedantic idea of it as an illusion, because it is God's creation; and God is seen in simple terms as the loving father (or, in the Indian expression which transcends the more patriarchal Semitic concept, as *ma-bap*) of all men who are thus equally valued as his children. This basic concept is used in all Satyashodhak teachings to justify the idea of equality and the assertion that no "middleman" or priest is necessary between man and God.

Because of his missionary education and the Christian influence on his thinking, Phule was accused by his orthodox opponents (until the time when it became politically suicidal for them to do so) of having become Christian. In a metaphorical sense there was some truth to this in that his stance was quite clearly from outside the Hindu tradition. In any other sense it is clearly nonsense. Phule never became a Christian in any institutional form, nor did he show the same concern for the person of Christ that many other Indian social-religious reformers (e g, Keshab Chandra Sen) did. Given the conditions of the time in which Indian Christianity was a colonial dependency, to have converted would have been to give up the game entirely; an Indian Christian became part of another social system and gave up any hope of transforming or redefining *Indian* culture. And this was Phule's overriding concern.

Due to his missionary education, then, and due to sharing the sense which most Indians possessed in that period of cultural and mental turmoil of needing a firm, moral-religious basis for a new society, Phule based his thinking on a concept of God and God's relation to the world which he considered necessary to anchor his passion for rationalism and equality. With that, he left the matter. One may say that he used religion to climb to a point from which a secular, equalitarian society could be built; beyond that his concerns were not religious in any traditional sense of the term.

Passionate Equalitarianism

One aspect of his rationalism can be seen in the Satyashodhak Samaj with its primary emphasis on "truth-seeking". It is most significant here that the truth seeking was seen as a quest guided by the individual's own reason, and not by the dictates of any religious guru or authoritative text. This was important for the development of the Satyashodhak Samaj in that it left it, in a sense, without any centralised organisational form. This was both its strength and its weakness. The movement spread by individual propagandising efforts; it was taken up in spontaneous ways and attained a real village basis in almost all sections of Maharashtra, but it never had an overall controlling body and members complained often of "chaos" within the organisation. Yet even while complaining of the anarchism created by individualism and spontaneity, they recognised that in a sense this organisation was different. Thus, for example, in the first "revived" conference in Poona in 1911, one of the speakers discussing this problem pointed out that while "monarchy" may have worked politically in ancient India, it was a failure in religious organisations and posts such as *guru, acharya, mahant* had been found useless. He therefore urged a steering committee for the Satyashodhak Samaj — and then concluded that the basic unifying factor could only be in terms

of accepting the fundamental *principles* of the organisation.[1] Similarly, the orthodox often charged that the Samaj could not properly be called a religious one since it had no authoritative text, no *dharmagranth* — to which Mukundrao Patil, one of the important later leaders, replied:

> We do not want to have a religious book but to satisfy the intellectual curiosity of the people. Minds should be open to new knowledge. Therefore, we do not recommend any religious book.[2]

In regard to the principle of rationality, the later Satyashodhak organisers remained on the whole true to the conceptions of Phule.

Phule's passionate equalitarianism was an even more crucial issue, one that can be seen at all levels of his thought and actions. It is expressed, for example, in his very language, the terminology of his writings. It is significant that this language shows a *positive* identification with some of the social categories considered "low" in the traditional culture. This may be called a kind of equalitarian reversal equivalent to the "black is beautiful" movement among black Americans. Specifically, in referring to the masses of Maharashtra or India, he constantly uses the words "shudra and atishudra". Shudra, of course, is the term by which the dominant brahmanical culture classified those who worked with their hands (including peasants) as part of the lowest order of society. Phule is well aware of the insulting connotation of the term (he states that it is derived from "ksudra" meaning trifling or mean)[3] but he ignores this and continues to insist with a matter-of-fact pride on the use of the term; these, he is saying in effect, *are* the people, the centre of society. He does not show the least desire to "sanskritise" in the way that almost all educated caste leaders did by claiming a kshatriya or other high-varna origin for his or any other caste. He does, it is true, identify "ksatriyas" as the original warriors of India and uses the word frequently, but never as an alternative to "shudra" but rather as inclusive of all original Indians from Kunbi-Marathas through Mahars.

Hostility to 'Maratha' Tradition

Another aspect of his identification with the masses is to note his ambivalence if not downright hostility to what has been called the "Regional Great Tradition" of Maharashtra, that is, the "Maratha" tradition.[4] To give a background, it must be emphasised that although in much of present-day Maharashtra the Kunbi-Maratha distinction has been practically abolished, this was not so in the nineteenth century. "Kunbi" at that time generally referred to the peasant population, "Maratha" to the aristocrats, the *shahanavkuli*, the sardars and their like who still remained a somewhat decadent rentier class. Phule shows no inclination to identify with this Maratha tradition in opposition to the Brahman tradition; he almost never uses the term "Maratha" and when he does so, it is slightingly. The clearest example of this is a conversation he relates with "a so-called pure Maratha":

> Having finshed the second part of *Asud* . . . a gentleman wearing a round Brahman turban came and sat in front of me and began to gaze around the room. Becoming aware of this gentleman, I at first thought he might be a Marwari, but he didn't have the three pigtails hanging down from his turban. I thought he might be a tailor, but there were no needles sticking out of his turban. He might be a goldsmith, but there was no stole over his shoulder. And he might be a Brahman, but I hadn't heard him speak a word. I could not identify his caste from this, so while I was thinking he looked at me and himself asked, "Haven't you recognised me?" I said, "No, sir, I have not, please excuse me." The gentleman said, "I am a Marathi of a Marathi lineage." I — "You may be Marathi but what is your caste?" "My caste is Marathe." I — "In Maharashtra, from Mahars to Brahmans, everyone calls himself a Maratha. So then, it is not clear to me what particular caste you are in." He — "Then you can understand that I am a Kunbi." I — "All right, then, What is your profession?" "Before Appasaheb Maharaj of Satara became infatuated with Bhagubai Tarkshin of Nimbajaval our family easily took one to two lakhs of rupees from him, and we are even today sitting pretty on that."[5]

This conversation shows a subtle taunt regarding the decadence of the aristocrats of the day and their dress; more than that it illustrates Phule's refusal to recognise the legitimacy of "Maratha" as a caste-category and his pressurising the man to admit his *peasant* connections. Phule's attitude toward the Maratha tradition may be summarised by saying that whereas in the Twentieth Century Kunbis had been absorbed into Marathas, he would have preferred to absorb Marathas into Kunbis, the archetypal peasant jati.

Phule's orientation is indeed toward the peasant and his problems. This is graphically shown in his biting and concrete, almost photographic, description of the peasant amidst his poverty, with his meagre food and clothing, harassed by officials and moneylenders. This is heightened by his identification of the peasant as *Baliraja* the traditional Marathi way of expressing the peasant as "lord of the land". Again it must be emphasised that Phule does not see the village leaders only as Baliraja; his orientation is towards the village but a village modernised in terms of equality: the revolution in personal relationships remains central. Unlike many of his colleagues or followers, he almost never refers to the "Patil" or identifies with the interests of the village headman as a foundation of the traditional village community. "Baliraja" in his usage is the peasant, the common man. This is clear in "Gulamgiri" where he describes the Brahmanic tradition as anti-equalitarian (anti-Bali), and traces the growth of nationalism in the West: the English, he writes, learned patriotism from the Greeks but only later learned the importance of the peasant (Bali) and thereby developed a *democratic* nationalism while the American revolution made the common man (Bali) the centre of their society.[6]

Women's Liberation

It is significant that Phule's first practical social reform efforts were involved in aiding the two social groups considered lowest in traditional Brahmanic culture — women and untouchables. He did not do so as a liberal paternalistically concerned for the "uplift" of some lower order of being, but as a radical well aware that a revolution in social relationships had to be founded on community with those most oppressed by the traditional social hierarchy. Untouchables, for example, were seen not as a group unique within India but as the most oppressed section of the masses, part of the original community of the peasants. This is related to Phule's "non-Aryan theory" discussed below; it may be noted here that while later non-Brahmans compared untouchability with Negro slavery, Phule in the book "Gulamgiri" considered peasants and untouchables together as a community of the oppressed, suffering under Brahman slavery. Indeed, it may be said to represent a failure of the Satyashodhak movement when later non-Brahmans identified as caste Hindus separate from untouchables, and untouchables under Ambedkar took their separate path to social liberation.[7]

In regard to the issue of women's liberation, Phule is one of the very few male social reformers in history who deserve a woman's respect. His depth of feeling on the matter was great enough that he was ready to attack one

of his co-workers, Krishnarao Bhalekar. Bhalekar, it seems, had written a severe criticism of a book published by one Tarabai Shinde comparing men and women. Phule replied in 1885 with an attack that was as ferocious and in some ways more bitter than his attack on Brahmans.[9] (It is one indication of the vitality of the Satyashodhak Samaj and the fact that it was not simply a one-man movement but an expression of the needs of an entire group within Indian society, that this rather bitter personal feud of the leaders did not split the movement; Bhalekar remained a leading organiser of the Satyashodhak Samaj until his death in 1910.) Bhalekar was attacked as a representative of the old Indian family system which allowed a free and decadent life to the man while the woman was helplessly bound to the home: the issue was the formation of a new and equalitarian husband-wife relationship; the goal was the breaking down of the old authority structure within the family. Phule seems to have sensed accurately that as long as there was inequality in the family, there could be no true equality in the society. Suppression of women, in traditional Hindu culture, went hand in hand with suppression of low castes and untouchables.

III

Aryans and Non-Aryans: The Problem of Indian National Culture

Phule's ideology, then, was based upon an identification with the peasant masses and an attachment to revolutionary values of equality and rationality. But a complete ideology[9] must contain not only basic values, but also an explanation of the present state or condition of society and a guide to action for change. As a mass ideology, then, Phule's thought expressed not only a drive for abolition of the caste system, but an explanation of how it arose and a theory of exploitation through which all of Indian culture and history were to be understood. Central to this is his "non-Aryan theory", and to pay homage to Phule as a "mahatma" and a "man of the people" without dealing with this theory of exploitation is to refuse to take him seriously.

Two points must be noted here. First, in any society, upper-class ideologies are distinguished from mass ideologies by the fact that they nearly always hold an organic and functionalist view of society, emphasising the reconciliation of opposing interests in the common welfare and the harmonious interaction of the separate parts of society. In contrast, mass ideologies take a polarising view. They focus on exploitation and the irreconcilable conflict of interests between different sections of society; in other words, they contain some doctrine of class conflict.[10]

From this viewpoint, the famous "Indian tendency to the reconciliation of opposites" is not at all a characteristic of the "Hindu mind" but of an elite ideology which sought in varying ways to combine eastern and western traditions and to combine symbols popular with the masses with symbols representative of elite power, regardless of possible contradictions. Phule's thinking does not show any such harmonising tendencies but was based upon the principle that an irreconcilable conflict of interests existed between the Brahman elite and the non-Brahman masses. Because of this, any effort to achieve equality necessitated an attack on the privileges and position of the elite. It makes no more sense to accuse Phule of "hatred of Brahmans" on the grounds of this attack than it does to blame a Marxist for hatred of capitalists.

Focus on Cultural Factors

Second, Phule's theory of exploitation focused on cultural and ethnic factors rather than economic or political ones. It is true that he was highly concerned with the economic and political aspects of exploitation, but (as will be analysed in the following section) the objective conditions of nineteenth century colonialism made it almost impossible to come to an adequate understanding of economic matters or to visualise political solutions. Therefore the cultural and ethnic aspects of mass-elite relationships were emphasised: the elite was seen primarily as Brahmans whose dominant position in the caste system and religiously justified monopoly of knowledge underlay their power; they were seen as aliens, descendants of Aryan invaders who had enslaved and divided the indigenous population by means of the caste system. This approach reflected a good deal of Indian reality, yet it was dangerously susceptible to the position that the acquisition of knowledge and education by the masses (a "revolution in consciousness") and the replacement of a Brahman elite by an elite developed from the non-Brahman masses would be sufficient to achieve an equalitarian society. Therefore, non-Brahman ideology developed after Phule mainly as a "cultural revolutionary" ideology which was never satisfactorily integrated with either the ideology of the national revolution or the ideology of class revolution promoted later by socialists and communists.

Nevertheless, the question of culture was a crucial one, particularly as it related to the problem of nationality, and particularly within the colonial context.

The driving power behind modern imperial expansion has been the development of capitalism, yet colonialism has involved not simply economic exploitation, but also cultural exploitation. It represents not only class domination but (almost by definition) the dominance of whole cultural groups or nationalities—specifically the domination of Asian and African peoples by white European nations. Even the working classes of the dominant nations are in some senses part of a colonial elite; even the bourgeoisie and upper classes of the colonised cultural group are in some senses oppressed. The entire culture of the colonised people (their customs, literature, languages, religions) is downgraded by the colonial rulers and sought to be replaced by Western languages and culture. Therefore an anti-colonial revolution is a national revolution, and involves a reaffirmation and revitalisation of the culture of the dominated nationalities.[10]

But the problem is more complicated than this. In the West the primary political organisation of the last few centuries has been the creation of the nation-state, the establishment of one sovereign, bureaucratic state based upon a "nationality" or a people unified by culture, language, ethnic identity. In the non-Western world, however, colonialism both held out the nation-state as an ideal and, at the same time, made it practically impossible to achieve. This was because the processes of colonialism have intensified the differences between groups (such as Hindus and Muslims) within a single geographical territory and intensified the worldwide movement of cultural-ethnic groups (Indians to Africa and the West Indies; Africans to the Americas; Chinese throughout South-East Asia) to the point where the resulting "plural society" has made the focus of a state upon a single nationality an impossibility. Colonialism has set up political divisions in many cases without much regard for existing ethnic divisions, and it has intensified the differences between elites and masses (and therefore between elite culture and mass culture) within a single ethnic group.

Therefore, if the nation-state is to be the goal of an anti-colonial revolution, the burning question then becomes: what is the nationality, and which is the national culture, that is to be the basis of the new state?

National Culture

When the Indian upper-caste and bourgeois elite dealt with this question, their answer was rather simple. They first accepted the political framework of the British Raj—all of India—as the basis for the state. They then identified the "nation" and the "national culture" as basically Hindu, as deriving from Vedic times, and as fundamentally a creation of the Aryan people. And with this they tended to accept as an inherent part of this culture some form of *varnashramadharma* and to relegate other Indian cultural traditions —non-Aryan, Muslim, tribal, lowcaste, peasant traditions—to a secondary and inferior position.

(This is not to say that there were not genuine secularists among the elite who opposed the injustices of the caste system and Hindu communalism. There were. But they failed to develop their position as a theory of specifically *Indian* culture. The idea of India as a meeting place where different cultures and groups merged did not really come to terms with this issue. Similarly it is interesting to note that the later representatives of the social revolution, that is the Communists, tended to accept the idea that the different linguistic groups within India in fact represented different nationalities, though they quite logically left open the question as to whether this necessitated an autonomous state.)

The elite was helped in their interpretation by the "Aryan theory of race" which was developed in the 1840s and 1850s by German comparative philologists and popularised by Max Muller to emphasise the blood ties between British and Hindus.[11] The Indian elite took up the theory, stressing the ancient superiority of their race and culture and adding that Western Indo-Europeans had lost this in forsaking "Aryan spirituality". Indian civilisation was seen as primarily derivative from Aryan civilisation, and the caste system was lauded as a means by which people of diverse racial and cultural backgrounds were brought together in one society and subjected to the civilising influence of the Aryans. It is somewhat interesting that while Western rationality tended to undercut the old mythological explanations of caste, Western racism at the same time reinforced the system. For the varna divisions were almost automatically reinterpreted in racial terms: the "twice-born" Hindus, Brahmans, kshatriyas and vaishyas, were seen as descendants of Aryan conquerors, while shudras, untouchables and tribals were viewed as basically descendants of the non-Aryan conquered peoples. Even those members of the elite (such as Aurobindo and Swami Dayanand) who rejected the racial aspect of the theory still treated "non-Aryans" — Dravidians, shudras, tribals, Muslims — as inferior in cultural, moral and intellectual terms.[12] And among those who accepted the Aryan theory in its full racial form were the two opposing Maharashtrian Brahman leaders, Tilak and Ranade. Tilak lauded

> the vitality and superiority of the Aryan races, as disclosed by their conquest, by extermination or assimilation, of the non-Aryan races with whom they came in contact in their migrations in search of new lands from the North Pole to the Equator.[13]

And Ranade

> hinted that in India the Aryans were the chosen race and lamented that their chivalrous civilisation had been submerged in the South by "lower" Dravidians and hill tribes and in the North by invading Huns, Jats, and Muslims.[14]

High Caste Symbols

In taking Aryan and Sanskritic culture as the basis of "Indian nationality", the elite was in fact taking a part — the culture of the upper castes and roughly more north Indian groups — for the whole. Indeed, whenever the national elite tried to use Hindu cultural symbols to rally support for militant nationalism, they invariably chose symbols that represented high caste culture and interests. The bhadralok of Bengal, for example, took the mother goddess Kali as their central symbol, and argued that the vaishnavism of the masses had weakened the resistance to foreign rule:

> In a society where the masses of the people were Muslims and Vaishnava Hindus . . . this was an exclusive myth which reduced popular Hindu beliefs to the level of degraded survivals of mediaeval cults and which gave an obvious sanction for continued high-caste Hindu dominance.[15]

In Maharashtra, Tilak and his followers chose first to organise Hindu nationalism around Ganpati, a pre-eminently Brahman deity.[16] Tilak's other choice, Shivaji, was a more universally accepted hero, but here as well a Brahmanical twist was given that provoked many non-Brahmans to anger. In developing the myth of Shivaji as protector of orthodox Hinduism, go-brahman pratipalak, the Brahman leaders gave it not only an anti-Muslim bias, but also a pro-Brahman one, and in emphasising the role of Ramdas as guru of Shivaji, they implied that any Maratha king needed Brahman advice to succeed. It was not surprising then, that both the Ganpati festival and the memorialising of Shivaji became centres of Brahman-non-Brahman conflict more than of unified Maharashtrian efforts.[17]

The same limitations held even for Gandhi's great symbol of Hindu nationalism, "Ram-Rajya". Ram is a more widespread figure than either Ganpati or Kali and certainly has a mass basis in the UP-Hindi heartland. Nevertheless for the Tamils he has become a symbol of north Indian conquest, and for many Maharashtrians he represents a ruler whose support of the orthodox caste system involved the killing of a Shudra boy, Shambuka, for the sin of trying to follow a Brahman path to self-improvement.

Phule's Answer

It is in this context of the question of Indian national culture that Phule's writing must be understood.

The predominantly Aryan theory was, first of all, a double-edged sword, and Phule took it up with vigour.[18] So the elite traced their culture, including *varnashramadharma*, from Aryan conquerors — then they were the descendants of foreigners, and their caste system and religion were inventions devised by foreign conquerors to enslave the natives of India. India, and especially Maharashtra, had been ruled by aliens not simply for the centuries of British and Muslim rule, but for thousands of years before that! The masses, from peasants through untouchables and tribals, were the original inhabitants of India, "sons of the soil"; the elites and particularly the Brahmans, the *irani-arya-bhats*, were seen as aliens; the choice between British and Congress elite rule was seen as the choice between an enlightened and a traditional set of foreigners. Upper caste, orthodox religion and the whole culture of the sacred books, from the Vedas through the Puranas, was seen by Phule not simply as superstition, but also as alien and a weapon of rule.

The sacred religious literature was reinterpreted to show how the invading Aryans had conquered the indigenous people through force, treachery and use of religious propaganda. The nine avatars of Vishnu were seen as different stages of the Aryan conquest. Matsya (the fish) and Kaccha (the tortoise) re-

presented invasion by sea; Varah (the boar) was so-called because the original Aryans were seen as barbarians by the more civilised native kshatriyas. The story of Narsinh (the man-lion) and Prahlad represented conquest by treachery and propaganda, where the mind of a local prince was corrupted to the point where he was willing to kill his own father. Finally Waman (the brahman boy) represented a kind of culmination of the Aryan conquest of Maharashtra by cheating the great Bali out of his kingdom. Not so much attention was given to the later avatars, Parashuram, Krishna, or Rama,[18] but the approach was clear. The "dasyus" or non-Aryans and the demons of the Vedas and Puranas represented the indigenous population and were depicted as enlightened kings and warriors, the Aryans and their gods as treacherous invaders.

The culmination of interpretation was Phule's emphasis on Bali-Raja, king Bali. This symbol was in a sense his reply to the elite's use of Ram, Ganpati or Kali; it was a symbol that united the Maharashtrian peasant masses with the tales of Aryan invasions. Bali, as has been noted, is an ancient and valued symbol for the peasant and at the same time represents a sort of golden age, expressed in the Marathi saying, "let sorrow and unhappiness go, let the kingdom of Bali come!" Bali's kingdom in addition serves for Phule as a focus around which positive interpretations of other peasant deities of Maharashtra are elaborated. That is, while Phule remained a rationalist and did not attempt to foster religious revivalism, at the same time he has a favourable approach to such peasant and low-caste deities as Khandoba, Jotiba, Martand, Kalbhairi, that contrasts with his hostility to Sanskritic deities. Khandoba, for instance, is derived from the title of the official in charge of each of the nine "khands", or parts of Bali's kingdom; Mhasoba from "mahasubha" or great province, and so on.

Mass Nationalist Ideology

The purpose of this interpretation was not so much to provide a full history of India as to give a viewpoint from which such a history could be understood, to develop a nationalist ideology from a mass point of view. The purpose of the "non-Aryan" theory is to establish a cultural and racial basis for the unity of the Maharashtrian masses. This was a unity that more or less excluded Brahmans but did positively identify the peasant majority (that is, the middle level castes of Kunbis, Malis, Dhangars, etc) with untouchables and tribals as one community, native inhabitants of Maharashtra. While Phule did not write in terms of "Dravidians" or try to theoretically establish a Maratha regional nationalism, his approach nevertheless pointed in the same direction as the theories developed later in the context of the non-Brahman movement of Madras.

The non-Aryan theory, however, has proved somewhat of an embarrassment to many of Phule's later Maharashtrian followers, for two reasons. First, the whole idea of ethnic conflict between Aryans and non-Aryans has been de-emphasised, not only because the question of actual racial mixing was recognised as a complex one, but also because of a need to assert a Hindu national unity. Second, the middle castes of Maharashtra, in the caste conferences of the twentieth century and under the impetus of their educated and rich leaders, chose instead to identify themselves as kshatriyas, and with this as basically of Aryan or northern descent. Phule's approach, therefore, came to be ignored and dismissed with the statement that he was not, after all, a historian; the concepts of "slavery", "shudra", "non-Aryan" came to be applied primarily to untouchables and tribals; and many modern Maharashtrian non-Brahmans have accepted the general north Indian identification of DMK ideology as "racist".

However, the issue was not basically a racial one, but a cultural one, a matter of group identity. As has been noted, even the nineteenth century national leaders who argued that "Aryan and non-Aryan" did not represent a racial division still accepted the inferiority of non-Aryans. Similarly, the Twentieth Century representatives of "Hindu nationalism" argue for the racial unity of all Hindus but at the same time assert that the centre of this "Hindu culture" is Vedic, i.e, Aryan, upper caste.[20] Under the assertion of unity the problems of divisions and hierarchy continue to be fostered.

In fact, there are varying cultural traditions in India as well as complicated racial intermixtures. The question of what is to be seen as the centre of the "national culture" — or of the culture of any Indian state — remains crucial. If the emphasis is towards Sanskritic Hinduism, Vedic culture, vedanta philosophy, Mahabharata and Ramayana stories, this implies a bias that is *socially* in favour of the upper castes and towards indirect support of the caste system, and *geographically* in favour of north India. If the emphasis is towards non-Vedic culture, towards peasant traditions and tribal traditions, towards traditions of religious revolt running through Buddhism and the bhakti cults, then the bias is socially in favour of the "masses" and geographically in favour of the outlying linguistic regions of India. In scholarship and nationalist thinking, the bias up to now has been towards a Sanskritic, and therefore elite, basis to Indian culture, but in fact non-Sanskritic traditions have as much claim to an all-India spread.

(Scholars, it may be noted, have reflected this bias when they identified the Indian "Great Tradition" with Sanskritic elements and characterised opposing elements as part of a localised "Little Tradition". In some senses however the non-Aryan traditions could be called more of a "great tradition". For example, a recent study of the spread of Ramayana stories throughout South-East Asia notes that non-Brahman, non-Aryan versions which characterise Ravana in heroic terms — essentially akin to DMK versions — which have had a basis in south India as well as Bengal and Kashmir, are in fact more widely favoured in South-East Asia than versions favouring Rama.[21])

Non-Aryan Version

In fact, the whole question of Indian cultural identity may be said to be still an open one, in the process of formation in the context of social struggles. Phule's "non-Aryan" version of Maharashtrian identity, then, remains still extremely relevant.

Tamil Nadu represents of course one section of India where the issue has been decided in favour of a non-Aryan national culture as a result of a non-Brahman movement much akin to the movement in Maharashtra. Maharashtra has developed no such nationalism, yet in some ways it remains a more crucial and open case. While in Madras Tamil language and literature as well as its extreme southern location provided an unambiguous foundation for a non-Aryan identification, in Maharashtra the choice between "non-Aryan" and "Aryan" has been, to a much greater degree, a choice between elite and mass cultural traditions. Thus Brahmans, especially Chitpavans, could be unambiguously characterised as non-natives; and untouchables and tribals as non-Aryan natives. But there is a wide range of middle castes whose position is more ambiguous. (This ambiguity can be traced in later non-Brahman thinking; for instance in "*Marathe ani Tyanci Bhasha*", Bhaskarrao Jadhav shows on the one hand the prevalence of Dravidian customs and racial intermixture among Marathas, and on the other asserts, without any qualification, the Marathas are definitely "Aryan Kshatriyas").[22] For such castes to emphasise an Aryan and kshatriya identity is to express a high status and a belongingness to northern and Vedic traditions that separates them from the low castes and untouchables of Maharashtra. It is no accident that this type of ideologising became dominant at the time when the non-Brahman movement was splitting into the untouchable upsurge led by Ambedkar and a drive of caste Hindus (primarily Marathas) for political power. On the other hand, when Phule chose to emphasise the "non-Aryan" identity of the majority peasant castes of Maharashtra, he was rejecting elite and aristocratic traditions and asserting their unity with low castes, untouchables, and tribals. (He was also, it may be noted, asserting a unity with other oppressed peoples throughout the world; it is no accident that in dedicating *Gulamgiri* to the abolition of slavery in the United States he was one of the few men of his time to identify with black Americans.)

It is no wonder, then, that Phule's interpretations of the Aryan-non-Aryan conflict recur in practically all of his writings. This theory was central to his concept of the exploitation of the masses, it provided a concrete basis upon which the caste system could be attacked as non-Indian, and it provided the foundations upon which a theory of Maharashtrian "democratic national culture" could be built. Even if his later followers did not choose to erect the building, the foundation remains; the question of identity and culture remains unresolved.

IV

Economic and Political Dilemmas

Because thought reflects social reality, not only do the elements of a particular ideology reflect the interests of a particular class or group within society, but the degree of sophistication, the development of theory also reflects the organisational and institutional development of these classes. In analysing Phule's economic and political views, it is necessary not only to consider the conflicts of interests between the largely Brahman, bureaucratic elite, but also the specific problems of mass organisational development in a colonial situation.

By the last half of the nineteenth century the Indian elite had reached a position where they could meet their Western rulers on something near equal terms in developing social theory and a "political economy" from an Indian point of view.[23] Western education, the formation of new associations, newspapers and journals, the beginnings of political organisations, all provided a basis of social institutions around which thinking could be developed, theories tested and exchanged. This was hardly possible for the colonial masses, whose organisational and ideological weakness relative to their own elite was much more marked than in Western industrial nations. Even workers could hardly form their own organisations or deal with their employers and the government without the mediation of literate and English-knowing outsiders; for the peasants, who formed the vast majority, autonomous organisation was impossible. They were in the position of being affected by the vagaries of a world-wide capitalist system while possessing only traditional institutions with which to cope with it. Thus peasant rebellions might occur, but organisational forms could not be maintained.

The same was true in the field of ideology. Here it was necessary not only to be literate, but to be literate in a foreign language in order to utilise the most advanced thinking for the understanding of the causes and remedies of the poverty of the Indian masses. (And this was necessary because in fact colonialism established an organic connection between the "backwardness" of non-Western peasants and the "development" of the West.) But few people of "mass" origin got any form of education; the tendency was for even these to be co-opted by the Brahmanised elite and to yield to the class status their education made possible; non-Brahman organisational and institutional development was slow — two or three newspapers by the end of the century could provide only a small basis for exchange and development of ideas. Thus, however much a "peasant" or "mass" viewpoint might exist, however strong the contacts of non-Brahman leaders were with the masses, the social institutional basis for developing this into a sophisticated theoretical analysis did not exist.

Designed to Shock

The work of Jotirao Phule and his colleagues has to be understood in this context. Phule's own writings reflect the sporadic nature of non-Brahman organisational development: they are unsystematic, sporadic, pictorial rather than discursive, hard-hitting but designed more to shock people into an awareness of the situation than to provide an extensive analysis. As he notes in the introduction to "*Sarvajanik Satya Dharma*", he had wanted to write a more thorough book but felt it was more important for the book to be useful to the daily life of the people. Non-Brahman leaders in general thought it was more important to speak to the masses than to engage in finely spun analysis. Thus Phule is not so much involved with providing economic and political theory or writing Indian history as with giving a viewpoint, a beginning, a foundation. He therefore has to be understood as a forerunner.

Yet his writings include not only heart-rending descriptions of peasant poverty, not only poetry and propaganda aimed at mass organising, but also discussions of the causes and remedies of such poverty. These are not systematic, but they contain a certain basic logic, and they reflect the dilemmas of the Indian masses of the time. Further, since both the weaknesses as well as the strengths of Phule's outlook became part of the general heritage of the non-Brahman movement, it is important to understand his position.

Phule's economic outlook might be summarised by saying that while the Indian nationalist elite developed a theory of Indian backwardness as a result of colonial exploitation, Phule and his colleagues saw the peasant masses as toiling under a double exploitation — that of the Brahman elite as well as that of the colonial rulers. And while the elite viewed industrialisation as the primary solution to Indian problems and took their stand with the emerging capitalist class, Phule focused on the problems of agriculture and spoke from the viewpoint of the peasant.[24]

It is interesting to note that Phule repeated much of the nationalists' economic critique of British rule. Unlike some of the later non-Brahman leaders who maintained an unqualified loyalty to the Raj, he seems to have seen it as largely destructive in economic terms; it was only on cultural and social grounds that he viewed it as providing a foundation for the liberation of the masses. Thus he linked peasant poverty to the ruin of Indian crafts and artisans by unfair competition with British goods, to the disastrous growth of population, to home charges and the expense of foreign campaigns, to excessive spending on fat salaries for bureaucrats. He described with scorn the decadent life-style of British officials and

their neglect of the peasants, and noted that even the common British soldier lived like an aristocrat at the expense of the masses. Like the nationalists, he viewed the "bureaucracy" as the primary enemy of the peasants — but where he differed from the nationalists was in seeing the bureaucracy as a whole, led at the top by the British but dominated at all other levels by the native Brahman elite. In fact, one of his major criticisms of the British was that in leading their pleasure-seeking life they acquiesced in Brahman dominance of the masses. In every department, education, irrigation, the judiciary, etc, the Brahmans were seen as monopolising the benefits of rule. In particular, the exploitation of the peasants by the incompetent, corrupt, wilfully alienated judiciary was heavily attacked. While the nationalists criticised the "drain" of income from India to England, Phule and his colleagues directed their attention to the "drain" from the peasantry to the urban-based bureaucratic elite, and criticised heavily such taxes as the octroi, which provided a major amount of municipality income, and the local fund, by means of which largely upper-caste students were educated at the expense of the peasantry.

Primary Conflict

The primary economic conflict within India was thus described as a conflict between the peasantry and the elite-dominated bureaucracy. Zamindars or inamdars in this area of ryotwari settlement were more or less viewed as irrelevant. Shetjis and bhatjis were coupled, later, as enemies of the peasants, but antagonism was always greater against bhatjis. Shetjis or moneylenders oppressed the peasant through indebtedness but it was felt they could only gain power as a result of the support they got from the Brahman-dominated bureaucracies. Brahmans or bhatjis were often landlords and moneylenders themselves; through religious domination they kept the peasant ignorant and subjugated; and finally they had social and family ties all up and down the bureaucratic hierarchy. It was this bureaucracy that was the source of power, and at its bottom, linking it with the village, was the Brahman kulkarni, whose power over the ignorant peasantry provided the linchpin of exploitation.

Phule did not give any consideration to the issue of economic differentiation *within* the peasantry, to class differences of rich and poor peasants, small landholders and agricultural labour; the whole problem of property and the organisation of the relations of production was absent from his thought. In one sense he cannot be faulted for this, since it was not until the Twentieth Century and particularly till the time of Mao that Marxists themselves elaborated a theory of class differentiation among the peasantry relevant to revolutionary development in rural areas. However, it can be noted that Phule's thought was in some ways pre-industrial. For example, although his own colleague Narayanrao Lokhande was one of the very first Indian spokesmen for labour, still the problems of industry and the working class did not enter into Phule's thinking in a theoretical form. This absence was symptomatic of the general failure to link the "cultural revolutionary" tradition of the Satyashodhak Samaj and the non-Brahman movement to the "economic revolutionary" outlook of Marxism—Phule himself was definitely revolutionary in seeing an irreconcilable conflict of interests between the masses and the elite and feeling that a complete change of the social system and the overthrow of a dominating class would be necessary for mass progress; yet this was not linked to a direct class conflict — of which the class conflict of factory labour and their employers provided the clearest paradigm — but more to issues of the caste society.

Industrialisation was not seen by Phule as a solution to Indian backwardness. In a primarily agricultural country, he felt, the remedy for mass poverty lay in a direct solution of the agrarian problem. Thus he urged extensive action by the government for the improvement of agriculture, including soil conservation schemes; the construction of tanks, bunds and dams; scientific programmes of animal breeding; the specific education of peasants to create a class of instructors to teach modern techniques of agriculture within each village, and so forth. This was consistent with his general opposition to "trickle-down" theories of progress—that is, he did not feel that economic or educational benefits to a small section would eventually result in overall social progress (hence his insistence on *mass* education). This general outlook has been justified in that industrial development in many capitalist underdeveloped countries has only increased contradictions between rich and poor sections. However, perhaps because of his lack of concern for economic differentiation among the peasantry, he did not foresee that even the benefits of agricultural development might not easily flow from a rural elite to the rural masses.[25]

These limitations of Phule's thinking are of course related to nineteenth century conditions: industrialisation had scarcely begun, the working class was as yet insignificant, agricultural development had not provided a solid basis for a rich peasant class to emerge. All of these were in a real way problems for his followers, for later non-Brahman leaders to cope with; and to cope with them they would have had to take Phule's basic viewpoint—a lively awareness of exploitation and a concern for equality and direct mass development—as a foundation for a full analysis that would transcend Phule's own. But this was, on the whole, not done.

Insoluble Problem

Politically, Phule's view of the double exploitation of the peasantry left him with an almost insoluble problem. How could an unorganised, illiterate and still mentally-enslaved peasantry fight two enemies at once? It was not simply that the Sarvajanik Sabha and the National Congress of Phule's time were overwhelmingly dominated by the Brahman elite; it was also that he could not visualise the possibility of *any* freedom movement, in his time or the future, that would not come under elite organisational control. And to a large degree this was a realistic assessment. Even in the Twentieth Century periods of mass mobilisation (such as the 1939 Civil Disobedience Campaign and the 1942 Quit India Movement) that drew in extensive mass participation and peasant leadership were followed by periods of organisation consolidation that saw the re-establishment of upper class control. Non-Brahman entry into the Congress coincided with the disappearance of the Satyashodhak Samaj, yet non-Brahman leaders did not gain control of the Congress organisation until Independence. By this time the fervour of social reform and cultural revolution had been lost.

Therefore, in the choice between British rule and Brahman organisational dominance, Phule opted for British rule as the best guarantee of the conditions under which the masses could progress. In one sense he had no other choice (and he was after all no simple supporter of the British; for instance, in 1880 he was the only member of the Poona Municipality to oppose the spending of Rs 1,000 for the

Viceroy's visit[26]). In another sense this reflected a failure in his analysis, a yielding to the illusion of beneficence which the British put forth. He was perfectly aware of the continuance of Brahman power under British rule —this was his major complaint—yet he never linked this to an analysis of colonialism as a system that depended on such intermediary elites to maintain itself. Therefore he was caught in the position of asking the British to institute changes which, as a colonial government, they had neither the will nor the power to carry out.

Consider for a moment the demands he was making. He wanted mass education rather than elite "trickle down" education. But the British did not have the financial resources nor the desire to carry this out; no colonial power did, and the very purpose of colonial education was to train the intermediary elite of bureaucrats whom Phule opposed. He wanted British civil servants and investigatory commissions to heed the testimony of mass representatives rather than the elite; but he was more aware than any nationalist leader that however much the British pretended to be protectors of the peasants, however much they distrusted the educated elite, in fact they were far removed from any sharing of interests or life with the masses. He was asking an impossibility.

Petitioning the British

Phule wanted sweeping social changes within village society itself. His primary goal was not simply to replace a Brahman-dominated bureaucracy with a non-Brahman bureaucracy over the villages and it was not simply to transfer power to the villages. Rather he wanted to revolutionise village society itself. Not only should the position of kulkarni be abolished; but also the patil's and other watan posts should be opened up to all on the basis of merit through special training schools.[27] Thus the entire watan system with its relationship to traditional caste privileges and functions was to be destroyed along with the hereditary linking of caste and occupation. Similarly, the traditional moral and social life of the masses had to be drastically reformed. Phule urged a strong legislation of morality that would prohibit bigamy and child marriage and concealed prostitution in the form of kolhatins and tamashas. The equality of women, as well as the equality of untouchables, demanded sweeping changes at the basis of society.

But what type of government would carry through such sweeping changes? Such a programme, even though it did not directly refer to economic inequalities within the village, nevertheless involved a revolutionary attack on traditional social arrangements. Therefore it projected a revolutionary state. It required a type of political organisation that was as far removed from the capitalist or colonial *laissez-faire* state as it was from traditional government by caste and social custom.

The British were after all by policy reluctant to attack the traditional customs of Indian society. They were, further, unwilling to attack seriously the privileges of the elite because they depended on this elite for maintenance of the Raj; in a colonial situation the relation of Western rulers with the native elite is an ambiguous one that involves not only a conflict of interests but also compromise, a sharing of power.[28] The problem was not simply that Phule was petitioning the government for reforms — the style of the Brahman nationalist elite in this period was also one of petitioning, of compromise and negotiation. The Congress was by no means a revolutionary body. But there was an important difference between petitioning for elite reforms and mass demands. Elite reforms could be conceded by the British after a process of agitation and compromise (and even in the nineteenth century there were British statesmen such as Macaulay who approved the idea of the end of direct colonial rule on the grounds that a "neo-colonial" regime in which Indians had political self-rule but continued to be economically linked to the West as consumers of English goods would accord more with British interests). But the mass demands for sweeping social revolution, heavy expenditure on educational and agricultural development, could not be conceded. Phule's petitioning was therefore contradictory in a way that elite petitioning was not.

The basic goal was revolutionary changes at the base of society. If the British could not carry them out, who would? Phule's other attempt to provide a solution was to look to the development of a non-Brahman elite who would implement such changes. Brahman positions, he argued, should be limited to their percentage of the population and non-Brahmans should be associated with the government at all levels. This was not seen as an end, but as a means. It was based on the belief that a non-Brahman educated elite would continue to have family and cultural ties with the masses that would limit their ability and willingness to exploit them as the Brahmans did.[28A] Yet Phule was aware that educated non-Brahmans of his day also tended to be co-opted into acceptance of the caste hierarchy and "Brahmanic" values and that they were susceptible to nationalistic appeals for unity with the elite rather than with the peasant masses against the elite. What would insure that this would not happen on a larger scale? This question was never satisfactorily answered.

Cultural Revolutionary Stance

The contradictions in the economic and political programme of Phule and his colleagues were in fact inherent in the condition of a peasantry under colonial rule. But they were transmitted as part of a heritage of a developing "non-Brahman movement" that did represent the social revolutionary drive of the Maharashtrian masses. Phule's greatest contribution was in his rigourous cultural revolutionary stance, his drive for equality and rationality, and in the creation of an organisation, the Satyashodhak Samaj, which would carry on agitation for social and religious reform at a mass level. However, his followers remained unable to coordinate this cultural revolution with a consistent economic and political revolutionary programme. Faced by a situation where the colonial government could not and would not carry out a programme of social revolution and where an elite-dominated national movement wanted to arouse mass participation without letting it get out of control (no-tax agitations, for instance, were invariably halted when they threatened to turn into no-rent agitations), leaders of the non-Brahman movement never managed to create an organisation to oppose both independence of both government and elite. In such a situation they yielded to the temptation to focus on the means (the creation of a non-Brahman elite drawn from village society) to the exclusion of the end (the transformation of village society itself).

Thus in the legislative councils non-Brahman leaders sought to achieve the opening up of bureaucratic positions to non-Brahmans, to hasten the process of transforming the watandar kulkarni into a talathi, and to destroy the hereditary rights of the village priest or joshi. At the same time they sponsored patil conferences and resisted the attempts of Ambedkar to abolish the

mahar watan. Phule's concern for a revolution of equality in personal relationships — between men and women, among the different castes, within village and family itself — tended to be neglected. The result was that the shift of power toward rural society meant a shift to an unrevolutionised village dominated by a rural elite. Thus the educational institutions founded by non-Brahman leaders and the agricultural co-operatives which had their beginnings in this period began to provide an institutional basis for the consolidation of the power of this elite.[29]

In this situation, the non-Brahman movement was merged with the national movement, but the former Satyashodhak leaders never succeeded in transforming the national revolution to a social revolution. The militant younger non-Brahmans, turning to nationalism, accused the loyalist non-Brahman leadership of giving up social revolutionary goals in exchange for elite positions under the British; but they themselves neglected these goals in the process of mass mobilisation and acquisition of power within the Congress organisation. Phule's overriding concern for social revolution and the awareness of the inherent conflict between the exploited masses and the educated and wealthy elite was compromised as non-Brahmans began to form a significant part of that elite.

V

Conclusions

Can it be said, then, that the ideology of the Satyashodhak Samaj was simply an ideology of a "rich peasant" class, of a section of the masses in their drive for participation in power? The answer is no — basically because important parts of Phule's thinking disappeared precisely as the rural elite came to power. Thus the emphasis on a "non-Aryan" cultural and ethnic unity of all the masses from Kunbi-Maratha peasants to untouchables was given up, and the Satyashodhak Samaj vanished as a vital force in village society after 1930. Phule's influence and the work of Satyashodhakas played a crucial role in giving birth to the most vital movement of untouchables in all of India — but this movement, while retaining the urge to overthrow Brahmanism and casteism, became separated from that of caste Hindu non-Brahmans. After the disappearance of the Satyashodhak Samaj, there remained no rural organisation that succeeded in uniting men and women from all non-Brahman castes in a drive for social reform. The thought of Phule remains a part of the Maharashtrian tradition, but its cultural revolutionary drive has been dispersed and fragmented, still unrealised — reflecting perhaps the still fragmented and unorganised poverty of the rural masses.

The thought of Jotirao Phule was revolutionary; it gave a clearer goal for individual freedom and self-fulfilment, complete inequality and social unity than any other "reformist" thinking of the time; it called for a revolutionary, ruthless attack on the injustice of the old society. It was no accident that this drive for liberation was linked with a "non-Aryan" theory that sought to give a cultural and ethnic foundation for the unity of the masses. The Aryan theory of the elite identified them, in a significant way, with the white races of the world; while Phule was the first Indian to identify with the oppression of American Red Indians and American Blacks. In this era of world history, which is still the era of industrial capitalism and its associate imperialism, the road to equality and freedom on a world-wide scale appears to lie *via* the liberation struggles of non-white peoples, whether this be in America, the archetypal Western nation, or in India, the archetypal non-Western nation. Phule failed to provide economic analysis or political organisation appropriate for this struggle, but he had a clear vision of the need for and the basis of a liberation movement. It remains to his modern followers to take up the challenge.

[This paper is, in a sense, a prelude to my doctoral dissertation for the PhD in Sociology, "Cultural Revolution in Maharashtra: the non-Brahman Movement and Satyashodhak Samaj, 1910-1930". It is based almost completely upon Phule's own writings and on my general sociological knowledge. I regret that due to my inadequate knowledge of Marathi I was not able to use much of the secondary literature on Phule and his works. Dhananjay Keer's English biography has thus provided me with most of the background on the life of Phule. For help in translation and interpretation of Phule's writings and for many stimulating discussions of these I owe thanks to R M Bapat of Poona University.

However, for help in my general dissertation work, for providing valuable information and discussion of the non-Brahman movement, and for help in understanding Phule's cultural revolutionary viewpoint, I owe thanks to all the Satyashodhak workers and non-Brahman leaders who have so generously given me their time. Their names are too numerous to mention here. Special thanks, however must be given to those who have preserved by their own efforts the literature of the movement. I am grateful to Madhavrao Mukundrao Patil and R M Patil for the maintenance of *Din Mitra*, to Madhavrao Shripatro Shinde for *Vijayi Maratha*; to Shamrao Desai for *Rashtravir*; to Ganpatrao Jadhav for *Kaivari*; to D S Zhodge, K K Savant, Appasaheb Jadhav, Prataprao V Shinde and many others for allowing me use of a wide variety of pamphlets, books and literature. Finally, special mention must by made of Gopinatrao Eknath Palkar for the preservation of much valuable material, including *Din Bandhu*, the *Deccan Rayat*, and the Satyashodhak Samaj conference reports. Without such material and help provided, social history cannot be written. If in the past biases have entered into the writing of Maharashtrian social history, it is partly due to the insufficient use of such material. It is to be hoped that with the new interest developing in the history of the *bahujan samaj* that can be seen with the establishment of such institutions as Shahu Institute of Shivaji University, these valuable newspapers and booklets can be preserved in permanent form for future students.]

Notes

1 Reported in *Din Mitra*, May 24, 1911.
2 *Din Mitra*, January 31, 1912.
3 "*Gulamgiri*" p 119. Citations from Phule are from the Government edition of his works "*Mahatma Phule: Samagrh Vangmay*", ed Dhananjay Keer and S G Malshe.
4 See Henry Orenstein "The Concept of 'Maratha' in Maharashtra", *Eastern Anthropologist*, ca 1951.
5 Appendix to "*Shetkaryaca Asud*", p 236.
6 "*Gulamgiri*", pp 135-6.
7 It may be noted that many Buddhists today view their movement as the true realisation of the Satyashodhak Samaj: "Caste Hindus gave up Brahmans but not Brahmanism".
8 *Sataar* No 2, pp 281-88.
9 Ideology is used here in the general sociological sense to refer to a system of thought supportive of the interests of a particular group or class. Two more specialised definitions might be noted: Karl Mannheim, in "Ideology and Utopia", uses "ideology" only for a system of thought seeking to change society, while reserving the term "utopia" for an upper class ideology which seeks to maintain the *status quo*. Reinhard Bendix and Franz Schurmann would reserve the term "ideology" for systems of thought of an industrial era, linked to organisations seeking to change society with the help of a rational and secular analysis; see Schurmann, "Ideology and Organisation in Communist China" (University of California Press, 1968)
10 Stanislaw Ossowski, "Class Structure in the Social Consciousness".

11 Joan Leopold, "The Aryan Theory of Race", *Indian Economic and Social History Review*, June 1970, pp 271-2.
12 *Ibid*, pp 281-3.
13 *Ibid*, p 274.
14 *Ibid*, p 281. In "Rise of the Maratha Power", on the other hand. Ranade tended to stress that Maharashtra had been the meeting place of the best of both Aryan and Dravidian cultures, but still treated this in terms of the caste hierarchy, with "shudras" considered of Dravidian descent, Brahmans, etc, Aryan.
15 John Broomfield, "Elite Conflict in a Plural Society: Twentieth Century Bengal", pp 16-17.
16 G S Ghurye, "Gods and Men", pp 91-2, 114-139.
17 For discussion of the Ganeshutsava, see Richard Cashman, "The Political Recruitment of the God Ganpati", in *Indian Economic and Social History Review*, September 1970, and my paper, "The non-Brahman Challenge in Poona." The conflict over Shivaji was rampant throughout the period of the non-Brahman movement.
18 The following is drawn mostly from "*Gulamgiri*" but the themes appear in almost every one of Phule's books.
19 Parashurama became the central figure in the more purely kshatriya ideology which developed as an upper class version of non-Brahmanism and was frequently considered to represent a "civil war" among the Aryans themselves. The story of Ram and Ravana, of course, was crucial to the Tamil interpretations of north Indian invasions.
20 See Golwalkar, "A Bunch of Thoughts", and Balraj Madhok, "Indianisation", esp page 16 where he says that Vedic culture represents the "substratum" of Indian culture much as white English culture provides the "substratum" of society in the USA. Phule as well as black Americans might agree but see in this a call for revolution in both cases.
21 Santosh Desai, "Ramayana — an Instrument of Historical Contact and Cultural Transition between India and Asia", *Journal of Asian Studies*, November 1970.
22 "*Marathe and Tyanci Bhasha*" (Kolhapur, 1932), p 9 and elsewhere.
23 For the most thorough study of the elite and its economic thinking, see Bipin Chandra, "The Rise and Growth of Economic Nationalism in India".
24 Except where otherwise noted, most references on political and economic questions are from "*Shetkaryaca Asud*".
25 For a discussion of this issue by a sociologist see W F Wertheim, "Betting on the Strong", in A R Desai, "Rural Sociology in India".
26 M G Mangudkar, "*Poona Nagarsanstha Shatabdi Granth*", pp 504-5.
27 "*Gulamgiri*", p 128.
28 For a study of this aspect with reference to India see Anil Seal, "The Emergence of the Indian Elite".
29 "*Shetkaryaca Asud*", pp 237-8.
30 See Ian Catanach, "Rural Credit in Western India", for a discussion of the laying of the foundations of co-operatives in this period. Satyashodhak and non-Brahman attention was focused on these from the beginning.

Competitiveness of Indian Steel Exports

A Comment

S A Dave

S K Subramanian

IN a very interesting article ("Competitiveness of Indian Steel Exports" May 29, 1971) Samuel Paul has suggested criteria to judge the export competitiveness of products both in the short run and in the long run. The export competiveness of a product, according to Samuel Paul, should be determined by the domestic cost involved per unit of foreign exchange earned. All products can be ranked according to the value of this ratio and the product with the highest ratio, from the exporting country's point of view, would be regarded as the most competitive exportable product.

We agree with Paul that the basic rational of these criteria has to be in terms of the domestic cost incurred per unit of foreign exchange earned. But we feel that Paul has failed to take into account some important factors. As a consequence, Paul's criteria seem to us somewhat oversimplified. We will illustrate our arguments with reference, first, to the long term criterion and then to the short term criterion of Paul.

For a product "i", Paul has defined the criterion of domestic resource cost per unit of foreign exchange earned (D_i) as:

$$D_i = \frac{\sum_j X_{ji} + d_i + w_i + r_i}{F_i - (m'_i + m''_i)} \quad \ldots (1)$$

Where X_{ji} = value of indigenous, non-exportable inputs supplied from the jth industry (net of indirect taxes) for the manufacture of one unit of the ith item less the value of imported inputs required by X_{ji}
d_i = depreciation charges per unit of product i
w_i = wages per unit of i
r_i = return on investment per unit of i
F_i = FOB foreign exchange receipt per unit of i
m'_i = CIF value of imported inputs (direct and indirect) per unit of i
m''_i = FOB value of exportable inputs per unit of i

The numerator in the above ratio is the sum of the value added by manufacture and the cost of non-exportable (non-traded) inputs. Wages and the return on investment are to be valued at social cost. Paul is quite aware of the difficulties involved in assessing these two factors at social cost, but he would prefer to evaluate them at their social cost. We have some reservations regarding the use of shadow prices, particularly of labour, but we need not dwell on that point here.

Liberal Criterion

The denominator, as defined by Paul, is not sufficiently comprehensive of all foreign exchange costs. As in the case of the numerator, there should be charge on foreign capital as well as depreciation on foreign capital. At the time of import of this capital, the country had an option of import or investment in securities of foreign governments or in any high-yielding projects abroad. These investments would have yielded some returns in foreign exchange. By choosing the alternative of importing capital goods, the country is deprived of the foreign exchange that could have been available over time because of investment abroad. The charge on capital, therefore, should be considered the true foreign exchange cost to the economy.

Depreciation on foreign capital, as in case of any capital, should be part of the cost. Whether it should be treated as domestic cost or foreign exchange cost would depend on the source of procurement at the time of replacement. It should be treated as foreign exchange cost if it is known that the machinery will have to be imported for its replacement. With the

progress of industrialisation, one can assume, a major portion of the equipment, when due for replacement, would be available indigenously. But at the same time, due to obsolescence factors and rapid advance in technology abroad, imports may still be warranted. Hence, it would be prudent to provide for depreciation on imported machinery in the foreign exchange cost. Exclusion of charge on capital and depreciation leads to underestimation of foreign exchange costs and makes Paul's criterion rather a liberal criterion.

Paul has only suggested how to rank exportable products, but it certainly would not be profitable to export all products with a positive ratio. Paul has not discussed the maximum value of Di beyond which exports are no longer profitable. This would be given by the social cost of foreign exchange, or in other words, shadow exchange rate (SER). Only those products for which Di is less than the SER, are exportable and these products could be ranked by their Di values.

Whether we treat charge on foreign capital and depreciation on foreign capital as domestic cost or foreign exchange cost may not matter much for the *computation* of (D) ratio. The arithmetic part of computation *may not* be very sensitive to whether we put these values in the numerator or denominator particularly when these amounts are small. But it is of vital importance when it comes to demand for foreign exchange and the determination of the shadow exchange rate. Also, for conceptual clarity they should be in their right places in any theoretical formulations.

We suggest, therefore, the proper criterion should be :

$$D_i = \frac{\sum_j X_{ji} + d_i + w_i + r_i}{F_i - (d'_i + r'_i + m'_i + m''_i)} \quad (2)$$

Where

D_i, X_{ji}, d_i, w_i, r_i, F_i, m'_i and m''_i

would be as defined by Paul.

d'_i = depreciation on imported machinery per unit of i

r'_i = charge on imported capital per unit of i

The criterion for export promotion in the short run would not be basically different from that for the long run, except that some of the factors in the formula would assume a zero or lower value. Paul has assumed the existence of idle plant capacity and that the real cost for producing the additional output is only the imported variable inputs. The underutilisation of the installed capacity may not be due to the absence of adequate domestic market, but could be caused by difficulties in procurement of raw materials, spares and labour problems. The short-run criterion as suggested by Paul is to rank exportable products simply by FOB export value per unit output less the cost of all direct imported inputs per unit output. Higher this value, higher the export competitiveness of the product,

i e, $(F_i - m'_i)$.

This is a very simple criterion; in fact it is too simple and perhaps misleading. It does not adequately reflect the opportunity cost of all factors involved in production.

Current Input Costs

Paul's criterion would be appropriate only if all fixed capital and all variable inputs (except direct imported inputs) are specific to the concerned industry and would have remained idle in the absence of the production in this industry. In a general recessionary situation this may be true of all current inputs, and to regard their opportunity costs to be zero may not be very inappropriate. But if conditions are not of this type, current input costs should be regarded as cost for a given industry. By excluding wage costs, Paul has implicitly assumed all wages as fixed costs with zero opportunity costs. In other words, he has assumed the level of employment to be invariant with the level of production. It may be difficult for a firm to lay off workers when production declines. But to rule out the possibility of decline in the wage bill is to err in the other direction. Wage costs should be divided into fixed wage costs and current wage costs and only the opportunity cost of the former can be regarded as zero. The social cost of displaced labour cannot be regarded as zero as long as there is reduction in consumption of a labourer and his family when he becomes unemployed.

It would also be incorrect to regard the opportunity cost of other inputs to be zero, even in the short run. All exportable inputs can be exported at some price and whatever foreign exchange they can earn is their true opportunity costs.

Life of capital may be longer than the short-run period of two years under Paul's criterion. If the productive life of capital were to extend beyond this period and capital would have to be replaced, sufficient funds should be kept aside for depreciation. If capital is specific, its opportunity cost would be zero in the short-run period. But capital ought to be kept intact for its productivity in the long run. Depreciation, therefore, should be part of the cost. The annual charge on capital, however, need not be included as cost in the short run.

In his criterion for the short run, Paul has not taken into consideration any domestic cost. This would not make any significant variation when allied products are compared, as in the example of Paul dealing with products based on steel. However, if two products, say, one based on aluminium and the other on fertiliser are to be compared for export competitiveness in the short run, the value of the domestic cost has to figure in deciding the export criteria and the two products cannot be compared only on the basis of $(F_i - m'_i)$ values.

The criterion for the short-run (D_i) could then be defined as follows :

$$D'_i = \frac{\sum_j X_{ji} + w'_i + d_i}{F_i - (d'_i + m'_i + m''_i)}$$

Where $X_{ji}, F_i, d_i, d'_i, m'_i, m''_i$ are as defined in equation (2) above.

W'_i = current wage costs.

The inclusion of X_{ji} as domestic cost in the short run, perhaps, is somewhat questionable. X_{ji} would be largely utilities such as water, electricity and gas but there can be some inputs for a specific final product which may be non-exportable and yet they should be preferably considered domestic cost in the short run. For example, electricity in the aluminium or caustic chlorine industry would be an important element of cost and cannot be ignored. Similarly in the case of petrochemicals, natural gas will be part of the domestic cost, since it cannot be easily liquefied and exported.

The short range export criterion would be a useful tool for decisions relating to the utilisation of existing idle capacity. It could also be used in assessing new projects which envisage the recovery of the foreign exchange expenditure by exports over a short period or for new schemes, wherein the economics of scale warrant a large-sized plant and the gap between production and the growing domestic market is expected to be bridged by exports in the short run.

Life Insurance Corporation of India

Statement by the Chairman, Shri T A Pai

THE following are the extracts from the Statement by Shri T A Pai, Chairman, at the One Hundred and Eighty-Second Meeting of the Members of the Life Insurance Corporation of India for the period April 1, 1970 to March 31, 1971:

I have great pleasure to place before you the Statement of Accounts and the Annual Report of the Life Insurance Corporation of India for the period April 1, 1970 to March 31, 1971.

The country had an encouraging period, both in the realm of Industrial growth as well as in agricultural output, self-sufficiency in food being well in sight. There have been healthier trends in the national economy which are reflected in the national as well as per capita income. While the results of the mid-term poll of Parliament in March 1971 have laid the foundations of healthier democratic traditions in our political life, the buoyant economic conditions have led to a spirit of new awakening and greater expectations to improve the lot of the common man. However, the unfortunate events in Bangla Desh leading to influx of refugees in a gigantic proportion and a mass movement of people into our country on a scale unknown in history have thrown an unexpected burden on the country calling for considerable and unstinted sacrifice on the part of the people even at the expense of desirable and expected economic growth.

New Business

In 1970-71 the LIC has set up a new record completing a new business of Rs 1303.08 crores under 16.16 lac policies against Rs 1036.08 crores under 14.01 lac policies in 1969-70. The sum assured increased by 25.8 per cent compared to the previous year. This is the highest percentage increase that the Corporation achieved since inception. The number of policies issued each year had been stagnating around 14 lacs between the years 1964-65 and 1969-70. In 1970-71 the Corporation has achieved a major breakthrough in this respect also.

Out of the new business, nearly 66 per cent of the total number of policies issue in India, viz, 1062 lac policies assuring Rs 725.95 crores out of Rs 1303.08 crores were sold to persons insuring for the first time.

Size of Policy

The average sum assured per policy increased to Rs 8,066 in 1970-71 as against Rs 7,394 in 1969-70. While 11.11 lakh new policies issued in the year were for sums assured between Rs 1,000 and Rs 5,000, the corresponding figure for 1969-70 was 9.81 lac policies.

Rural Business

During the year, as many as 5.07 lac policies for sum assured Rs 296.37 crores were issued in the rural areas as against the corresponding figures for the previous year of 4.62 lakh policies assuring a sum of Rs 251.76 crores. In view of the vast potential that is still untapped in the rural areas, it is evident that vigorous attempts still need to be made to bring more and more people under insurance cover. In this context it has to be remembered that the LIC serves the country through 664 offices procuring new business as a Branch, Sub Office or Development Centre. Almost all of these offices, barring a relatively few which concentrate their activities exclusively in the urban centres, serve the urban as well as the rural areas of our vast country. If the entire rural population in this country has to be covered by the LIC, the presumption that this can be done only by appointing agents in the rural areas is not correct. With the selling of the policy, servicing also becomes an important aspect of the business and the location of a Branch of the LIC becomes important from this point of view. But, today, unfortunately, LIC's activities in undertaking developmental responsibilities of this type are restricted because the resources available for this purpose are only the premiums of the policyholders and there is a ceiling up to which this premium income can be utilised for the purpose. If the LIC has to spread the message of insurance covering the entire rural population and mobilise the savings from the rural areas, the State will have to take it as a major instrument for this purpose and help its developmental activities by providing adequate assistance. Obviously, a time has come when the LIC, in order to spread its activities far and wide in the country, to mobilise the people's savings and also to cover the lives which are not ordinarily covered, will have to create a Development Fund out of the share of the Valuation surplus that goes to the Government.

Non-Medical Business

During the year, 8.25 lakh policies, being 51.2 per cent of the total number of policies issued in India, were issued under the Non-Medical Schemes. In value, they amount to Rs 324.03 crores, which is 25.0 per cent of the total sum assured in India. The amount of Non-Medical business in 1969-70 was Rs 223.65 crores — 21.8 per cent of the total sum assured in India.

Group Insurance Schemes

During the year 1970-71, 54,938 lives were covered under Group Insurance Schemes for a total sum assured of Rs 79.55 crores and 273 lives were covered under Superannuation Schemes for pension benefits.

Salary Savings Schemes

As against 3.76 lakh policies assuring Rs 177.33 crores issued in 1969-70, 4.86 lakh policies amounting to Rs 252.06 crores were issued under the Salary Savings Scheme in 1970-71. This Scheme helps people, particularly in the salaried middle income groups, in making the payment on insurance as the first charge on their income.

Business in Force

The total ordinary life assurance

business in force as on March 31, 1971 was Rs 7,067 crores under 147.85 lakh policies as against Rs 6,348 crores under 140.41 lakh policies on March 31, 1970.

Lapse Ratio

Efforts made by the Corporation to conserve business are reflected in the progressive improvement recorded in the lapse ratio in the last three years. The ratio of lapses to mean life insurance business in force decreased from 5.9 per cent in 1969-70 to 5.2 per cent during the year under review. In 1968-69 the lapse percentage was 6.3 while in 1966-67 it was 7.4.

Life Fund

While the Life Fund as at March 31, 1969 was Rs 1434 crores, in March 1970 it rose to Rs 1611 crores (plus 177 crores) i e 12.31 per cent and in March 1971 to Rs 1825 crores (plus 214 crores) i e 13.04 per cent.

Total Assets

The total assets of the Corporation as on March 31, 1971 amounted to Rs 1989 crores as against Rs 1772 crores as on March 31, 1970.

Settlement of Claims

Death and Maturity Claims amounting to Rs 19.09 crores and Rs 68.01 crores respectively were intimated to the Corporation during 1970-71. Out of these claims and those outstanding at the end of the previous year, death and maturity claims for Rs 21.94 crores and Rs 68.92 crores respectively were settled by the Corporation during the year as against death and maturity claims for Rs 18.77 crores and Rs 62.59 crores respectively for the preceding year. An analysis of the settlement of claim operations in the year 1970-71 indicates that the number of outstanding claims as at March 31, 1971 was about 80 per cent of the outstanding claims as at March 31, 1970. This improvement has been possible with the special efforts made during the year to settle the claims expeditiously. The ratio of outstanding claims to claims intimated during the year also dropped from 79.8 per cent in 1969-70 to 63.5 per cent in 1970-71 in respect of death claims and from 14.9 per cent in 1969-70 to 12.4 per cent in 1970-71 in respect of maturity claims. On the whole, the drop in the ratio of outstanding claims as at March 31, 1971 was 23.6 per cent of the intimated claims as against 29.8 per cent as at March 31, 1970.

The number of claims that the LIC settled during 1970-71 came to 3.55 lakhs as against 2.67 lakhs in 1966-67 which shows that while in 1966-67 the Corporation had settled 921 claims per day based on about 290 working days in a year, in 1970-71 it was paying out 1224 claims per day.

Income and Expenses

The total income of the Corporation during the year 1970-71 amounted to Rs 304.01 crores made up of Rs 292.15 crores of premium, Rs 104.41 crores of Interest, Dividends and Rents and Rs 9.99 crores of miscellaneous income. As against this, the amount of total benefits paid to policyholders was Rs 99.37 crores, Expenses of Management Rs 79.43 crores and Miscellaneous Outgo Rs 1.20 crores. The gross and net rates of interest realised on the mean Life Insurance Fund were 6.25 per cent and 5.73 per cent respectively as against 6.06 per cent and 5.57 per cent respectively in the preceding year. Even this slight improvement of the yield from 5.57 per cent to 5.73 per cent has brought in an additional return of Rs 4 crores in the year.

Efforts were being made continuously to improve the yield on the Life Fund. While considerable emphasis has always been laid on the working expenses of the LIC, in the days of rising costs in every sphere of its activities, it must be emphasised that the working expenses of the LIC are not comparable to insurers in the world in the private sector. The private insurers have a right to confine their activities to a particular class of business which is less expensive or to particular areas at reduced cost. The obligation placed on an institution like the LIC to spread its activities far and wide in backward areas and even covering smaller policies, obviously cannot be judged by the same standard. It would be worthwhile evaluating its performance in this direction rather than only in terms of expense ratio. As a matter of fact, when even this expense ratio has come down, it indicates that the expense ratio could be high if the business is stagnant and could be brought down by continuous expansion of business. However, this does not mean that the LIC has no obligation to avoid any extravagant expenditure which does not fulfil its objectives.

Investments

The resources of the Corporation have become an important part of the national effort in mobilising the savings of the people, and the Government would have to ensure a fair return on these funds to make insurance attractive. Then again, there is no comparison between the insurers in the rest of the world in the private sector and the LIC. Insurers elsewhere may have vast opportunities to go in for high yielding investments. But the investments of the LIC will have to conform to the national needs. As a result of the LIC being in the Public Sector, enormous amount of money viz, Rs 1989 crores which constituted the total assets of the LIC today, are insulated from any political pressurisation for personal ends and the citizens have been reaping the maximum benefit of this accumulation.

It is inconceivable that, if LIC was not in the Public Sector, an amount of nearly Rs 309 crores (inclusive of current year's investment) would have gone for rural electrification throughout the country, an amount of Rs 279 crores (inclusive of current year's allocation) would have been utilised for housing development in the country, an amount of nearly Rs 50 crores could have gone for Water Supply and Drainage Schemes for our towns and villages, Rs 92 crores for agricultural development through Land Mortgage Banks and proposed allocation of Rs 5 crores for building up storages for the Food Corporation of India, and nearly Rs 28 crores for small scale industries through industrial estates and assistance to the State Financial Corporation. This infrastructure so necessary for the development of the country would never have been thought of. Besides, it has a huge investment of Rs 707.21 crores by way of subscription to the Government loans in order to support the planned development of the country.

The total book value of the investments of the Corporation as at March 31, 1971 was Rs 1717.59 crores, thereby recording an improvement of Rs 138.98 crores over the figures of 1969-70. Of this, the total book value of the investments pertaining to Life and General business was Rs 1700.30 crores and Rs 17.29 crores respectively. Of the total investments of Life Department, 74.8 per cent was in the Public Sector, 9.9 per cent in the Co-operative Sector, 0.3 per cent in the Joint Sector and 15.00 per cent in the Private Sector. The investment reserve account amounted to Rs 31.23 crores. The Corporation agreed, during the year, to underwrite 92 new issues to the extent of an aggregate amount of 51.08 crores.

LIC and Private Sector

The LIC has also assisted the private corporate sector and in terms of total resources with the current year's allocation, its direct assistance and market purchases together would come to Rs 251.50 crores. Besides, but for the huge investment in infrastructure, the growth of the Private Sector itself would have been inhibited in this country. There have been criticisms that the LIC has not assisted the private sector sufficiently. There have been criticisms also that the LIC has been responsible for building up monopolies. As at March 31, 1969, out of 6109 Public Limited Companies in the country, only about 1529 had their shares and debentures quoted on the 8 recognised Stock Exchanges in India. We had shares in 853 companies out of them. Out of the paid-up capital of these companies of about Rs 700 crores, we held about 13 per cent of the Equity Capital. In 275 companies, LIC holds with its investment of Rs 73,12,67,960 between 10 per cent and over 30 per cent of the paid-up capital in equities and in 578 companies, its holdings are less than 10 per cent of the equity capital amounting to Rs 25 crores. In 530 companies, we had an investment of Rs 35.20 crores in Preference Capital and in 121 companies, Rs 48.09 crores in Debentures. Consideration for this investment was naturally the yield and growth of these investments, and it is not that private sector always fulfilled these expectations. On the other hand, as the result of this investment, LIC became substantial owners of capital and acquired a stake in many of the Monopolies which, in effect, has come to mean substantial ownership of the private corporate sector by the public sector.

Housing and Housing Loans

Out of the total investments of the Corporation, Rs 300.97 crores is for housing purposes to meet the acute shortage of housing in the country. LIC is trying to build townships in several places including Bombay, Hyderabad, Bangalore, Lucknow and Calcutta with the active help of the State Governments. For middle class housing, unless the State is prepared to subsidise land prices, the problem itself will be difficult to solve. The idea of group insurance cover in case of housing loans is to provide a facility for the balance of the loan being paid off instead of its being a burden on the family involving into litigation after the death of the borrower. My grateful thanks are due to the Government of Maharashtra for expediting the Apartment Act. I have now to request the Government of Maharashtra for its enforcement as considerable demand is there for flats in Bombay and other cities. The maximum loan against a flat has been restricted to Rs One lakh.

The Corporation advanced during 1970-71 a sum of Rs 17 crores to State Governments for financing various housing and land acquisition schemes. It also advanced amounts totalling to Rs 16.57 crores to Co-operative Housing Finance Societies and other authorities for financing housing Co-operatives in various States. The advances during 1969-70 under these heads were Rs 14.80 crores and Rs 15.70 crores. 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 Finance Societies and loans under other Schemes amounted to over Rs 287 crores as on March 31, 1971. The Corporation's "Own Your Home" Scheme, which was earlier operative in 159 centres in the country, was extended to all places where the Corporation has either a Branch or a Sub-Office with effect from February 2, 1971. It is in operation now in 424 centres inclusive of a few centres where the Corporation does not have any office. During the year, 1202 loans amounting to Rs 371.62 lakhs were sanctioned to policy-holders for construction or purchase of houses. So far, 7233 loans amounting to Rs 2086.41 lakhs have been sanctioned by the Corporation under this scheme. Likewise, the Corporation's Mortgage Scheme for construction of houses operative in only 57 centres was extended to all the 424 centres where the "Own Your Home" Scheme is in force. During the year, 349 loans amounting to Rs 136.82 lakhs were sanctioned. So far, in all, 3394 loans amounting to Rs 2288.35 lakhs have been sanctioned under this scheme.

Loans for Water Supply and Drainage Schemes

So far 434 Municipalities all over the country received a loan assistance of Rs 36.92 crores. In 1970-71 itself 205 municipalities were advanced Rs 10.76 crores besides 4 Zilla Parishads got an assistance of Rs 44.37 lakhs for rural water supply. It is openly acknowledged that the people living in these places would not have enjoyed the benefits of these amenities left to the State Resources for the next one or more decades.

Expense Ratio

The overall expense ratio for the year for Life business was 27.19 per cent as against 27.69 per cent in the previous year, while the renewal expense ratio comes to 14.65 as against 16.15 per cent in the previous year.

Corporation's Business Abroad

The main object of the Corporation in running the offices overseas is not only to write business but to build goodwill for the country. In foreign territories, in addition to writing new business and covering more and more lives, the Corporation is providing technical know-how to a large number of insurers. The Corporation continued to transact new business in Fiji, Kenya, Malaysia, Mauritius, Nepal, Singapore and the United Kingdom. The Corporation has ceased to write new business in Hong Kong and Uganda. During the year, the Corporation issued 3945 policies assuring Rs 8.50 crores in the countries abroad, the corresponding number being 4661 policies for Rs 10.28 crores in 1969-70.

General Insurance

During the year, the Corporation secured a gross direct premium of Rs 23.09 crores as against Rs 18.04 crores in the previous year. Of this, Rs 5.69 crores was secured under Fire Insurance, Rs 9.49 crores under Marine and Rs 7.91 crores under Miscellaneous insurance. The total net premium collection during the year amounted to Rs 8.36 crores as against Rs 6.01 crores in 1969-70. The net claims during the year amounted to Rs 100.11 lakhs under Fire, Rs 119.91 lakhs under Marine and Rs 98.28 lakhs under Miscellaneous insurance. The total net claims amounted to Rs 318.30 lakhs in 1970-71 as against Rs 242.82 lakhs in 1969-70. A sum of Rs 94.26 lakhs has been added to the reserve. The profits transferred to the Profit and Loss Account were Rs 2.38 crores from Fire 1.02 crores from Marine and Rs 0.75 crores from Miscellaneous insurance, making a total of Rs 14.15 crores. After making adequate provisions for Reserve and Taxation, a balance of Rs 49.85 lakhs is payable to the Central Government. The Corporation gave up the Open Market Business during the year and transferred it to its subsidiary, the Oriental Fire and General Insurance Company. With the nationalisation of General insurance, it is felt that there would be a great spurt in the insurance industry. Fields uncovered as yet like health and other social insurance,

Cattle and Crop Insurance, I trust, would be some of the main goals of the nationalised General insurance.

From Classes to Masses

Unprecedented steps were introduced by the Corporation in the current year to popularise the message of insurance on an accelerated pace. The Centenary Policy, for instance, was finalised during the year and introduced with effect from May 1, 1971 for meeting the needs of the people whose income fluctuates. The main feature of this policy is that, if a default occurs in the payment of premium not more than once in any block of three years subsequent to the first two years, the policy should not lapse. This should take care of the needs of our rural population as that of agriculturists faced with the uncertain ties of our agriculture and also the different sections of the country even in the urban areas. In accordance with our promise to see that in our endeavour to reach the masses we would resort to the use of our national languages, we have made a start with the Centenary Policy. The Corporation also decided to liberalise the profit-sharing scheme under One Year Renewable Group Term Assurance Plan and, under the revised scheme, the group policyholders having a membership of at least 200 will be entitled to share in the profits to the extent of 60 per cent to 80 per cent of the total profits in respect of the Scheme. The concept of Deposit-linked Life Insurance is proposed to be extended on a mass scale. This is a new experiment made for the first time in the World. I am happy that more and more banks are agreeing to introduce this measure and I look forward to their continued support not only for insurance but real mobilisation of savings.

The number of Savings Bank Accounts in the banks now come to about 1.5 crores. 25 per cent of them should at least satisfy the condition of the minimum balance of Rs 500/-. If insurance is automatically extended to all such accounts satisfying this condition, insurance cover to 30 lacs of lives would be possible. For this additional benefit, not only these persons would be keeping their balances in the bank rather than with themselves, it would be an inducement for another 20 lacs of people to improve their balances.

Premium rates in respect of (i) Mortgage Redemption, (ii) Temporary Assurance, (iii) Two Year Temporary Assurance and (iv) Convertible Term Assurance Plans were substantially reduced with effect from March 1, 1971. These rates were reduced also for (i) One Year Renewable Group Term Assurance Plan and (ii) Level Group Term Assurance Plan with effect from June 1, 1971. Another major decision taken was that of doing away with the occupational extra premium for a number of occupations where the extra premium chargeable is Rs 4/- per thousand sum assured per annum or less and such extras have been removed as From December 1, 1970 in the case of Whole Life Limited Payment and Endowment Assurance Policies.

In the past it had been the practice of erstwhile insurance companies and also of the Corporation to charge extra premiums to the weaker sections of our society like those who are engaged in the conservancy work. Similarly, the humblest of the self-employed Rickshawallas were refused insurance under our rules. This unjust state of affairs of penalising workers performing essential services for the community could not be continued any longer. I am glad that, with effect from the beginning of the year, LIC has removed all occupational extras to the socially weaker sections of the community.

This covered 40 occupations such as Orderlies, other menial staff and Nurses in T B Mental and Leprosy Asylums, Scavengers, underground employees in Mica, Coal, Gold and Bead mines, compositors in the printing industry, all types of workers in the Railways from Brakesmen to Travelling Ticket Examiners, Cycle Rickshaw Drivers, Hospital and Municipal Sweepers, Bidi Kamgars, workers in silk and textile industry, Linesmen in Telephones and Telegraphs, Naval Divers and Divers in Marine Industry, Guards and Foresters in the Forest Industry, Fire fighters in Fire Brigades, Coastal and Deep Sea Fishermen, Bargemen in Marine, Workmen and Heavy Vehicle drivers in the Automobile industry, Employees in X-ray Radium Department and Assistants working with X-ray Specialists, to give a few examples.

Re-organisation of Corporation's Offices

The Administrative Reforms Commission appointed by the Government of India had recommended that the Zonal Offices should be abolished and the Divisional Offices should function virtually as Head Offices of the erstwhile insurers, barring policy making, investments and such other functions. The object is to make the Divisions all important and responsible for development and servicing of business in terms of (A) Business Cost, (B) Underwriting and (C) Lapses. The process of decentralisation would be further extended to Branches which, at the grassroot level, would undertake policyholders' servicing also. In taking up this, the needs of the community would be borne in mind more than its own. Organised as it is, the implementation of this policy would take some time and expertise would have to built up to undertake the responsibility envisaged. This is being done expeditiously.

Staff

Continuous efforts to identify the employees with the Corporation and to build a philosophy of management where both the employer and employees meet periodically and continuously was evolved to sort out the problems. The exercise is to transform the working philosophy into one based on Industrial Relations rather than on Industrial Disputes. I look forward to the employees playing a responsible part as Members of the Board and of the proposed Divisional Advisory Councils. We believe that the constructive relationship now established between the employer and the employees would help to further the cause of the Corporation. The active co-operation of both should help to serve the community much better as both the management and the employees have a higher obligation to the community at large — an obligation transcending to themselves. Behind the published Balance sheet of any institution showing assets and liabilities, everyone working for the institution could either be an asset or liability. It would be a worth-while exercise to convert every liability into an asset. With this end in view, it is obligatory on the Corporation also to afford opportunities to the employees to develop themselves for the growth of their capacities by providing them with facilities for training and development. Corporation accepts this responsibility.

Forging Ahead

Even though the achievements of the Corporation during the year have been quite remarkable, we are conscious of the vast scope, both for expansion and improvement, that lies ahead of us. With a widening area of activity becoming accessible for our message and service and with the help of a live-wire network of more than 730 offices of the Corporation located throughout the length and breadth of the country, manned with an agency organisation spread over even to the smallest township, the LIC has to now establish itself as a very competent marketing organisation for all parts of the country. The prosperous and affluent farmers in the villages now provide a potential market for our message. New branches of the nationalised banks emerging in all parts of the country are gradually inculcating the savings habit among the people. These savings habits will indirectly provide a fertile ground for us also to sell life insurance. The Branches of the Banks will, moreover, be a facility for the rural policy-holders for remitting their premia to us. These welcome developments in the country will enable us not only to write more business but also to cover a large number of people.

Conclusion

Before I conclude, I would like to record my appreciation and thanks for the co-operation and advice I have received from the Members of the Corporation and my colleagues on the various Committees. I am also indebted to the Experts who have unstintedly given their time and energies in associating themselves with the Committees and for giving valuable guidance. For the excellent results recorded by the Corporation in the year 1970-71, my thanks are due to every member of the staff of the Corporation at the Administrative level and our Development Officers and Agents of the Corporation without whose enthusiasm, hard work and whole-hearted co-operation these encouraging results would not have been achieved. The year's results have proved what is possible and thrown open vast vistas for greater growth and greater progress. I look forward to their unstinted support for the noble objectives we have before us of spreading the message of insurance to all sections of people, particularly the weaker sections of the community, who need this protection most.

The motto of the LIC is "Yogakshemam Vahamyaham" i e "Your Welfare is My Responsibility". The welfare of the nation should be the obligation of the Life Insurance Corporation through millions of people assuring with it. The Trusteeship concept should be extended not only to cover the safety of the funds but the confidence that it should create of being the trustee for all widows and orphans; the strength and size of the LIC should be used in extending friendly assistance to everybody associated with it. Its symbol of two hands covering a burning lamp representing security, both our Development and Administrative wings will have to take care of, and it shall be our joint endeavour to see that this lamp of security burns in every home. As long as there are homes without this lamp of security, it should be a sad reminder to us of the existence of poverty which, with all our combined efforts, we have to fight.

We in the LIC re-dedicate ourselves to these tasks.

Polychem Limited

Statement by the Chairman, Shri Ramdas Kilachand

THE following is the Statement of Shri Ramdas Kilachand, Chairman, Polychem Limited, for the Fifteenth Annual General Meeting held in Bombay on Wednesday, September 1, 1971:

To the Members,

The Directors' Report and the Statements of Accounts for the year ended 31st March, 1971 is sent herewith.

Production and Sales

Progressive increase in the production and sales of the Company was maintained for the third year in succession, the percentage growth over the last year being of the order of 20 per cent. This growth rate has enabled the Company to operate its plants at about 80 per cent of their capacities. However, certain problems continue to exist, chief amongst which are:

(a) Indequate and erratic supplies of two major raw materials, petrochemical ethylene and benzene;
(b) Late receipt of licences required for procuring imported chemicals and spares; and
(c) Frequent power failures and inadequate water supply.

Even though we have made all arrangements to receive and unload ethylene and benzene expeditiously, no significant improvement has been achieved in the supply of these raw materials. The supplies could have been better if usual norms of customer obligations and interests were kept in view despite problems, if any, at the suppliers' end.

Increase in sales of Polystyrene was followed by increased sales of alcohol, ethylbenzene and styrene. It was indeed unfortunate that though best terms as regards both price and credit were offered, one of the largest consumers of styrene failed to lift the offered quantities of styrene for reasons of their own.

Production costs during the current year show an upward trend owing to rising costs on various items of expenditure such as raw materials, salaries and wages, utilities, transport, etc. The sales turnover, however, during the first quarter April-June 1971 is about 15 per cent higher over the corresponding period last year and if the same trend continues, the overall working results during the current year are expected to be satisfactory.

Export

It is gratifying to report that our products have been very well received in the foreign markets and increasing inquiries are being received not only from the previously established markets but also the new ones. While the export business was picking up momentum, it is unfortunate that the duty drawback on Polystyrene allowed earlier has been withdrawn from February 1971. Based on duty drawback in force, efforts were made to increase our export business and contracts to that effect made. The sudden withdrawal of the above referred to incentive removed the vital basis on which such commitments were made and which had to be honoured to maintain the good image of our Company as well as the country. Representations have been made to the concerned authorities to make available the benefit of duty drawback on these transactions.

It has also been stressed that unless adequate incentives are given it will be difficult to maintain the export business which has been built up at great effort and cost.

One of the most vital factors which help and expand the exports is a sta-

ble export policy. Frequent and sudden changes in export policies act therefore as a great retarding factor. *Export policies should be designed to continue unchanged for at least five years and sufficient advance notice of intended changes is most essential giving enough time to exporters to do the spade work to maintain continuity of exports.*

Besides offering adequate cash subsidy there is another way of promoting exports of Polystyrene or other products for which benzene is the basic raw material. Under present conditions, the indigenous demand of benzene is much lower than the production capacity established in the country. As a result, efforts are being made to export benzene at prices far below those charged to the indigenous consumers. If such benzene instead of being exported is made available to the indigenous producers of polystyrene and other products at international price, there is considerable scope in increasing the exports of benzene-based products and earning foreign exchange several times that possible to earn by exporting benzene. In case of exports of polystyrene, the foreign exchange earned will be four times. Despite this and the fact that the Ministry of Foreign Trade and Export Promotion Council have approved and recommended this approach, it is unfortunate that producers of benzene in the public sector have not implemented this recommendation. It is strongly urged that steps are soon taken to do the needful in this behalf.

It is indeed a pity that such a situation exists when it is the pronounced policy of the Government to increase exports of non-traditional commodities to earn more foreign exchange so badly needed for our increased development efforts.

Priority Industries

You are aware that the last Finance Act omitted the Petrochemical Industry from the list of priority industries. 8 per cent rebate allowed on taxable profits of the Styrene Industry, being one of them, will cease with effect from the current financial year. Also the development rebate presently allowed is sought to be withdrawn for all plants built after May 1974. The development of Petrochemical Industry which is highly capital intensive is in the initial stage in our country and both these fiscal incentives need to be continued for at least sometime to come for the rapid establishment as envisaged and planned.

While on one hand, the Government proclaims that the tempo of industrial development should be speeded up not only for achieving greater growth rate but also for making up the shortfalls which occurred during the initial years of the Fourth Plan, the fiscal policies on the other hand are so changed that I am afraid it may considerably slow down the pace of industrial investment and development.

The vital and imperative need presently is to achieve increased production in almost all fields and sectors of industry as quickly and as efficiently as possible. For this to happen, all unnecessary procedural and other bottlenecks need to be removed in respect of granting industrial licences, approving import requirements and several other approvals required to be taken at both central and state government levels. There is so much to be done on all fronts that whoever is able to contribute his mite, irrespective of a large or a larger house, dominant firm or otherwise should be freely allowed to do so. This is the only way the entrepreneurship base can be broadened which indeed is a very laudable objective. It is incomprehensible that with the extensive powers that Government already possess in its legislative armour, what was the need of passing new acts such as The Monopolies and Restrictive Trade Practices Act, 1969 which by experience has been found to slow down further the entire administrative machinery responsible for giving the numerous approvals? It is time that this is reviewed in the larger interest of development of industries.

Research and Development

I am happy to report that the construction of the Pilot Plant for the production of Divinylbenzene and Potable Liquor Manufactory for which the entire process and engineering knowhow were developed by the Staff of the Company is nearing completion. Both the Plants are expected to be commissioned during the current year.

R & D efforts in other fields are also in progress, including those involving fabricating sophisticated processing machineries. One such example is the building of a continuous vacuum forming machine. Though it is fully automatic and is comparable in its performance to a similar imported machine, it has been built based on the designs developed by our staff and requiring no imported components. Disposable articles in Polystyrene such as ice-cream cups, coffee cups, trays, tote box inserts, etc, which can be made on this machine have a big potential in the country.

The Company has also successfully implemented another research project in which Defence Department is keenly interested and is happy about our contribution.

R & D activity is an expensive one and there will be incentive to continue and diversify it only if the fruits of such efforts are permitted to be utilised by its sponsors without any inhibition ideological or otherwise. Also it is important that small amount of foreign exchange that is needed for importing speciality instrument and chemicals is freely made available. If the necessary changes in present policies are made to take care of the above two points, it will go a long way to put to use the excellent talent which is available in the country to develop the indigenous technology, at a rapid pace.

New Projects

I regret to report that there is very little progress on our Industrial Licence application which sought to establish a large merchant Styrene Plant and other plants for Styrene-based polymers at Koyali. Our project is one of the downstream units in the Koyali petrochemical complex and its progress is tied up with several of the other projects including the Naphtha Cracker. We are well geared to go full steam to establish this project and bring it on commission in record time and concurrent with the start-up of the Naphtha Cracker if an expeditious clearance is given to our Scheme.

The Letter of Intent which was granted for the establishment of ABS Resins Plant in Bombay has been cancelled by the central government after a delay of about three years since the proposals were submitted. The Company, however, has made a fresh application for inclusion of the ABS Resins Plant in our Koyali Project as it integrates ideally with the latter. The Government has viewed this proposed integration as technically sound and it is hoped that the whole scheme including ABS Resins Plant will be aproved soon.

Diversification and Scale Economics are the important factors to impart vitality to the industries established which in turn will not only help reduce costs, encourage self-sustaining growth and improve export capabilities but also spur the establishment and expansion of ancillary industries in the Small-Scale Sector which cater to the needs of the large industries. The objective of rapid industrial growth in the Small-Scale Sector and broadening the base of entrepreneurship, can thus be achieved not by denying but by encouraging the expansion and diversification of the companies which can do so by using their resources and expertise. Future of our industry as well as many other industries is therefore largely dependent upon to what extent we are allowed to play our role and whether to the best of our capabilities.

Finally, I would like to conclude this Statement by expressing our thanks to the staff members of both the Company as well as the Selling Agents who have worked sincerely and efficiently leading to the betterment of the Company. Thanks are also due to our esteemed customers for their increased interest in our products.

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

Premier Tyres Limited

Speech of the Chairman, Mr Chandrakant S Desai

THE following is the Speech of the Chairman, Mr Chandrakant S Desai, at the Eleventh Annual General Meeting of Premier Tyres Limited, held in Bombay on Tuesday, August 31, 1971:

Gentlemen:

I have great pleasure in welcoming you all to the Eleventh Annual General Meeting of the Company.

Our Statement of Accounts for the year ended 31st March, 1971, and the Directors' Report thereon as also the Notice of this Meeting have been in your hands some time now and with your permission, I take them as read.

Before I proceed to review the Company's operations, I wish to take the opportunity of expressing on behalf of the Company, its Shareholders and myself, our hearty congratulations to the Prime Minister, Smt Indira Gandhi, on the victory in the recent General Election to the Lok Sabha. We wish her and her colleagues in the Government success in meeting the challenge of the times and in achieving the much desired economic progress of the Nation.

Economic Survey

It is not in the sphere of our political life, only that the past year has been extraordinarily eventful. The Fourth Five-Year Plan has been launched after a number of careful revisions and the Planning Commission itself has been reorganised. The Revised Industrial Licensing Policy, announced earlier last year, has now been formulated and its working has shown that it can be made elastic as well as more expeditious in its operation. Indeed the Government is still at pains to make it more effective by taking steps to avoid procedural delays.

Picture of our economy as a whole has been undergoing a significant change. The national income totalled Rs 17,995 crores and the per capita income Rs 339.4 in 1970 as compared with Rs 17,057 crores and Rs 329.9 in the previous year. What is of significance in these figures is that the structure of the net domestic product has been changing during recent years. The relative contributions of the Secondary and Tertiary Sectors have been increasing while that of the primary sector has been going down. In terms of figures, this transformation means that whereas in 1961-62 the primary sector (comprising agriculture, forestry, fishing and mining) accounted for 52 per cent of our net domestic product, in 1969-70 it contributed 45 per cent. As against this fall, the share of the other two sectors—manufacturing, construction, etc, rose from 19 per cent to 22 per cent and that of trade, commerce and services rose from 29 per cent to 33 per cent. My object in dwelling on this aspect of our progress is to emphasise that the share of industrial output in our National product has during the past ten years undergone a very sizeable as well as a significant increase. I can stress the importance of this increase in yet another way by referring to the marked increase of 8.3 per cent on our exports in 1970-71 as compared with the previous year. It will be conceded that the Fourth Plan target of 7 per cent annual increase in our exports has thus been notably exceeded. In fact encouraged by this excellent performance on the export front, our Ministry of Foreign Trade has now put up its target for the current year to 10 per cent. I need hardly add that this good performance on our export front changed the mood in the country from one of despair to that of confidence. It was on such a mood that our Budget this year in last May had the distinction of being the biggest ever. It envisages a massive tax effort of Rs 220 crores in the remaining part of this year and Rs 294 crores in a full year, while laying emphasis also on savings, both in the individual and corporate sectors. I believe the withdrawal of Development Rebate for new enterprises and expansions of existing units in Capital Equipment installed and operative after end May 1974, will hardly go to achieve this object. On the one hand, as I have shown, there has been a healthier outlook of our economy, a steadier performance of our industrial sector, on the other hand a sudden withdrawal of a proved incentive that I have mentioned above is hardly calculated to add to the favourable climate for new enterprises.

But scarcely had the Budget debate come to an end when we came to face a stupendous problem whose magnitude is growing almost daily and whose complexities spread for beyond the precincts of our subcontinent. I know we are all seized of this problem—I mean the problem of Bangla Desh and of the Refugees. While we are all getting increasingly conscious of its almost incalculably great impact on our economy, I wish to seize this opportunity to make an appeal to my countrymen that we get back to the mood of 1962 and 1965 when this country rose as one man to accelerate its industrial output. Let us remember that we can sink our differences in times of crises and show both to our denigrators and to the world that when we will, we can tap our latent energies and raise our production potential.

I would in particular appeal to our friends in the labour sector in this regard by referring to one more aspect of our problem. With a total of 7 million workers in our large-scale industries we lose nearly 19 million man-days annually—while a much smaller country, West Germany, with a labour force of 11 million loses only a quarter of a million man-days through stoppages of work. All that I would say is that under the conditions I have described above, no country can afford to have such frequent stoppages of

work and we can ill-afford under-utilization of our production capacities.

ACCOUNTS

The year under review has brought about best results so far in terms of Production, Sales and consumer-preference. As compared with the sales of Rs 7,23,31,551 in 1969-70, our sales for the year under review amounted to Rs 15,41,52,087 showing a rise of over 100 per cent. Profit, after providing for depreciation, amounted to Rs 1,08,38,723 as against Rs 17,12,754 in the preceding year. After adding thereto the excess provision of development rebate of Rs 19,83,124 there is a balance of Rs 1,28,21,847. Deducting therefrom the amount transferred to Development Rebate Reserve Rs 7,54,111 Provision for taxation Rs 63,80,000 and writing off the miscellaneous expenses Rs 5,52,928 the resultant profits amount to Rs 51,34,808 which has been transferred to the General Reserve.

LABOUR

We are happy to note that labour-management relations during the year and so far have continued to be cordial. For the first time in our history during 1970-71 there was one majority Union and many of the problems which were created by inter-union rivalries did not exist. As such the understanding and harmonious relationship established between the two has resulted in substantial increase in production and sales and take-home wages and we fervently hope in the interest of all concerned that this happy relationship shall continue uninterrupted as it would lead us to the path of greater progress and prosperity for all.

FINANCE AND DEVELOPMENT

During the year under review the Company repaid loans aggregating to Rs 10,75,223 according to the Schedules of maturity.

We have obtained a second sub-loan of Rs 17,95,238 out of (AID) Loan from the Industrial Finance Corporation of India to meet the cost of imported equipment for the implementation of our Licence for 60,000 Automobile tyres and tubes each per year. There has been a further addition of Rs 55,31,965 in respect of our capital expenditure. In my last year's speech, I had referred to the Letter of Intent which we had obtained from the Government of India to expand the capacity of our Automobile tyres and tubes to 6 lacs tyres and tubes each per year. Necessary steps have been taken to put through this proposed expansion. The Industrial Licence issued to us for manufacture of 2 million bicycle tyres and tubes each per year for which the Industrial Credit and Investment Corpn of India Ltd have sanctioned to the Company a loan of Rs 49 lacs, is also being implemented. Our application for the import of machinery for bicycle tyres and tubes is pending for clearance from the Chief Controller of Imports and Exports in New Delhi. Our production of Scooter tyres and tubes is proceeding very satisfactorily. Our tyres have continued to enjoy a high consumer-preference particularly the 'Lugmaster' Nylon and 'Super Mileage' Rayon Tyres which we have introduced lately. Our Scooter tyres as well as ADV tyres have been very satisfactorily received in the market.

EXPORTS

During the year under review we have achieved a much better performance in our exports as compared to the preceding year. Our products have been exported to Syria, Kuwait, Cyprus, Mauritius, UAR, Iraq, Jordan, Poland and East Germany. The total FOB value of our exports was approximately Rs 20 lacs, which in terms of internal price works out to about Rs 46 lacs without excise duty. Our efforts are continuing to explore avenues for export of our products to various countries abroad.

GENERAL

In January 1971, the Automobile Tyre Industry voluntarily reduced the price by Rs 7 on larger sizes tyres for supplies to replacement market. The automobile tyre market in general has continued to be quite satisfactory. The demand for all our products was highly encouraging. Due to strike in one of the Units and restrictive production on account of power cuts and labour trouble elsewhere there has been a marginal shortage of automobile tyres in the country.

ACKNOWLEDGEMENT

Before I conclude, I feel much grieved to report the sad passing away of Mr A L Freedlander, Founder, Dayco Corporation, our erstwhile Technical Collaborators. This sad event was followed by the demise of Mr R B Jacob, Chairman, Dayco Corporation, two days after passing away of Mr A L Freedlander. We extend our heartfelt condolences to Dayco Corporation for the very grievous loss suffered by them.

I extend my sincere thanks to all my patrons, dealers and customers, to the Financial Institutions and our Bankers with whose co-operation and encouragement we have been able to achieve our target and maintain the march of progress.

Our thanks are also due to the Government of India and particularly to the state government of Kerala for all the assistance and encouragement accorded to us from time to time. I should also thank all my colleagues on the Board and our Technical Collaborators, UNIROYAL, for the continuous co-operation and guidance extended to us.

On behalf of my colleagues on the Board and myself, I take pleasure in offering our thanks to 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 resume my seat I take it my duty to thank all our Shareholders whose confidence and goodwill we have continued to enjoy and specially those of you who have taken the trouble to attend this Meeting.

JAI HIND

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

Jay Engineering

JAY Engineering's better results for the year to March last, in spite of a long production stoppage at Calcutta factories, goes to vindicate the company's policy of geographical diversification. The rapid increase in production at the Hyderabad and Agra units was possible because of the good relations with workers there. The Chairman, Charat Ram, feels that these units are bound to become increasingly significant in the company's future operations. He points out that the company, along with the industry as a whole, faces the problem of finding adequate working capital as a consequence of government policy. Moreover, he points out that costs of production are increasing constantly because of spiralling governmental levies, increase in freight rates, and other secondary factors. By the chairman's estimate, this year's budgetary levies are likely to increase the company's costs by over Rs 40 lakhs a year. He suggests formation of 'consumer associations' for resisting increases in taxes by Government and irrational price increases by manufacturers.

ECONOMIC AND POLITICAL WEEKLY

Founder-Editor: Sachin Chaudhuri

Vol VI No 38 September 18, 1971

Chavan's Shadow — Sauce and Sausage—Areas of Non-Action —Craze for Crassness? 1990

Business 1993

Companies 1995

Capital View 1997

From Our Correspondents

Structural Syndrome in Science Policy —R S Ganapathy 1997

South: Kerala Coalition —Mohit Sen 2001

Kuala Lumpur: Peking Picks a Friend —Harish Chandola 2002

West Germany: The New *Weltpolitik* —Aswini K Ray 2003

Official Papers

New Directions in Aid 2007

Back to the Gold Cross? 2009

Special Articles

Depreciation and Current Repairs in Income-Accounting: Independent or Interdependent? —A Bagchi 2011

Sino-Indian Relations —T Karki Hussain 2017

Democratic Interlude for Nation Building: Fifth Lok Sabha Elections —Iqbal Narain 2023

ECONOMIC AND POLITICAL WEEKLY

Skylark 284 Frere Road Bombay 1

Phone 26 60 72

Editor

KRISHNA RAJ

Assistant Editors

Rajani X Desai, Jawid Laiq

Business Manager: A Fernandes

Circulation Manager: Shiv Patil

Editorial Staff

Colin de Souza, Haresh M Advani

Shireen Heerjee, Ashok Rao

The Choice

IT is indeed curious, to say the least, that at last Thursday's meeting of the Political Affairs Committee of the Cabinet, called to discuss the precarious economic situation brought about by the steadily worsening stagnation of industrial production, one of the major proposals reportedly advanced by the Finance Minister was that public sector Plan outlay be cut by 5 per cent. The exact size of the cut is immaterial; what is significant is that an influential section of opinion in the Government should be thinking of curing the recession in industry by cutting back public investment—and that after a succession of years when public investment has unfailingly lagged behind Plan targets.

Naturally, the issue is not posed so simply or directly. The Finance Minister and others in the Government who take this position do so ostensibly on the basis of a two-part assessment of the current economic situation. First, it is suggested that the private sector, especially the larger entrepreneurs, have simply lost interest in industrial investment. At the meeting of the Congress Working Committee on September 9, the Finance Minister was reported as having said that "lack of initiative and co-operation" on the part of industrialists was responsible for the stagnation in industry. Following from this, it is suggested that a variety of policy concessions are needed to revive the initiative and win the co-operation of industrialists, including relaxation of industrial licensing restrictions, soft-pedalling of the Monopolies and Restrictive Trade Practices Act and holding in abeyance of the newly-issued directives about conversion of loans into equity, apart from the more perennial lollipops like liberal bank credit and generous imports. The other relevant aspect of the official assessment of the economic situation is that because of the expenditure on the refugees from Bangla Desh, the Government would not have the resources to carry through the public sector investment programme envisaged in the 1971-72 Plan. The Finance Minister has repeatedly asserted that there is no scope at all for additional taxation. Hence, the cut in the public sector Plan.

To take the first of the two points, what is striking is how different the Government's current assessment of the outlook for private sector investment is from what it was just a few months ago. The Economic Survey for 1970-71, released towards the end of May, had found definite evidence of "an upward trend in activity" in the small-scale sector and also a "number of pointers" indicating that "in the large-scale sector too entrepreneurial interest has been steadily on the increase". In support, the Survey had referred to the uptrend in capital issues, in the lending activities of the term-financing institutions, in the number of applications for industrial licenses and of licenses and letters of intent issued, in the value of approvals by the Capital Goods Committee and in imports of raw materials and components. The evidence was indeed overwhelming and the Economic Survey's verdict in the matter deserves to be quoted: "While developments in the private sector must be considered to have been on the whole encouraging, the fact remains that ... much greater support is required from public sector investment ...". The Survey, therefore, asked for "an improvement in the magnitude of public investment" to "provide an impulse and quicken the pace of activity" in industry. And yet we now have the Finance Minister making a case for a cut in public investment.

The argument about lack of resources compelling a cut in public sector investment similarly deserves closer scrutiny. True, the Government's resource position is difficult. As the note on credit policy that follows points out, net bank credit to Government is currently around Rs 580 crores against only Rs 80 crores last year. At the meeting of the Political Affairs Committee of the Cabinet, the Finance Minister reportedly warned that the Budgetary deficit in the current year would be Rs 600 crores against the Rs 220 crores provided for in his Budget. It is also a fact that prices have been rising. But none of this constitutes a case for shifting the burden of investment from the public to the private sector. One need not labour the argument that additional investment, whether in the one sector or the other, would draw upon the same supply of real resources. Even in financial terms, there are no substantial sources available to private industrialists but inaccessible to the public sector. The bulk of the finance for private investment in industry comes out of the term-financing institutions and the banks. The argument that even as stringency of resources forces a cut in public investment, private investment needs to be spurred by incentives and policy relaxations thus fails to convince.

However, the official views expressed at the meeting of the Political Affairs Committee of the Cabinet may have an explanation altogether different from the one actually advanced. There has been, in fact, no startling change for the worse in the outlook for private investment since the Economic Survey's optimistic assessment. On the other hand, it is, to use the Finance Minister's phrase,

"lack of initiative" on the part of the public sector which has brought the economy to the present sorry pass. The poor performance of the majority of the public sector industrial units and the deficiencies in their organisation and management are well known. But the failure in regard to the public sector goes beyond that. For the last several years, including after the launching of the Fourth Plan, there has been little of systematic mapping out of areas of industry for public sector investment and even less of detailed preparation of projects to be taken up in the public sector. The results have been evident in the regular shortfall in public sector investment year after year. This year, too, the stringency of resources on account of the Bangla Desh refugees provides only an excuse for an inevitable shortfall in public sector investment which would have been, as in past years, the result of this basic planning failure. In other words, after twenty years of planning and trying to push the public sector on to the "commanding heights" of the economy, is the stark choice the country faces one between accepting a near-zero rate of industrial growth and making special efforts to induce the private sector, especially the such-maligned large houses, to invest and produce more?

Credit Policy

Chavan's Shadow

Ottuketkal writes:

MINT ROAD has capitulated to the suasions of Finance Minister Chavan who evidently believes that credit policy should be liberalised to boost production and contain inflation. This is clear from two circulars issued by the Reserve Bank to commercial banks this week. Both circulars have one thing in common: they say one thing and mean another.

The first circular, relating to credit policy for the immediate future, apparently reflects the Reserve Bank's concern over excess liquidity with the banks in a situation in which the general price level has been boosted by net bank credit to Government (deficit financing) of the order of Rs 580 crores so far this year against Rs 80 crores in the corresponding period a year ago. The facts are: between the end of April and September 3 this year, bank deposits increased by Rs 469 crores against Rs 307 crores in the corresponding period a year ago, bank credit rose by Rs 100 crores against Rs 146 crores and banks' investments in government and approved securities went up by Rs 154 crores against Rs 153 crores. Despite additional deposits, investments have not expanded and the banking system remains a debtor to the Reserve Bank to the extent of Rs 80 crores against Rs 195 crores.

The Reserve Bank has called upon banks to repay their borrowing from it and expand investment in government securities. In asking for the first, the Reserve Bank has told the banks that advances to export, small industry and agriculture should not be adversely affected — that is, the very advances against which banks are entitled to preferential refinance from the Reserve Bank. In addition, they have been told to take care of "urgent" working capital needs of industry (undefined) and liberalise advances to the tea and jute industries. In other words, banks are not expected to take the notice to repay their borrowing from the Reserve Bank seriously.

However, banks are expected to pay attention to the Reserve Bank's circular relating to the need for larger investments on the ground that banks must "conserve resources" for the coming busy season, commencing October. How much should they conserve in order to lend how much in the busy season are questions that have been left unanswered in the Press Note on the Reserve Bank circular. After all, central banking is a delicate operation which cannot be conducted in public or even according to a prescribed manual!

The plain fact is that the second tranche of the Centre's market borrowing programme for the current year is now due. The Budget estimated a gross borrowing of Rs 500 crores. Of this, Rs 400 crores have been already tapped with heavy Reserve Bank subscription. The second tranche, judging from Chavan's plea about the limits to the use of taxes to raise resources, might be larger than the residual amount of Rs 100 crores. Whatever the size of the next floatation, banks are expected to invest more.

On the face of it, there is nothing wrong with the Reserve Bank asking the banking system to invest more in government securities. In fact, the Reserve Bank had decided to raise the liquidity ratio, including its sizeable investment component, during the Fourth Plan period, but this is to be done in gradual stages lest it strain the bank credit. If the Bank is now asking banks to put in more of its funds in dated securities, the reason for it is that they have not kept (the State Bank excepted) a sizeable cushion above the statutory minimum.

However, as already noted, a part of the additional deposits now sought to be conserved through investments has resulted from heavy deficit financing. Further, against the investments the banks make, they are eligible to borrow from the Reserve Bank. In other words, the Reserve Bank is seeking to ensure central bank credit to the Government via the 'investment' account of the commercial banks. It may be argued that the excess liquidity of the commercial banking system is being passed on to the Government. The rub lies in the fact that the Government is immersed in liquidity.

The second circular relates to the liberalisation of credit to the jute mill industry. Credit has been liberalised for two reasons. First, there has been a bumper jute crop and the farmers' realisation is likely to drop if prices decline sharply. Second, following the disruption of exports from East Bengal, the jute mill industry is in a position to take advantage of unsatisfied international demand. Farm price support is a good enough reason for liberalising credit to jute mills. Accordingly, the Reserve Bank has told the banks to advance funds to mills to enable them to stock raw jute for four months instead of three months as hitherto.

With credit liberalisation, the Reserve Bank has also suspended for the current jute year its prior authorisation scheme. This has been done to ensure the quick flow of advances to mills. Banks are required to report sanctions of new limits to the Reserve Bank and take "necessary" (but undefined) precautions. The Reserve Bank also "expects" the mills (not the banks) to finance raw jute purchases by "adopting the system of usance bills on the letter of credit basis".

Apparently, the jute farmer faces a crisis and credit needs to be rushed to the mills. Against this background, it is hardly relevant that jute mill owners have a reputation for diverting working capital tapped from banks for acquisition of fixed assets. (This is done by pledging raw jute obtained by them on credit with the banks.) Now the mills are expected to desist from this practice of double financing — the mills and trading companies supplying raw jute are generally under common ownership — by resorting to bill finance! This despite the fact that the State Bank's offer to convert the diverted portion of working capital into term loans has not been found acceptable to the jute industry. Questions such as why the Reserve Bank did not tie up fresh limits to its bill market scheme, since it has decided to suspend for almost a year the credit authorisation scheme could be raised only if it were assumed that the Reserve Bank can stand up to political pressures. How realistic is such an assumption today?

Khrushchev

Sauce and Sausage

"IF lack of intelligence is shown on the part of leaders of such states as the USA and the Soviet Union, then it would not only be a calamity for the people of our countries, but for the people of the whole world. A great deal depends on the mutual understanding betwten our two states." We have seen so much of the Soviet-American *detente* that the quotation would appear to be really from a bygone age. Yet it is well to remember that it was barely a decade ago that Khrushchev said this to visiting American journalists. Khrushchev's major contribution was the Soviet-American *detente* and it is a measure of his achievement that it still is the mainstay of the international system.

In spite of the rather modest funeral that the ebullient Russian has been given, his successors cannot deny that they have benefited from the new trend that Khrushchev introduced in Soviet foreign policy. What was this new trend? Its standard description is the policy of peaceful co-existence. However, this may not be an accurate description, as Stalin himself had introduced the element of peaceful co-existence in Soviet foreign policy. In his last work, "The Economic Problems of Socialism in the USSR", Stalin conceived of contradictions and conflicts within the capitalist bloc which would lead to the worldwide triumph of communism. It followed that co-existence with the capitalist states would not be a hindrance but might in fact accelerate the process. In other words, Stalin himself was preparing for the change in tactics.

How then does Khrushchev's concept differ from Stalin's? Peaceful co-existence meant something different for the West from what it meant to Stalin. Khrushchev was aware of this difference. After meeting President Kennedy in Vienna in 1961 he described the Western idea of peaceful co-existence thus: "This would mean that if a people in some country wished to alter the socio-political system, this should not be allowed to happen". It is his relative tolerance of this Western interpretation of and attitude towards peaceful co-existence that distinguished Khrushchev's approach from Stalin's on the one hand and from that of the Chinese on the other. It was to meet this new situation in international affairs that in domestic affairs Khrushchev talked of "the state of the whole people" where class-contradictions had disappeared. This contribution to the Soviet lexicon was meant to rationalise the *status quo* orientation of peaceful co-existence. One has only to look at these two concepts together to understand what far-reaching changes Khrushchev succeeded in bringing about within the Soviet Union.

Now the man is dead. The ideologue of the post-Stalin Soviet Union is dead. His impact on the Soviet Union and the world at large has been stupendous. However, he will also be remembered for his ebullient sense of humour which has been missing in Soviet leaders after him. Who will forget his famous quip "What sort of communist society is it that has no sausage?". When Harriman remarked that he thought Khrushchev's word was law in the Soviet Union, Khrushchev come out with a terse reply: "It is, but there is always a way of getting round the law". There can be endless debates on Khrushchev's role and contribution, but almost everybody had missed this dynamic, impatient and ready-witted statesman since his fall in 1964. The spirit was missing for over eight years. Now even the man is no more.

World Bank

Areas of Non-Action

THE World Bank's latest Annual Report is an impressive document. At a time when international aid has been losing momentum everywhere, the Bank Group has not only maintained but has actually more than doubled the volume of its lending — from an annual level of around $1 billion four years ago to the present level of over $2.5 billion. Equally significant, the report reveals the 'managerial dynamism' — the increased capability of the Bank to take on new challenges and to enter fields once considered the preserve of over-zealous, and often under-developed, economists and sociologists, e g, education planning, population control and research.

The Bank has also shown ability to learn from experience and to change its policies to match the acquired learning. In the field of education, for example, the Bank, contrary to its past policies, did not hesitate to accept the suggestion of the Pearson Commission to make funds available for research and experimentation "with new techniques, including television and programmed learning". For all this, a great deal of the credit goes to the Bank's President, Robert S McNamara.

Unfortunately, the Report also contains instances of non-action or retrograde action on certain matters of intetest to developing countries, for which one must feel more than a little sorry. Take, for example, the question of non-project (or 'programme') lending. A number of developing countries have been pressing, with hardly any success, for a relaxation of the Bank's 'projects only' rule. Last year, in response to the Pearson Commission's favourable recommendation on the subject, the Bank undertook a review of the question only to arrive at the conclusion that "the Bank and IDA had a well-established role and were particularly well qualified for financing projects . . ." (p 29). This conclusion, one suspects, showed more deference to the preferences of the powerful industrialised countries than to development economics.

Measures to stabilise the prices of primary commodities have been intensively discussed over the last 20 years — with little result. Three years ago, the Board of Governors of the Bank finally recognised it as the important problem that it was, and requested the Bank to work out schemes for stabilising commodity prices, including buffer stock financing. The proposals for action that have emerged from years of study and deliberation are, however, unlikely to set the Potomac on fire. The Bank would support agricultural research, intensify its work in market analysis and price forecasting, intensify co-operation with the Coffee Diversification Fund, and pay increased attention to problems of diversification in its economic reports. As for financing, "no immediate need was found for buffer stock financing beyond that available through the International Monetary Fund" (p 34).

Another idea that has been given a quiet and elegant burial is that of making available supplementary fin-

ance to less developed countries experiencing unexpected export shortfalls. The UNCTAD has been pressing for some such arrangement and by a unanimous resolution had (in 1964) requested the Bank to take some action in the matter. Many of the industrialised countries do not much favour the idea (although they voted for the UNCTAD resolution) and, after much discussion and repeated requests from the UNCTAD, the Bank has finally agreed that "the problem would be kept under review"!

The World Bank's Annual Report also contains a summary of a major study on debt. Concerned about the mounting debt burden of the developing countries, McNamara had last year committed the Bank's staff to a "thorough study of all aspects of the growing indebtedness of developing countries". The study, if it can be judged on the basis of the brief summary contained in the Bank's Annual Report, provides a wealth of information on debt outstanding, debt service payments, grant elements, etc, and is, therefore to be heartily welcomed. However, those who are looking for fresh insights into the problem must feel sorely disappointed.

It is obvious that the debt service obligation of a country is determined by the amount of debt outstanding and the terms of borrowing. The ability to service debt, on the other hand, depends on the capacity of the economy to generate export surpluses above import requirements. The capacity to generate export surpluses in turn is dependent on (a) the rate of growth of exports and (b) the rate of investment. Growth of exports depends on demand as well as supply factors. Rate of investment depends on the rate of saving and how ambitious a country is in its development effort.

It follows that a country, which is doing everything right, can still have a debt problem if (a) it attempts to grow at a faster rate than its debt servicing capacity (at any given set of terms) would permit, or (b) if it is unable to correctly forecast its future borrowing requirements and the period over which it needs to borrow turns out to be longer than anticipated, and because they have tried to borrow and invest more than they should have done purely on the strength of their debt-servicing capacity. Debt problems have little to do with 'inward' and 'outward-looking' policies; any country can avoid a debt problem if it borrows only what it is able to service and faces the consequences of this decision in terms of the pace and direction of development.

Not so for the World Bank. "To a major extent, the origins of debt servicing difficulties should be sought in the borrowing country's management of its economy as a whole" (p 54). As illustrative of good management, the report cites the case of Colombia which, in recent years, "has allowed its exchange rate to depreciate in line with increases in domestic prices, has provided generous export incentives, has pursued an active policy of increasing tax revenues and directing public sector expenditures toward productive purposes and has pursued an effective monetary policy" (p 55).

In a sense the Bank is right. Whatever its policies, a country has no business letting itself into a debt crisis. If it does, *ex hypothesi* it must be regarded as a case of bad management. But does it necessarily follow that a continuously depreciating exchange rate, along Colombian lines, is the only answer to the debt problem? Would it not have been more appropriate and honest to suggest that a country should follow the implications of its chosen development strategy and objectives and borrow only what it can service in line with those objectives?

Cricket

Craze for Crassness?

A Correspondent writes:

BOMBAY has accorded a "heroes'" welcome to India's cricketers on their homecoming from the triumphant tour abroad. Quite in the fitness of things. Concern for cricket comes naturally to Bombay. After all, isn't Bombay the cradle of Indian cricket? And haven't the boys conquered the West Indies for India and, now, England? Besides, not since the visit of the Pope (and before that the Queen) has Bombay had occasion to pour itself out. India, therefore, can safely leave the task of honouring its heroes to this city.

Of course, it is not Bombay alone that goes crazy over cricket in this country. However far removed they may be from one another in miles, mood or manners, the major cities in India all have at least one virtue in common—an ardent admiration for cricket. Come winter, and every home worth its hearth throughout the land will hum with cricket noise. Here, nothing electrifies and engages the elite more than the 'latest' cricket score. Indians' love for cricket cuts across 'provincial' as well as 'party' lines. Was it not a left-dominated United Front government that, alone among the States of the Indian Union, ordered a (half) holiday in West Bengal to celebrate a 'Test' victory? Managements fond of propagating the cause of productivity do not fail to take full five days off to have their eyeful of cuts and drives at the 'Tests' and of course, the fashion parades that go with them. (Does anyone, by the way, keep an account of the man-days we lose in seeing and hearing cricket in a year?).

Squeamishness over "people's" fondness for an innocent fare such as that the glorious game of cricket provides is, surely, out of place, if not suspect. But there lies the rub. Who are the 'people' who can get initiated into the intricacies of 'deeps' and 'fines'? That apart, suspicions about the maturity of a nation does arise if its entire press goes hysterical when the country's team — be it cricket or football — scores a win abroad and hails it as almost the most momentous event of the century. One of the leading dailies even went so far as to remind its readers that England had won the battle of Waterloo on the playgrounds of Eton and Harrow! Tears of joy over the victory of Mohun Bagan over a team manned by nationals of the ruling country were understandable for a subjugated country that India then was. Turning a sports event into an occasion for vulgarly puffing national pride betrays a deep-seated inferiority complex which can earn only ridicule abroad.

What causes pain, though not surprise, is not the national foible — every nation has and is entitled to its own — but the contrast in the quality of the response of the people, and the press in particular, to events. How much more avidly did the 'people' desire to have a ball-by-ball account of the historic match than about how many infants are squeaking in the rain in their mother's lap in the country's eastern borders? How much better informed are our lads — those who 'play cricket', that is — about the statistics of bowling and batting than about how many have died and are dying of cold and hunger on both sides of Bangla Desh or, for that matter, in their own towns? Games surely must have a place — a valued place — in man's life. But it should be a matter for some concern when the fondness for a game degenerates into a fad and blunts the sensibilities that it is supposed to sharpen. If only we, the educated Indians, reacted half as earnestly to the suffering of the homeless as we did to the cause of cricket!

Of course, Bangla Desh is fast becoming a bore. A sleek pictorial weekly of all-India popularity displayed the other day in one of its pages a blood-splattered bed where two young boys were shot in their sleep by Yahya's soldiers. The diametrically opposite corner of the same page showed two girls in a 'see-through dress' selling programmes for a 'sexational' entertainment in London. Even for a remarkably split personality such a quick switch of themes must be a difficult feat, unless of course, sights of blood and death leave one totally unmoved. Perhaps, our crassness towards human suffering and craze for cricket are all of a piece.

BUSINESS

Social Factors in Location Policy

AT a time when every state is competing to attract industry, it is unusual for a local development authority to raise objection to the proposed location of a huge industrial project and suggest that it be located elsewhere. This is exactly what is happening to Dharamsi Morarji's proposal to set up a large complex fertiliser project. The first choice of location for the project is Nhava Sheva across the Bombay harbour, but the City and Industrial Development Corporation (CIDCO), the authority responsible for developing a twin city in the same area, is trying to persuade the sponsors of the project to reconsider the matter.

The project itself has an unusual background. Conceived almost three years back, it has made slow progress, even by our standards. It is entirely based on imports — of rock phosphate, sulphur and even ammonia (whose import is otherwise a preserve of the public sector fertiliser projects). It is the issue of import of ammonia which had held up the project for quite some time. With this hurdle crossed, Dharamsi Morarji is now pressing ahead to finalise the financial arrangements.

In the meanwhile, CIDCO had come into being, with the mandate to set up a major urban complex in an area across the Bombay harbour which covers the proposed location of the Dharamsi Morarji fertiliser project at Nhava Sheva. CIDCO has taken its responsibilities for urban planning seriously. Even before the Dharamsi Morarji proposal came to it, it had commenced taking pollution measurements and had, on that basis, decided to shift the centre of its population base from its original location. Moreover, recognising the concentration of industry in greater Bombay and the need for industrial decentralisation, it has already commissioned a major study on location of industry in Maharashtra as a whole.

The chemical industry is a major source of pollution, and there is no reason why a fertiliser project — with only the port as a major factor in location (given the fact of imports of all raw materials required by the Dharamsi Morarji project) — should be placed in the midst of a major urban concentration. CIDCO is thus cold to the project on urban planning grounds.

But is this all that needs be said about the location issue? Other factors are perhaps of even greater significance. Bombay has already one major fertiliser project at Trombay. Consequently, the major market for the Dharamsi Morarji fertiliser project is likely to be in the southern region of the state.

Maharashtra has been long clamouring for a Konkan railway to develop its hinterland. A project like the Dharamsi Morarji fertiliser project (tentatively, but appropriately named Konkan Fertilisers!) throws up considerable traffic. Dharamsi's initial capacity is 250,000 tonnes of fertilisers, to be doubled to 500,000 tonnes. This involves movement of 1,500 tonnes of fertilisers per day — sufficient to justify a rail link on its own.

Maharashtra also has a port at Dabhol which can be developed to accommodate the Dharamsi Morarji fertiliser project. It is possible, using Dabhol as base, to build up the required port and transport facilities to make the project viable at this location. Some tentative estimates reportedly suggest that, purely from an economic point of view, the location at Dabhol is not commercially disadvantageous to the project.

Immediately, the issue is whether the public authorities are able to guarantee the required infrastructure in time to enable consideration of a shift in the location of the project. Perhaps, with its traditional interest in infrastructure development and its new-found concern for working anti-pollution measures into its project financing, the World Bank could be got interested in financing such a development, thereby overcoming some local bottlenecks.

Of long-term significance is the Maharashtra Government's concern, often vocally expressed, for balanced regional development. The Dharamsi Morarji project — capital-intensive and heavily import-based — with its large demand for infrastructure facilities can be the basis for opening up a region. This would be the main economic justification for such a project. For the first time, the question of location of a project is being considered on broader social grounds — as an issue in anti-pollution policy and as a means for regional development. It is necessary to work out a clear cost-benefit analysis of alternative locations for the project and to take a decision taken accordingly. Clearly, the decision on this project will be an important landmark in the evolution of the approach to regional planning.

Coal

Waiting for Nationalisation

Magnus writes:

THE coalfields are afire — if that is the correct expression — with speculation about the possible nationalisation of some collieries. It has long been known and accepted that we cannot afford to fritter away, or permanently lose, good quality coking coal. About a year ago the Government had announced that it will force small collieries to amalgamate and since then, various ideas and suggestions have been put forward. The current belief seems to be that all collieries which produce coking coal would be nationalised, ex-

cept for captive collieries of the steel companies. The move will affect such leading companies as Bengal Coal and East India. Naturally, the circumstances which led the coal industry to this pass are being critically examined in the coalfields, to see where the trouble started.

Basically, there is no escaping the fact that the coal industry has not made any large-scale investment during the past 15 years. Whether small or large, the private collieries have spent just enough to ensure survival. A leading exception is Indian Iron, which has reputedly invested as much in its Collieries Expansion project as the rest of Jharia put together. The National Coal Development Corporation, despite its other defects, is the only body to have taken bold decisions to tackle deep and difficult coal-seams in a big way. But for this public-sector body even these developments would not have taken place. If NCDC could only work more efficiently, it can force several small collieries out of business through pure competition. The latter could then be amalgamated, merged or acquired by neighbouring collieries, according to circumstances. The NCDC and private colliery companies have done a better job outside the coalfields of Raniganj and Jharia. More coal than ever is being produced from the once-neglected areas of Madhya Pradesh, Maharashtra and Andhra. If Bengal and Bihar had attracted investment in a similar spirit, the story might have been different today.

The last statement immediately brings forth cries of 'instability', 'labour trouble' and so on. These are given as the reasons for non-mechanisation, and to a large extent this is true. The collieries which, just after the War, bought coal-cutting and loading machines from the Western countries find that the machines are maligned by workers. Good maintenance is hard to achieve and spare parts are hard to get. The Mining and Allied Machinery Corporation was set up to supply these very machines but could not do so before the rot set in. Now MAMC itself does not get the orders for spares and replacements which good initial sales would have generated, and is generally in trouble. There is a school which believes that MAMC should have produced (or could even now produce) a good but small line of coal mining machines and sold it at low, or even subsidised, prices in order to get the coal industry really moving. Such enlightened self-interest is rare, but not unknown. If a realistic fuel policy places a sufficiently high coal target, such a scheme has every chance of being successful.

To get back to nationalisation, it is believed that minister Kumaramangalam and his senior adviser are pressing hard, but exactly which combination they select remains to be seen. On the industry's side, it appears that some of the companies would actually welcome nationalisation, as it will put an end to their misery. In the meanwhile some owners have started delaying payments to suppliers in the belief that nationalisation is imminent, and this has further vitiated the already murky business atmosphere in the coalfields. Senior persons from the industry have reportedly started visiting Delhi more often to canvass support for nationalisation. It is presumed that they also push their candidature as head of the forthcoming Collieries Development Corporation, or whatever it will be named. There is general consensus that NCDC will not be given the task of merging and consolidating small areas.

In the wider context of efficiency, it may be possible to ask the larger and more efficient companies to take over smaller contiguous areas. This procedure will reduce the amount of compensation to be paid; it will reduce litigation, and it will reduce government investment. It could also produce genuine competition among roughly equal rivals and thus, presumably, could make available more coal at cheaper prices without spoiling the limited reserves. Whether this logic can be translated into practice is not certain, even if it fits the new socialism.

Cotton Textiles

In Low Gear

THE cotton season which ended on August 31 saw the lowest production of cotton textiles by the mill industry in the last two decades. The lowest output since 1952 was 4,097 mn sq metres in 1967. In the first eleven months of this season, from September 1970 to July 1971, production was only 3,645 mn sq metres. If production in August is taken to have been the same as in July, 346 mn sq metres, the total for the season would come to 3,991 mn sq metres.

A notable feature of the organised cotton textile industry in the last two decades has been that while there has been a progressive decline in the production of cloth, there has been a steady rise in that of yarn. As a result, more and more yarn has been made available to the growing handloom and power-loom industries. Whereas the number of spindles has risen from 110 lakhs in 1951 to 179 lakhs in 1971, the number of looms has remained practically stationary. This year, however, there has been a marked fall in the production of yarn as well. Yarn output touched 965 mn kgs in 1969-70, a figure equalled only in 1965 and never so far exceeded. This year yarn production is likely to reach hardly 900 mn kgs or a decline of 7.3 per cent over the previous year. Production of yarn in the first 11 months of the season was 826 mn kgs and taking production in August to have been the same as in July, 77 mn kgs, the total production in the full season would be only 903 mn kgs.

Given this shortfall in the production of yarn, there has been a corresponding decline in the consumption of cotton by the textile industry. Last year, with a production of 965 mn kgs of yarn and 4,157 mn sq metres of cloth, the industry consumed 63.71 lakh bales of cotton. This year consumption of cotton by the mills in the first ten months of the season upto June was only 49.31 lakh bales and allowing for consumption at the average rate in the last two months, the total consumption in the season would come to about 59.25 lakh bales. This is nearly four and a half lakh of bales less than in 1969-70.

Various reasons have been advanced for the poor performance of the textile industry. One of the factors held responsible is the rise in the prices of cotton of all varieties which allegedly compelled many mills to cut production. This is reflected in the reduction in the number of spindles and looms working. However, the shutting down of spindles and looms may not have been due to high cotton prices alone. During the season just ended, particularly in the latter part of it, the number of mills closed down rose sharply. The number of closed mills which was 68 at the end of last year has now gone up to 83. Another reason for the sharp decline in the production of yarn could be the steep fall in exports of yarn during the first seven months of the current year. Exports of yarn reached 305 lakh kgs in 1970, or an average of 25 lakh kgs a month. But in 1971 there has been a steep fall, exports running at an average of barely nine lakh kgs a month. During the first seven months of 1971, only 63 lakh kgs of yarn were exported as against 218 lakh kgs in the corresponding period of the previous year.

For the 'Common Man'

Hansavivek

POYSHA INDUSTRIAL has been allowed to establish two more units — one in Madras and one in West Bengal. It has also taken, on lease, additional land adjacent to the existing factory, at Ghaziabad, which has already been enlarged to accommodate another printing line and other equipment. At Cochin, the main factory buildings are complete. The factory should be ready for commissioning soon after the monsoon. Printing lines are also being set up at the factory of the subsidiary, Kaira Can, which should make it self-sufficient in printed tinplate sheets. Poysha has concluded long-drawn-out negotiations for collaboration with American Can, whereby many new items will be taken up for manufacture — including beer cans (both conventional and specialised), aerosols and cans with easy opening ends of both aluminium and tinplate. The company has negotiated a further foreign currency loan of US $ 26,500 from ICICI for importing measuring and testing equipment and has secured a licence for importing two coater lines for installation at the Thana and Ghaziabad factories. Negotiations are under way for raising term loans of about Rs 70 lakhs from financial institutions to meet the cost of imported machinery.

The chairman, M R Ruia, complains that supply of tinplate continues to be unsatisfactory. Hindustan Steel and Tinplate Company of India are expected to meet the full demand of the industry for general line containers, but "the same irregularities and a continuously increasing backlog persist, in spite of promises to increase production and improve supplies". The company, he adds, has still to import large quantities of suitable plate from abroad because OTS tinplate is still under experimentation at HSL. Commenting on the increase in duty on imported tinplate from 27.5 per cent to 40 per cent in the last budget, Ruia says: "It would almost appear as if a dead set is being made against tin containers, on the misconceived ideological ground that preserved foods are mere luxuries beyond the reach of the common man". Tinplate prices have gone up by 50 per cent during the last 5 years. Can prices for preserved foods are perhaps the highest in India and account for as much as 30 per cent of the total cost of the end product, points out Ruia.

INDIAN TOOL MANUFACTURERS (IT) has stopped manufacture of electronic items and is disposing of the assets of that undertaking, as Government has not given it 'carrying on of business' licence to continue production commenced last year as a measure of diversification. The Colombian company, Herramientas Daga de Colombia S A, in which the company has an interest, might be closed down and taken into liquidation. When it was started, it was envisaged that the Colombian Government would permit export of drills manufactured by the Colombian company and would put a restriction on the import of drills from outside. The local collaborators, Corporacion Financiera de Calda, tried to persuade their Government to do so, but the latter took no measures. It was, therefore, considered advisable by the shareholders of that company to discontinue its activities. It is also being considered by the general body of shareholders whether or not to take their company into liquidation. IT supplied to the Colombian company capital equipment worth Rs 2,20,369, against share participation. Though provisional share certificate was issued to cover the value of machinery worth Rs 64,872—being the nominal value of 14,416 fully paid-up shares of 10 Pesos each of Herramientas Daga de Colombia S A—, it is now reported by the auditors of that company that final approval of the Colombian Government had not been granted for the issue of shares to IT. In view of this, it has been decided that Rs 64,872, standing to the debit of investment account for the last 2 years, be transferred to sundry debtors and that the total amount of Rs 220,369, standing to the debit of the Colombian company as on March 31 last, be treated as 'doubtful'.

IT has been granted permission for shifting its carbide tips and tipped-tool manufacturing plant to Nasik, for which the building is under construction and the plant is expected to be re-commissioned at Nasik shortly. The company was granted an industrial licence for expansion of capacity for cutters, reamers, and taps. Trial production has commenced at the unit which was established at Nasik with financial assistance from SICOM. The company has also been granted a 'letter of intent' for the manufacture of gear-cutting tools. IT produced good results for 1970-71, with notable widening of margins. Export sales increased by more than 25 per cent over the previous year, even though the company maintained the higher price realisation. Exports during the current year are expected to further improve.

METTUR CHEMICAL is installing equipment for increasing production of rayon caustic soda by 20 tonnes per day, and it expects the expanded capacity to go on stream before the end of March next. Concurrently with this expansion, the company has taken steps to replace in a phased manner some of the obsolete and worn-out equipment at plant number one. The phases are planned to ensure that production is sustained at full level at the old plant too. Erection work of the new semi-commercial plant for bromine at Vedaranyam is going on, and this plant is expected to be in operation soon. During its 34th year ended March 1971, the company's production of caustic soda was marginally lower at 38,426 tonnes because of inadequate supply of graphite anodes. Production of chlorine, hydrochloric acid, and other miscellaneous chemicals, was maintained at a satisfactory level. Output of stable bleaching powder declined by 10 per cent owing to competition and difficulties in getting good quality limestone. Production of chlorinated paraffin wax in the pilot plant has been stabilised, and the product is being supplied to the PVC industry. In chloromethanes, production rose by 15 per cent to 3,294 tonnes. Output of vanaspati and vegetable oil products was lower at 2,756 tonnes (2,933 tonnes) because of fluctuations in groundnut oil price, difficult raw material position, decline in consumer demand, and lack of parity between oil prices and vanaspati prices fixed by Government. Owing to extraordinary weather conditions and unseasonal rains, production of salt at the Vedaranyam and Adirampatnam factories suffered badly. Operations at the former factory have been intensified and an additional area of about 800 acres has been brought under intensive salt cultivation. Export sales of methyl chloride were made systematically during the year, and repeated orders were received.

CALICO MILLS (Ahmedabad Manufacturing and Calico Printing) has received industrial and capital goods licences for the polyester fibre plant, with a capacity of 6,100 tonnes per annum. Government has allocated foreign exchange under the UK credit, and orders have been placed with foreign suppliers. Civil construction work has commenced on site in the Gujarat Petrochemicals complex near Baroda. The new plant for production of 50 tonnes per day of caustic soda went into production at the end of March last. Work on the new PVC polymerisation and PVC processing plants is in progress. During 1970-71, the company and its subsidiaries increased exports by 40 per cent to Rs 375 lakhs. Although total sales were up, gross profit was a little lower owing to reduction in margins on account of increasing costs of production. Research and development activity in the field of chemicals and plastics is being substantially expanded. Additions to capital assets of the company amounted to Rs 424 lakhs. The scheme of amalgamation of Bank of India Ltd with Calico was approved by shareholders of both companies. In view of the guidelines issued by Government regarding bonus shares, the resolution passed at the annual meeting in connection with the issue of bonus shares in the proportion of one share for every two shares held could not be implemented.

J K SATOH AGRICULTURAL MACHINES, a new company, is setting up a project near Kanpur for manufacture of 6,000 power tillers per annum in technical and financial collaboration with two Japanese firms. The factory should go into production by the middle of next year. Of the total estimated project cost of Rs 1.70 crores, Rs 90 lakhs are to come from share capital and the balance by way of a loan from IFCI. The company's paid-up capital is Rs 41.80 lakhs in equity shares, of which Rs 16.80 lakhs is held by the collaborators and the rest by J K Synthetics and Indian directors. The public is being offered for subscription, through prospectus, equity capital of Rs 28.20 lakhs in shares of Rs 10 each and preference capital of Rs 20 lakhs in 9.5 per cent redeemable cumulative preference shares of Rs 100 each. The subscription list will open on September 14 and close on September 24 or earlier, but not before September 17.

AMERICAN EXPRESS and subsidiaries' earnings during the first six months of 1971 ran well ahead of records set during the comparable period last year. Consolidated net income rose 22.3 per cent to $ 42.9 million, or $ 1.80 per share, compared with $ 35 million or $ 1.47 per share for the same period last year. Of the total, consolidated income from operations increased 25.5 per cent to $ 38.3 million. Earnings of travel and financial service activities (other than insurance), continued their growth, with net income of $ 20.7 million — a 13.8 per cent increase over the first half of 1970. Important activities, such as the American Express Card and Travellers Cheques, showed continued improvement, but operating losses of American Express Reservations, Inc, have not yet been reduced, despite continued growth in volume. The Fireman's Fund American insurance subsidiaries showed good improvement in net earnings and underwriting results, with net income rising 31.4 per cent over the first half of 1970 to $ 22.2 million.

The Week's Companies (Rs in lakhs)

	Poysha		Indian Tool		Mettur Chemical		Calico	
	Latest Year 31-3-71	Last Year 31-3-70	Latest Year 31-3-71	Last Year 31-3-70	Latest Year 31-3-71	Last Year 31-3-70	Latest Year 31-3-71	Last Year 31-3-70
Paid-up capital	145	145	75	75	300	300	529	529
Reserves	104	80	127	106	96	85	615	522
Borrowings	515	474	204	198	314	343	1902	1737
of which Term borrowings	83	89	34	40			316	316
Gross fixed assets	372	307	261	260	833	839	2847	2409
Net fixed assets	317	268	120	138	394	449	1448	1124
Investments	14	14	13	11	38	33	45	44
Current liabilities	74	46	36	21	96	105	538	390
Current assets	490	432	310	252	373	351	2264	2108
Stocks	306	305	194	150	219	207	1162	1077
Book debts	179	118	101	100	137	139	1074	1014
Net sales	651	506	272	247	759	701	3564	3212
Other income	45	46	14	10	4	4	46	44
Raw material costs	394	310	83	78	268	252	1158	1001
Wages	86	68	93	87	72	67	556	512
Interest	45	37	19	19	27	31	167	137
Gross profit(+)/loss(—)	54	47	42	19	112	118	342	360
Depreciation provision	16	10	19	16	61	64	115	137
Tax provision	—	—	—	—	—	—	60	119
Net profit(+)/loss(—)	38	37	23	3	51	54	167	104
Development rebate provision	5	10	—	—	24	12	49	11
Transfer to reserves	19	13	18	1	—7	13	44	19
Dividend								
Amount	E11	E11	E3	E NIL	E30	E25	E72	E72
	P3	P3	P2	P2	P4	P4	P2	P2
Rate (per cent)	E10	E10	E6	E NIL	E12	E10	E14.40	E14.40
	P9.50	P9.50	P9.3	P9.3	P6&9.3	P6&9.3	P6	P6
Cover (times)	2.73	2.17	7.00	—	0.77	1.52	1.61	1.26
Ratios (per cent)								
Gross profit/sales	8.29	9.28	15.44	7.69	14.76	16.83	9.59	11.21
Net profit/capital employed	4.97	5.29	5.66	0.79	7.18	7.42	5.48	3.73
Inventories/sales	47.00	60.47	71.32	60.73	28.85	29.53	32.60	31.37
Wages/sales	13.21	13.44	34.19	35.22	9.47	9.55	15.06	15.94

Not a Dull Moment

Romesh Thapar

SO ... Khrushchev is dead. With him passes a major catalytic figure of our troubled times. The Soviet press — and the Chinese! — can ignore the fact of his death, but all over the world grateful people recall his contribution to peace and sanity. Thinking Indians always held him in special regard. If diplomatic and political practice silenced the leaders of many lands from paying their tribute, it was good to know that Indira Gandhi could not be muffled. Her message to Nina Khrushchev spoke for millions all over the world.

There's not a dull moment these days. When the PM is not twisting the ears of an erring minister or preventing a senior colleague from disappearing on a 'global tour', she is visiting border outposts within a few yards of the cease-fire line, the scattered camps of refugees from Sonar Bangla, and the flooded, teeming valleys of the Ganga and its tributaries. In between these visits to reassure the people that their problems have not been forgotten, the attention of the ruling party big-wigs is turned on the traumas of a moribund Congress and its unthinking State-level leadership. In the Capital, we continue to be astonished at the Centre's capacity to deal with the Sukhadias and Brahmananda Reddis even as numerous crises mount.

Several developments give cause for satisfaction, including our incredible capacity to house and sustain so many millions of refugees; but the grim fact of our industrial failure continues to haunt the policy-makers. The growth rate is way below two per cent, and is likely to fall below one per cent this year. These statistics point to grave consequences. An industrial failure at a time when we are printing notes to cope with the expenditure on the refugees could shatter the price structure.

There is little point in putting the blame on certain political parties and their union tactics. The ruling Congress party has not been unaware of the general drift towards industrial failure. Warning after warning has been sounded, but no one has paid heed. Unfortunately, economics is not our Union Cabinet's idea of an absorbing subject. It never has been. But there can be no understanding of the crisis creeping up upon us unless we take a solid look at the mess in which India's industry wallows.

Whether it is the public sector or private sector, the effort of 25 years is in danger of being wasted. This is particularly so in the public sector where a host of managers seem to imagine that the purpose of this sector is to provide them with jobs and perks — an attitude of mind which is now firmly entrenched in the working force. To shake Government and industry out of their stupor will require the bulk of the GOI's time in the coming months. Economics will have to take pride of place in a varied programme.

The theory is being advanced by the organs of the Left that the economy demands radical measures or else it will tend to shut down. The trouble is that Indian radicalism stops at 'take-overs'. How to make the take-overs *work* is conveniently shelved. Steel production is mortgaged to inter-union rivalry. Banks perform at their lowest possible efficiency. The call for 'bundhs' is given even though the impact on the local economy is disastrous. Maybe, our ministers should find out from the Soviet leaders what they do about such failures! But, seriously, we cannot play with productivity any more. We are sitting on a precipice.

The consequences of poor performance are now available to the politicians in Delhi. The students have taken to hi-jacking buses in protest against poor services. They are convinced that nothing will be done until they paralyse the inefficient, incompetent Delhi Transport Undertaking. So ... The GOI had better stop the slogan-mongering and perform—or better still, shout slogans, practise them, and perform. Then we would have relevant radicalism.

September 13

FROM OUR CORRESPONDENTS

Structural Syndrome in Science Policy

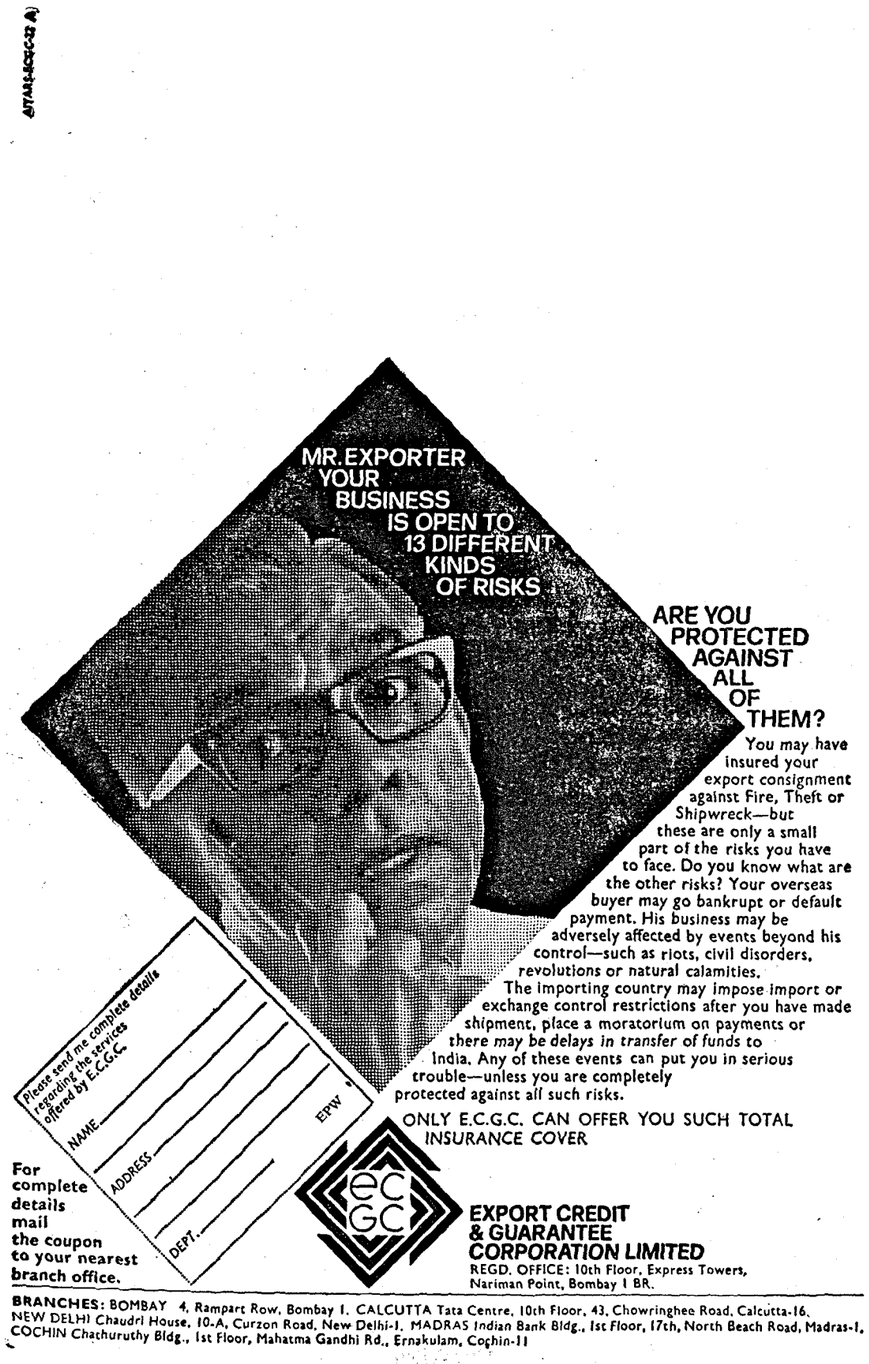
R S Ganapathy

SCIENCE policy is once again in the news. The Sarkar Committee has submitted the final part of its report on CSIR reorganisation. The Union Cabinet has taken a decision to constitute a new National Commission on Science and Technology in the place of the now-moribund COST. Directors of various national laboratories have come together demanding more autonomy, closer interaction between Research and Industry, better pay scales for scientists and association of the national laboratories in the planning for industries. New organisational forms, better administrative procedures and more importance to scientists in policy planning have been suggested. Judging from the proliferation of schemes and suggestions, one could conclude that something is really cooking in the management of science and technology.

Let us look at the relevance of some of these recommendations. That there is a desire to bring about quick change in the goals, policies and management practices of the scientific estate is obvious. But how is the organisational change to be brought about? The recommendations have some common elements. Nearly all of them are structural, universal, procedural or administrative without any reference to the individuals who constitute the scientific system. In other words, the solutions are mechanistic-prescriptive and not organic. It is this characteristic that makes them ineffective for bringing about real change. Let us look at the historical development of scientific organisations in this country before analysing the implications of the recommendations.

Different Histories

There are five major scientific research organisations in the country: The Council of Scientific and Industrial Research; Department of Atomic Energy; Defence Research and Development Organisation; Indian Council of Medical Research and the Indian Council for Agricultural Research. All these five organisations have had different histories of growth. The CSIR



is an independent registered society whose Director-General is a Secretary to the Government directly responsible to the Minister. The Department of Atomic Energy is a full-fledged department of the Government under the Prime Minister, the Secretary of which is also the Chairman of the Atomic Energy Commission — the policy-making body. The Defence R and D organisation is a part of the Defence Ministry and its Director-General is a Secretary to the Government. The Indian Council of Medical Research and the Indian Council of Agricultural Research are independent grant-in-aid bodies under the respective ministries; but the Directors-General do not hold any Government position.

Of these different organisations the Department of Atomic Energy has grown rapidly and is considered to be the most effective. Even though it is a Government department, it has a considerable degree of autonomy and has close linkage with the highest decision-making authority in the Government: the Prime Minister. The CSIR, even though technically independent of Government, is very bureaucratic and is considered ineffective. We can learn from this fact alone that the structure of an organisation is not the sole determinant of its effectiveness. Yet we find our leaders and committees recommending new structures to replace old ones, ignoring the other determinants of organisational effectiveness!

Faith in Judges

The Sarkar Committee has recommended that the top policy-making body on science and technology (to be called National Commission of Science and Technology or NCST) should be a high powered, compact committee, preferably with full-time members and adequately staffed secretariat. It should be charged with the responsibility of preparing a national plan for science and technology to be dovetailed with the socio-economic plan. The Sarkar Committee was set up only to examine the working of CSIR. Without studying in depth the other scientific organisations in the country, the Committee has proceeded to recommend the structure for a national policy-making body!

The Committee's earlier report examines various appointments, corruption charges and misdemeanours against various CSIR personnel over the past few years and particularly during the tenure of its earlier Director-General. The second report recommends measures to change CSIR organisation. These measures include the abolition of executive councils of laboratories, the regrouping of laboratories under four heads (Chemistry, Physical and Earth Sciences, Engineering and Commodities), the constitution of internal executive committees for laboratories to be assisted by a number of advisory committees on patents, royalties, finance, etc. It also has recommended the conversion of the Central Glass and Ceramic Research Institute, Central Food Technological Research Institute and the Central Leather Research Institute into co-operative research institutes with the participation of industry.

The Committee was headed by a retired Supreme Court judge. In our country, most Government committees on a variety of subjects get chaired by Supreme Court/High Court judges. It is difficult to understand this faith in the omniscience of judges. One can understand committees appointed for conducting a judicial probe or resolving a quasi-legal dispute being headed by judges; but what is the special competence of a judge to evaluate a scientific organisation? Is it that the Government does not trust people from other professions to have the same sense of impartiality, objectivity and fairness as those from the judiciary?

Priority for a Social Plan

The recommendations about the national policy-making body on science and technology made by the COST Conference and the Sarkar Committee have found an ardent supporter in C Subramaniam, Minister for Planning, Science and Technology. It is proposed now to set up (1) a National Commission on Science and Technology and (2) a Board for Natural Resources. The functions of these two bodies are not yet known, but they are to collaborate with the Planning Commission in linking science and technology with economic and social planning. Unfortunately, in our country, there has been no integrated social planning whatsoever. The plan targets are either in monetary or physical terms, but never in social terms. Our planners, for example do not tell us what are the alternative social systems which we could achieve in say 10 years' or 20 years' time. They completely ignore the social institutions, mores and practices which we would have in the future. We seem to be planning only for economic change and not for social change. In this situation no top policy-making body in science can plan for a national R and D effort which would eventually improve the quality of life in this country. The priority should really be to prepare a social plan and then one can search for alternatives in science and technology to bring about the desired social changes.

An organisational model that seems to be particularly popular with many of the scientists is that of the Atomic Energy Commission. This structure is the result of several factors: history, the captive market within the same organisational umbrella for the products of Atomic Energy research, and the special relationship which the late Homi Bhabha had with the then Prime Minister. It is advocated in several quarters that the same pattern of a Government department with a top policy-making commission be adopted for other scientific organisations as well. A new Electronics Commission has been created virtually with the same structure as the atomic energy organisation. Here one observes the tendency in Government to create new organisations without reference to the technology of the tasks to be accomplished, the demands of the environment with which the organisation has to interact and the needs of the individuals and groups who would constitute the organisation. One can clearly see that electronics and atomic energy are completely different technologies, have different environments and different working groups and personalities. Hence an organisation which was suitable for atomic energy at an early point of time could not be suitable for electronics at a different point of time. But this is not so obvious to the top brass in Government who found an easy way out by creating an organisation for electronics which is the duplicate of the Atomic Energy Commission. Such is the force of precedents!

Outdated Model

This tendency to treat casually the creation of new organisations is evident by the fact that the Electronics Commission has been placed under the Cabinet Secretariat like the Department of Science and Technology under which the CSIR functions. There is no logic for this arrangement as the Cabinet Secretariat's main functions are to co-ordinate inter-ministerial activities and cabinet matters. Now the entire character of the cabinet secretariat is being changed, making it into

a super-ministry by placing the department of personnel, department of statistics, department of electronics and the department of science and technology under it.

The preoccupation with organisational structures will result in ineffective scientific organisation, which will in turn give rise to further demands for structural changes. A great deal of research has been done about organisations and organisational change and all the research findings indicate that structure is only one of the factors in determining organisational effectiveness. The decision-making authorities in Government seems to extend the model of the civil services organisation to scientific organisations. In the civil services, closely following the principles advocated by Max Weber, systematic delineation of tasks and authority in an impersonal manner is supposed to create a self-perpetuating organisation. In the atomic energy programme, Homi Bhabha built up an organisation completely opposed to this principle. He believed that the new technology of atomic energy in India could be developed only by the philosophy of 'growing science'. He identified competent individuals in different areas of science and technology related to atomic energy, gave them freedom to organise and build up groups of scientific personnel around them. The highly personalised organisation that has grown as a result of this philosophy is sought to be duplicated for other scientific organisations. This model is no more valid as the science and technology scene is radically different now from what it was in 1948 when the AEC was created.

Culture and Norms

Let us look at the culture and norms of scientists as factors determining organisational effectiveness. Scientext, long years of isolation in the aca- of inquiry unfettered by bureaucratic controls. They also value peer-recognition considerably. In the Indian context, long years of isolation in the academic institutions have created among scientists an 'ivory tower' attitude and they look down upon practical/applied work or consultancy. This attitude-norm is the cause of poor liaison between industry and research. A constant interaction between teaching, research and consultancy is essential for the mutual growth of all the three activities. In the national laboratories and institutes we have neglected the combination of all three activities in one place.

Another characteristic of the Indian scientist is his basically authoritarian nature. There are very few scientists in India today who let the younger people working under them to grow both in the professional and personal senses in an atmosphere of autonomy and flexibility. There are innumerable cases of suppression of meritorious work by the superiors and the organisational culture is similar to that of a rigid hierarchy. A participative or a democratic organisation for many of the scientific institutions is practically unknown. There is also a tendency among scientists to covet administrative posts for career advancement. They do not think that advancement in research is sufficient inducement. Administration instead of being seen as a service function is perceived as a source of power and influence. Achieving any high research position is thus ranked below administrative positions. This is evident from the fact that in many laboratories the concerns of many senior scientists are about retirement, extension of service, perquisites, status, grades of pay, etc. This norm needs to be changed if science is to grow in this country.

In many of the laboratories, interpersonal problems and politicking has assumed rampant proportions affecting productivity, growth and morale. Openness in the expression of feelings, dissent from the superiors' opinions or policies and decision-making at levels which are close to the sources of information are practically unknown. These norms and characteristics of scientists need to be changed if organisational effectiveness has to be improved. Merely changing the structure or procedures without changing the behaviour of the persons involved will not result in any improvement.

From developmental history we know that social and organisational innovation always precede technical innovation. In science policy we are trying to achieve the reverse. The social implications of our scientific research effort are practically unknown. There is no interaction between the social scientists and the natural scientists. Many scientists think that science is a neutral activity independent of political, economic and social pressures. Unfortunately, the prospects of science remain uneasily suspended between admiration and fear in the public mind. Reaction to its challenges tends to be emotional because there is so little of public discussion by laymen, albeit laymen who have tried to understand a little of what is going on. There is a great need to generate more informed public discussion about the consequences of scientific research on society and economy. This would help society in more effective preparation for living with these consequences and it can decide through the feedback on its decisions about what research to support.

Symptoms Mistaken for Disease

The Government of India moves from one crisis to another in a time-span of twentyfour hours or so. The momentous choices faced in science and technology have been neglected just because they do not have to be resolved today; but there is no time to wait for the next generation to save us from our responsibility. The choices are before us and the course of development in the next generation will depend on the choices we make now. We need new machinery and leadership if we are to use science and technology more wisely than we have done up till now. The argument of this note should not be interpreted to mean that structural or procedural changes are uncalled for. Considerable improvements can be made in devising mechanisms for selecting and evaluating research projects, linking Research with Industry through consultancy, technical services or mobility of personnel and providing risk capital for inducing entrepreneurs to adopt knowhow generated in the laboratories. But improvement in these areas without better skills and change in the values, feelings and attitudes of the scientists would not be very effective.

The actual form which the top administrative body would take is relatively unimportant. We could have achieved much more with the COST structure. The reasons which prevented COST from being effective are inter-agency rivalry, ill-staffed secretariat, absence of a shared perspective of national science policy among top scientists who are members of COST and inter-personal conflict among the members of the COST. One can only hope that in the new NCST these problems will be solved or contained.

The structural syndrome in which the scientists and theoreticians of science policy seem to be involved is not helpful for the correct diagnosis of the malady and the development of a remedial strategy. The symptoms are perceived as the real problems. When will we learn the lessons of this clinical failure, resulting in the advancement of structural remedies rather than behavioural remedies?

SOUTH

Kerala Coalition

Mohit Sen

THE protracted negotiations to bring the Congress into the Ministry in Kerala are indicative of the unsettled balance of forces within that party and a certain lack of clarity on the perspective of the changes that have taken place within it. It is to be noted that the Congress is arguing with the United Front on the number of Ministers and on the distribution of portfolios. There is no argument on the problems of programme nor on whether there has been any lag in the implementation of what was commonly agreed to between the Congress and the United Front.

No Dispute

And it is precisely in this position that all the contradictions of the present position of the Congress are focused. The absence of any controversy with regard to the programme as well as the record of the Ministry is not because these are of no significance to the Congress. On the contrary, it is because there is really no dispute between the Congress and the United Front on these issues. The radicalisation of the petty bourgeoisie in Kerala and the strength of the Communist movement has been reflected in the great change that has taken place in the Congress. The land reforms that have already led to the abolition of landlordism and which were promulgated at a time when the CPI(M) was the dominant party in the ruling United Front, were not only not opposed by the Congress but welcomed by it. The youth wing of the Congress in Kerala was prepared for direct action in the form of seizure and tilling of the land of the recalicitrant landlords of Kuttanand when the latter threatened not to raise any crops in protest against the demands of the agricultural labourers. This is a new kind of Congress and the newness is the product of important objective processes which have had an impact on the mind of the intermediate strata as well as of the subjective factor of the Communist Party which has adopted realistic United Front tactics.

But while the newness is pronounced, it does not mean that the old has entirely departed from the arena. And this old consciousness and the persistence of the influence of the vested interests in the Congress is reflected in two main ways. One is the pursuit of office by a section of the older generation which believes that remaining in the coalition but not entering the governmet is a senseless sacrifice. They tend to discount the future and believe that a bird in hand is worth much more than two in the bush. The leaders of the Youth Congress who oppose this opportunism do so from positions of another kind of opportunism. They believe that this scramble into the Ministry would only discredit the Congress and reduce the chances of its coming back as a single-party majority in the next elections. They hold on to the view that programmatic differences with the United Front being absent, the latter cannot gain any kudos from radical policies and laws. At the same time delays in implementation, bureaucratic bungling and sabotage, lack of experience and the like would create a certain amount of discontent which would, however, not make the Congress its target so long as it remained outside the Ministry. The Youth Congress's aim, therefore, is the winning, in the near future, of a purely Congress Ministry. Thus its opposition to the Ministerialists is based on another variant of Ministerialism! The Youth Congress leaders too, are not concerned about what would be the best way in which the healthy, radical forces of Kerala can be united and that this State cannot only go forward most rapidly but act as a pace-setter for the rest of India. Their Leftism is, thus, not free from the corrosive approach of so-called dynamic Centrism.

Fatal Flaw

Because of this fatal flaw, it is precisely the radical image and trends of the Congress that are seriously affected. After all, the CPI and many of the other parties of the United Front have made the offer to the Congress that it can take over the Ministry on the basis of the support of the United Front. And to accommodate the Congress the Muslim League has expressed its readiness to part with the Home portfolio and the CPI has agreed not to press for the expansion of the Ministry which means that it is also ready to sacrifice one or another of the important portfolios that it now handles.

And what can the argument of the Congress be except that of "pure" power or exclusive power? And how can the Left in the Congress in this state not plead guilty to the charge that it prefers unity with the vested interests in its party to working jointly with the Left forces outside it? And it is because of this that there is a measure of instability abroad again in Kerala which is so detrimental to its progress.

From two different angles this uncertainty is sought to be utilised for purely factional gains by the Kerala Congress and the CPI (M). The former has come out with a declaration that it would unconditionally support an exclusively Congress government provided it did without the support of the CPI. The CPI (M) has decided to try to again build an anti-Congress Left front.

CPI(M) Approach

Some persons ask as to what is wrong about the approach of the CPI (M) and wonder whether this is not the really militant approach. Of course, this depends on one's definition of militancy. If by militancy one understands the movement of as large a section of the masses as possible to radical consciousness and action, then, obviously the CPI (M) approach is incorrect. And this is because it completely overlooks a very large section of the radicalised mass that supports the Congress and whose representatives are active within it. This mass and its representation can be, and are, a powerful support for action against the enemies of the Indian revolution. To ignore them, isolate them and advance slogans counter to their loyalty to their organisation is to weaken the tempo of the movement and retard the process of radicalisation.

Incidentally, it is this fact that is also missed by the Kerala Congress which imagines that its manoeuvre to isolate the CPI would enable the vested interests to once again come into their own in this State. But whatever the configurations and confusions of the coalition, Kerala's thrust to radicalism can no longer be blunted.

KUALA LUMPUR

Peking Picks a Friend

Harish Chandola

IF Peking decided to choose a country in southeast Asia to establish relations with, which one would it be? The obvious choice would be Malaysia. And that is what Peking has just confirmed. It has established the first contact by sending a 13-man trade delegation to Kuala Lumpur, which held talks there from August 22 to 28.

Why has China chosen Malaysia? It is because it recognises the reality that the Government of Prime Minister Tun Razak, though not socialist, enjoys popular support. It is going to keep that support for quite some time. The Malayan Communist Party is a minor force at the moment, hidden in the northern corner of Malaysia. It has not yet been able to mobilise political support all over the country and is likely to take a fairly long time to emerge as a major force to challenge the present Government.

Tun Razak has opened a new chapter in the foreign relations of his country. He has put forward the proposal for the neutralisation of southeast Asia, which means keeping the region free from the direct influence and consequent rivalries of the Big Powers. Under his leadership the country is getting out of the sphere of influence of the former colonial power, Britain. While doing so, it is not trying to get itself tied up with either the US or the Soviet Union. Many ties still bind him to Big Powers of the West. But there is no doubt that Tun Razak is leading his country on the path of true non-alignment.

In southeast Asia, Indonesia still spurns China. The ruling regime in the Philippines has come out with the canard of a large-scale armed communist uprising there in order to maintain its shaky power. The military rulers of Thailand are still securely tied to the apron-strings of mother America. In this region therefore it is only Malaysia which has extended the hand of friendship to China. And China has accepted it.

Direct trade between the two countries has been accepted as the first step in the attempt to befriend each other. Establishment of diplomatic relations will take time because many hurdles have still to be crossed. Malaysia has stated that it recognises only one China, which is the People's Republic of China. It has decided to be friends with it, though under the previous Prime Minister Malaysia had followed a policy of unremitting hostility to China.

Malaysia however does not want to rush into developing numerous ties with China, because by doing so it would be upsetting the southeast Asia region, where regimes are still basically anti-China. Suppose Malaysia announced tomorrow that it was going to open an embassy in Peking. At once there would be panic in this region and all neighbours of Malaysia, friendly towards it now, would become highly suspicious of it. Therefore Malaysia has to proceed in its policy of friendship towards China with caution, without disturbing everybody around and creating hostility for itself in the region.

China, it appears, understands this.

Trade Relations

That is the political part of the story of the new direct trade relations between Malaysia and China. The other part is about what was discussed by the Chinese and Malaysian trade delegations in Kuala Lumpur during almost a whole week.

Malaysian exports consist of primary products. Natural rubber accounts for nearly 40 per cent of its export earnings. The prices of natural rubber this year have been very depressed, adversely affecting the Malaysian economy. There appears to be no likelihood of the prices picking up again because the US has decided to unload a few thousand tons from its natural rubber stockpile every month. The US and the Soviet Union, both big buyers of rubber, have built large stockpiles. Though they still continue to buy, the demand from them is not keen. The result is that rubber prices continue to decline.

During the trade talks, the Chinese delegation placed an immediate order for 40,000 tons of rubber with Malaysia. It is most likely that China will buy more before the year ends. It used to buy about two million tons of Malaysian rubber every year until about three years ago, but of late it has been buying nothing.

What is more encouraging than this order is that China is not buying at speculative and declining prices. It is buying directly from the producer country, not in the international market, and is working out a price formula which will help Malaysia stabilise rubber prices. The formula, not made public yet, is that China will not buy on the basis of daily quotations but take into account the prices during the previous month, draw an average and then buy at that average price. Malaysia is greatly interested in keeping rubber prices steady and this formula will help it do so.

Another helpful gesture China has made is to buy Malaysian palm oil. China is surplus in edible oils like groundnut and coconut oils. In fact it uses these rather expensive oils for industrial purposes, like soap-making. Palm oil is cheap oil meant for industrial purposes. But if China used Malaysia's cheap palm oil, what would it do with its own production of groundnut and coconut oils. It would have to use them for some other purposes or sell them elsewhere. But in Kuala Lumpur its delegation decided to buy immediately 5,000 tons of palm oil.

The Chinese delegation also placed orders for 50,000 cubic metres of logs from timber-rich East Malaysia. It also agreed to buy Malaysian gutta-percha and pepper, for which it would place orders later.

China-Malaysia trade, so far carried on indirectly through individual traders in Hong Kong and Singapore, has been heavily in favour of China. Chinese goods, mainly clothing and foodstuffs, worth about two million Malaysian dollars were sold in Malaysia, while Malaysia's exports to China had practically dwindled to nothing. The delegations therefore agreed to balance this trade with increased Chinese purchases of Malaysian materials.

Malaysia's Shopping List

The trade balance would however continue to remain in favour of China for quite some time, in spite of the direct trade initiated last month. Malaysia will now not only be importing traditional items like made-up garments and foodstuffs, but will in fact be buying more of them, because it wants these cheap goods to reach the poor rural areas of the east coast also.

It is also buying new items, which attracted the attention of its trade delegation at the Canton trade fair in May this year. The new items Malaysia has decided to buy are agricultural implements like ploughs, weeders and a new simple man-drawn machine which while being pulled plants the delicate rice-seedlings in rows of five. With it a man can plant an acre a day. Malaysia will greatly need all these because its second development Plan (1971 to 1975) envisages bringing 750,000 additional acres under cultivation.

Malaysia is also considering buying from China cotton for its textile mills and a chemical compound for the manufacture of plastic for its rapidly-expanding plastic-goods industry.

China has not yet quoted the prices of the items Malaysia wants to buy. But it is understood that it will sell them to Malaysia at cheaper prices than it sells them to others, because both countries have decided to give each other the most-favoured nation treatment in trade.

In order not to let international shipping companies profit from this trade, and, as happens often, to negate the gains of the trading partners by increasing the freight-rates, it was decided that only Malaysian ships or those chartered by it would carry its produce to China and that only ships from China or those chartered by it would bring its goods to Malaysia. The Malaysian International Shipping Corporation, which has only four ships at the moment, is chartering 12 ships to increase its capacity and be able to carry this trade.

It was also decided that China will open an account with a Malaysian bank (most likely Bank Bhumiputra) and Malaysia will open an account with the Bank of China in Peking for the purposes of this direct trade. China will also appoint one of the travel agents in Malaysia as its agent to arrange and facilitate the visit of Malaysian traders to China.

The China trade will be handled by a Malaysian Government agency, Perbadanan Nasional Berhad (National Corporation), or Pernas for short. Individual traders from Malaysia, who are almost entirely of Chinese stock, will not be allowed to import goods directly from China. This has been done at the instance of China, which wanted to avoid giving the impression that it was enriching the overseas Chinese by using them for its trade. Also China wanted sincerely to cultivate good relations with the people of the Malay race and it could do so only by trading with the Malaysian Government-appointed agency.

Pernas is setting up a chain of stores in rural and coastal Malaysia, through which it will be able to make available the cheap and durable Chinese consumer goods to poor peasants and fishermen, whose average income, in spite of the tremendous riches of the country, is still about 50 Malaysian dollars (Rs 122.50) a month.

SUBSCRIPTION RATES

	Inland	Foreign (Surface Mail)		
Six months	Rs 32			
One year	Rs 60	Rs 85,	$ 11.35,	£ 4.75
Two years	Rs 110	Rs 160,	$ 20.75,	£ 8.75
Three years	Rs 160	Rs 235,	$ 30.50,	£ 13.00

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

WEST GERMANY

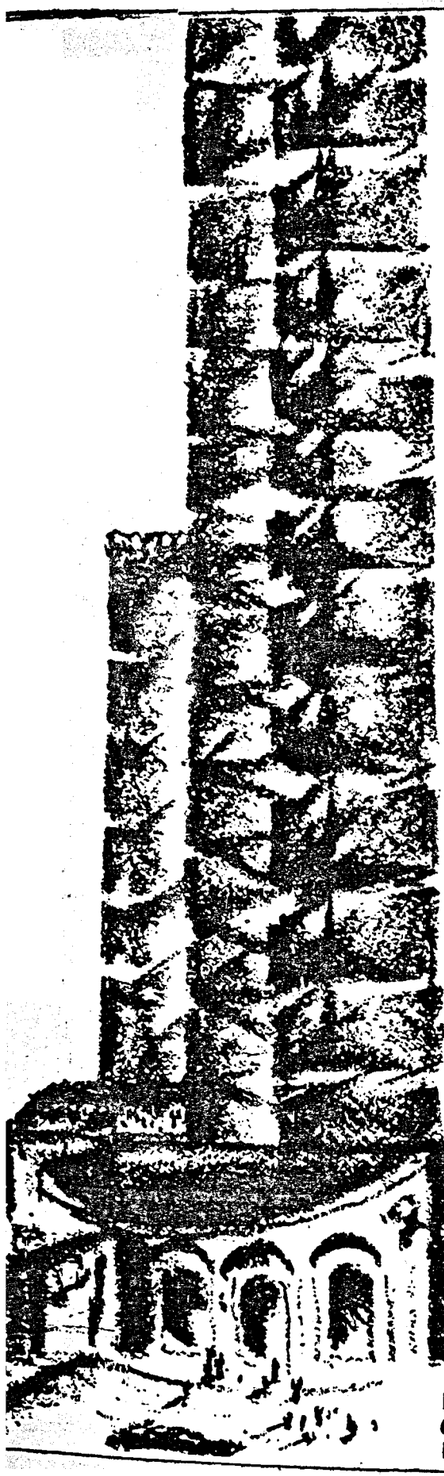
The New *Weltpolitik*

Aswini K Ray

IT has been an exciting time for West German politicians and newsmen. So many things have been happening all around, at home and abroad, and in such quick succession that everyone here seems to have been disturbed in his seasonal search for surf and sunshine. The historic (or, was it histrionic?) stomach upset of Henry Kissinger which set the whole world purging; Nixon's announcement of, what the Kremlinologists may call, the American version of the NEP to save, if not the dollar, the presidency for the GOP; the much-publicised 'non-aligned' pact of Indo-Soviet Friendship; the new federation in the Arab world; finally, the four-power agreement on Berlin; all made big news at this end. In between there were 'minor' local irritants: a series of train and plane mishaps and a spate of daring, daylight bank holdups that could no longer be explained away as the misdeeds of the mop-haired, militant 'red' rebels.

But unlike elsewhere, neither Nixon's new diplomacy nor his new economic policy—which in their cumulative impact reverted America to protectionism without yet leading to its political counterpart of isolationism—came as much of a surprise to the West Germans. Certainly there was no panic. In any case, the West German economy is not so heavily dependent upon exports to the US as are Japan, UK or France. For example, according to representatives of the West German automobile industry, Volkswagen, which exports about ten per cent of its products to the US and is among the country's top exporters to that country, would be able to cover any gap caused by a possible fall of demand in the US by the expected rise in internal demand and through new markets opening up in Eastern Europe. The same is true of the chemical and electronics industries, the other big exporters to the US, according to the spokesmen of those industries.

So, apart from causing some oscillations in the stock market—nowhere near as violent as in Tokyo, London, or Paris—Nixon's new economic policies did not cause any panic in Frankfurt. Nor was there any emergency cabinet meeting like in some other capitals. Only seven half-tanned cabinet members—one short of the quorum—managed to attend the routine cabinet session to discuss the issue; Chancellor Brandt was shown on TV the same day, holidaying in his swim-suit on the island of Sylt. Schiller, the Economics Minister, an-



in mysore...

FEEL THE PULSE OF PROGRESS

All the time we are planning more and more years ahead. Planning, striving, attaining, both the possible and the impossible. Setting our sights to new horizons everyday. For all the time we are catching up sooner than we planned, on tiers built of achievements.

10,000 industrial units to date is not a mere term in Urban Dynamics. The sky scraper is only a visual symbol of how we are catching up, higher and higher, what we are planning year after year, farther into the future. Pulsating with dynamism — an outcome of successful industrial endeavours.

The basic essentials for progress are here.
An abundance of natural resources.
Developed land.
Surplus power.
Communication & transportation network.
Trained manpower.
All coupled with the state's encouragement and incentive schemes bring maximisation of opportunities within the reach of every enterprising individual or group of entrepreneurs.

You are invited to share this opportunity and the prosperity.

MSIIDC helps decision makers to invest in an industrial future.

Mysore State Industrial Investment & Development Corporation Ltd., 'Hari Nivas', 36, Cunningham Road, Bangalore-1B.

msiidc/1

nounced the government decision not to meet the US measures by a matching series of protectionist measures but by making West German products more competitive and by presenting a united European front against the dollar.

In fact the dollar crisis—euphemistically described as a world currency crisis—disturbs the West Germans more than Nixon's economic policy. Already French obstinacy has led to a setback for the proposed European currency, and there are at least three different fronts against the dollar, put up by West Germany, France and the Benelux countries, respectively. The immediate objectives for the Deutschmark have been achieved *de facto* by floating it, and it remains a matter for bargaining whether the D-mark is revalued by 10 per cent, as the Americans insist, or by 4.8 per cent as Schiller would permit. But Schiller's present mission in the different West European capitals is to thrash out a united front against the dollar before the 'Club of Ten' meets.

Nixon's new diplomacy also did not send the sort of chill down West German spines as it did in some Asian capitals. For one thing, the Nixon administration had kept its Western allies informed about a possible Pindi Belly for Kissinger, *unlike US indifference* towards some of its Asian allies, whom, the new China policy affects more directly; that explains the absence of the element of surprise in West German reactions. Besides, Ribbentrop's successors in the Foreign Office have never allowed themselves to pursue naively a policy of pleasing their friends by teasing their enemies. West German economic diplomacy has been geared to the task of winning friends—if not influencing them—without bothering about their political morals. *Ruhrgebiet* is as keen to bite its own share of the spoils in China so tantilisingly laid out by Washington. *Moves in this direction* appear to be already afoot. Finally, after all, Nixon's new China policy is, in more than one sense, the American version of the West German *Ostpolitik*, which directly follows from West Germany's *Weltpolitik*.

If any proof of the obvious German interest in the four-power negotiations on Berlin were necessary, it was provided by the emergency cabinet meeting of August 23 to ratify the ambassadorial draft. Twenty-three of the twenty-four cabinet members attended the meeting; the absent one sent his consent even before the draft was unanimously approved by the cabinet. On September 3, after a false start, the ambassadors of the four powers—after 34 official sittings spread over 17 months—signed the agreement. Almost three decades after the War the human problems existing in Berlin were recognised. It was agreed that these would be best solved directly by those immediately affected by them.

The new West German diplomacy has achieved one of its primary objectives. The post-War freeze has been defrosted and the first few necessary steps have been taken for Germany's emergence as, what Brandt called during his election campaign, a "liberated, not a defeated nation". As a price for the sins of an *earlier generation*, the Germans have now officially recognised the 'post-War reality' of a divided Germany.

Secret persuasion, much politicking and quiet diplomacy on the West German side, preceded the four-power agreement. The choice of timing to push through the new *Weltpolitik* coincided with the thaw in the cold war and the West German economic boom, when. West Germany meant so many things to so many countries: The US needed West German help to share its burden in the defence of West Europe. The Soviet Union needed troop reductions in Europe so as to be able to concentrate on its eastern frontiers and needed West German help to persuade the West to agree to a European security conference. The Soviet Union also wanted a treaty of non-aggression with West Germany. Britain wanted West German help to get into Europe. France needed West German co-operation for the proposed European federation.

Induced Uproar

The time was ripe for new West German *diplomatic initiatives. The* government announced that British entry, as much as Franco-German co-operation, were both necessary preludes to European unity; it promised to share the burden of Western Europe's defence and persuaded Washington to maintain its interest in Europe; it signed treaties of non-aggression with Moscow and Warsaw, and dangled the possibility of a European security conference, but demanded proof of Soviet intentions before ratifying the treaties or working for the conference.

At home there was a restive and harassed opposition and the formidable Springer press, *hostile to* "peace with communist aggressors". While the opposition had to be granted its constitutional right to be informed and consulted, the monopoly press had to be curbed in its mischief-making potential for whipping up popular emotions against the alleged "total sell-out". The leader of the parliamentary opposition was taken into confidence at various stages on the progress of the negotiations, but his oath of secrecy has proved to be a liability to him *vis-a-vis* his colleagues, *particularly in view of the impending* Christian Democrat party elections; he has been privy to the secrets without being able to influence the course of events. The press was looked after by a news leak which suggested that the West German State Secretary, Bahr, during his visit to Washington with the Chancellor, was persuading a reluctant State Department to concede to the Russians their fond desire for consular representation in West Berlin. The West German press raised a big 'hullabaloo', and along with the opposition fell into the trap. The induced uproar provided the government with an opportunity to test and prepare public opinion on this sensitive issue and to announce simultaneously a complete news blackout. *The entire negotiations* were kept secret till the government released the official text as a *fait accompli.*

The same procedure has been adopted in the present phase of the two-tier intra-German dialogue, following the ambassadorial agreement. At present Secretaries Bahr and Kohl, representing West and East Germany, and Miller and Kohrt representing the two parts of the divided city, are engaged in the "onerous and painstaking task" of implementing the *four-power agreement*, but this time with the official sanction, hitherto lacking, that can make all the difference.

The nature and origins of the Berlin problem were *once* more indicated by a simple but revealing oversight. The two great and the two not-so-great powers having agreed upon the English, French and Russian texts had forgotten to agree upon a German version of the text to form the basis of the intra-German dialogue on what should ordinarily have been purely a German problem. That the task was not merely a question of translation was proved the next day when the approval of the German text required a fresh series of negotiations and hard bargaining, a postponement of the signing ceremony, and also the diplomatic illness of the *US Ambassador*, Kenneth Rush. Finally, the official communique said that the German text was not binding upon the four powers, whose overall responsibility over the city of greater Berlin was

expressly acknowledged by the terms of the agreement. The West German government and the Berlin senate thanked the Western powers for protecting their interests and the East Germans expressed similar sentiments for the Russians.

The immediate results of the present agreement can be summed up as follows: acknowledgement by the four powers and by the Germans on both sides of the border of the special status of Berlin (the critics say that three German states have been created by the new agreement); unhindered movement of traffic from West Germany to West Berlin through East German territory; access from West Berlin to East Berlin; the West Berliners have also been allowed the right of consular representation through Bonn, a right hitherto denied them by Moscow and Pankow: in return, Moscow was given clearly defined rights of consular, trade and cultural representation in the western sector of Berlin. Referring to this clause, an opposition politician called the agreement an "exchange of an apple-garden for a piece of apple". Brandt in his national broadcast after the signing ceremony said: "who did not wish more could be achieved? But, at this stage, the reality of the wall has to be acknowledged. The greatest achievement of the Berlin agreement lies in the fact that Berliners will no longer have to live through crises". The next day, speaking in Berlin, Brandt was more cautious: "let us hope that there will no longer be a Berlin crisis". At about the same time a refugee was reportedly shot on the other side of the border, probably a stage-managed show to help the East Berliners draw the 'proper' conclusions about the agreement.

However, as the Chancellor said, the Russians have proved their *bona fides* through the agreement. They have bent their backs to push the agreement through. Many trusted friends have been cast aside. "For reasons of old age", Ulbricht was removed, first from the party post and ultimately even from his ornamental state position. In fact, Ulbricht's sudden "old age" was acknowledged in West Germany as one of the most significant events facilitating the agreement. Ambassador Abrassimov, who was retained in Pankow for nine long years to provide the link between Pankow and the Central Committee of the CPSU, of which he is a member, was replaced soon after the signing of the agreement in which he had played a major role. His successor is the tough Soviet diplomat who in 1968 in Prague smoothened out Dubcek. He can be trusted to see that the East German chief, Honecker, does not come in the way of the growing Soviet-West German friendship. The Russians have also not wasted any time in striking while, as a French newspaper said, "the iron is hot". In the same week as the signing of the Berlin agreement, the Soviet Ambassador in Bonn invited Brandt to visit the Soviet Union for the second time, much to the annoyance of the French. The French feel they have been pushed into playing second fiddle to the West Germans and are in the process of losing much of the headway they had made in East Europe during the de Gaulle era. The West German Chancellor is due to visit the Soviet Union towards the end of this month, before the Soviet leaders visit Paris in October in return for Pompidou's Moscow visit, when the French leader had helped to clear a bottleneck in the four-power negotiations.

Two-Germany Policy

Meanwhile the West Germans are planning trade pacts with Moscow, Warsaw, Budapest and Prague, and perhaps with Pankow. The Moscow and Warsaw Treaties are also likely to be ratified soon. Scheel, the Foreign Minister, will be in New York during the next UN General Assembly session, personally to ease the process of getting both the Germanies into the UN. It will be some diplomatic victory for Moscow, especially if the two-China policy fails at the same time as the two-Germany policy succeeds. Bonn will have helped Moscow, while Taipeh and perhaps also Tokyo, will have let down the US—and all are in different ways US 'allies'. This, and the proposed European security conference, is likely to give the sort of initiative to Moscow which it has been looking for in Europe for some time.

At the signing ceremony, Ambassador Rush sought to regain some lost ground for the US by underlining the US initiative in bringing about the Berlin agreement. He even tried to help launch Nixon's election campaign from the Allied Control Council building in Berlin. (Earlier, when the date of the signing ceremony was still undecided, on Rush's insistence the timing for the ceremony was fixed at 1 p m , Central European Time so that the NBC could relay it live at American prime viewing time). Rush spoke at length of Nixon's personal interest in the Berlin negotiations and drew a straight line between the agreement and Nixon's inaugural promise in 1969 to "end the era of confrontation and begin the era of negotiation". But it is doubtful if his speech cut much ice. The Berlin agreement was possible primarily due to Bonn's new *Weltpolitik* and the personal initiative of Berlin's former mayor, Willy Brandt. In this Brandt was helped by the mutual desire of Washington and Moscow to reduce their troop commitments in Europe, but the real achievement is Bonn's, even though Washington can, of course, claim that the agreement was a gain for the free world, etc.

At home, the position of the opposition is closely comparable to the position of the British Labour Party on the question of British entry to the EEC, with one difference. It is relatively easier for the West German opposition to find fault with a policy that it has opposed on principle than for the British opposition which sees the fruits of its own previous labour being robbed by the government. Besides, the impending Christian Democratic Union (CDU) party elections in Germany make all the difference. As a party, the Christian Democratic opposition refused to take any stand on the Berlin agreement for an inordinately long time. It even refued to participate in TV discussions on the subject, so indicating its embarrassment. At last after much consultation and more hesitation, it came out with only "some serious reservations". The smaller sister opposition party, the Christian Social Union (CSU) has already criticised the CDU leaders for their half-hearted opposition, thereby further disturbing the understanding between the CDU and the CSU.

Opposition leader, Barzel, though publicly insisting upon his right to be informed, seems to look for pretexts to avoid being consulted on the course of events which he cannot influence. Recently he refused an invitation by the Foreign Minister to discuss Berlin. Even the Russians have obliged the government by inviting Barzel to Moscow along with Brandt. He has not refused the invitation which is likely to embarrass him whether he accepts or rejects it. Due to their own compulsions, the Russians are co-operating with the government. This is the trump card of the Social Democrat government and the despair of the opposition.

New Directions in Aid

Annual Report 1971, World Bank and International Development Association, Washington, 1971, pp 116.

THIS report on one more year of the World Bank's operations clearly brings out the conflicting trends in international aid. Under Robert McNamara's leadership, the World Bank has expanded its operations and diversified into new fields. At the same time the general climate, with the major aid-giving countries facing inflationary pressures and balance of payments problems, has not been exactly the most conducive to aid operations.

First, the general context. Despite the initial hopes, the Western countries were not able to reduce the inflationary pressures in their countries. The remedies followed in some of them, particularly the USA and the UK, only succeeded in increasing unemployment without containing inflation. As a result, the overall growth rate in the advanced countries declined to 3 per cent in 1970 from the 5-5½ per cent achieved in the 1960s. The inflationary pressures have led to currency troubles which began in May 1971 and to protective measures by the US after the end of the World Bank year.

Unfavourable Climate

Gross foreign aid flow, according to OECD estimates, increased to $ 15 billion in 1970. However, as the World Bank Report points out (on the basis of a special study on debt-servicing problems), the increase was entirely in commercial credit provided on hard terms (relatively short period, high interest rates and high prices arising out of tied purchases). Evidently, governments of aid-giving countries, faced by internal problems, found it difficult to increase their aid commitments. This has happened despite the Pearson Commission's call for expansion of the official element in total aid to keep the servicing burden on borrowing countries at a low level.

The World Bank, despite the unfavourable climate, has continued to provide increasing aid for more diversified development activities. Its sanctions increased from $ 1,680 mn in 1969-70 to $ 1,896 mn in 1970-71. There was a marginal decline in IDA approvals, from $ 606 mn to $ 584 mn. But the overall operations in 1970-71 at $ 280 mn were higher than $ 2,286 mn in 1969-70. As the following Table shows, the operations were diversified both in their geographical and operational content.

IBRD-IDA Approvals, 1970-71 ($ mn)

A	*Geographical Distribution*	
	Africa	468.70
	Asia	838.50
	Europe	418.00
	Oceania	51.00
	Latin America and Caribbean	704.20
	Total	2,480.40
B	*Purpose-wise Distribution*	
	Agriculture	419.10
	Education	107.90
	Telecommunications	195.50
	Electric power	500.90
	Transportation	651.10
	Industry	32.00
	Technical assistance	4.00
	Development finance companies	253.00
	Water supply and sewerage systems	188.70
	Tourism	10.00
	Population	7.80
	General development	110.40
	Total	2,480.40

Taking IBRD and IDA together, out of approvals of $ 2,480 mn, while the bulk of the operations remained in Asia ($ 838 mn) and Latin America and the Caribbean ($ 704 mn), Africa took a substantial $ 469 mn or almost 20 per cent against its share of less than 10 per cent in the 1960s.

So also activity-wise, while infrastructure remains the staple of the Bank-IDA operations (with transportation taking $ 651 mn, electric power $ 500 mn, development finance companies $ 253 mn, and telecommunications $ 195 mn), some new activitives have begun to pick up: in 1970-71 agriculture took $ 419 mn and education $ 108 mn, and such unglamorous appurtenances of development like water supply and sewerage systems ($ 189 mn) have appeared in the Bank's operations. The small allocation of $ 7.80 mn to population control again reflects the Bank's concern for general factors in the development process.

The Bank has thus graduated from being a financier of infrastructure in developing countries to extending diversified support to the entire development process. It is now involved in activities like improvement of agricultural credit and has become interested in problems of urbanisation; for example, anti-pollution programmes are becoming an integral part of its financing operations. And the Bank is developing close relations with UN agencies like FAO, WHO and UNDP in the newer fields.

As the Bank's focus changes, India is becoming less important in the Bank's operations. In 1970-71 the Bank approved for India $ 243 mn (less than one-tenth of its total operations) — all of it out of IDA funds, which is clear evidence of India's declining development effort and its poor ability to service loans. These funds were mainly for agriculture and infrastructure development.

Lengthening Time-Lag

The time-lag between the Bank's disbursements and its approvals seems to be lengthening. Disbursements increased from $ 915 mn ($ 772 mn for the Bank and $ 143 mn for IDA) in 1969-70 to $ 1,190 mn ($ 955 mn for the Bank and $ 235 mn for IDA) in 1970-71. During the three years ending June 30, 1971 disbursements have been $ 2,489 mn (or 50 per cent of approvals of $ 4,975 mn) for the Bank as against disbursements of $ 2,230 mn (90 per cent of approvals of $ 2,563 mn) for the three years ending June 30, 1968. Even allowing for a normal time-lag between approval and disbursement, a showing down at the disbursement-end is evident. This may be for various reasons. It may be due to the fact that the Bank, in a hurry to make approvals, has been taking up projects prematurely. Or it might be that the borrowing countries' procedures are inordinately time-consuming; the Indian bureaucracy, for instance, is well known for its ability to hold up development programmes with its procedures (as it did in the case of the colliery loan). This is a matter to which the Bank needs to pay some attention.

Despite the difficult capital market conditions in advanced countries, finance has not been a bottle-neck to the Bank's operations. The Bank apparently believes that lack of money, rather than the cost of money, is a greater impediment to development and has continued to borrow, paying often 8 to 8½ per cent. In 1970-71 the Bank raised $ 819 mn net against $ 299 mn net in 1969-70. Besides the normal lending countries (the USA, West Germany and Japan), the Bank issued loans in such unlikely countries

My cup of tea

Yes, I'm choosy about my tea. I like it good and rich and strong... the way Richbru is.

Tops in taste, tops in flavour.

Cup after cup after cup, you get so many more from every pack of Richbru.

The tea that's setting a new trend in modern homes.





It's good and rich and strong

Lipton's Richbru

Only packaged teas stay fresh and flavourful

LIPTON

LIPTON'S MEANS GOOD TEA

LRC.6

as the Netherlands and Libya.

The Bank has few illusions about the long-term prospects of aid. A special study of aid problems made by it shows that the external public debt of developing countries now amounts to $ 59 billion. On the bilateral official and multilateral debt of $ 43.4 billion, service payments of $ 19.8 billion fall due to be paid over the years 1970-75; on $ 15.3 billion due to private creditors, service payments due in 1970-75 amount to $ 13 billion. At the same time, the markets for the developing countries' products are not expanding, and the recent inflationary pressures in the advanced countries have helped to worsen the terms of trade for the developing countries. Clearly, there are limits to the financing of development with loans.

Policy Issues

There are three major directions in which aid policies will need to be directed. First, it is absolutely necessary that the 'cost' of aid be reduced. Despite the World Bank's attempts to soften the interest cost of loans, its loans, at 7¼ per cent, impose a substantial debt-servicing burden. IDA is one way out, but is increasingly coming up against the budgetary problems of aid-givers. One solution would be to require all countries in which purchases are made out of World Bank loans to provide to the Bank a budgetary allocation equal to 4 per cent of such purchases for a period of seven years. This would help the World Bank to soften its interest rates to between 3 and 4 per cent. The Bank also needs to have, instead of the present two-tier rate system (7¼ per cent on Bank loans and ¼ per cent on IDA loans), a multi-tier structure with the highest rate (and shortest period) for industrial loans, an intermediate range for infrastructure (power, transport, communications) and IDA terms for social projects (population control, water-supply and so on).

Second, if tied aid continues, the Bank needs to press for tied repayment; in other words, where aid is given on a tied basis, the lending country must be asked to obtain repayment by purchases from the borrowing country. The USSR and the East European countries already operate on this principle, and the Western countries need to be brought round to accepting it.

Finally, given the international trade structure and the terms of trade between developed and developing countries, the Bank needs to amend some of its policy dogmas. It is necessary that the Bank takes a long view of the development process and its viability. Particularly it needs to be more liberal in its attitude to import-substituting projects. Further, it needs to actively support the UNCTAD in helping developing countries to obtain preferences for export of their manufactures to the developed countries.

The World Bank is in the "development" business and has shown growing awareness of the problems inherent in this business. Its own policies are being increasingly adjusted to the newer facets of development, and it still remains the trend-setter, more than even the developing countries themselves, in anticipating these problems and seeking to meet them. Besides UNCTAD, it is the most influential lobby the developing countries have for development. These countries need to back it up in its efforts to push the development process along.

Back to the Gold Cross?

1971 Annual Report, International Monetary Fund, Washington, 1971; pp xv + 247.

THE Annual Report of the International Monetary Fund for the year ending June 30, 1971 gives no premonition of the events which were to envelop the developed countries in a currency crisis and to call into question the very *raison d'etre* of the IMF. Not that indications of a brewing crisis were not evident during the year covered by the Report. The Report notes that the rate of growth in the advanced countries had begun to slow down, being 3 per cent in 1970 against 5 per cent in the sixties. The major victims of this slow-down were the UK and the USA which seemed to be experiencing barely any growth of national income and which were faced with growing unemployment. Almost all advanced countries had been facing inflationary pressures at the rate of about 6 per cent a year. What is more important, these inflationary pressures had begun to percolate into international trade; of the 15 per cent growth in international trade in 1970, the IMF Report notes, a full 6 per cent was accounted for by price rises.

Comfortable Liquidity

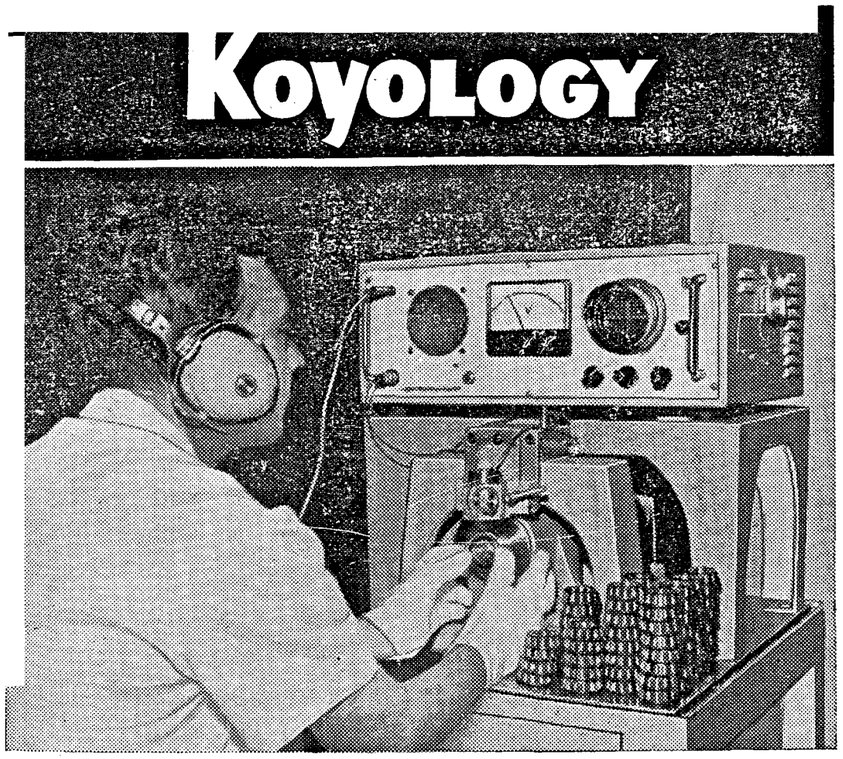
It is at this point that differences between governments' actions and the IMF's mythology begin to appear. The governments, relying on an outdated version of the IMF mythology, had been seeking to curb inflationary pressures by resort to monetary policy. This failed to contain inflation, but led, in some countries like the UK and the USA, to increased unemployment. Apparently, the world was fast approaching the classic 1931 situation.

In the meanwhile, the international liquidity situation, as evidenced by total reserves and resort to IMF facilities was far more comfortable. Two tranches of SDRs, aggregating $ 6 billion, had been distributed and had been smoothly absorbed in international trading transactions. For the first time, the gold element in total currency reserves came down to below 50 per cent. And, thanks to the US payments deficits, holdings of reserve currencies had been rising. Japan, with the world's major undervalued currency, was a large holder of reserves in this form to stave off action by the US (which ultimately did act). However, while Japan went on absorbing dollars to soften the impact of US deficits on the US, other markets, freer than Japan's, could hardly be kept under control. The first wave of speculation was against the D-Mark, forcing it off its peg to a floating position.

Writing on the Wall

Yet the IMF Rip Van Winkles hardly saw the writing on the wall. To the IMF the external balance is everything, and all policies should be so adjusted as to maintain the external balance at fixed exchange rates. Having seen the failure of its earlier prescription to use monetary policy to control the domestic economy, the IMF, in its 1971 Report, prescribes a much stronger mixture: more active use of fiscal policies, adoption of an incomes (and prices) policy, and restrictions on capital transfers. It is evident that a free market in currencies is not part of the IMF mixture. All subsequent moves of the IMF indicate that the IMF is strongly tied to maintaining the position of gold. This is a position not dissimilar to that of France which holds all its reserves in gold.

The IMF's distrust of floating currencies is hard to understand. It arises mostly out of its faulty diagnosis of the problem. The IMF attributes the present currency difficulties entirely to



Bearing precision without precedence

KOYOLOGY is the science of bearing precision. It is unique and exclusive to KOYO SEIKO of Japan who invented it in their $1,000,000 Research centre.

Koyology utilises the norms of tomorrow to produce bearings today. Its tolerances are in terms of micro-millimetres, not in 'thous'. In raw materials, nothing but the best will do for Koyology. It will go to the end of the world to obtain them. The testing methods are the last word in sophistication. They reveal faults not only on the surface, but right down to the core. The oscillograph illustrated here, for instance, reveals noises which will escape the sharpest ear.

KOYOLOGY has come to India to produce KOYO-INDIA precision bearings. Drop a line if you want the world's finest precision bearings. Or if you want to know a little more about Koyology.



Koyo-India

BALL & ROLLER BEARINGS

INDO-NIPPON PRECISION BEARINGS LIMITED.

Moula Ali, Hyderabad 40.

Sobhagya INPB/3

the manner in which deduction for current repairs has been provided for under the Indian Income Tax Act—especially, the way in which the provisions of the law in this regard have been interpreted lately by judicial authorities whose decisions in the absence of any definition of 'current repairs' in the Act play a crucial role in determining the scope of the provisions — does not reveal any appreciation of the precise function of maintenance expenditure *vis-a-vis* depreciation allowance in income-computation. The result has been an unnoticed, but not quite negligible, erosion of the tax base to the detriment of revenue — of course, to the benefit of a section of tax-payers.

II

Sections 30 and 31 of the Income Tax Act, 1961, which provide for *inter alia* deduction of expenditure on account of repairs, read as follows:

"Section 30. In respect of rent, rates, taxes, repairs and insurance for premises, used for the purposes of the business or profession, the following deductions shall be allowed —

(a) where the premises are occupied by the assessee —
  (i) as a tenant, the rent paid for such premises; and further, if he has undertaken to bear the cost of repairs to the premises, the amount paid on account of such repairs;
  (ii) otherwise than as a tenant, the amount paid by him on account of current repairs to the premises;

*

Section 31. In respect of repairs and insurance of machinery, plant or furniture used for the purposes of the business or profession, the following deductions shall be allowed —
  (i) the amount paid on account of current repairs thereto;
  (ii) the amount of any premium paid in respect of insurance against risk of damage or destruction thereof."

An odd feature of Section 31, as compared to the immediately preceding section, is that to get the benefit of deduction on account of repairs (and insurance) of machinery, plant, and furniture, an assessee need not be the owner of the equipment, while in the case of a building, allowance for repairs cannot be claimed by a non-owner "unless he has undertaken to bear the cost of repairs to the premises". The logic behind this distinction is not obvious. Why a mere hirer of machinery, who is under no obligation to maintain the machinery in a running condition or in a state which corresponds to its depreciated book value, should be entitled to claim deduction for repairs is puzzling.

That, even so, is a minor issue. The more important point to note about these provisions is that there is no attempt whatsoever to link the scale of allowance for repairs either to the depreciated value of the assets or to the rate of depreciation permitted in the rules for them. The operative words are: "the amount paid on account of current repairs thereto". It might be supposed that the word 'current' in 'current repairs' was intended to delimit the scope of the allowance for repairs strictly to the amounts which are required to keep the equipments in a running condition and not restore them to their original state. There is, however, nothing to warrant such a view. On the contrary, an examination of the judicial decisions amply shows that the courts have not been inhibited by any such consideration in their approach to the interpretation of 'current repairs'. In fact, brushing aside all contention for confining the scope of the expression to not-too-heavy repairs, High Courts in India have gone on to hold that expenditure incurred to restore an asset to its original condition or in some respects to an even better condition might qualify for deduction as revenue expense — the rate at which annual depreciation is charged evidently being of no consequence in their view.

A vague awareness of the issues involved is perhaps noticeable in two early judgments of the Allahabad High Court. In the first case, Ramkishan Sunderlal *vs* Commissioner of Income Tax,[7] the Court pointed out that the adjective 'current' in the expression 'current repairs' restricted its meaning to petty repairs carried out periodically. In the other case, L H Sugar Factories and Oil Mills Ltd *in re*,[8] the Court refused to allow deduction of expenses on re-roofing of labourers' quarters in consideration of the fact that the assessee was entitled to deduct depreciation in respect of the same structures. Yet the reasons on which the decisions were based were not spelt out clearly or convincingly and did not receive the attention they deserve in the judgments which followed from other High Courts of India.

The principle which has mainly guided the Indian rulings was that laid down by the Privy Council in Rhodesia Railways Ltd *vs* I T Collector,[9] where, out of a total length of 394 miles a stretch of 39 miles of the old track was replaced with new rails and new sleepers and for 40 miles of the track the old rails were relaid on sleepers which were replaced. The entire cost of these operations was allowed, by the Privy Council, as revenue expenditure. But there were two vital strands in this ruling which appear to have made no impression on the Indian courts who followed it. First, the principal argument advanced by their Lordships in the Rhodesia Railways case was: "It [the expenditure] did not result in the creation of a new asset; it was incurred to maintain the appellants' existing *line in a state to earn revenue*". The 'state to earn revenue', it might be presumed, was not the same as the original state of an asset. No Indian court which chose to follow the ruling seems to have paid any attention to this important distinction. Secondly, under the rules prevailing in the country from which the Rhodesia Railways case had gone up to the Privy Council, no allowance was admissible for depreciation of rails and sleepers. The Noble Lord felt that there might be some justification for refusing to allow any deduction 'in the name of depreciation', where deduction 'in the name of repairs' is allowed, but not the other way round, i e, not for refusing to allow expenses for repair of capital equipment on the ground that no depreciation was permissible for that equipment, as contended by the Revenue. Unfortunately, these observations, too, have not been considered to be of any significance by the Indian courts — except the Allahabad High Court in one of the cases noted above. The Indian decisions have centred round the view that there is no reason why repair expenses, however heavy, should not be treated as current repairs so long as such repairs help restore the asset to its original shape and not merely its depreciated book value. That it is primarily the task of depreciation allowance to ensure the maintenance of an investor's capital intact, and that to permit deduction for repairs to restore an asset to its original state where depreciation is already separately provided for is to allow deduction for the same item of expense twice over, seems to have been totally overlooked.

In fact, the courts have gone even further. Replacement of major parts of an equipment by new and decidedly better ones, resulting in an improvement of the equipment as a whole over

its original model, is categorised by the courts as current repairs, i e, maintenance. For instance, in a case where *the tax-payer replaced the petrol engines* of two of his buses with diesel engines, the Court held the replacement to be nothing beyond 'current repairs'.[10] The Tribunal, the highest fact-finding authority in income-tax matters, had observed: "It would have been possible to have replaced these petrol engines by new petrol engines. The object in fitting diesel engines was to decrease the running expenses. The diesel engines give more mileage per gallon and the cost of diesel oil is less than the cost of petrol". Yet the Court allowed the cost of installation of the new diesel engines to be charged against the income of the year as 'current repairs'.

Referring back to the rationale for treating maintenance expenditure as revenue expense, supplementary to depreciation allowance, one feels tempted to ask: If the new diesel engines improved the earning capacity of the asset (as they admittedly did) and hence its capital value, would not the deduction allowed for the cost of installation of the new engines result in an understatement of the income of the year unless the depreciation allowance for the buses was correspondingly reduced? Alternatively, in such a situation, should not the written-down-value of the asset be written up to the extent the new diesel engines had enhanced their market worth, and the resulting capital appreciation be charged to revenue by way of recaptured depreciation? Such questions, of course, were not before the Court to answer.

On similar reasoning, the Madras High Court held in a case[11] that the replacement of roller stands of textile machinery by an assessee with a more modern and efficient type of the same parts, constituted 'current repairs' and the cost of such replacement, even though considerable, was allowable as revenue expenditure. The Court observed that "even assuming that there was some improvement in the component parts and the improvement of these parts was publicised by the manufacturers, it did not necessarily follow that an enduring or new asset has been brought into existence". It must be submitted that it is not easy to see the logic in this argument. The court, no doubt, wanted to draw a line between the advantage derived by the replacement of the component parts of an asset by more efficient parts and the advantage imparted by the replacement of the asset as a whole or substantially the whole of it. But is this distinction of any relevance to the purpose on hand, *viz,* determination of the income of a given time period in a manner which leaves the tax payer's earning capacity unimpaired?

Besides, how thin the line is in practice, between the replacement of 'component parts' and replacement of substantially the whole of the asset, and how far afield the interpretation of 'current repairs' has gone, can be seen most clearly in the judgment of the Madras High Court in another case, *viz,* C R Corera and Brothers *vs* Commissioner of Income Tax.[12] In this case, the assessee incurred heavy expenditure (about Rs 32,000) in 'repairing' — rather, 'overhauling' — his cargo boats the original cost of which was about Rs 75,000 and which had been used for over 20 years that had brought down their written-down value to no more than Rs 4,248. The entire cost of overhauling the boats was declared by the Court to be allowable as deduction in one year as 'current repairs.' It was admitted that only "the skeleton of the boats was retained, all other structures upon the boats having had to be renewed", and the process of 'repair' involved a period of 16 months. Renewal of boats on this scale, which the repairs in this case clearly amounted to, apparently did not in the eye of the court constitute renewal of substantially the whole of it. If rational economic and accountancy principles were followed, the assessee could have claimed at the most a deduction for an amount equivalent to the written-down-value of the boats on the ground that they had become totally unserviceable and that, therefore, their written-down-value overstated their market worth. Cost of repairs, in excess of this amount, should have been treated as capital expenditure which it was open to the assessee to recoup through a depreciation allowance. To maintain, however, that the written-down-value was zero would be illegitimate as long as the skeleton of the boat had any scrap value. To justify deduction for an amount beyond the written-down-value would involve the assumption that the market worth of the depreciated asset had turned negative.[13] The Income Tax Officer who made the assessment in Corera Brothers' case had correctly sensed that expenditure of this order, when the written-down-value was so small, could not but be largely 'capital' in nature. "That" (i e, the magnitude of the expenditure on repair relatively to the written-down-value), declared the Court quite emphatically, "is not a circumstance at all germane for determining the nature of the repairs"!

It may thus be seen that, even the two main tests which the courts might seem to have adopted in deciding cases involving the question 'what constitutes current repair', *viz,* (i) that such repair did no more than restore the asset to its original condition, and (ii) that it did not involve restoration or replacement of the entire machinery or substantially the whole of it, have not been adhered to consistently by all courts — apart from the fact that these tests have no sanction in the principles on which measurement of annual income is based. This has, in fact, resulted in the inadvertent introduction of an element of double allowance — and even more, where improvement on the efficiency of a capital equipment as it originally was is effected through the repairs — on account of capital depletion in the computation of business income, allowances for which are notoriously more liberal than for income under other heads, resulting in discrimination especially against human capital.

III

The court rulings on this issue have eaten into the income base from another direction. An important tenet of income-accounting on an annual basis is that items both on the debit as well as the credit side of the profit-and-loss account should relate, as far as possible, to the transactions of the year in view. So, to qualify for a place on the debit side of the profit-and-loss account, an item of expenditure must be current or 'revenue', and not 'capital', in nature and any expenditure which begets an enduring advantage is considered capital. What precisely renders an advantage enduring is not laid down in the statute books. But it is only proper that all expenditure of which the benefit is derived over a fairly long stretch of time — logically, any period excluding an accounting year — should be classified as 'capital'. This assumption is implicit in most of the judicial pronouncements bearing on the question. Repairs accumulated over the years, but carried out at one time should on no account be regarded as 'current'. Presumably, to secure this objective, the Bombay High Court in one case, *viz,* New Shorrock Spinning and Manufacturing Company *vs* Commissioner of Income

Tax,[14] interpreted the word 'current' in this context to denote only such repairs as are attended to when the *need* arises and as are not allowed to fall into arrears or to be accumulated. But the test does not appear to have served the purpose for which it was intended. In almost all the cases which went up for consideration before the courts, a good part of the repairs carried out in the course of a year were undertaken plainly to remedy the accumulated wear and tear of many years but that did not deter the courts from treating them as 'current'. Even in the New Shorrock case, (in which the need test was enunciated) it is interesting to note, as the Madras High Court commented in the course of the judgment in Corera Brothers' case, that "the so-called current repairs involved the fitting up of a totally new device to the spinning machinery which actually rendered the working of the machinery easier and could from certain points of view be regarded as introducing an additional advantage. But nevertheless, the view was taken that the expenditure was incurred to preserve and maintain the asset and that it was current repairs even though it was incurred after more than 60 years".

Few of the other cases reveal any attempt to apply the 'need test' either. Thus, in Commissioner of Income Tax *vs* Ranjit Singh,[15] where the tax-payer had leased out his hotel for 20 years at an annual rent of Rs 50,000, expenditure of nearly Rs 25,000 for surfacing the approach roads to the hotel with concrete was allowed by Punjab High Court as 'current repairs'. Despite the fact that the roads were surfaced with concrete — definitely an improvement upon their old condition — and that heavy expenditure was incurred in a particular year to remedy the effect of several years of wear and tear or neglect, the Court felt that the repairs fell in the category of 'current repairs'.

Even if the 'need test' stood in the way of the admissibility of accumulated repairs as revenue expenditure, the omnibus provision in the Income Tax Act, 1961, *viz,* Section 37 providing for the deduction of all expenditure incurred wholly for earning income from business or profession which are not covered specifically in the other sections could be invoked in support.[16] This would be borne out by the following observations of the leading commentators, Kanga and Palkhivala on the law and practice of income-tax:

"The cost of repairs would be a revenue disbursement even though repairs may not be undertaken every year but may be effected when matters become serious. Accumulated arrears of repairs are nonetheless repairs necessary to earn profit, although they have been allowed to accumulate (Law Shipping Company Ltd *vs* IR)".[17]

In the Rhodesia Railways case, too, Lord Macmillan made it clear that to qualify for deduction, repairs need not be confined to the year of assessment "for very many repairs have the result of enabling income to be earned in future years"

Plainly, these dicta constitute serious impediments to any attempt to arrive at the income figure of each year separately with any degree of accuracy, though that is said to be the aim of both accountants and tax gatherers. These pronouncements, in fact, go against the criteria on which the distinction between revenue expense and capital expense is based, to which reference has been made earlier, *viz,* that the latter are those which confer 'an enduring benefit'. True, the degree of durability required to characterise a given item of expenditure as 'capital' has not been laid down with any precision and "depends upon the facts of each case", thus providing wide scope for arbitrary judgment. But if knives with an average life of three years could be held, as was done by the House of Lords in a case,[18] to be the capital assets of a cobbler's business, how, pray, can accumulated repairs of many years or extensive repairs, of which the benefit is reaped over several years, be treated as 'current' and the expenses involved considered deductible against the year's income in which they are incurred?

IV

It can, of course, be argued that the cost of repairs, after all, represents the actual outlay on capital in some form or other and that, like all capital expenditure, it deserves to be set off against income over the years whether by way of amortisation allowance such as depreciation or as revenue expenditure in one year. Indeed no exception could be taken to this plea had our income-tax structure been proportional instead of being progressive. It is salutary to remember that, even our corporate taxation has an element of progressivity. Secondly, a proportional tax, the benefit conferred by a capital allowance, is enhanced substantially, if it is accelerated in point of time, since with a long spread-over the value of the allowance gets considerablly reduced through discounting.[19] Thirdly, in the present framework of the Income Tax Act, "the balancing charge" or the recapture provisions apply only to the depreciation allowed in the computation of income for tax-assessment of earlier years and not to repair expenditure deducted in the past in respect of that asset. That is to say, on the disposal of an asset, only the excess of sale proceeds over the written-down-value (where the sale proceeds do not exceed the original cost of the asset) is brought back to taxation as ordinary income while no part of the expenditure on repairs, for which deduction has been allowed in the past assessments, comes within the purview of these provisions. Getting a capital outlay admitted by the revenue authorities as 'current repairs' thus confers advantage to a tax payer in more ways than one.

As it is, allowance for depreciation under the Income Tax Act, especially after the sweeping simplification made in the rules towards the end of 1969 is liberal enough.[20] Under the amended rules, depreciation is allowed in respect of machinery at the rate applicable for a whole year, even if the machinery is used just for a day before the close of the accounting period. In addition, special capital allowances are available in the Income Tax Act in the form of development rebate. Notice for its termination has been given only now. The further bounty to tax payers, which the liberal grant of deduction for none-too-current repairs has provided is hardly called for. The hope expressed by the Taxation Enquiry Commission, that the word 'current' would lend some precision to the expression 'current repairs'[21] has been totally belied. A fresh look needs to be taken at the provisions for current repairs and the damage done to the income base, and thereby to equity, by uninformed liberalisation of their scope through successive court rulings over the years.

The principle that the allowance for repairs should be so restricted as to ensure that the written-down-value of an asset corresponds to its actual economic worth, is not easy to implement; and in whatever manner this is attempted, some degree of arbitrariness is perhaps unavoidable. The aim, nevertheless, should be to achieve it to the extent practicable. This surely cannot be more difficult than ensuring that the repair of a given item of machinery does not restore it beyond its original state, and it has to be done if the

High Court rulings are to be implemented in practice. Imposition of a ceiling on the allowance admissible for 'current repairs' linked with the written-down value of the asset, such as 10 or 20 per cent of it, would perhaps be much less unsatisfactory than the principles on which deduction for repairs is currently allowed. It is worth noting here that, under the law with reference to which the Rhodesia Railways case was adjudicated, while deciding the amount admissible under 'repairs' of an asset, sums allowed on account of its wear and tear also had to be taken into account. Further, the recapture provisions in the Income Tax Act should extend to deductions allowed in the past assessments on account of repairs as well. There is little justification for treating expenditure on repairs, categorised as revenue in income-computation, differently from depreciation in this respect.

Notes

1 It is, of course, possible for the economic decay of an asset to fall short of the depreciation provided for in the accounts or in the IT Rules. How else does one come across — and such instances are not rare — assets in actual use many years after their written-down-values were reduced to zero? Distortions arising out of such situations are, however, seldom considered serious enough to merit any attention.

2 M J Bailey, 'National Income and Price Level' Appendix to "The Concept of Income".

3 The assertion made by L C Goyle in his article 'Current Repairs under the Income-Tax Law' (*Economic Times*, March 10, 1971) that "maintenance and depreciation are distinct and separate from each other and both constitue independent elements of cost", is based on a misconception of the role of the two debit items in income-accounting and is wholly untenable. The passage from Pickles's "Accountancy", quoted by Goyle in the article, does not seem to support his argument. It merely serves to underline the need for providing for depreciation in addition to the expenses for the upkeep of assets as the latter by itself can seldom be expected to cover fully the actual user cost of an asset. Pickles does not touch upon the delicate question whether, provision for depreciation should be reduced proportionately when upkeep expenses are unduly heavy — or conversely. The fallacious premise, that maintenance and depreciation are entirely separate and independent items on the debit side of a profit-and-loss account, perhaps explains Goyle's failure to see the obvious violation of the elementary rule of income-accounting involved in the assumption, that current repairs are meant to restore an asset to its original state and not merely to its depreciated book value. This assumption also underlies most of the Court rulings discussed in this paper. The case for further liberalisation of the provisions for current repairs, advanced by Goyle in the article, is based on an unquestioning acceptance of this erroneous assumption.

4 Vide, for example, Ved P Gandhi's 'Some Aspects of India's Tax Structure', Vora, 1970, p 56.

5 Viewed in this light, the provisions for amortisation of certain types of capital expenditure introduced in the Income Tax Act, 1961, by the Taxation Laws (Amendment) Act, 1970 (vide the newly inserted sections 35D and 35E), which were hailed so much by the business community offend horizontal equity, whatever their justification might be on other considerations such as 'growth'. (Of course, a vocal section did not fail to complain loudly of their niggardliness!) The equity implications of these provisions do not seem to have occurred at all to the Bhoothalingam Committee on whose recommendation they were introduced in the IT Act.

6 N Kaldor, "Indian Tax Reform", Government of India, p 74.

7 (1951) 19 Income Tax Reports 324.

8 (1952) 21 Income Tax Reports 325.

9 (1933) 1 Indian Tax Reports 227.

10 Mysore High Court in Hanuman Motor Service *vs* Commissioner ot Income Tax (1967) 66 Income Tax Reports 88.

11 Commissioner of Income Tax *vs* Mahaluxmi Textile Mills Ltd (1965) 56 Income Tax Reports 256.

12 (1963) 49 Income Tax Reports 194-195.

13 Change in prices, no doubt, makes nonsense of capital values. But that is an entirely different matter. Widening the scope of repairs in income-computation, where depreciation is provided for separately, is a most clumsy and unsatisfactory way of tackling this problem. In any case, if that be the justification for countenancing double allowance on account of capital expenditure, in all fairness, it should be stated explicitly.

14 New Shorrock Spinning and Manufacturing *vs* Commissioner of Income Tax (1956) 30 Income Tax Reports 338.

15 Commissioner of Income Tax *vs* Ranjit Singh (1955) 28 Income Tax Reports 14.

16 The contrary view expressed by L C Goyle in the *Economic Times* (March 10, 1971) does not seem to be correct.

17 Kanga and Palkhivala, "The Law and Practice of Income Tax", Sixth Edition, Volume I, p 455.

18 Hinton *vs* Maden and Ireland Ltd, 38 Tax Cases 391, (1960) 39 Income Tax Reports 357, quoted in Kanga and Palkhivala, *op cit*, p 438.

19 For an idea of the effects on a firm's liquidity and profitability, which a widely different temporal pattern of a given capital allowance can have, vide 'Bhoothalingam Committee on Depreciation', by N J Jhaveri in *Economic and Political Weekly*, March 7, 1970.

20 Notification in the Gazette of India Extraordinary of December 29, 1969.

21 Report of the Taxation Enquiry Commission, Government of India, 1954, Volume II, p 60-1.

HARISH CHANDRA MATHUR STATE INSTITUTE OF PUBLIC ADMINISTRATION

Malviya Nagar, Jaipur (Rajasthan), India.

REQUIRES

MANAGEMENT ANALYST	able to initiate research in actual operations of government of Rajasthan in the area of O & M Work Study, Operations research etc.
	and
ECONOMIST	able to initiate researches in project planning and cost benefit analysis relating to State projects.

This Institute trains administrators of Rajasthan and conducts research in administration and development.

Adequate research qualifications with acquaintance of modern tools of analysis necessary. Positions will be equivalent to that of a Professor of an Indian University and persons will be on contract for three years.

Please write to the Director of the Institute stating details about your qualifications etc within one month of the publication of this advertisement.

Darhani 7/9

Sino-Indian Relations

T Karki Hussain

In the wake of a significant electoral victory, the Government finds itself in a sufficiently strong position to move away from the old line on China. After an interval of several years it is showing signs of adopting a high-key posture in foreign policy, especially in matters of direct national concern. India can also gain impetus from the great fluidity in recent international dealings.

The crisis in Pakistan provides India with an excellent opportunity to reappraise the nature and scope of Sino-Pak friendship. India, till now, has missed the point that the collusion between China and Pakistan may not be total, though outwardly China might assure Pakistan of its support and sympathy.

There are, also, several stimulants on the Chinese side to normalise relations with India. In the seventies, China does not consider India a major competitor in the international field or a physical threat to its territorial integrity. It may, therefore, be persuaded to ease tensions with India in view of its concentration on the Soviet problem. Perhaps, the Sino-US detente *may lead to an improvement in Sino-Indian relations too.*

INDIAN leaders have often suggested that they are keen to re-establish friendly relations with China. But matters have not progressed much beyond the realm of public expression. It may be said that India's inhibitions regarding China are far too numerous to be easily dispensed with. These inhibiting factors include: a) bitter memories of the border dispute and the subsequent military reverses of 1962; b) China's 'new diplomacy' in the post-1962 period which succeeded in demolishing the diplomatic prestige gained by India in the fifties; c) China's friendly overtures towards Pakistan which has remained the traditional adversary of India; d) our increasing dependence on the two super powers, especially the Soviet Union, with which China fell out and remained on hostile terms throughout the sixties; and finally, the overpowering image of China in the Indian mind which makes us adhere to adverse value judgments on Chinese motives and actions—judgments which, in turn, inhibit us from fathoming the nuances and subtleties of Chinese political behaviour.

This last point, perhaps more than anything else, provides the clue to India's hesitation in being the first to initiate a positive move towards a *detente* with China. The fact that independent India suffered its first major political and military defeat at the hands of China, because it failed to assess China correctly, makes it shy away from attempting a fresh opening. Over the years, this fear became more intense and in several respects, more exaggerated, as India faced an ever stronger China. Up till recently, India had not been able to shake off its sense of frustration which clouded the mental capacities of all concerned, right from the political executive to the makers of public opinion.

But it is now possible that certain developments, within both China and India, might have an external impact which will be felt in the sphere of Sino-Indian relations as well. Establishment of normal, friendly ties with India might well be within the present scope of Chinese diplomatic objectives. Similarly, Indira Gandhi's Government might not find the shift from deadlock such an insurmountable barrier as it has hitherto proved.

In other words, just as China in its current phase of diplomacy is 'turning out', new political forces in India might also encourage a fresh look at old problems so as to arrive at new solutions. Resolution of the China 'problem' should have priority because China has been one of the dominant factors affecting several aspects of India's national policies. It should also be frankly admitted that India's options have been severely limited since the clash with China. The leadership which has come to power on the crest of mass popularity in the March 1971 election may, perhaps, in comparison to the earlier generation of leaders, see more clearly the relevance of a new China policy to the restoration of India's credibility as a major regional power.

That the favourable international climate could also be conducive to a 'turning out' for India is not to be doubted. But before visualising how this could happen, one may briefly examine some of the significant trends in world politics as viewed from India since the sixties.

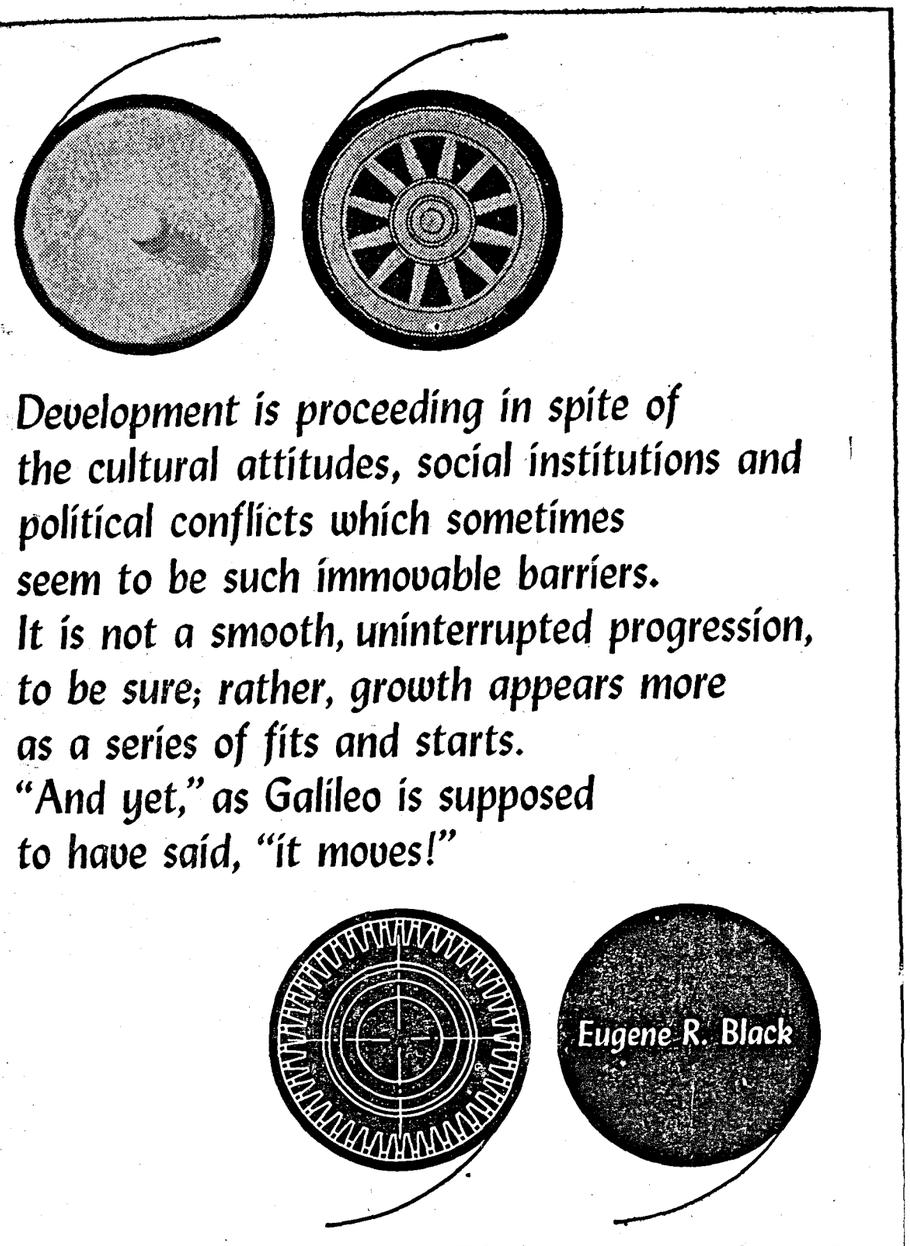
General Developments since 1962

War with China produced a basic shift in India's understanding of world forces. India had all along refused to endorse the division of the world into two mutually hostile camps, headed by the United States and the Soviet Union. By its initiative, it had created a 'third force' which, though lacking actual force, was able to wield some influence over the warring camps (as in Korea and Indo-China). Thus, though technically and industrially very backward, India played both global and regional roles until the early sixties.

In the aftermath of the border war, India forfeited both roles. Though it still talked about non-alignment, in actual practice, it began to accept the bipolar reality of the world. It became *status quo* oriented to the extent of minimising the fundamental contradictions in the international situation. Differences with China made India vulnerable on the Afro-Asian front as well. India did not gain the sympathy of the Afro-Asian countries as it had expected.[1] Nkrumah, then Ghana's President, made a public protest against Britain's supply of arms to India during the 1962 war with China. Among India's immediate neighbours, Nepal remained strictly neutral and Pakistan, in fact, wanted to exploit India's predicament to its own advantage.

As a marked contrast to India, which changed its policy of equidistance from the two poles to equidependence on them, China entered the stage of bipolar antagonism precisely at that time. China rejected the very premise of the widely accepted distribution of power. It projected the super powers as 'paper tigers'. It challenged the leadership role of the Soviet Union among the underprivileged of the world, and asserted its claim to lead the anti-*status quo* forces against the duopoly of power shared between the United States and the Soviet Union. At the same time China went on to assure the rest of the world that it would never become a super power in the sense of dominating other countries.

China's anti-super power posture was



not merely confined to verbal polemics. However symbolic the instruments of its power politics and however slender its resources, it tried to break the hegemony of the super powers. SEATO, CENTO and the US-Pakistan Mutual Defence Pact notwithstanding, Pakistan became a close friend of China. In the Middle East, China's exports rose from almost nothing in 1962 to $ 120 million in 1969, whereas the relative share of the Soviet Union decreased.[2]

China's enhanced prestige in the 'third world', as compared to the decline in India's influence, was due to various reasons. Its emergence as a nuclear power in the face of all odds, especially the mass withdrawal of Soviet technicians along with their plans and the cancellation of Soviet economic and technical aid, was a major event for the Afro-Asian countries. It created in them a sense of awe and respect for China.

Diplomatic Leverage

Besides the psychological impact of China's new global status, quite a few countries whom China befriended in the post-1962 period, found that China's patronage gave them tremendous diplomatic leverage in pursuing their national interests. For instance, due to Pakistan's relationship with China, the United States found it hard to discontinue aid to Pakistan or to pressurise it in any other way. In order to minimise Chinese influence, the Soviet Union also found it expedient to woo Pakistan by providing it with economic assistance and arms. Similarly, Nepal which had been dependent on India, began to assert its independence forcefully, when it realised the value of the Chinese counterweight against India.

A major effect of China's rise as a great power, as far as the big two were concerned, was that they acquired a new appreciation of their limitations. The United States became gradually conscious of the fact that the policies it had pursued since the establishment of the communist regime had failed to weaken, isolate or contain China. In his report to the American Congress in early 1971, Nixon acknowledged that China had become a major power and said that the United States was ready to see it "play a constructive role in the family of nations". The US Government took the first steps towards 'accommodation' when it announced a five-step plan to promote trade and travel between China and itself. And three months later this was followed by Nixon's dramatic decision to visit Peking before May 1972.

The Soviet Union, though continuing its ideological warfare with China, also made a slight but meaningful shift from its earlier posture of hostility which had become pronounced during the years of the Chinese Cultural Revolution. The Soviet Union veered closer to the idea that though an identity in the world view of the two communist powers could not be achieved, they should work towards restoring their relations to the extent that they could co-exist. In a triangular contest for supremacy, the fact that the United States would derive the maximum advantage from a Sino-Soviet conflict could prove a strong incentive for both the Soviet Union and China to keep their differences within manageable limits. A restraining factor on all three could be the fear of the combination of two against one. This calls forth another option, i e, that the three could go their separate ways within the framework of the minimum understanding needed for a power equilibrium. In the light of such reasoning, the Soviet Union has moved towards improving relations with China and has begun negotiations with it.

Although international conditions have changed, India's position *vis-a-vis* China continues to be relatively stagnant. This might be due to the significant fact that each of the bigger countries proximate to India has one major enemy while India has on its flanks, two major enemies. China considers the Soviet Union its principal enemy and *vice versa*; Pakistan considers India its major rival but for India both China and Pakistan are major enemies.

Broad Range of Relationships

At the height of the Sino-Indian crisis in 1962, Pakistan took the position that China did not pose a threat to the security of the subcontinent. This was followed by a statement of the Pakistani Foreign Minister that an act of aggression by India against Pakistan would involve the "largest state in Asia", meaning China.[3] However, when India and Pakistan fought each other in September 1965, the Chinese did not go beyond strong public criticism of India's 'aggression' against Pakistan and serving ultimata on the Indian Government not to cross the Sikkim-Tibet border.

This period saw the emergence of the Soviet Union as an important element in the India-China-Pakistan triangle. Before its large-scale differences with China, India had consistently tried to exclude the great powers from the subcontinent. India's policy of non-alignment had been instrumental in establishing for itself a broad range of relationships with the United States and the Soviet Union, the ethos of which was to maintain a rough equidistance from the two. During the October War of 1962, India rushed into seeking assurance of protection from both. India intensified its relations with the Soviet Union, because it discovered in the latter an ideal equaliser. Although substantial military assistance was expeditiously provided by the Western countries, the Soviet response, in many ways, was crucial for India. Nehru acknowledged as much when he said that "Soviet neutrality in the conflict was of greater help to India than all the military aid received from the West in those days".[4]

Major Soviet Gains

The Soviet attitude which under the compulsions of its own differences with China changed towards active support of India achieved some significant results for both the countries. For India, on the positive side, the Soviet factor restricted possible Chinese moves southwards. On the debit side, however, India began to rely more and more on the Soviet Union whose record of support to it on the Kashmir and Goa issues had already earned the gratitude of the Indian Government. Given the power imbalance between the Soviet Union and India, the latter's dependence could work out to its disadvantage at some point. Great powers have a tremendous capacity to exert pressure on the less powerful states.

From the Soviet angle, the major gains were twofold: a) the impact of Western influence on India was neutralised and b) India moved into the orbit of Soviet influence. The geopolitical importance of India in the context of Sino-Soviet rivalry being a prime consideration in Soviet policy, it was indeed a significant achievement for the Soviet Union to have India within its power zone.

In the war with Pakistan, the Soviet Union not only refrained from taking India's side but in its new capacity as mediator, equated both India and Pakistan. Taking advantage of the new situation in the post-Tashkent period, it began to lay the foundations of a new policy towards Pakistan. Diversification of Soviet support to Pakistan was a most unwelcome development from India's point of view.

making intensive diplomatic efforts to get international support. A strong leadership at the centre can succeed in projecting a new policy towards China in view of the change in the political climate inside the country.

India can also gain impetus from the changing international situation in which it has become possible to conceive of major changes in Sino-US relations and for a general reduction of tension between the United States and the Soviet Union and among their various allies. In 1970, for example, there was extensive diplomatic activity including contacts, discussions and negotiations between the NATO and Warsaw Pact countries. The US and the Soviet Union continued with the Strategic Arms Limitation Talks. Treaties were concluded between West Germany and the Soviet Union and Poland; other signs of a thaw included the beginning of a dialogue between the two Germanies on Berlin.[18]

In this international climate, it might not be difficult for India to reconsider its policies at the regional level and adjust them to suit the emerging and changing situations. China's criticism of Indo-Soviet collaboration is indeed the mirror image of India's anxiety over the Sino-Pak combine. Just as India accuses China of forming a Sino-Pak axis, similarly China feels that the Soviet Union's close ties with India are directed mainly against its national interests. In fact, Soviet policy in Asia, a manifestation of which was the proposed Asian collective security scheme, is interpreted by China as motivated by Soviet antagonism towards it.

Conclusion

To sum up, in the 1970s, relations among the three powers, i e, India, China and the Soviet Union have assumed new dimensions. Sino-Soviet rivalry, for ideological and other reasons might continue to be a major feature of their interrelationship, despite their keenness to avoid a direct clash. Though India has benefited considerably from Soviet recognition, the Soviet Union has also gained from India's endorsement of the Soviet view on the Sino-Soviet boundary dispute. How far India's own interests will be safeguarded under the Soviet umbrella is difficult to predict. It may be suggested however that India would gain more flexibility in its foreign policy sphere if it were not too closely attuned to Soviet policy towards China.

The recent crisis in Pakistan provides India with an excellent opportunity to reappraise the nature and scope of Sino-Pak friendship. India, till now, has missed the point that the collusion between China and Pakistan may not be total, though outwardly China might assure Pakistan of its full support and sympathy. The foundations of Sino-Pak friendship are much weaker when compared to Indo-Soviet ties. India was already a factor in the Sino-Soviet dispute when the two communist giants began to look at various international issues differently. Pakistan became a factor in Sino-Indian relations after India's relations with China became estranged.

The nature of Sino-Pak collusion must be analysed so that one may understand where such collusion could take active shape and where it is merely a formality. As far as Chinese overtures towards Pakistan are concerned, one sees the absence of an active commitment to the causes which Pakistan holds most dear to its heart. The much criticised Chinese stand on Kashmir is indeed a neutral stance. China has not endorsed the Pakistani line that Kashmir belongs to Pakistan. It stops at supporting "the just struggle of the Kashmiri peoples for self-determination".[19]

Though China has come out in favour of the military regime in the Bangla Desh crisis, it remains to be seen how China's support to Pakistan could be extended. As the resistance continues and if or when the class nature of the Bangla Desh struggle gets transformed, China might revaluate the revolutionary potential of the situation and shift its position accordingly. China finds itself in a predicament of how to balance its dual and contradictory role of a socialist state committed to world revolution and a participant in the big nuclear power system which is principally interested in the preservation of the *status quo*.

There are several stimulants on the Chinese side as well to normalise relations with India. China is showing readiness to establish contacts with several countries of the world, including those which till recently have opposed its recognition as a state and its admission to the United Nations. In both cases, i e, recognition of China and its membership of the United Nations, India has extended its support. Rejecting an opposition proposal in parliament to revise the government's policy towards China, India's Foreign Minister said, "The records of the United Nations do not list any member called Taiwan... Taiwan belongs to China... Our relations with China may not be good now but tomorrow they may be better. Even in the present situation, I see no reason to recognise Taiwan."[20]

In the 1970s, China does not consider India a competitor in the international field or a physical threat to its territorial integrity. Instead, China may be persuaded to ease tensions with India in view of its concentration on the Soviet problem. Just as the Soviet Union has successfully diversified its influence in the subcontinent by befriending Pakistan since the mid-1960s, it might serve Chinese interests to make friends with India. In its major power role, China might not think it necessary any longer to continue the policy of isolating India and containing its influence. In India's case, it would be appropriate for the new leadership to think constructively in terms of playing a viable role in the South Asia region and this it can hope to achieve only by recognising the fast changing realities in international relations. Perhaps, the Sino-US *detente* presages a somewhat more positive effort on India's part to re-establish normal relations with China.

Notes

1 For Afro-Asian attitude in India-China war, see G H Jansen, "Afro-Asia and Non-Alignment", London 1966, pp 321-9.
2 Joseph D Ben-Dak "China in the Arab World", *Current History*, September 1970, Vol 59, No 349, p 151.
3 Pakistan National Assembly Debates, 1963, Vol 2, p 1966.
4 P C Dutta, "India-China Dispute and the Soviet Union", *Frontier*, July 25, 1970, Vol 3, No 18, p 9.
5 *Statesman*, May 26, 1971.
6 *Richard Nixon*, "United States Foreign Policy for the 1970s", June 1970, p 42.
7 J K Galbraith, "Ambassador's Journal", Boston, 1969, p 435. Also see Chapters 20 and 21 on the Border War.
8 P J Eldridge, "The Politics of Foreign Aid in India", New Delhi, 1969, pp 169-70.
9 *China Report*, Vol VI, No 6, p 75.
10 *Statesman*, June 8, 1970.
11 *Tribune*, May 25, 1970.
12 *Hindustan Times*, June 23, 1970.
13 *Times of India*, October 23, 1970.
14 *Hindustan Times*, June 23, 1970.
15 *Times of India*, October 13, 1970.
16 Report 1970-71, Government of India, New Delhi, p 16.
17 *Ibid*, p 17.
18 *Survival* Vol XIII, No 2, February 1971, pp 61-72.
19 *Amrita Bazaar Patrika*, October 23, 1970.
20 *Hindustan Times*, May 16, 1970.

Democratic Interlude for Nation Building

Fifth Lok Sabha Elections

Iqbal Narain

How far the fifth Lok Sabha elections will prove to have laid the basis for enduring political development in the country, it is yet difficult to say. For the present, it is best to describe them as having provided a democratic interlude for nation building.

The fifth Lok Sabha elections were significant, above all, for the trends in party-building that they brought to light.

It has been suggested that the massive victory of the Congress presages a return to a one-party dominance situation. What is more likely, however, is that the forces of infrastructural politics may dominate in the state elections and the Congress may not in all cases sweep the poll as it did in the Lok Sabha elections. This tendency was evident in the state elections which were held simultaneously with the Lok Sabha elections. The poll verdict in the state elections did not indicate a trend towards return to the one-party dominance system. It is very likely that the state elections next year will confirm that India continues to move in the direction of a competitive democratic polity with the prospects of alternation of power between different parties.

It is also possible that India may come to have a more viable party system as a result of the fifth Lok Sabha elections through a process of merger and fusion of political parties. Thus we may be left with three or four major national parties and this may result in relatively stable and like-minded coalitions in some states, a two-party situation in others and majority rule in still others.

As for the Congress, it retains something of its earlier umbrella character, but the ruling elite in the party appears to be more prepared to opt in favour of the have-nots in the party's support structure. Nor is the Prime Minister banking only on the support of the rural masses; she has tried, with considerable success, to win the support of the urban voters, particularly the urban youth and the urban intellectual. If this trend persists, it should yield a more inclusive support structure for the Congress, covering both rural and urban areas. This rural-urban continuum in the support structure is also likely to force the pace of dovetailing of urban and rural development programmes to an extent never done before.

THE poll verdict at the fifth Lok Sabha elections surprised even the most abandoned optimist among the political analysts in India and abroad. No one expected the two-thirds majority that Indira Gandhi ultimately secured. The political soothsayers were, by and large, inclined to treat the mid-term poll as a political gamble and they were mostly betting around three alternative outcomes. First; Indira Gandhi may retain the number of seats that she was left with in the Lok Sabha after the Congress split. Second, she may improve her strength without necessarily converting it into a majority.[1] These two alternatives naturally assumed a coalition government at the Centre which may still have Indira Gandhi as the Prime Minister. Third, she may scrape through with a bare or a comfortable majority. The Indian voter, however, refused to oblige the political soothsayers in any one of the three categories; he was as unpredictable in the 1971 poll as he was in the 1967 general election. The importance of the fifth Lok Sabha elections, however, does not lie so much in the numerical strength that Indira Gandhi has mustered for her party, but in the promise of social justice and the commitment to its realisation in the life of the people. Only if this commitment is fulfilled will the two-thirds majority have any meaning and prove functional to the political development of the country.

Political analysts are busy attempting a characterisation of the fifth Lok Sabha elections and discussing its possible implications for the political development of the country. A similar effort is being made here with all the tentativeness that an attempt of this type naturally involves. We are still too near the event to evaluate the importance of the elections from a long-term point of view. The data are still pouring in and sophisticated comparative analyses are yet to be made. The field studies that have been launched in connection with the elections are yet to be completed. Altogether thus we are in a position only to offer notes towards an analytical overview rather than an empirically formulated study of the poll verdict.

I

The Intervening Perspective

It would perhaps be useful to preface this analysis with the identification of certain trends which might have been a factor in the voting behaviour of the people in the 1971 elections. Moreover, if we were to study the voting behaviour against the perspective of these trends, the poll verdict may not appear to be as surprising as it is often made out to be.

(i) With the breakdown of one-party dominance in the wake of the fourth general election, there began an era of coalition politics at the state level. The experience with coalitional politics was none too happy. There was quick rise and fall of coalition governments, rendered easy through the never-ending stream of defections. The result was political instability in the wake of which administration got paralysed and developmental processes came to a standstill. As if this was not enough, with the Congress split there came about a virtual coalition at the centre. also. The union government began to live a hand-to-mouth existence seeking support from different political parties from issue to issue and surviving on that basis. Its initiative was naturally reduced and its options got limited. The growing tension between the legislature and the judiciary on issues of social justice, increasing

TABLE 1 : PERFORMANCE OF THE PARTNERS OF THE 'GRAND ALLIANCE' IN 1967 AND 1971 ELECTIONS, BY SEATS AND AVERAGE VOTES

	Seats Contested		Seats Won		Average Votes Secured Per Seat Contested	
	1967	1971	1967	1971	1967	1971
Congress(O)	—	239	67*	16	—	63,817
Swatantra	179	58	44	8	70,724	76,640
Jan Sangh	251	154	35	22	54,645	70,185
SSP	122	93	23	3	58,767	38,459
Total Congress(R)	511	442	279	49 350	116,248	142,648

* The strength of the party in the Lok Sabha after the Congress split.

TABLE 2 : PERFORMANCE OF CANDIDATES BACKED BY THE ROYAL HOUSES IN RAJASTHAN

Mode of Participation	Total Seats Contested	Seats Won	Seats Retaind with Reduced Margin	Seats Lost	Seats Not Retained
Directly involved	5	4	2	1	1
Support extended	14	5	2	9	5

TABLE 3 : ELECTORAL PERFORMANCE OF THE REGIONAL PARTIES IN LOK SABHA ELECTIONS

Regional Parties	Seats Contested	Seats Won	Per Cent of Votes Secured
(1) Telengana Praja Samiti (Andhra)	14	10	14.43
(2) All Party Hill People's Conference (Assam)	1	1	3.01
(3) Janta Party (Bihar)	4	0	0.96
(4) All India Jharkhand Party		2	NA
(5) Vishal Haryana Party	6	1	9.13
(6) Shiv Sena	5	0	1.60
(7) Utkal Congress (Orissa)	20	1	23.60
(8) United Front of Nagaland	1	1	NA
(9) Jana Congress (Orissa)	2	0	1.34
(10) Akali Dal	12*	1	30.85
(11) Bangla Congress	14	1	14.01
(12) DMK	24	23	33.94

* For Punjab only; it also fought one seat in Haryana.

dependence of the central government on regional parties, and its failure to assert itself even on legitimate grounds against state governments and the political parties supporting it, can be cited as examples. Altogether thus it was being asked what would happen to the political system if as a result of the fifth Lok Sabha elections the virtual coalition was to become a formal coalition at the centre. The question became all the more agonising because of the underlying assumption that what happened at the state level may be repeated at the national level also.[2] This question was very much a part of the psyche of the voter and as such must have been one of the factors determining voting behaviour.

(ii) It may also be recalled here that agitational politics had been on the increase, particularly since the fourth general elections. Law and order had tended to deteriorate, especially in such states as West Bengal. Violence was also on the increase. The educated urban youth was impatient with unemployment. Landless labour was also restless in villages at least in some parts of the country. Since violence had as yet not become a part of India's political culture, the agitational and violent overtones in the style of Indian politics became a matter of grave concern both for the elite and the common man in the urban and rural areas. It was being argued on the eve of the fifth Lok Sabha elections that a strong and stable government alone could tackle the deteriorating law and order situation and address itself boldly to the tasks of nation-building.

(iii) More importantly, however, it is to be emphasised that Indira Gandhi, particularly since the Congress split, had been trying to convince the people that a new Congress was being born, which had faith in the creation of an egalitarian social order and which sincerely meant to make positive steps to move in that direction. In fact, she herself was tending to become a symbol of change-oriented and action-based politics and this naturally imparted a new image to her party. Bank nationalisation and the efforts at abolition of privy purses can be treated as strategic symbolic gestures in this process of image-building. The anti-Indira plank of the opposition political parties was too weak a substitute for the programmatic plank of the Prime Minister. Similarly, anti-Congressism no more possessed the psyche of the people as it had done on the eve of the general elections in 1967; in fact it had become outdated. However, the opposition political parties, particularly the SSP, still harped on anti-Congressism.[3] The non-programmatic four-party alliance thus turned out to be too negative to click in the changed political climate of the country. Therefore, it should not have been a surprise if the strategy of grand alliance ultimately failed. Table 1 bears this out.

The Table makes it clear that, despite the alliance, the parties could not register any appreciable improvement in the average votes per contested seat, let alone increase their total votes.

(iv) Significant shifts had also taken place in respect of the ethnic base of politics. The continuance of communal riots in the country and their aftermath made the Muslim leaders realise that their own organisations could not successfully operate as pressure groups *vis-a-vis* the parties which they had supported.[4] The failure on their part to get their community interests fulfilled as a *quid pro quo* for their support to non-Congress governments[5] made them turn back to Congress[6] which was earnestly trying to tilt the balance in its own.

II

Notes Towards a Characterisation

We would now turn to a characterisation of the fifth Lok Sabha elections. The following aspects deserve particular mention in this regard:

(i) The fifth Lok Sabha elections were peculiar and yet perhaps a case of *change in continuity*. They were peculiar because, for the first time, an all-out effort was made to convert the election predominantly into a battle over issues. This brought about the first ever serious confrontation between programmatic politics and politics of infrastructure in the history of democratic elections in India. It would thus be a repetition that the non-programmatic four-party alliance did not find favour with the voters because the fifth Lok Sabha elections were fought on programmatic grounds.[7] Further, the delinking of national and state elections also contributed to the peculiar character of the fifth Lok Sabha elections. It may be emphasised, however, that delinking was not important *per se;* its significance lay in the fact that it was part and parcel of a programmatic battle.

In spite of all this it will perhaps not be far wrong to treat the election as a case of change in continuity. It may be pointed out in this connection that the "breakdown" of one-party dominance in 1967 as also the landslide victory of the new Congress in 1971 represent two ends of a continuum in the psyche of the Indian voter. The voter has all through been in quest of economic justice and an egalitarian social order. This is understandable also because cultivation of egalitarian values and their appeal is inherent in the logic of the adoption of universal adult franchise in a developing country like India. If in 1967 the Indian voter registered a negative vote in protest against immobilism of the political elite and their failure to achieve social justice, he gave a positive vote for the promise of an egalitarian social order and commitment to its realisation in the life of the people in the 1971 elections. Thus interpreted, the Indian people would emerge as basically consistent in their voting behaviour.

(ii) It is also being emphasised that the Lok Sabha poll verdict embodies a vote for stability. This is so with a difference. It may be recalled here that the united Congress party had emphasised in the fourth General Elections also that it alone could give stability to the country. But the call of stability then had been ineffective because stability at the moment had come to symbolise stagnation in Indian politics and the Indian voter was naturally impatient with it. During the 1971 elections, however, the need for change towards a more egalitarian social order was the dominant note of the election symphony. The need for stability was being emphasised with, and more particularly for change in the direction of, social justice. Thus it would not be fair to the Indian people if the meaning of fifth Lok Sabha elections is to begin and end with stability; its true meaning is stability with accent on change towards social justice.

TABLE 4 : PARTY POSITION IN THREE VIDHAN SABHAS ELECTIONS TO WHICH WERE HELD IN 1971

Political Parties	Tamil Nadu		Orissa		West Bengal	
	67	71	67	71	69	71
Congress (R)	50	—	31	51	55	106
Congress (O)		15		1		2
Swatantra	20	6	49	36	—	—
PSP	4	4	21	4	5	3
SSP	2	0	2	0	9	1
CPI	2	8	7	4	30	13
CPM	11	0	1	2	80	113
DMK	138	184	—	—	—	—
Jan Sangh	—	—	—	—	—	1
Bangla Congress	—	—	—	—	33	5
Muslim League	—	6	—	—	—	6
Forward Block	—	7	—	—	21	3
Jharkhand	—	—	—	4	—	2
Utkal Congress	—	—	—	31	—	—
Jan Congress	—	—	26	1	—	—
Other parties and Independents	7	4	3	6	47	25
Total	234	234	140	140	280	280*

* This includes the result of three constituencies where polling was suspended owing to the murder of the contestants and was held later.

TABLE 5 : LOK SABHA—PARTY-WISE GAINS AND LOSSES

Party	Candidates Contested	Seats Won	Seats Gained	Seats Lost	Seats Retained
Congress (R)	442	350	169	38	181
Congress (O)	239	16	7	55	9
Jan Sangh	154	22	12	23	10
Swatantra	59	8	1	28	7
SSP	93	3	2	17	1
CPI	86	23	9	10	14
CPM	86	25	19	13	6
PSP	63	2	—	11	2
DMK	25	23	3	5	20
Independents and others	1540	43	29	51	14
Total	2787	515	251	251	264

Source : *Commerce*, March 20, 1971.

(iii) An allied issue has been whether the elections had been a prime ministerial election. It is true that Indira Gandhi played a critical role in the victory of her party and in a manner of speaking she can even be said to have been elected directly by the people as the Prime Minister of the country. But, as she herself is reported to have emphasised, it was not so much a personal victory as a programmatic victory.[8] She had come to symbolise the socialistic programme and, more importantly, the promise to fulfil it, and in that lies the secret of her poll victory.

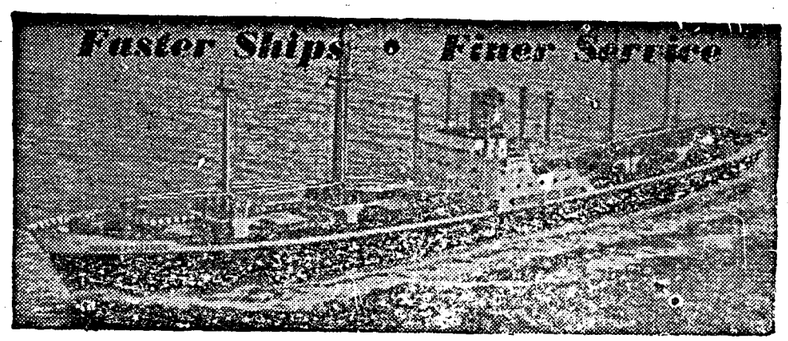
An effort is, however, being made to explain the poll verdict in terms of a newly acquired charisma by Indira Gandhi.[9] The concept of charisma, in spite of the romanticism associated with it, does not help a political analyst. It is, in fact, one of those residual analytic categories which like allergy in the medical sciences is employed by a social scientist to cover a baffling socio-economic and political phenomenon, which he otherwise fails to explain. The use of the term charisma in the context of fifth Lok Sabha elections is thus more likely to mystify than to explain. Still if we want to use the term we should underline that it is a charisma with a difference. It is not hereditary charisma insofar as Indira Gandhi did not carry conviction with the people in the fifth Lok Sabha elections because she happened to be the daughter of Jawaharlal Nehru. It is also not a national-movement-based charisma because she did not try to win election on the basis of the record of the Indian National Congress in India's struggle for freedom. It is, in fact, a cultivated and a functional charisma which is built around and projects her image to the people as an agent of change-oriented and action-based politics and that also in the direction of economic justice in an egalitarian social order.[10]

(iv) It is thus obvious that the left-of-

centre programme of the new Congress and, more important, the emphasis on its implementation was largely responsible for its appeal to the people. This, however, raises another issue whether the fifth Lok Sabha elections had yielded an anti-polarisation verdict. This may not be necessarily so. It appears that the extreme left as represented by CPI (M) is getting crystallised. Of course, the secular right as embodied in the Swatantra party and the communal right as represented in the Jan Sangh appear to be in disarray. This may ultimately turn out to be a temporary phase, at least as far as the communal right is concerned, which may, once again, tend to consolidate its position in its pockets of influence during state elections in 1972 as also in local elections. [11] This may happen all the more because the princes which still have a significant, though progressively reduced, appeal and who are getting disenchanted with the Swatantra party may join the Jan Sangh. The cadre strength of Jan Sangh when combined with feudal hold should contribute in good measure to the consolidation of the communal right. Ultimately thus India may come to have a multi-polar model of democratic politics in which there may be competition for alternation of power among the extreme left represented by CPI(M), the communal right as embodied in Jan Sangh and a pro-left centrist party as represented by the new Congress with the other political parties trying to find a place for themselves in this broad spectrum of polarised politics.

(v) Finally, the fifth Lok Sabha poll verdict is also characterised by primacy of democratic politics and its growing autonomy of the infrastructure. With this the so-called gap between politics of developing and developed areas is tending to get bridged. It is, however, not being contended here that infrastructural pulls and pressures like that of caste have not mattered in election politics in 1971. They have continued to matter at micro levels but the secular forces have tended to cut across them at the macro level and as such their role cannot be treated as deterministic in the cumulative sense.[12] Similarly, the feudal hold is still important but its grip has been loosening. The case of Rajasthan would illustrate the point. As Table 2 shows, the performance of the princes and ex-jagirdars was poor even where they themselves were in the field; it was poorer still in the case of candidates who were backed by them. For example, the Jodhpur Rajmata won the election with a margin of just 20,000, while the candidates supported by her trailed behind Congress candidates in the predominantly rural areas of the constituencies. Thus the claim of the young Jodhpur prince that all the Congress (R) candidates within the territorial limits of the former Jodhpur state would be defeated did not come true. Again, out of 14 candidates supported by the princely houses, 9 were defeated and the winning candidates also succeeded with poor margins. The Raja of Bharatpur lost. Generally speaking, the performance of the princes was particularly poor in the rural areas. Madhya Pradesh was more or less in line with Rajasthan, while Gujarat and Orissa had a poorer record.

Furthermore, the fifth Lok Sabha poll verdict has been suggestive of a differentiated rather than de-regionalised politics. A differentiated secular and national loyalty structure appears to be in the offing. We had inherited such a loyalty structure as a result of the national movement but this had got dissipated in the pull and swing of democratic politics. Once again we appear to be regaining this loyalty structure



Our fleet of seventeen modern freighters offers fast, regular and dependable service between

INDIA—U. K. & THE CONTINENT • INDIA/EAST PAKISTAN—SOUTH AMERICA
INDIA—BLACK SEA & EASTERN MEDITERRANEAN PORTS
INDIA—POLAND Also around the INDIAN COAST

INDIA STEAMSHIP CO., LTD.
"INDIA STEAMSHIP HOUSE", 21, OLD COURT HOUSE STREET, CALCUTTA-1

through the differentiation of national, state and local levels of politics, though the process of differentiation has not been as complete as one would have liked it to be. It is also worthwhile to add here that unsatiated but positive regionalism, as represented by Telengana Samiti and regionalism having national linkages as seen in the case of DMK, still matters in Indian politics. In contrast satiated regionalism as represented by the Akalis and purely negative regionalism as embodied in the Shiv Sena appear to have lost their hold. Table 3 which shows the electoral performance of parties which fought the election on regional issues, strengthens our conclusion.

It may also be emphasised here that perhaps people had started thinking in terms of the parties of the rich and the poor and thus this type of class consideration in its embryonic and very generalised form tended to cut across the infrastructural pulls and pressures.

III

Implications for Political Development

We will now analyse the implications of the fifth Lok Sabha elections for the political development of the country in the specific context of prospects of national integration, economic development and party building.

As far as the prospects of national integration are concerned, if the hypothetical thesis of the emergence of a differentiated secular and national loyalty structure becomes a fact of life, it should go a long way in meeting the challenge of national integration. Similarly, if the Jan Sangh realises that for becoming a national political party, it will have to shed its communal overtones and soften its attitude on language, this, again, should strengthen secular forces.

Similarly, the accent on a socialist programme and, more particularly, on its implementation, the majority support to the national government and the consequent widening of options and release of initiative and, above all, the prospect of political stability should prove functional to economic development. It may, however, be emphasised here that they would only create conditions in which economic development will be possible; the use of these conditions would depend on the vision, sincerity and courage of the ruling elite in the new Congress.

It is, however, in the sphere of party building that the fifth Lok Sabha poll verdict may unleash the most significant trends. It is being argued that the Indian political system may revert to the one-party dominance situation in the wake of fifth Lok Sabha elections. It is difficult to take any categorical stand on this issue. It is, however, possible that forces of infrastructural politics may dominate state elections and the new Congress may not in all cases sweep the poll in the states as it has done in the national election. Factionalism in the new Congress still persists in several states and this may further contribute to this outcome. Moreover, the Indian voter, as voting behaviour studies show, has displayed a split psyche in terms of voting preference. He is capable of voting for one political party at the national level and another party or combination of parties at the state level. In fact, this tendency cannot be said to have been entirely absent in the state elections which were held simultaneously with the Lok Sabha elections in 1971. The poll verdict in the state assembly elections do not indicate in all cases a trend towards a return to the one-party dominance system. This will be borne out by Table 4. Further, as Table 5 would bear out, 251 seats (identified as party gains) are still in a state of flux and we do not know whether they indicate a firm shift in the support structure in favour of the new Congress. We should, therefore, keep our analytical options open in regard to the re-emergence of the one-party dominance situation. For, it is possible that the state elections may confirm that India continues to move in the direction of a competitive democratic polity with prospects of alternation of power between different parties at the state level and this may be a continuation of the process that started in the wake of the Fourth General elections.

It is also possible that India may come to have a more viable party system as a result of the fifth Lok Sabha elections through a process of merger and fusion of political parties. Though the struggle for the symbolic existence of political parties at the national level may continue for some time, it is becoming obvious that the Swatantra party is on the way out and Congress (O) has little future. Similarly, PSP and SSP do not stand to gain through a separate existence.[13] Thus we may be left with three or four major national political parties and this may result in relatively stable and like minded coalitions in some states, a two-party situation in others and majority rule in still others.

Finally, a word will not be out of place here about the new Congress. It is more homogeneous than before though factionalism is still there. Its leadership is stronger today than before, though the possibility of in-fighting, particularly at the state level, cannot be ruled out. What deserves particular mention, however, is an effort on the part of the new Congress towards a more differentiated and a more inclusive support structure. It still has the umbrella-type character which it had inherited as a national movement, but the ruling party elite, particularly Indira Gandhi, appears to be psychologically prepared to opt in favour of the "have nots" in the party's support structure, although Indira Gandhi is equally conscious of the fact that the relatively affluent sections of Indian society may still prefer to support her, though for different reasons. At the same time she is not merely banking on the support of the rural areas, but has tried to make a dent in the psyche of the urban voter, the urban youth and the urban intellectual. Her effort appears to have met with at least partial success. If this trend persists, it should yield a more inclusive support structure for the party covering both rural and urban areas. Of course, the rural-urban continuum in the support structure would imply continuity in the demand structure also, which should force the issue of the dovetailing of urban and rural development programmes to an extent perhaps never done before.

IV

Towards the Future

We may, however, emphasise in the end that the fifth Lok Sabha poll verdict marks only the beginning of a march to a destination which still lies far ahead in the future. The real significance of the elections would lie, not so much in the promise of social justice held out by it to the people, but in its realisation. This is not going to be easy — all the more because demands of rapid economic growth and pressures of social justice often tend to militate against each other and yet the promise of democracy in developing areas inevitably lies in the reconciliation of the two. The challenge of implementation is closely related to the need for the building up of a party cadre and a bureaucratic machine which may share the vision and earnestness of the ruling elites and work as the catalytic agent of change. This further assumes that the ruling elites are sincere in their professions about their commitment to

e goal of social justice and have the ıurage and the political imagination to anslate their professions in practice. ill the question of the fulfilment of e great promise is open, it is difficult say how far the fifth Lok Sabha ections would prove to have laid the ısis for enduring political development the country. For the present it is st to describe them as a democratic terlude for nation building.

Notes

E P W da Costa, basing his observations upon voting intentions as recorded in gallup poll surveys, contended that "the effective halving of the popular vote of the undivided Congress has made it virtually impossible for either Congress to reach a majority" and that "the emotional landslide assumed by many commentators to be the natural human response of the poor and illiterates to Mrs Indira Gandhi's new radicalism" was also not "borne out by the data". (*The Times of India*, March 3, 1971.) Even if allowance is made to the 2 per cent error margin that da Costa thinks possible, his estimates fall far below the actual number of seats won by the new Congress.

The leaders of the new Congress persistently harped upon the point that they alone could provide a strong and stable government. For example, Indira Gandhi appealed to the Gujarat electorate to vote for her party which alone could provide a stable government at the centre and take the country towards the goal of economic and social justice (*The Times of India*, February 2, 1971). The opposition political parties would, however, argue differently. For example, the Jan Sangh chief, Atal Behari Vajpayee, would tell Delhi voters that coalition governments could not function properly in the states because the central government did not allow them to. His logic was that if there was a coalition government at the centre, the coalitions in the states would automatically function properly (*The Times of India*, March 4, 1971). The complete rout of Jan Sangh in Delhi would, however, show that the argument did not click with the electorate. In fact, there was an anti-coalition climate working in the country on the eve of the elections. We may recall here a survey of the UP electoral scene where it was pointed out that "the four-party combine starts off on the wrong foot in this state because of the dismal record of two coalition governments UP has known since 1967," and, therefore, "the idea of a coalition at the centre is not a prospect many in this state relish" (*The Times of India*, February 23, 1971).

3 For example, Madhu Limaye, the SSP theoretician, argued that the four-party alliance aimed at ending the Congress(R) rule, because it would, despite some instability, pave the way for an alternative government. He also added that his party was not for the type of political stability of the past because it stood in the way of change. In view of the clear-cut aim, he maintained that no minimum programme was needed; it could be worked out later (*The Times of India*, January 27, 1971). Ram Manohar Lohia had argued in a similar vein on the eve of fourth general elections (for details see *Amrit Bazar Patrika*, December 14, 1966).

4 It may be recalled here that on the eve of the 1967 general election Jammat-e-Islam had indicated its preference for the Swatantra party. For, according to it the monopoly of power by the Congress and its authoritarian exercise frustrated the 'dreams' of opposition parties and led to a general decline in political life while the parties with leftist programe were un-Islamic (*Link*, January 15, 1967). The approach of Majlis-e-Mushawarat as outlined by its leader, Faridi, on the eve of the fourth general elections was similar. He was sorry at the sad plight of the Muslims under Congress rule, for changing which a deal was struck with the Swatantra and the RPI (*ibid*, January 22, 1967). But the Muslim leaders were soon disillusioned when even their minimum demands went unheeded under the new regimes. For example, Urdu was not accorded the status even of a second language in UP and Bihar. They, therefore, tended to rally back to the Congress.

5 The Muslim League openly argued that no party other than itself could promote the interests of the Muslims. Writing in the *Hindustan Times* of February 24, 1971, Mohammed Ismail, the Muslim League chief, used this argument in favour of the League's participation in the fifth Lok Sabha elections. In his own words, his party "is contesting the ensuing elections to the Lok Sabha in a comparatively big way with the objective of safeguarding and promoting the legitimate rights and interests of the Muslim community".

6 In Kerala, West Bengal and Tamil Nadu where Muslim League had developed roots, it fought the election on its own. In the north, however, the party, together with other Muslim organisations, extended support to Congress (R). There were, of course, exceptions as in Moradabad in UP where Jan Sangh and Muslim Majlis contested the election on communal grounds, in spite of there being a Congress (R) candidate in the field (*The Times of India*, February 18, 1971).

7 Minoo Masani, the Swatantra party chief, who had earlier unsuccessfully insisted on having a common manifesto as the basis of the alliance, remarked in sarcasm that people had clearly respected the slogan of "*Indira hatao*" (*The Statesman*, March 12, 1971).

8 *The Times of India*, March 11, 1971.

9 The opposition parties interpret it as personality cult. For example, Atal Behari Vajpayee described it as "the victory of the personality cult of Mrs Indira Gandhi, studiously built over the past year and a half..." (*The Times of India*, March 15, 1971). An editorial in *The Statesman*, dated March 12, 1971 entitled "The Personality Cult Wins" also interpreted the poll verdict in the same vein. Earlier the same paper contained a despatch from Rajasthan entitled "Where the Name Becomes *Mantra*" in which even M L Sukhadia, the Chief Minister, was reported to be seeking votes for Congress candidates in the name of Indira Gandhi, whose name he is said to have mentioned 113 times in a 30 minute speech (*The Statesman*, February 2, 1971).

10 One may recall here a perceptive comment of a correspondent published in *The Times of India* of March 23, 1971: "Mrs Gandhi's charisma has stopped on the borders of West Bengal, where the superior organisation of the CPM did not allow the socalled charisma to have its way in the support structure of this party."

11 The slight improvement in the position of the Jan Sangh in the civic elections after its rout in the Lok Sabha election in Delhi can be cited as an example.

12 One may recall here the case of Punjab. The 55 per cent Sikh population in the state could not help the Akali Dal (which claimed to represent both religious and regional interests) to retain the seats it held in 1967. Though it had an off-the-record understanding with Jan Sangh over some seats, the Akali Dal had taken into account all the caste and religious considerations; still it got only a solitary seat with a narrow margin and the Jan Sangh failed to secure any seat. In Hoshiarpur the Jan Sangh candidate, Yagya Dutta Sharma, failed to retain the seat against Darbara Singh of Congress (R), despite a vote splittter put up by the Akalis (for details see *The Times of India*, March 1, 1971).

Even at the individual constituency level, the caste factor did not always reckon in the ultimate analysis. For example, in Hapur the BKD candidate, Prakash Vir Shastri, claimed full support of Tiyagis, Jats, Raiputs, Brahmins, Mahajans and a part of Punjabis. The caste support in his favour tended to outweigh the support for B P Maurya, his Congress rival; yet he lost by about one lakh of votes.

13 The fifth Lok Sabha poll verdict can be said to have played a critical role in the process of the merger of PSP and SSP which is nearing completion.

REVIEW OF AGRICULTURE

September 1971

Resource Allocation
Ranjit K Sau

Progress of High-Yielding Varieties
G Parthasarathy
D S Prasad

Capitalist Development in Agriculture
Utsa Patnaik

Foodgrain Stocks
S K Ray

Credit Policies for Small Farmers
N S Jodha

Wages of Agricultural Labour
N Krishnaji

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.

Co-operative Marginalia

MANY pious hopes were expressed about the future of the co-operative movement by the Registrars of Co-operative Societies at their customary annual conference at New Delhi earlier this month. If the Registrars failed to get to the heart of the real problems, they were perhaps not to blame entirely since the formulation of policies for the co-operative movement has always been the preserve of politicians. Be that as it may, between the politician and the bureaucrat the co-operatives have remained a case of retarded growth.

The discussions at the Registrars' conference ranged over various aspects of the co-operative structure, though understandably the bureaucrats stopped rather short of retailing their experiences honestly and stating their views frankly for the benefit of the politicians. Thus while there was reference to the growth of overdues of co-operatives to 30 per cent in respect of short- and medium-term credit and nearly 22 per cent in respect of long-term credit, the factors responsible for these trends were not identified nor were steps to reverse them seriously discussed. Similarly, some procedural changes were suggested to facilitate larger flow of credit to small farmers but the more crucial problems of viability and efficient management of co-operative societies were hardly touched upon. As things are, a very large number of farm credit co-operatives have no chance of becoming viable and efficient in the near future. The Registrars might have usefully discussed the measures they have taken or proposed to take to ensure that all credit societies become viable in the next two or three years. Instead, they talked about cash credit facilities for cultivators when such a system is strictly not necessary in agriculture and, even if introduced, would benefit mainly the larger cultivators to whom credit facilities should actually be given on a restricted scale.

The Registrars of Co-operatives were right to emphasise that greater attention should be paid to provision of adequate loans in time to small farmers on a priority basis. On the question of the co-operatives charging a lower rate of interest to small farmers, they came to the conclusion that "it would not be practicable to attempt differential rates of interest at this stage". But while there is no case for making institutional credit to small farmers cheaper than it already is, it needs to be seriously considered whether money should continue to be doled out at these rates to those cultivators who are in a position to meet a large part of their credit needs from their own surplus income or to those who are likely to use cheaper co-operative credit to re-lend to weaker sections of the people in the villages. Ways have to be found to make credit costlier to these borrowers. The rates of interest could be raised progressively with increase in size of cultivated holding and size of loan. For holdings above 30 acres and loans above Rs 15,000, the rate ought to be made high enough to discourage cultivators from borrowing from co-operatives. In fact, some such scheme should be given a fair trial in respect of all agricultural finance, including that available from commercial banks.

The Conference of Registrars does not appear to have discussed the problem of co-ordination between the co-operatives and commercial banks. The absence of proper co-ordination among various credit agencies has already led to overlapping in financing of cultivators and consequent misutilisation of loans and difficulties of recovery.

While the credit sector of the co-operative system is beset with many problems, the non-credit sector appears to be doing substantially better, thanks to the "green revolution" and expanded procurement operations. Co-operative sugar factories now account for about 34 per cent of total sugar output; similarly, co-operatives distribute nearly 60 per cent of fertilisers used by farmers. Consumer co-operatives in urban areas have also gained momentum. Co-operatives were responsible for 50 per cent of the total procurement of wheat during the current rabi season. With the rise in the scale of procurement of foodgrains and supply of agricultural inputs, co-operative marketing societies have now a wide open field to emerge as viable bodies strong enough to withstand competition from private traders without having to lean on official crutches. But progress in this direction can be sustained only if the co-operatives are able, and are allowed, to build up a professional managerial cadre which would not be subject to the passing whims of managing committees. Many of the marketing societies are at present managed by people from the Government who have neither the training nor the aptitude for marketing work in the real sense of the term. The present prosperity of the marketing co-operatives is due not so much to their managerial competence as to the monopoly conditions in which they procure foodgrains, sell fertilisers and earn fixed commission. The real challenge for marketing co-operatives will come when, and if, these props are removed.

Resource Allocation in Indian Agriculture

Ranjit K Sau

The so-called New Agricultural Strategy was officially launched in 1965 but actually was quietly under way since 1959, thanks to the report of the Ford Foundation team of experts on "India's Food Crisis". The Fourth Plan relies on the New Strategy for as much as 66 per cent of additional foodgrains output.

What is the logical foundation of this strategy under Indian conditions? What are the alternative strategies, if any? In what respect is the New Strategy superior to these others, if at all? These questions have not been even posed, let alone examined. One is thus led to conclude that perhaps India has hardly ever taken such a momentous, far-reaching step, as the New Strategy is, with so little prior analysis.

The calculations attempted in this paper of the relative costs per tonne of wheat under two alternative strategies are admittedly crude and, hence, not necessarily conclusive. But the strategy of extending irrigation to hitherto dry land for cultivation with largely traditional methods may be even less expensive than the New Strategy based on 'modern' inputs.

It is well known that in India there exists a wide gap between the capacity of an irrigation system and the actual utilisation thereof. No less serious are the malpractices and inefficiency of actual distribution of irrigation water, the lack of drainage and the deficiencies in design of irrigation projects. It is all the more surprising, therefore, that nonetheless the contribution of irrigation water to agricultural productivity in India has been so significant.

The New Strategy benefits the relatively big farmers; and its overall impact on small cultivators and landless labourers still remains dubious. It has an inherent tendency to give rise to 'enclave' economies. In the perspective of acute rural poverty and unemployment, this strategy may not turn out to be an unmixed blessing. The entire gamut of resource allocation in Indian agriculture, therefore, calls for a fresh, rigorous scrutiny.

IN the year 1958, foodgrains output in India took a moderate dip. Apparently that was enough to raise doubt about the feasibility of the foodgrains target as initially envisaged in the Second Plan. The target in fact was surpassed; but that is a different matter.

A team of 'experts' sponsored by the Ford Foundation arrived in January, 1959. In ten weeks its report was ready — "Report on India's Food Crisis and Steps to Meet It".[1] And the die was cast.

In 1960-61 came the Intensive Agricultural District Programme (IADP), followed by the Intensive Agricultural Area Programme (IAAP) four years later. The High-Yielding Variety (HYV) of seeds appeared on the scene in 1965, and in due course the term Green Revolution got currency.[2] All this is aptly summed up in the so-called New Strategy which was officially launched in 1965, but actually was quietly under way since 1959, thanks to the 'crisis report'. The Fourth Plan indeed relies on the New Strategy for as much as 66 per cent of its additional foodgrains output.

What is the logical foundation of this strategy under Indian conditions? What are the other alternative strategies, if any? In what respect is the New Strategy superior to others, if at all? We have tried in vain to find satisfactory answers to these queries in the existing literature. It seems that these questions have not been even posed, let alone examined. One is willy-nilly led to the conclusion that perhaps India has hardly ever taken such a momentous, far-reaching step, as the New Strategy is, with so little prior analysis. There are, *no doubt, articles galore on the profitability* of HYV; but evidently that does not even touch the basic question.

Poor but Efficient

Theodore Schultz's "Transforming Traditional Agriculture"[3] is the bible of the New Strategy. The fundamental idea is as follows: The peasant community as a whole (not merely the individual farmers) in a developing country are 'efficient but poor'. So "no appreciable increase in agricultural production is to be had by reallocating the factors at the disposal of farmers who are bound by traditional agriculture".[4] It follows that tampering with the use of existing resources cannot transform traditional agriculture; only a massive infusion of new factors and techniques can do so. Such massive change, with India's enormous agricultural sector and limited savings and skills, implies selection of areas. Well-watered areas, especially if irrigated and hence already exposed to some use of non-traditional factors, are the obvious choice. Hence IADP, IAAP, and the New Strategy of concentrating agricultural inputs in selected areas of assured water supply.

The empirical basis of Schultz's propositions lies on two studies: one by Sol Tax on the village of Panajachel in Guatemala, and the other by David Hopper on the village of Senapur in India.[5] Schultz's own analysis of the 1918-19 influenza epidemic in India and the inferences drawn therefrom have been successfully demolished by Amartya Sen.[6]

Wellisz has made an attempt to provide much-needed additional empirical support to "the words of Theodore W Schultz [that] Indian agriculture is 'primitive but efficient'. To transform Indian agriculture it does not suffice to add to the existing factors.... What is needed is not merely more irrigation, or more tools and implements of the traditional types, but better seeds, which are fertiliser responsive, along with an adequate supply of fertiliser, and then additional water to match in an economic setting that would make these worthwhile."[7] His methodology, however, is open to serious doubts. We have dealt with this matter partly elsewhere,[8] and much more on this remains implicit in our analysis below.

As Dantwala puts it clearly, HYV and the consequent Green Revolution are largely a matter of technological breakthrough in which our economists and economic policies played a marginal role, if at all, except being passive instruments.[9] It is a technological breakthrough that originated elsewhere, in a different socio-economic milieu. The new technology is highly capital-intensive, and it demands a management skill of different order.[10]

TABLE 1: EQUATIONS OF WHEAT OUTPUT
Dependent variable: wheat output (in long tons)

	Constant	Independent Variables: Unirrigated Acreage U	Independent Variables: Irrigated Acreage I	R^2 (adjusted for df)
	A TIME-SERIES EQUATIONS			
1949-50	—20.70	0.146	0.540	0.993
	(20.8)	(0.0151)	(0.0227)	
1950-51	—53.80	0.188	0.477	0.991
	(23.1)	(0.0174)	(0.0234)	
1951-52	—10.30	0.122	0.515	0.987
	(28.7)	(0.0234)	(0.0288)	
1952-53	— 7.45	—0.170	0.531	0.986
	(31.9)	(0.0254)	(0.0312)	
1953-54	— 4.48	0.179	0.510	0.987
	(33.0)	(0.0247)	(0.0303)	
1954-55	— 3.75	0.210	0.523	0.987
	(36.8)	(0.0257)	(0.0332)	
1955-56	—13.80	0.193	0.459	0.985
	(36.7)	(0.0214)	(0.0330)	
1956-57	—36.10	0.178	0.547	0.963
	(61.7)	(0.0306)	(0.0569)	
1957-58	— 7.74	0.129	0.530	0.965
	(51.9)	(0.0331)	(0.0508)	
1958-59	—11.30	0.255	0.456	0.963
	(62.5)	(0.0374)	(0.0618)	
	B POOLED CROSS-SECTION TIME-SERIES EQUATION			
	—19.60	0.183	0.506	0.975
	(13.9)	(0.009)	(0.0133)	
	C TIME-SERIES BY STATES			
Punjab	—1240.0	0.337	0.970	0.807
	(38.8)	(0.107)	(0.360)	
Rajasthan	—299.0	0.335	0.627	0.957
	(24.1)	(0.103)	(0.139)	
UP	—544.0	0.173	0.613	0.652
	(48.2)	(0.089)	(0.189)	

Source: W David Hopper, "Planning 'Yardsticks' for Fertiliser and Irrigation", *Agricultural Situation in India* (September 1965), p 470.

Nature of State and the State of Science

Barbara Ward has a point when she observes: "This is a disproportion which the developed world never knew since it invented and pioneered and adapted its technology to its own needs as the process of development went on. But now the technology exists in its own right and can be purchased and introduced *into societies in which in fact* it is quite inappropriate. One can see the consequences of this maladjustment very clearly in some parts of Africa today. Inexperienced Governments, trying out their hand in economic decision-making, find it terribly tempting to buy the most up-to-date machinery which persuasive gentlemen from the North Atlantic area came to sell them."[11]

Technology is *not* something that is rigid and predetermined. It is a product of necessity. "If ... technique largely depends on the state of science, science depends far more still on the *state* and the requirements of technique If society has a technical need, that helps sciences forward.... The whole of hydrostatics (Torricelli, etc) was called forth by the necessity for regulating the mountain streams of Italy in the sixteenth and seventeenth centuries."[12]

The new agricultural technology, of course, has not been produced in India. In any case, have we ever paused to analyse whether or not it is appropriate for India? Have we explored what other paths are open to India? Have we examined their *relative* merits and demerits?

Expansion of Irrigation

In India, only 20 per cent of the cropped area has irrigation facilities; yet multiple cropping is practised in less than 15 per cent of the land.[13] It implies that agricultural output could be increased if just double cropping is extended to the whole of irrigated areas alone.

Irrigation plays three types of roles, depending upon the phase of growth of agricultural productivity. The first is the role of stabilising the harvest fluctuations due to deficient or untimely rainfall. In such cases average yield over the years increases while inputs other than irrigation remain more or less as before and only the irrigation network spreads. The second is the role of making possible the introduction of a second crop. And the third is the role of making possible the increased application of fertiliser, the use of better seeds, and the introduction of improved farming techniques. A cross-country, cross-section, and time-series analysis of six Asian countries, namely, India, Ceylon, Thailand, Malaya, Taiwan and Japan, reveals that when the productivity of land is relatively low (less than 0.92 tonnes of paddy yield per acre, for example), irrigation is the leading input for agricultural growth; at this stage it plays the above-mentioned first role. In successive phases of higher productivity, irrigation assumes the other two roles respectively.[14] But the history of other countries, in its full details, need not repeat itself in the Indian soil.

As for the contribution of irrigation in India in particular, the yield per acre of irrigated land is more than double of that of unirrigated land. Table 1 is the eloquent testimony. Referring to the pooled cross-section time-series equation of Table 1 we find that the all-India productivity per acre of wheat is 0.187 metric tonne (0.183 long ton) in unirrigated areas while it is 0.516 metric tonne (0.506 long ton) in irrigated areas. Similar figures for rice, total cereals and total foodgrains also are summarised in Table 2.

The findings of the Farm Management Surveys also are quite consistent in this respect.[15] Irrigated land is substantially more productive than unirrigated land (see Table 3). Correspondingly the cost data are presented in Tables 4 and 5 for wheat and rice respectively.

With these productivity and cost data at our hand, now let us ask: Which of the two strategies — the fertiliser-based, highly capital-intensive 'new agricultural strategy', or the largely traditional input based strategy of extending the irrigation network to the fullest possible extent, to begin with — is more economical in India?

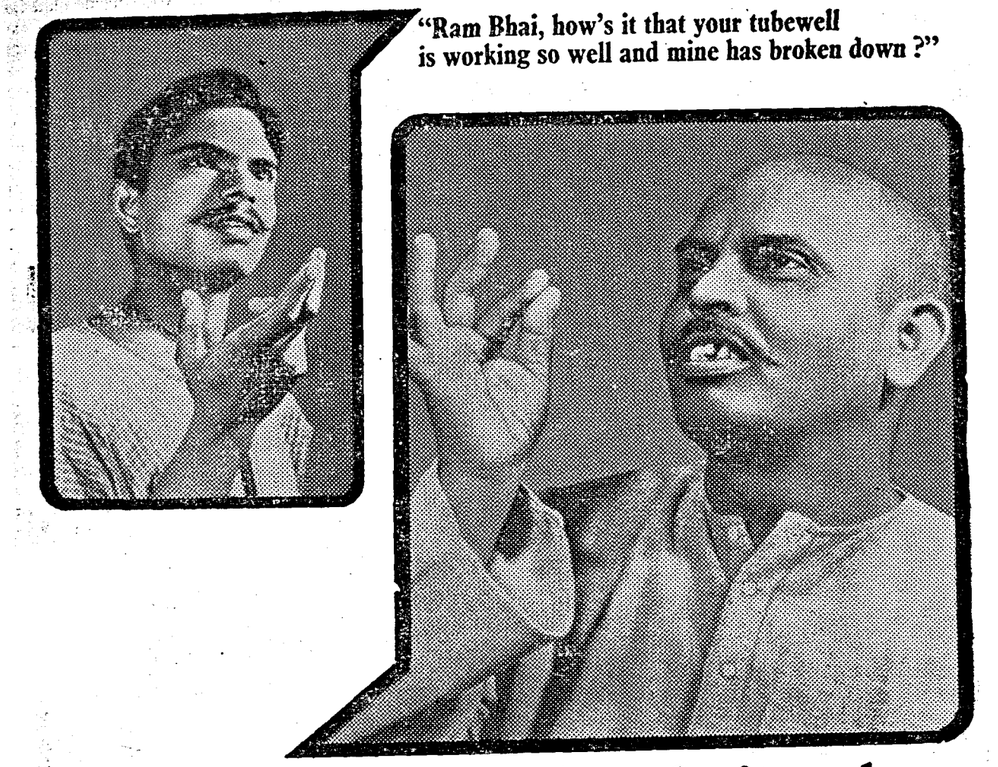


TABLE 2 : YIELD PER ACRE OF UNIRRIGATED AND IRRIGATED LANDS—ALL INDIA

(Tonnes)

Grain	Unirrigated	Irrigated	Difference in Yield
Wheat*	0.187	0.516	0.329
Rice (arithmetic)**	0.225	0.473	0.248
Rice (logarithmic)†	0.192	0.595	0.403
Total cereals	0.172	0.581	0.409
Total foodgrains	0.171	0.614	0.443

* See the pooled cross-section time-series equation in Table 1 where the output is measured in long tons; in Table 2 the output is converted into metric tonne.

** Computed from the linear equation of wheat output.

† Computed from the log-linear equation of wheat output.

Source : Hopper, *op cit*, p 475.

TABLE 3 : YIELD PER ACRE—FARM MANAGEMENT SURVEY*

(Tonnes)

District (1)	State (2)	Period (3)	Irrigated (4)	Unirrigated (5)	Difference (4—5) (6)
		WHEAT			
(1) Amritsar	Punjab	1954-55/1956-57	0.410	0.267	0.143
(2) Ferozepur	Punjab	1954-55/1956-57	0.418	0.231	0.187
(3) Amritsar and Ferozepur	Punjab	1954-55/1956-57	0.413	0.242	0.171
(4) Ahmednagar	Bombay	1954-55/1956-57	0.237	0.111	0.126
(5) Nasik	Bombay	1954-55/1956-57	0.255	0.118	0.137
		RICE			
(1) West Godavari	AP	1957-58/1958-59	0.892	0.496	0.396
(2) Sambalpur	Orissa	1957-58	0.575	0.449	0.126

* Figures in Cols 4 and 5 are respective arithmetic means of yields for the years mentioned in Col 3. All data relate to the "survey sample".

Source : Government of India, Ministry of Food and Agriculture, Studies in the Economics of Farm Management: Punjab (1954-55/1956-57); Bombay (1954-55/1956-57); West Godavari District, AP (1957-58/1958-59); Sambalpur District, Orissa (1957-58/1958-59).

It is estimated that about 50 per cent of the cropped area in India can be potentially brought under irrigation at a reasonable cost,[16] whereas the current, actual figure is roughly 20 per cent. That is to say, the present irrigated areas can be expanded by at least 150 per cent.

Irrigation projects are typically labour-intensive and quick-yielding, the gestation lag being small. By contrast, fertiliser projects are highly capital-intensive with considerable import requirements; their gestation lag is also quite long. Of course, irrigation and fertiliser are not always mutually competitive substitutes; however, in India today they are so, to a certain extent, at the macro-economic level.

We have posed a fundamental question; but the data to go by are terribly scanty. Evidently, the logic of the new agricultural strategy as such is not based upon a very sound empirical footing either; but that is no consolation. It makes the situation worse. We shall have to make some crude assumptions and rough approximations. The main purpose of this exercise would be served if it stimulates further refinements and better analysis.

Let us consider wheat only, and calculate the relative unit costs as between the two alternative strategies. Our estimate of the all-India cost of wheat per acre as of Table 6 are simply the arithmetic means of the respective data of Table 4. Again be it noted that we propose to relate these cost data of Table 6 to the all-India wheat yield data of Table 2.

According to Table 2, by applying irrigation along with the concomitant traditional inputs to hitherto unirrigated land, an additional output of 0.329 tonne can be produced per acre. That is to say, one tonne of additional output would require irrigation, etc, in 3.04 acres of dry land. Now, what is the cost of one tonne of wheat thus produced? Excluding land revenue and rent, the cost is Rs 72.24 × 3.04 = Rs 219.61, in terms of Table 6.

Irrigation charges as paid by farmers are Rs 3.07 per acre (Table 6). But this does not necessarily represent the true social cost of irrigation. Subtracting such irrigation charges, the cost per tonne of wheat works out to be Rs 210.28.

According to the Third Five-Year Plan (pp 413-14), the average cost of irrigation through multipurpose and major irrigation projects is Rs 360.77 per acre. It is not very clear whether this cost is only capital cost, or it includes partly operating cost as well. Let us suppose this is capital cost only.[17] In any event, the corresponding capital cost of medium and small irrigation schemes is presumably lower. So let us assume that the per acre capital cost of irrigation is Rs 350.00 on an average.

Suppose that 2 per cent of capital cost is the operating cost of an irrigation scheme.[18] And let 10 per cent be the rate of interest. Then the cost of irrigation per acre per year is : (0.10 + 0.02) × 350 = Rs 42.00. Hence the irrigation cost of one tonne of wheat is : 42.00 × 3.04 = Rs 127.68. We add this to Rs 210.28, and find that the cost of one tonne of wheat produced by extending irrigation facilities to hitherto dry land is Rs 337.96.

In a labour-surplus economy the shadow price of labour is likely to be well below the market wage rate.[19] The social cost of labour-intensive irrigation schemes, therefore, may be lower than their nominal cost. But we shall not go into that here. Let us subtract only the direct labour cost in wheat production which is Rs 24.53 per acre, including imputed value of the family labour (Table 6). Then the average cost of wheat under this traditional input-based strategy amounts to Rs 263.39 per tonne.

If this strategy is accepted in order to raise foodgrains production by, say 5 per cent per year, then the required programme for expanding the irrigation network can be solved from the following equation :

$$0.171\,(A-I) + 0.614\,I = Q\,(1.05)^t,\ I \leqslant \bar{I}$$

whereas A is the total foodgrains area, I the corresponding irrigated area, Q foodgrains output in the base year, and $\bar{I}$ the maximum acreage which can be brought under irrigation. Here A and Q are two given constants; and only I is the unknown variable. The productivity figures, namely, 0.171 and 0.614, are taken from Table 2.

English Electric conserve precious foreign exchange

through planned import substitution

To conserve the country's foreign exchange, ENGLISH ELECTRIC have been continuously developing designs of Control and Protection equipment based on the maximum use of indigenous raw materials and components.

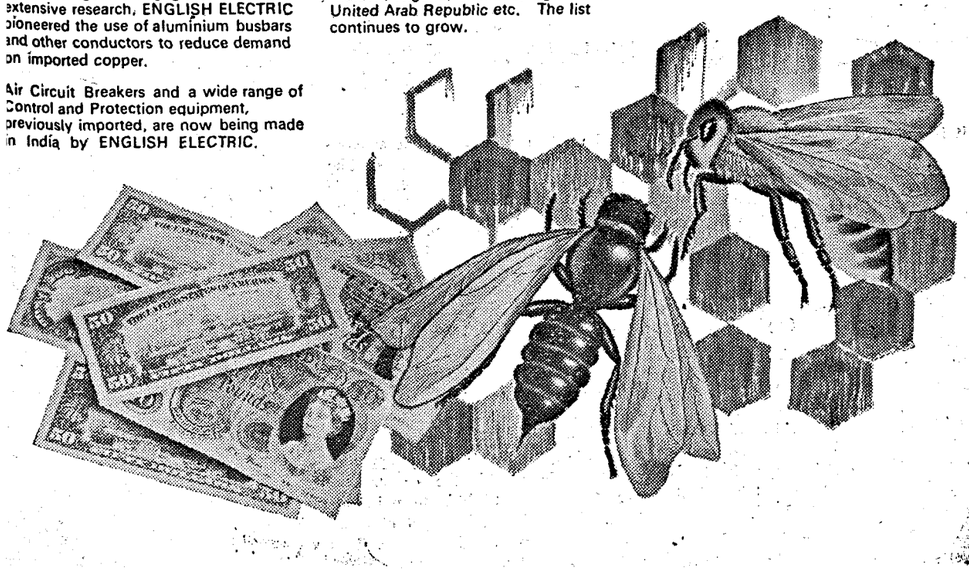
A major breakthrough was achieved in the indigenisation programme in 1966 with the production of Steatite bodies for H.R.C. Fuses at the Madras Works. The import content in the present range of Fusegear and Switchgear is negligible. After extensive research, ENGLISH ELECTRIC pioneered the use of aluminium busbars and other conductors to reduce demand on imported copper.

Air Circuit Breakers and a wide range of Control and Protection equipment, previously imported, are now being made in India by ENGLISH ELECTRIC.

The import content of all this equipment is being progressively reduced aiming at self-sufficiency in the near future. In Electronics, the ENGLISH ELECTRIC MARCONI Signal Generator is a typical example of import substitution of a world-class instrument made in India with very high indigenous content.

On the export front, Indian-made ENGLISH ELECTRIC equipment is in service in Australia, Burma, Kuwait, Malawi, Nigeria, Thailand, Uganda, the United Arab Republic etc. The list continues to grow.

Control and Protection are the keys to ENGLISH ELECTRIC'S total involvement in India's industrialisation and power development. Pioneering in the indigenous manufacture of Control and Protection equipment, planned import substitution, sustained export drive and dedicated research and product development make ENGLISH ELECTRIC what they are today—trusted for quality and performance the world over.



EEPC-227A/71

English Electric-playing a lead role in India's power development

THE ENGLISH ELECTRIC COMPANY OF INDIA LIMITED, MADRAS 43 ENGLISH ELECTRIC

TABLE 4 : ITEMWISE COST PER ACRE OF WHEAT—AVERAGE OF 1954-55/1956-57* (Rs)

Item	Amritsar and Ferozepur			Ahmednagar			Nasik		
	Irrigated	Unirrigated	Difference (3—2)	Irrigated	Unirrigated	Difference (6—5)	Irrigated	Unirrigated	Difference (9—8)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) Human labour	46.24	24.76	21.48	47.20	18.50	28.70	32.40	9.00	23.40
(2) Bullock labour	51.12	32.97	18.15	34.10	11.00	23.10	44.20	10.80	33.40
(3) Seeds	10.81	9.65	1.16	9.60	8.20	1.40	12.40	9.20	3.20
(4) Manures and fertiliser	2.34	..	2.34	9.30	2.10	7.20	7.30	0.30	7.00
(5) Depreciation and other charges on machinery and equipment	3.10	3.04	0.06	8.90	1.90	7.00	12.30	1.80	10.50
(6) Interest on capital	2.73	1.73	1.00	7.90	0.60	7.30	11.50	1.00	10.50
(7) Irrigation charge	4.80	..	4.80	0.50	..	0.50	3.90	..	3.90
(8) Land revenue and rents	51.88	33.72	18.16	11.50	10.50	1.00	16.80	8.20	8.60
(9) Artisans and miscellaneous	2.64	2.01	0.63	0.20	0.20	..	0.10	0.10	..
Total	175.66	107.88	67.78	129.20	53.00	76.20	140.90	40.40	100.50
Yield per acre (tonne)	0.413	0.242	0.171	0.237	0.111	0.126	0.255	0.118	0.137

* Data relate to the "survey sample" of Farm Management Survey.
Source : See Table 3.

TABLE 5 : ITEMWISE COST PER ACRE OF RICE* (Rs)

Item	West Godavari 1957-58/1958-59			Sambalpur 1957-58		
	Irrigated	Unirrigated	Difference (3—2)	Irrigated	Unirrigated	Difference (6—5)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) Human labour	67.72	43.22	24.50	59.15	35.54	23.61
(2) Bullock labour	37.87	13.22	24.65	17.19	11.65	5.54
(3) Seeds	17.58	3.87	13.71	14.55	13.87	0.68
(4) Manures and fertilisers	18.47	13.83	4.64	4.63	2.07	2.56
(5) Depreciation and other charges on machinery and equipment	4.20	1.64	2.56	32.89	19.16	13.73
(6) Interest on capital	2.03	0.76	1.27			
(7) Irrigation charges	1.38	..	1.38			
(8) Land revenue and rents	163.37	89.56	73.81			
Total	312.62	166.12	146.50	128.41	82.29	46.12
Yield per acre (tonnes)	0.892	0.496	0.396	0.575	0.449	0.126

* All data relate to the "survey sample" of Farm Management Survey.
Source : See Table 3.

'NEW AGRICULTURAL STRATEGY'

This strategy, in effect, calls for intensive use of fertiliser, HYV seeds and other 'modern' inputs in the areas of assured water supply which constitute roughly 15 per cent of the total cropped area at the moment. Assuming an output price of Rs 700 per tonne and the nitrogenous fertiliser (N) price of Rs 250 per quintal, the optimal dose of N per acre of Sonora-64 wheat is estimated to be 58.8 kgs which would produce 1.992 tonne of output.[20] Let us also note that the basal doses of phosphate (P_2O_5, or simply, P) and potash (K_2O, or simply, K) are respectively 24 kgs and 16 kgs per acre.[21]

As against the above-mentioned 1.992 tonnes of Sonora wheat yield per acre, the actual record so far is far below that. During 1968-69, Punjab was able to achieve the highest, namely, an average yield of 0.867 tonnes only, while the next highest performance was of the order of 0.680 tonnes attained in Haryana, for all high-yielding varieties of wheat taken together.[22] In some selected localities elsewhere the results are, of course, somewhat better. In Nenod (MP), Aligarh (UP), and Udaipur (Rajasthan), the average yields were 0.909 tonne, 1.105 tonnes, and 1.18 tonnes respectively (Table 7). Still these figures are well below 1.992. Nevertheless, in order to give maximum advantage to the new strategy, let us accept the yield of 1.5 tonnes per acre as feasible in practice, as distinct from controlled experiments.

On the other hand, we find that the actual fertiliser consumption in one small sample village (Nenod, MP) was as follows: 62.24 kgs of N, 22.51 kgs of P, and 18.11 kgs of K per acre, against the recommended doses of 66.69 kgs, 31.63 kgs, and 19.77 kgs respectively, for that particular area.[23]

We have already accepted a relatively high figure for all-India average yield (1.5 tonnes per acre); now we shall take relatively low figures for the corresponding fertiliser requirements, namely, 58.8 kgs, 24 kgs and 16 kgs of N, P and K respectively.

In 1964-65 the price of N (from ammonium sulphate) was about Rs 1.71 per kg, while in 1966 the prices of P (from superphosphate) and K (from muriate of potash) were Rs 1.56 and 0.50 respectively.[24] These prices include certain amount of subsidy; and what is more these are essentially ex-works or ex-jetty prices which do not include costs of transport to farms. In deference to Cummings, Herdt and Ray,[25] we shall put the price of N at Rs 2.50 per kg; and the prices of P and K would be rounded off at Rs 1.60 and Re 0.60.

Then the fertiliser costs per acre under the new agricultural strategy are Rs 147.00 for N, Rs 28.40 for P and Rs 9.60 for K which add up to Rs 195.00.

Table 7 shows that by switching from traditional variety of cultivation to the new strategy increases average yield by 73.6 per cent in Udaipur, 111.7 per cent in Aligarh, and 194.1 per cent in Nenod; under our assumptions the all-India estimate is as large as 191.6 per cent. Correspondingly, in Udaipur and Nenod, the cost of human labour goes

TABLE 6: ESTIMATED ITEMWISE COST PER ACRE OF WHEAT—1954-55/1956-57

(Rs)

Item	Irrigated	Unirrigated	Difference
(1) Human labour	41.95	17.42	24.53
(2) Bullock labour	43.14	18.26	24.88
(3) Seeds	10.94	9.02	1.92
(4) Manure and fertiliser	6.31	0.80	5.51
(5) Depreciation and other charges on machinery and equipment	8.10	2.25	5.85
(6) Interest on capital	7.38	1.11	6.27
(7) Irrigation charges	3.07	—	3.07
(8) Land revenue and rents	26.73	17.47	9.26
(9) Artisans and Miscellaneous	0.98	0.77	0.21
Total	148.60	67.10	81.50

Source: Arithmetic means of data of Table 4.

up by 13.6 per cent and 35.5 per cent. Let us assume that in all-India, the labour cost would go up by 30 per cent. Again, in Nenod, the cost of bullock labour and seeds rises by 31.7 per cent; suppose that for all-India such costs would be higher by 30 per cent.

Now a word about the irrigation cost of the new agricultural strategy. Under this strategy, the HYV seeds, fertilisers, etc, are to be applied in those areas where irrigation facilities already exist. Hence apparently the construction cost of irrigation schemes is irrelevant; only the operating cost is to be taken into account. Above we have computed the operating cost to be Rs 7 per acre of irrigation, or 2 per cent of the capital cost of Rs 350.

But the HYV seed requires considerably more irrigation water as compared to the traditional one. Furthermore, it requires highly sophisticated water controls. Many of the old gravity irrigation projects were not initially designed to meet such demands. As a result, significant additional costs are involved in converting existing irrigation systems to the requirements of the new strategy.[26] Now, as compared to the operating cost of Rs 7 per acre of irrigation for traditional cultivation, and correspondingly the capital cost of Rs 35, let us assume that the total cost per acre of irrigation for the new agricultural technology is Rs 30. Admittedly, this is an arbitrary guestimate. Still this is less than one-fourth of Rs 114.50 which was paid by an average HYV farmer in Nenod in 1967-68.

All this explains how we have arrived at the all-India estimate of *operating* cost per acre of Sonora-64 as given in the last column of Table 7. Now we shall turn to the capital cost.

Again the ideal data are practically non-existent. But Ladejinsky gives us a clue with his statement: "It takes Rs 10,000 to Rs 12,000 to re-equip a seven- to 10-acre holding" for the new agricultural technology.[27] Presumably, this re-equipment refers to the preparation for improved water control ("each plot must be controlled separately throughout the growing season"), implements such as tractors, threshers, etc. On this basis let us say that the additional capital cost per acre for new technology is Rs 1,000. At the rate of interest 10 per cent, and the rate of depreciation 5 per cent, it means a capital cost of Rs 150 per acre per year. This amount can be compared with the capital cost (interest on capital, depreciation and other charges on machinery and equipment) of Rs 15.48 in a traditional irrigated farm of one acre (Table 6).

The cost structure of three types of cultivation — (a) traditional unirrigated (b) traditional irrigated, and (c) 'new strategy' — can now be put together (Table 8).[28] Accordingly, the costs per acre are Rs 49.63, Rs 160.80 and Rs 509.84.

We have already seen above that it takes 3.04 acres of land to raise one tonne of traditional wheat by introducing irrigation to hitherto dry land. The cost of producing one tonne this way is Rs 337.96 including direct labour cost, or Rs 263.39 excluding direct labour cost.

From the top row of Table 7 we find that approximately one acre of land is needed to produce an additional tonne of wheat through the new technology in an already irrigated, traditionally cultivated land. Now according to Table 8, the additional cost is given by: 509.84 — 160.80=Rs 349.04, including direct labour cost. If the direct labour cost is excluded, the cost amounts to Rs 336.45. Table 9 summarises the results.

Having done this exercise, one must be careful in interpreting the findings. Table 9 should not be construed as a blanket condemnation of the new agricultural strategy; nor should it be looked upon as championing the cause of a pair of bullocks, wooden plough and all that which constitute the traditional method of cultivation in India, to the exclusion of technological progress. In spite of all the approximations and arbitrariness behind it, Table 9 has at least one message: Resource allocation and technological change in Indian agriculture should be based upon scientific analysis of relevant data. More positively, expansion of irrigation in hitherto dry land deserves serious consideration.

Also it should be recognised that the cost of producing any particular crop, be it wheat, or rice, or anything else, is not the correct criterion for resource allocation in agriculture. The limiting factor is land; hence the productivity of land per year as a whole should provide the guideline. An acre of land can produce so much of wheat, as well as certain other crops within a given year. Those other crops cannot be ignored, as we have done in the above analysis.

THE WORLD SCENE

The experience of many other countries in the world also clearly underlines the crucial role of irrigation at the early stage of agricultural growth. Indeed, the rapid expansion of agricultural production in Japan after the Meiji Restoration (1868) was immediately associated with a fast rate of absorption of fertiliser. But one must not lose sight of the fact that the preceding Tokugawa period laid the massive infrastructure of irrigation, drainage, and flood control, whose contribution to the agricultural growth subsequently must have been immense.[29]

In partial support to his thesis, Schultz cites the phenomenal rise of agricultural output in Mexico.[30] The case of Taiwan as well is mentioned frequently in this connection. Let us quote K N Raj. With regard to Mexico (1939-59), he observes: "it is fairly clear that it [the agricultural growth] was largely a kind of 'enclave' development made possible by heavy investments in irrigation opening up new areas for cultivation..."[31] As for Taiwan (1948-63) his comments are as follows: the agricultural growth "was due in the main to extension of the cultivated area and technological improvements. Both, however, were dependent on a large-scale expansion of the area under irrigation. From around 30 per cent of the cultivated area at the turn of the century, the share of irrigated land in the total area under cultivation

TABLE 7: YIELDS AND COSTS PER ACRE OF WHEAT—TRADITIONAL AND HYV, 1967-1968

	Udaipur (Rajasthan)		Aligarh (UP)		Nenod (MP)		All-India Estimate	
	Traditional	HYV	Traditional	HYV	Traditional	Sonora-64	Traditional	Sonora-64
Yield (tonne)	0.68	1.18	0.522	1.105	0.309	0.909	0.516	1.50
Current Expenditures (Rs)								
Farmyard manure	..	..	—	—	42.86	134.00		
Fertiliser, N	21.83	42.92	—	—	..	155.60	6.31	147.00
Fertiliser, P	7.30	13.73	—	—	..	36.02		38.40
Fertiliser, K	..	..	—	—	..	10.87		9.60
Human labour	133.98	152.25	—	—	61.92	83.98	41.95	54.54
Bullock labour			—	—	56.43	69.25	43.14	56.08
Seeds	154.99	225.11	—	—	33.18	48.80	10.94	14.22
Insecticides			—	—	..	7.30	..	10.00
Irrigation			—	—	..	114.50	42.00	30.00
Total	318.10	434.01	402.66	489.55	194.39	660.32	144.34	359.84

Notes: (1) 'Not available' is denoted by—; and nil or negligible by ..
(2) The HYV strains in Udaipur and Aligarh are not specified.
(3) Price of fertiliser per kg: Rs 2.50 for N, Rs 1.60 for P, and Re 0.60 for K.
(4) The cost of Aligarh sample is the so-called Cost C that includes all current and capital costs.
(5) For Nenod, itemwise fertiliser costs have been computed by us with the data of Sisodia, *op cit*, pp 109 and 111.
(6) "Traditional" in this Table means cultivation of local varieties of wheat with irrigation and other traditional inputs; HYV or Sonora-64 refers to the New Strategy.
(7) The irrigation cost of "all-India traditional" is estimated by: (0.10+0.02)×350=Rs 42.
(8) All-India Sonora-64 in the last column: Quantities of fertilisers are as given by Cummings, Herdt and Ray; and Srinivasan. The costs of human labour, bullock labour and seeds are simply 130 per cent of the respective costs corresponding to the "all-India traditional". The costs of insecticides and irrigation are arbitrarily determined.

Source: S S Acharya, "Comparative Efficiency of HYVP: Case Study of Udaipur District", *Economic and Political Weekly* (November, 1, 1969); G S Lavania and R S Dixit, "Economics of High-Yielding Varieties in Package District, Aligarh", *Indian Journal of Agricultural Economics* (1968); J S Sisodia, "Some Economic Aspects of High-Yielding Varieties Programme of Indore District," *ibid;* and Table 6 above.

was raised under Japanese rule to nearly 62 per cent by 1940."[32] Raj continues: "A feature common to Mexico, Taiwan, the Punjab and Madras, ... is that they not only had considerable irrigation facilities as a result of past investments, but that there was an extension in the irrigated area during the period in which high rates of growth were recorded."[33]

Finally, China presents an interesting case. High-yielding varieties of seeds have been recently introduced there also. Thus China as well has adopted a sort of New Strategy for agricultural growth.[34] But in China as early as 1949, the crop yields per acre were quite high; they actually exceeded the levels attained in Meiji Japan. While yields per acre were relatively high, yields per man were quite low. This fact suggests that crop production in China had been pushed about as far as traditional practices and methods would permit, and that large improvements in farm output could be attained only through the introduction of new technology and improved practices.[35]

Furthermore, be it noted that China's multiple irrigation system, which is widely used, already plays an extensive role in its agriculture. The total area of irrigated farm land in China by 1960 was equal to about 170 million acres, which is more than 60 per cent of all the land of the country under cultivation — an increase of irrigated lands 3.5 times over that of 1950. The country at present occupies first place in the world in the acreage of irrigated land.[36]

CONCLUDING REMARKS

Our calculations of relative costs per tonne of wheat under two alternative strategies are admittedly crude and, hence, not necessarily conclusive. But, as shown in Table 9, the strategy of extending irrigation to hitherto dry land for cultivation with largely traditional method may be even less expensive than the so-called New Agricultural Strategy based on 'modern' inputs. This finding, however, goes against the spirit of the celebrated thesis of Theodore W Schultz.

It is well known that in India there exists a serious gap between the capacity of an irrigation system and the actual utilisation thereof. No less serious are the malpractices and inefficiency of actual distribution of irrigation water.[37] Still another aspect is the lack of drainage and deficiency in designs of irrigation projects.[38] What is all the more surprising is that nonetheless the contribution of irrigation water to agricultural productivity in India has been so significant.

In the nature of the things, all the input data of our analysis could not be expressed in terms of a single year's market prices. But what is more important is that the market prices of the inputs are not necessarily their respective 'shadow prices'. This assumes special significance in view of the labour-intensive character of the irrigation projects on one hand and large import requirements of fertiliser plants on the other.

The New Agricultural Strategy benefits relatively big farmers; and its overall impact on small cultivators and landless labourers still remains dubious. It has an inherent tendency to give rise to 'enclave' economies within India. In the perspective of acute rural poverty and unemployment,[39] this strategy may not turn out to be an unmixed blessing. The entire gamut of resource allocation in Indian agriculture, therefore, calls for a fresh, rigorous scrutiny.

Notes

1 Issued by the Government of India, Ministry of Food and Agriculture and Ministry of Community Development and Co-operation (April 1959), pp 259. See also Daniel and Alice Thorner, "Ploughing the Plan Under", *Economic Weekly*, Special Number (July 1959), reprinted in their book, "Land and Labour in India" (1962).

2 Government of India, Planning Commission, Third Five-Year Plan, and Fourth Five-Year Plan, 1969-74; Francine Frankel, "Agricultu-

INTERNATIONAL TRACTOR COMPANY
OF INDIA LIMITED
participate in the
Nation's Green Revolution
by providing
International Tractors-B-275
& Implements
manufactured at their Kandivli plant
in Maharashtra.



TABLE 8 : COSTS PER ACRE OF WHEAT UNDER THREE METHODS OF CULTIVATION

(Rs)

	Traditional Non-irrigated	Traditional Irrigated	Non-traditional New Strategy
Current Expenses			
(1) Human labour	17.42	41.95	54.54
(2) Bullock labour	18.26	43.14	56.08
(3) Seeds	9.02	10.94	14.22
(4) Insecticides	—	—	10.00
(5) Irrigation	—	42.00	30.00
(6) Fertiliser and manure	0.80	6.31	195.00
(7) Artisan and miscellaneous	0.77	0.98	—
Total	46.27	145.32	359.84
Capital Expenses			
(1) Interest on capital, depreciation and other charges on machinery and equipment	3.36	15.48	150.00
Total Expenses	49.63	160.80	509.84

Source : Tables 6 and 7.

TABLE 9 : COSTS PER TONNE OF WHEAT

(Rs)

Strategy	Including Direct Labour Cost	Excluding Direct Labour Cost
(1) From traditional non-irrigated to traditional irrigated	337.96	263.39
(2) From traditional irrigated to non-traditional "New Strategy"	349.04	336.45

ral Modernisation and Social Change", *Mainstream* (November 29, 1969); M L Dantwala, "From Stagnation to Growth", Presidential Address to the Annual Conference of the Indian Economic Association (December 1970); and M Lipton, "Strategy for Agriculture: Urban Bias and Rural Planning" in P Streeten and M Lipton (eds), "The Crisis of Indian Planning" (Bombay, 1968).

3 Yale University Press, 1964. See also T W Schultz, "Economic Crisis in World Agriculture" (1965); and Lipton, *op cit*, p 112.

4 Schultz, "Transforming Traditional Agriculture", p 39.

5 Sol Tax, "Penny Capitalism" (University of Chicago Press, 1963); and W David Hopper, "Allocation Efficiency in Traditional Indian Agriculture", *Journal of Farm Economics* (1965).

6 A K Sen, "Surplus Labour in India: A Critique of Schultz's Statistical Test", *Economic Journal* (1967), pp 154-61 and 163-65.

7 S Wellisz, "Resource Allocation in Traditional Agriculture: A Study of Andhra Pradesh", *Journal of Political Economy* (July/August 1970), Part I, p 675.

8 R K Sau, "Agricultural Revolution by Production Function", *Economic and Political Weekly* (June 26, 1971).

9 Dantwala, *op cit*, p 5.

10 Clifton J Wharton Jr, "The Green Revolution: Cornucopia or Pandora's Box?", *Foreign Affairs* (April 1969); W Ladejinsky, "Ironies of India's Green Revolution", *ibid* (July 1970); Charles E Lindblom, "Has India an Economic Future?", *ibid* (January, 1966); and W D Hopper, "The Mainsprings of Agricultural Growth", in A M Khusro (ed), "Readings in Agricultural Development" (1968).

11 "The Decade of Development: A Study in Frustration?" in J A Pincus (ed), "Reshaping the World Economy — Rich and Poor Countries" (1968), pp 27-28. See also I Sachs, "Selection of Techniques: Problems and Policies in Latin America", *Economic Bulletin for Latin America* (1970).

12 F Engels, Letter to H Starkenburg in Marx and Engels, "Selected Works" (Moscow, 1949-50), Vol II, p 457. On the interesting relation between economic development on one hand and the progress of science and technology on the other, see P A Baran, "Political Economy of Growth" (1957); J D Barnal, "Science in History" (1954); and B Hessen, "The Social and Economic Roots of Newton's Principia" (1946).

13 Government of India, "Statistical Abstract of India, 1968"; and "Indian Agriculture in Brief" (10th ed), 1970.

14 S Ishikawa, "Economic Development in Asian Perspective" (1967). The yield of rice per acre was 0.544 tonne in India during 1955-56/1960-61 as compared to 1.016 tonnes in China, 1952-57.

15 Going through the Farm Management Survey Reports for Punjab (1954-55/ 1956-57), Bombay (1954-55/1956-57), AP (1957-58/1958-59), Orissa (1957-58), MP (1955-56/1956-57), Madras (1956-57), and West Bengal (1956-57), we could find the relevant data only in the first four cases. See Table 3.

16 "The ultimate area which can be irrigated from major and medium irrigation schemes is estimated at about 112 million acres (gross). The irrigation possibilities from minor irrigation schemes, i e, from small surface water schemes and ground water resources are placed about 75 million acres (gross). Thus the ultimate irrigation possibilities from major, medium and minor irrigation are of the order of 187 million acres (gross), against the net area sown at present of about 328 million acres, the corresponding cropped area being 376 million acres (gross)." Planning Commission, Memorandum on the Fourth Five-Year Plan (1964), p 38. See also Third Five-Year Plan, p 381.

17 The data of 41 multipurpose and major irrigation schemes are given in the plan document. Of these, we have excluded two schemes (Hirakud and Sirhind Feeder); the reason is that either the cost of irrigation alone is not separated from that of power, or the gross area of irrigation is not shown. The total cost of the remaining 39 schemes is Rs 9,564.8 million and gross area of irrigation is 26.511 million acres. See Third Five-Year Plan, pp 413-14.
Also note that in multipurpose schemes, the allocation of joint costs as between irrigation and other activities is largely arbitrary.

18 In the New DVC Canal System, total capital outlay upto 1959-60 was Rs 439.7 million, while operating expenses in 1959-60 was only Rs 1.9 million which is less than even 1 per cent of the capital cost. Still we have taken 2 per cent to be the operating cost. See S K Basu and S B Mukherjee, "Evaluation of Damodar Canals (1959-60)", p 137. See also N Ansari "Economics of Irrigation Rates", (1968), p 337.

19 A K Sen, "Choice of Techniques", 3rd ed.

20 Nutrient N is assumed to be derived from ammonium sulphate (21 per cent N). See R W Cummings Jr, R W Herdt, and S K Ray, "New Agricultural Strategy Revisited", *Economic and Political Weekly*, Review of Agriculture (October 1968).

21 T N Srinivasan, "Economic Aspects of High-Yielding Varieties Programme", *Indian Journal of Agricultural Economics* (1968), p 53; and also J S Sisodia, "Some Economic Aspects of High-Yielding Varieties Programme of Indore District", *ibid*, p 112.

22 Fourth Five-Year Plan, 1969-74, p 157.

23 Sisodia, *op cit*, p 111. The fertiliser consumption per acre by big

farmers in Punjab was as follows: 80.64 kgs of N in 1966-67 as against 67.72 kgs in 1967-68; and 5.05 kgs of K in 1966-67 as against 2.79 kgs in 1967-68, for all *improved varieties* of wheat taken together. A Rudra, A Majid, and B D Talib, "Big Farmers of Punjab", *Economic and Political Weekly*, Review of Agriculture (September 1969).

24 See Fertiliser Association of India, *Fertiliser Statistics*, 1965-66.

25 See footnote 20.

26 Wharton, *op cit. Cf* "Irrigation projects in most parts of the country have been designed with traditional techniques in mind and to ensure minimal crop yields even in times of drought by spreading available water as widely and thinly as possible. They generally cannot supply the higher water levels per acre necessary for the efficient introduction of modern agricultural practices, especially chemical fertiliser." Francine R Frankel, "India's New Strategy of Agricultural Development: Political Costs of Agrarian Modernisation", *Journal of Asian Studies* (August 1969), pp 693-710.

27 Ladejinsky, *op cit*, p 763.

28 Frankel, *op cit*, reports that according to the Office of the Economic and Statistical Adviser to the Government of India, Ministry of Food and Agriculture (July 1966), the cost per acre for new technology is Rs 400, whereas it is Rs 509.84 in our Table 8. Their estimate for seed is Rs 15; ours Rs 14.22; their estimate for fertiliser is Rs 200; ours Rs. 195. Further details of their cost estimates are not known to this author.

29 Ishikawa, *op cit*.

30 Schultz, *op cit*, p 19.

31 K N Raj, "Some Questions Concerning Growth, Transformation and Planning of Agriculture in the Developing Countries" in E A G Robinson and M Kidron (eds), "Economic Development in South Asia" (1970); p 108.

32 *Ibid*, p 111.

33 *Ibid*, p 121.

34 J T Macrae, "India and China — A Comparative View for the 1970s", *Coexistence* (January 1971), pp 41-48.

35 A Eckstein, "Communist China's Economic Growth and Foreign Trade" (1966), p 11.

36 *Geografiya v Shkole* (March-April 1960), Moscow, p 88. See also Victor P Petrov, "China: Emerging World Power" (Princeton, N J: D Van Nostrand, 1967), p 10.

37 See, for instance, Daniel and Alice Thorner, "The Weak and the Strong on the Sarda Canal", in their book "Land and Labour in India" (1962), pp 14-20.

38 For details, see Charles E Lindblom, "Has India an Economic Future?" *Foreign Affairs* (January 1966), pp 239-52.

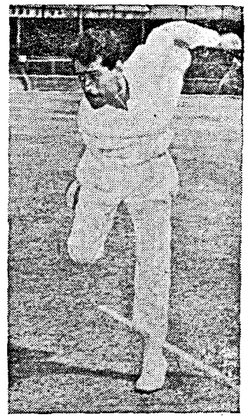
39 V M Dandekar and N Rath, "Poverty in India", *Economic and Political Weekly* (January 2 and 9, 1971); and R K Sau, "Poverty in India: A Comment", *ibid* (March 20, 1971).

The hand that spins the ball also handles your bank account with magic spell

B. S. CHANDRASEKHAR



at work



at play

SYNDICATE BANK

FAITHFUL SB FRIENDLY

Leg spin googly bowler Chandrasekhar who had the magic figures of 18.1-3-38-6 at Kennington Oval, London, on 23-8-1971 works as an officer of Syndicate Bank at its Cantonment Branch Bangalore.

Season-Wise Progress of High-Yielding Varieties in Andhra Pradesh

Role of Economic Variables

G Parthasarathy

D S Prasad

It was hoped that HYV rice cultivation would be taken to vigorously and that it would have a very sizeable impact on production. But, in fact, its progress has been far slower than expected, and slower in kharif than in rabi.

This article maintains that economic variables have been far more important determinants of that pace than is often realised.

Section I of the article examines data on trends in progress and varietal changes in relation to Andhra Pradesh. Section II identifies and compares the role of the economic variables with that of the agronomic and climatic variables in the slow progress in kharif.

DESPITE the hope that HYV rice will be moving from "unsteady infancy to vigorous adolescence"[1] its progress continues to be less than expected, and far less in kharif than in rabi. It is the contention of this paper that economic variables are far more important in explaining the tardy progress than is often recognised.

In Section I are examined the data relating to trends in progress and varietal changes in respect of Andhra Pradesh. In Section II, the role of economic variables as distinguished from agronomic and climatic, in explaining the slow progress in kharif is identified.

I

Details relating to the area under various HYV's for kharif and rabi, separately, have been obtained from the Directorate of Agriculture, AP. These official estimates are based on (a) quantity of seeds distributed and (b) the judgments relating to natural spread. The estimates are liable to error on several counts. First, the estimated acreage on the basis of the seed distributed, gives an exaggerated picture,[2] since the quantity of seed used per acre sown by the cultivator is generally found to be more than the recommended dosage. Secondly, the judgments relating to the estimates of natural spread are also liable to error and, in this case, even the direction of the error cannot be known. However, for judging the broad trends in progress the official figures, may still be found useful. The changes in area under kharif, in absolute terms, are quite impressive for the period 1967-68 to 1969-70 (Table 1). Even between 1969-70 and 1970-71, the state as a whole records a rise in area under high-yielding varieties. But, when we consider the year-to-year increase in

TABLE 1 : PROGRESS AND CHANGES IN THE AREAS OF HYV PADDY IN ANDHRA PRADESH DURING KHARIF 1967-68 TO KHARIF 1970-71 AND RABI 1967-68 TO 1969-70

(Figures in acres)

S No	District	Kharif				Rabi		
		1967-68	1968-69	1969-70	1970-71	1967-68	1968-69	1969-70
1	Srikakulam	7,483	14,733	50,862	90,088	7,272	6,839	16,778
2	Visakhapatnam	4,696	24,283	50,974	65,244	77	4,771	8,860
3	East Godavari	2,762	18,833	60,084	48,600	53,643	54,515	160,173
4	West Godavari	4,937	19,455	66,324	71,548	36,276	76,050	96,097
5	Krishna	5,022	22,297	38,131	31,200	14,549	69,298	109,989
6	Guntur	6,005	16,483	57,850	N A	14,107	17,517	94,330
7	Nellore	2,214	4,676	29,715	39,451	2,415	16,328	42,400
8	Chittore	15,117	23,027	36,209	64,185	17,099	19,594	50,486
9	Cuddaph	688	4,165	12,793	1,899	1,192	4,935	13,774
10	Kurnool	5,806	5,926	39,334	31,898	4,630	9,048	7,841
11	Anantapur	546	5,661	9,256	3,126	2,145	9,190	3,212
12	Hyderabad	1,392	2,091	7,415	8,511	1,117	403	4,269
13	Medak	22,481	1,857	3,419	11,775	1,481	3,939	3,736
14	Mahabubnagar	5,560	17,217	30,080	39,942	6,198	14,352	13,050
15	Warangal	5,232	17,729	29,690	31,686	9,337	7,342	26,789
16	Khammam	2,060	3,680	15,400	33,856	234	1,625	3,020
17	Nalgonda	872	2,513	33,860	30,125	464	4,835	24,288
18	Karimnagar	5,212	4,157	6,759	N A	3,707	3,558	11,414
19	Nizamabad	29,427	19,349	14,534	14,014	4,011	2,453	4,061
20	Adilabad	11,923	2,007	2,551	5,477	2,181	478	1,002
	Total	139,435	230,139	595,240	622,625	182,135	327,467	695,569
	Percentage to the paddy area	(2.11)	(3.57)	(9.25)	(9.67)	(9.28)	(16.68)	(35.44)

Note : Data are not available for the districts of Guntur, Ongole and Kharimnagar for Kharif 1970-71. Percentages for the years 1968-69 and 1970-71 relate to the paddy area during the year 1967-68 only.

Source : Directorate of Agriculture, Andhra Pradesh.

TABLE 2: PROGRESS AND VARIETAL CHANGES OF HYV DURING KHARIF 1967-68 TO KHARIF 1970-71 AND RABI 1967-68 TO 1969-70 IN ANDHRA PRADESH

(Figures in acres)

Sr No	Variety	Kharif				Rabi		
		1967-68	1968-69	1969-70	1970-71	1967-68	1968-69	1969-70
1	TN-1	75,054	15,035	7,609	15,249	72,432	31,555	15,155
2	I R 8	28,102	171,659	427,682	332,757	91,879	197,907	265,350
3	ADT-27	20,842	36,759	37,215	24,316	17,324	20,815	14,944
4	Tainan	6,867	Nil	Nil	Nil	300	Nil	Nil
5	IJ-52	4,886	1,173	Nil	Nil	157	6,283	Nil
6	Co-29	Nil	Nil	62,394	107,482	Nil	Nil	293,613
7	I R 5	Nil	Nil	30,021	3,942	Nil	Nil	113
8	Jaya	Nil	Nil	5,711	54,476	Nil	Nil	27,648
9	Padma	Nil	Nil	3,101	9,961	Nil	Nil	18,235
10	Hamsa	Nil	Nil	21,239	44,372	Nil	Nil	58,376
	Total including others	139,435	230,139	595,240	622,625	182,135	327,467	695,569

Note: Data are not available the districts of Guntur, Ongole and Karimnagar for Kharif 1970-71.

Source: Directorate of Agriculture, Andhra Pradesh.

TABLE 3: PERCENTAGE DISTRIBUTION OF AREA UNDER DIFFERENT HYVS TO THE TOTAL HYV AREA IN THE DISTRICT, IN ANDHRA PRADESH, DURING KHARIF 1970-71

District Variety	I R 8	T N 1	Jaya	Padma	Hamsa	ADT-27	Co-29	I R 5	Others	Total
Srikakulam	77.3	Nil	12.8	3.4	4.2	1.7	Nil	Ni	0.6	100.0
Visakhapatnam	74.5	0.3	2.9	0.4	6.9	1.1	Nil	2.3	11.6	100.0
East Godavari	38.9	Neg	7.2	0.2	2.9	Nil	46.1	Ni	4.7	100.0
West Godavari	73.5	0.5	Nil	Ni	2.6	Nil	Nil	3.0	20.4	100.0
Krishna	21.5	2.3	21.3	1.4	4.6	Neg	37.9	Nil	11.0	100.0
Nellore	9.0	Nil	1.7	0.1	0.3	Nil	88.9	Nil	Nil	100.0
Kurnool	73.5	Nil	20.9	1.0	3.3	Nil	Nil	Nil	1.3	100.0
Ananthapur	14.8	0.5	0.5	0.7	16.2	Nil	67.3	Nil	Nil	100.0
Cuddapah	39.2	Nil	4.5	1.5	11.9	21.3	21.6	Nil	Nil	100.0
Chittore	22.5	0.9	1.9	1.6	2.5	15.2	55.4	Nil	Nil	100.0
Hyderabad	43.0	Nil	7.7	2.1	44.9	2.2	Nil	Nil	Ni	100.0
Nizamabad	67.8	Nil	13.8	0.4	7.7	8.9	Nil	1.4	Nil	100.0
Medak	36.8	0.3	10.4	3.1	47.0	Neg	Nil	Neg	2.4	100.0
Mahaboobnagar	64.8	5.2	3.2	2.5	18.4	5.5	Nil	Nil	0.4	100.0
Nalgonda	44.1	Nil	37.2	3.3	13.9	0.4	Neg	Neg	1.1	100.0
Warangal	52.7	0.1	12.4	5.2	11.2	17.9	Nil	0.1	0.4	100.0
Khammam	49.8	33.1	5.7	0.8	3.4	4.2	Nil	Nil	3.0	100.0
Adilabad	60.0	Nil	Nil	Nil	21.6	18.4	Nil	Nil	Nil	100.0
Total	53.4	2.4	8.7	1.6	7.1	3.9	17.2	0.6	5.1	100.0

Note: Data are not available for the districts of Guntur, Ongole and Karimnagar.

Source: Directorate of Agriculture, Andhra Pradesh.

TABLE 4: PERCENTAGE DISTRIBUTION OF AREA UNDER DIFFERENT HYVS TO THE TOTAL HYV AREA IN THE DISTRICT IN ANDHRA PRADESH DURING RABI 1969-70

District Variety	I R 8	T N-1	I R 5	Hamsa	Jaya	ADT-27	CO-29	Padma	Others	Total
Srikakulam	63.2	Nil	Nil	14.1	8.6	5.2	Nil	8.9	—	100.0
Visakhapatnam	68.4	Nil	Nil	29.2	2.4	Nil	Nil	Nil	—	100.0
East Godavari	38.6	Neg	Nil	0.3	2.4	Nil	58.5	0.2	Neg	100.0
West Godavari	83.7	1.2	Nil	3.6	4.3	Nil	4.0	3.2	Nil	100.0
Krishna	5.3	10.7	Nil	2.0	6.2	Neg	71.3	2.5	2.0	100.0
Guntur	28.2	1.0	Neg	2.4	0.7	Neg	67.1	0.6	Nil	100.0
Nellore	39.7	Nil	0.2	3.9	2.0	0.5	52.9	0.8	Nil	100.0
Chittore	21.1	1.0	Neg	3.8	2.8	10.3	59.9	1.0	Nil	100.0
Cuddapah	71.3	Nil	Nil	17.9	0.2	10.4	Nil	0.2	Nil	100.0
Kurnool	56.9	Nil	Nil	30.6	9.0	Nil	Nil	3.5	Nil	100.0
Ananthapur	13.0	2.1	Nil	29.7	0.2	Nil	54.5	0.6	Nil	100.0
Hyderabad	24.8	Nil	Nil	64.2	3.7	5.2	Nil	2.1	Nil	100.0
Medak	10.0	0.3	Nil	80.6	7.0	Nil	Nil	2.1	Nil	100.0
Mahaboobnagar	9.2	2.0	Nil	74.2	Nil	7.8	Nil	6.8	Nil	100.0
Warangal	63.4	Nil	Nil	8.0	5.4	17.0	Nil	6.2	Nil	100.0
Khammam	39.7	Nil	Nil	33.1	17.2	Nil	Nil	10.0	Nil	100.0
Nalgonda	18.8	Nil	Nil	36.3	16.4	3.7	Nil	24.8	Nil	100.0
Karimnagar	44.0	Nil	Nil	47.3	8.7	Nil	Nil	Nil	Nil	100.0
Nizamabad	25.5	Nil	Nil	63.3	Nil	11.2	Nil	Nil	Nil	100.0
Adilabad	47.6	32.1	Nil	20.3	Nil	Nil	Nil	Nil	Nil	100.0
Total	38.1	2.2	Negl	8.4	3.9	2.1	42.2	2.6	0.5	100.0

Source: Directorate of Agriculture, Andhra Pradesh.

TABLE 5: I R 8 COMPARED TO LOCAL VARIETY

Season and Year	District	Yield of I R 8 (Kgs)	Yield of Local (Kgs)	Difference in Yield (Kgs)	Gross Value of I R 8 (Rs)	Gross Value of Local (Rs)	Excess of gross Value (Rs)	Cost of Cultivation of I R 8 (Rs)	Cost of Cultivation of Local (Rs)	Excess of Cost (Rs)	Excess of Net Return (Rs)
Kharif 1968-69	East Godavari	2373	1734	639	877.77	699.67	178.10	592.96*	407.77*	185.19	—7.09
1968-69	West Godavari	2513	1738	775	976.55	739.35	237.20	537.09*	353.64*	183.45	453.75
Rabi 1967-68	West Godavari	2214	970	1244	1187.10	539.20	647.90	382.30**	234.40**	147.90	4500.00
1968-69	East Godavari	2345	1154	1191	1238.40	633.66	604.74	630.21*†	530.28	99.93	+504.81
1968-69	West Godavari	2236	1304	932	1191.34	731.02	460.32	802.49*†	608.39	194.10	+266.22

Note-I : 'Yield' main product only.

Note-II : * Costs include seed, manure, fertiliser, pesticides, land revenue, irrigation charges, labour charges, tractor charges, interest paid and rent paid.

** Costs include seed, fertiliser, pesticides, land revenue, and labour charges.

*† Costs include seed, manure, fertiliser, pesticides, land revenue, irrigation charges, labour charges, tractor charges, interest paid, rent, depreciation and other miscellaneous expenses.

Note-III : See Table-9 for the prices of paddy.

Source: Reports of the Agro-Economic Research Centres, Madras-Waltair.

TABLE 6: COMPOSITION OF MATERIAL INPUTS (VALUES)

(Figures in Rs)

Season and Year	District	Variety	Seed	Fertiliser	Pesticides	Manure	Irrigation Charges	Animal Labour (O+H)	Tractor Charges	Land Revenue	Total
Kharif: 1968-69	East Godavari	: IR8	13.86	61.84	18.29	35.48	39.11	33.69	22.79	24.39	349.45
		Local	11.08	19.10	3.09	12.26	15.67	24.96	15.55	14.36	116.07
1968-69	West Godavari	: IR8	14.85	138.87	16.05	12.03	24.23	24.16	25.25	26.23	281.67
		Local	11.97	17.91	1.47	9.03	15.51	18.63	27.75	23.72	125.99
Rabi: 1967-68	West Godavari	: IR8	12.10	77.90	40.20	—	—	—	—	24.70	254.90
		Local	11.90	69.10	6.00	—	—	—	—	21.30	108.30
1968-69	East Godavari	: IR8	14.20	20.72	22.00	25.03	64.82	26.29	36.44	16.44	408.94
		Local	12.34	114.36	6.55	7.98	45.54	37.09	20.80	16.22	260.88
1968-69	West Godavari	: IR8	18.91	239.05	37.52	23.92	37.00	39.53	38.29	21.57	455.79
		Local	20.22	158.56	12.25	10.72	32.04	41.80	22.75	25.36	323.71

Source: Agro-Economic Research Centres, Madras-Waltair.

TABLE 7: COMPOSITION OF GROSS VALUE OF PRODUCT PER ACRE AS SHARES TO VARIOUS FACTORS OF PRODUCTION

(Figures in Rs)

Season and Year	District	I R 8				Local			
		Material Inputs	Wages Paid	Interest Paid	Returns to Owned Factors Including Family Labour	Material Inputs	Wages Paid	Interest Paid	Returns to Owned Factors Including Family Labour
Kharif: 1968-69	East Godavari	349.45	169.78	9.47	349.07	116.07	141.70	1.26	440.64
1968-69	West Godavari	281.67	228.91	3.78	462.19	125.99	192.64	2.25	418.47
Rabi: 1967-68	West Godavari	254.90	127.40	—	804.60	108.30	126.10	—	304.80
1968-69	East Godavari	408.94	158.48	10.83	660.15	260.88	128.63	6.71	237.44
1968-69	West Godavari	455.79	267.25	17.44	450.86	323.71	238.37	12.01	156.93

Source: Agro-Economic Research Centres, Madras-Waltair.

TABLE 8 : COST PER KILOGRAM OF IR 8 AND LOCAL

Season and Year	District	IR8			Local		
		Yield Kgs	Cost Rs	Unit Cost (Re per kg)	Yield Kg	Cost Rs	Unit Cost (Re per kg)
Kharif :							
1968-69	East Godavari	2373	592.96	0.2498	1734	407.77*	0.2351
1968-69	West Godavari	2513	537.09	0.2137	1738	353.64*	0.2035
Rabi :							
1967-68	West Godavari	2214	382.30**	0.1726	970	234.40**	0.2416
1968-69	East Godavari	2345	630.21*†	0.2687	1154	530.28*†	0.4595
1968-69	West Godavari	2236	802.49	0.3588	1304	608.39*†	0.4665

Note-I : 'Yield' main product only.
Note-II : * Costs include seed, manure, fertiliser, pesticides, land revenue, irrigation charges, labour charges, tractor charges, interest paid and rent paid
** Costs include seed, fertiliser, pesticides, land revenue, and labour charges
*† Costs include seed, manure, fertiliser, pesticides, land revenue, irrigation charges, labour charges, tractor charges, interest paid, rent, depreciation and other miscellaneous expenses.

Source : Reports of the Agro-Economic Research Centres, Madras-Waltair.

acreage, there was a remarkable fall in kharif 1970-71. This may be brushed off, as a temporary phenomenon, caused by bad weather conditions. But weather conditions were not exceptionally unfavourable in kharif 1970-71 as compared to kharif 1969-70. In the light of our results, presented later, relating to the uneconomic nature of cultivation of HYVs in kharif season, the fall in increase in acreage in kharif 1970-71, may suggest a slackening of the pace of HYVP and stabilisation at around 10 per cent of the total paddy area in kharif.

We do not have comparable data for the rabi 1970-71. But by rabi 1969-70, the area under HYV paddy exceeded one-third of the total paddy area in the state.

The official data provide variety-wise particulars and reflect the changing pattern in respect of HYVs (Table 2). In kharif 1967-68, TN-1 was the most widely practised variety. In kharif, 1968-69, IR 8 came with a big bang and swept TN-1 off the field and IR 8 maintained its sway even in 1969-70 kharif since, more cultivators were experimenting with IR 8 even then. But by kharif 1970-71, there were certain indications that IR 8 was giving way to other HYVs, of which CO-29 is prominent. The rabi picture also shows, that IR 8 is losing its relative importance to CO-29.

Examining the figures of area under HYVs in kharif 1970-71 as compared to kharif 1969-70, in East Godavari and Krishna Districts in coastal Andhra, in Cuddaph, Kurnool and Anantapur districts in Rayalaseema, and in Nalgonda and Nizamabad districts in Telengana regions, the area under HYVs declined. Even in other districts, the rates of growth slackened.

Among the major rice-growing districts in the state, the districts of Nizamabad and Krishna during Kharif 1970-71 show a much poorer percentage with around 5 per cent of its paddy area under HYV paddy as compared to the general average for the state which is around 10 per cent. In terms of percentage under HYV area, some of the Rayalaseema Districts, *viz,* Chittore, Kurnool, and Anantapur, show much better results, than the deltas of coastal Andhra.

A study of the area (by variety) under HYVs in kharif 1970-71 (Table-3) in each of these districts, shows that IR 8 maintained its importance, with about 70 per cent or more in the districts of Srikakulam, Visakhapatnam, West Godavari, Kurnool, and Nizamabad. TN-1 lost ground everywhere. Jaya, a variety released in 1968 "which has higher yield potential than IR 8", "a week earlier in maturity" and "has a very good stability"[3] is found significant in Krishna, Kurnool, Nizamabad and Nalgonda. Hamsa, released in 1968 by the Andhra Pradesh Agricultural University, "a variety with excellent grain quality but poor cooking characteristics" and "relatively low yield potential", "with earliness during rabi season"[4] is popular in Telengana and particularly in Hyderabad and Medak districts. CO-29, a variety which matures earlier than IR 8, is being experimented on a large scale in East Godavari, Krishna, Nellore, Anantapur and Chittore districts.

Considering, the picture of rabi 1969-70, the latest season for which official data could be obtained, IR 8 had lost its importanee to CO-29, in East Godavari, Krishna, Guntur, Nellore, Chittore and Anantapur Districts (Table 4). Among the important paddy growing districs, only in West Godavari IR 8 continued to be supreme. ADT-27 was far significant in Nizamabad, Warangal, Chittore, and Cuddapah districts. Hamsa and Jaya, were being tried in almost all districts on a small scale. But Padma "Suggestive of its gain type", "susceptible to bacterial leaf blight",[5] is being tried mainly in the districts of West Godavari, Kurnool, Mahaboobnagar, Warangal

TABLE 9 : PRICES OF PADDY PER QUINTAL

District	IR 8	Local	Difference	Excess of Local as a Percentage
West Godavari				
Kharif 1968-69	38.86	42.54	3.68	9.4
Rabi 1968-69	53.28	56.06	2.78	5.2
Difference of Rabi price over kharif price	14.42	13.52		
Percentage difference	37.1	31.7		
East Godavari				
Kharif 1968-69	36.99	40.35	3.36	9.0
Rabi 1968-69	52.81	54.91	2.10	3.9
Difference of Rabi price over Kharif price	15.82	14.56		
Percentage difference	42.7	36.0		
West Godavari				
Rabi 1967-68	53.62	55.58	1.96	3.6

Source : Reports of the Agro-Economic Research Centres, Madras-Waltair.

TABLE 10 : YIELDS OF I R 8 AND LOCAL VARIETIES IN SELECTED IADP DISTRICTS IN CROP-CUT FIELDS DURING 1967-68 TO 1968-69
(Figures in kgs of paddy per acre)

S No	District	1967-68 Kharif		1967-68 Rabi		1968-69 Kharif		1968-69 Rabi	
		Local	I R 8	Local	I R 8	Local	I R 8	Local	I R 8
1	West Godavari	1272	1926(51.0)	1068	2286(114.0)	1266	2082(64.0)	1032	2076(101.0)
2	Palghat	1074	2442(127.0)	936	2364(153.0)	1086	2022(86.0)	1224	1770(45.0)
3	Alleppey	—	—	1008	2118(110.0)	672	1248(86.0)	822	1326(61.0)
4	Sambalpur	600	1362(127.0)	918	2112(130.0)	558	1218(118.0)	810	1668(106.0)
5	Cachar	—	—	—	—	888	1308(47.0)	840	1932(130.0)

Source : Compiled from "Performance of HYV of Rice in Cultivators' Fields in IADP Districts" by K S Krishnan and P C Mehrotra, *Agricultural Situation in India,* August 1970, Vol XIV, No 5.

TABLE 11 : DEVIATIONS FROM THE RECOMMENDED RATES OF FERTILISER FOR I R 8 AND LOCAL VARIETIES
(Figures in terms of N, P, K, lbs per acre)

Season and Year	District	I R 8		Local	
		Recommended Dosage	Dosage Applied	Recommended Dosage	Dosage Applied
Kharif					
1968-69	East Godavari	80+50+30	106.05+41.04+7.41	20+30+30	13.44+1.08+0
1968-69	West Godavari	60+70+40+0	104.65+15.66+4.17	15—20+20+0	15.96+0.58+0
Rabi					
1967-68	West Godavari	80+40+30	53.92+13.78+4.50		
1968-69	East Godavari	80+30+30	116.91+54.30+15.05	40-60+30-40+15-30	57.91+37.39+3.84
1966-69	West Godavari	100+30+15	146.22+62.96+0.21	30-40+30+30	94.27+60.45+1.94

Source : Reports of the Agro-Economic Research Centres, Madras-Waltair.

hammam and Nalgonda.

The brief review, based on official ata, suggests two important points:

(1) the area under HYV in kharif, in AP seems to get stabilised, at around 10 per cent.
(2) the cultivators are still experimenting with one variety after another and even IR 8, which was popular in rabi, is yielding place to the new varieties which mature much earlier, like CO-29 though their yield potential is far lower than that of IR 8.

II

It is now generally known that the progress of HYVs is better in rabi han in kharif and this is attributed to number of agronomic factors which avour HYVs in rabi as compared to harif.[6] It may be true that agroomic factors are important. But what appears to have been ignored is he importance of economic factors in contributing to the differential progress. The data of the Agro-Economic Research Centres, Madras and Waltair, re analysed to throw light on these spects. The reports of these centres re available for West Godavari for abi 1967-68, kharif 1968-69, and rabi 1968-69, and for East Godavari for kharif 1968-69 and rabi 1968-69. These reports, besides giving details of HYVs and local varieties for participant farmers, present yield and cost details for local varieties on the holdings of non-participants also. To keep the managerial factor constant, yields of HYV and locals on the holdings of participants alone are considered.

The comparable figures of IR 8 and locals of kharif and rabi on cultivators' plots are available for these two districts (Table 5). The kharif yields of IR 8 are not found to be less than the rabi yields. Even the Crop Cutting Experiments conducted in several IADP districts for the years 1967-68 and 1968-69 do not show that rabi yields of IR 8 are uniformly higher than kharif yields (Table 10). The more significant part of the data relates to yields of local varieties. The yields of local varieties in kharif are far higher than the corresponding yields for rabi. As a consequence, the difference in terms of physical yields between HYVs and locals is far higher in rabi than in kharif. The differences between the gross value of IR 8 and the local variety in kharif, on the one hand, and the corresponding difference in rabi, on the other, is much more striking. In East Godavari, the difference between the physical yields of IR 8 and the local variety, in kharif 1968-69 is 639 kg and in rabi it is 1191 kg, the rabi excess being less than two times. But in respect of gross value, the excess of IR 8 over the local in kharif is Rs 178.10, while in rabi the corresponding figure is Rs 600.14, the rabi excess being more than three times that of the kharif excess. The explanation for this is the difference between kharif and rabi prices received by the cultivators. The rabi prices for both IR 8 and local are higher than the kharif prices (Table 9). This appears to be a part of the seasonal pattern. The rabi crop flows into the market when prices are generally higher, and the cultivator gains both on account of (a) yields and (b) prices, by growing an HYV.

The cost data are also equally useful to throw light on the economic factors contributing to the popularity of HYVs in rabi as compared to kharif (Table 6 and 7). Here again, it is the differential cost pattern of local varieties, and not IR 8 between rabi and kharif, that provides an explanation. The cultivator spends far less in kharif on

material inputs, and gains much more in yields. In rabi, expenditure on fertiliser exceeds Rs 100 for local variety and in kharif it is less than Rs 20 per acre. The unit costs of local varieties in rabi are two times those observed in kharif (Table 8). As a consequence, cost per unit of local varieties is found to be less than that of IR 8 in kharif, while in rabi the unit cost of local varieties is higher than that of IR 8. The result that IR 8 is not found to be economically more remunerative than the local variety in the kharif season, at the current level of cultural practices, is also seen in the comparative returns to owned factors between local and IR 8 in kharif as against rabi. The returns to owned factors in rabi for IR 8 are far in excess of returns to local varieties. But in kharif 1968-69, in the East Godavari district, IR 8 yielded less than the local. In West Godavari District, IR 8 yielded a little more but not substantially enough, for the managerial difficulties and risks involved in it.

The preceding analysis points to the need for adapting input use to the distinct economic variables that govern IR 8 in the kharif season, so that, the cultivation of IR 8 might be made economically more remunerative than the local variety. The two important variables, which we have identified and which account for the relatively low profitability of IR 8 in kharif are:

(a) lower product prices in kharif as compared to in rabi and

(b) the distinct cultural practices governing the local variety of paddy in kharif season, and very low cash expenditure, particularly on fertiliser as compared to local variety in rabi — making the difference in cash expenditure between IR 8 and local far higher in kharif than in rabi.

Since the product prices in kharif are lower, and, added to this, the product response of fertiliser is known to be lower in kharif than in rabi, the recommended optimum dose of fertiliser in kharif for IR 8 should have been far less as compared to rabi. But the recommended dosage for IR 8 for kharif and rabi is identical in West Godavari. In practice the cultivator in his enthusiasm used much higher level off (Table 11) 'N' than the recommended dosage observed that growing IR 8 in kharif was not economically more remunerative than local, and is not inclined to expand the area under IR 8. It appears to us that the overemphasis on the agronomic factors for the differential progress of high-yielding varieties between kharif and rabi has led to the neglect of obvious economic factors at work. The fact that product prices are lower in kharif warrant a lower level of use of fertiliser in kharif than in rabi. It will also be necessary to identify and separate the areas where the economic factors are more decisive in influencing the low rate of progress, so that appropriate policy measures could be devised.

Conclusion

The pace of progress of the HYV programme in kharif is slackening. It is generally believed that this slackening is due to agronomic and climatic factors. This may be true in some areas. But the data of West and East Godavari districts in Andhra Pradesh suggest that the slackening in kharif could be explained in terms of economic variables. It will be quite useful to study the problem area-wise to identify the economic variables at work, as distinguished from agronomic and climatic variables so that appropriate measures to quicken the progress of HYV could be taken.[7]

Notes

1 W D Hopper and W H Freeman, 'From Unsteady Infancy to Vigorous Adolescence — Rice Development' *Economic and Political Weekly* Volume V, Number 13, pp 17-21.

2 The recommended seed rate for IR 8 for transplanted acre in East Godavari and West Godavari districts is kg 15.00. Against this the farmers used kg 20.80, kg 21.63, in kharif 1968-69 and rabi 1968-69, in East Godavari district and kg 20.00, kg 21.00 and kg 23.93, in rabi 1967-68, kharif 1968-69 and rabi 1968-69, in West Godavari district, respectively. (Source: Reports of the Agro-Economic Research Centres, Waltair and Madras.)

3 "New Dwarf Varieties for India in the Seventies", S V S Shastri and W H Freeman; AICRIP Publication Number 26 (mimeo) p 15.

4 *Ibid*, p 17.

5 *Ibid*, p 17.

6 "Our data on farm participation in the use of HYV seed show a much greater, response during rabi than during kharif in several important paddy states. In Andhra Pradesh, for example, the kharif programme has stagnated at an extremely low level but there has been a steady increase in the number of farmers growing IR 8 as a rabi crop." P K Mukherjee and B Lockwood, "HYVP in India — An Assessment" (mimeo) p 14.

7 G M Desai, using the data of the Agro-Economic Research Centres, on HYV and locals, doubted the economic viability of HYVs replacing locals in many a situation. However, since his analysis was restricted to kharif season only, he could not bring to light adequately the differences in economic variables governing kharif and rabi cultivation and accounting for lower rate of progress in kharif season. (See G M Desai: "Some Observations on Economics of Cultivating HYV of Rice in India", Paper presented at the International Rice Policy Conference, Manila, May 1971, mimeo.)

Dharm Narain quoting R W Herdt, etc, noticed that IR 8 gets much lower price than locals and therefore the profitability on growing this variety gets reduced. But he failed to notice the huge price differences between kharif and rabi as a major factor influencing the higher rate of adoption in rabi as compared to kharif. (See Dharm Narian — "Rice: Policies and Problems", Paper presented at the International Rice Policy Conference, Manila, May 1971, mimeo).

HPF and Kodak

EASTMAN Kodak of the US has accepted an invitation from the Hindustan Photo Films Manufacturing, Ootacamund (a Government of India enterprise), to conduct a feasibility study for expanding the present facilities for manufacture of photo-sensitised materials in India.

Initial work on the study began in June, this year, when a six-man team of Eastman Kodak spent a few weeks in Ootacamund with officials of Hindustan Photo Films. The project would include preparation of estimates on current and potential market demand, cost of factory and manufacturing operations, profitability, and return on investment. The study is expected to be completed by about March 1972.

HPF currently manufactures only black and white films and other sensitised photographic products for sale in India and for export.

Kodak has had operated a marketing subsidiary in India since the turn of the century, supplying high-quality photographic products within the country.

Demand is increasing, however, and is for more various photographic products: for industrial and medical radiography, the graphic arts industry, education, and the mass communication media.

Capitalist Development in Agriculture

A Note

Utsa Patnaik

In recent years there has emerged a tendency towards profit-oriented production and investment in land by a section of the cultivating population. Many observers think they see a new class of capitalist farmers emerging. There had been, however, no quantitative studies attempting to isolate the characteristics of capitalist farmers or to apply any criteria to identify the capitalists.

Ashok Rudra with A Majid and B D Talib carried out a sample survey of big farmers in Punjab and, after attempting to isolate the capitalists from the sample by certain statistical methods, came to the conclusion that no group of capitalist farmers could be identified.

The author conducted a small survey in 1969 of 66 big farmers scattered over 10 districts in 5 states. The aim was to concentrate on detailed case studies of big farmers selected purposively with a wide geographical scatter.

The results of the survey show that a new class of capitalist farmers is emerging. This is a phenomenon common to every region, insofar as every area has been subject to the same forces — albeit operating with varying intensity — of an expanding market and enhanced profitability of agricultural production. The rate at which capitalist development is occurring varies widely in different regions depending on many historical and current circumstances; it may be near zero in some: but the reality of the process cannot be denied.

THE Indian agrarian scene has shown an unusual dynamism in recent years: there has undoubtedly emerged a tendency towards profit-orientated production and investment in land by a section—no doubt small, but significant—of the cultivating population. Many observers think they see a new class of capitalist farmers emerging. As early as 1962, Sulekh Gupta had discerned this tendency on the basis of data then available on rates of addition to capital stock by different groups of land-owners.[1] There had been steady inflation in agricultural and especially foodgrains prices since 1958, turning the terms of trade in favour of agriculture. It was with the particularly sharp improvement in the terms of trade from 1963-64 onwards,[2] however, and the consequent enhanced profitability of agricultural production, that the tendency for investment funds to flow into agriculture became visible. Daniel Thorner was the first to draw attention to the phenomenon of flow of urban funds into rural investment—the "gentlemen farmers" who invest in agriculture because it is profitable to do so.[3] The significance of such farmers lay not in their numbers (which were negligible), but in the fact that they were symptomatic of a new economic conjuncture.

No Quantitative Studies

So far however there had been no concrete quantitative studies attempting to isolate the characteristics of capitalist farmers or to apply any criteria to identify the capitalists. A Rudra with A Majid and B D Talib carried out a sample survey of 261 big farmers (defined as those operating more than 20 acres) in Punjab with the aim of filling this gap.[4] A great deal of interesting information was collected; however Rudra's conclusions were entirely negative: after attempting to isolate the capitalists from the sample by certain statistical methods, he found that no such group could be identified.

I too carried out a small survey in 1969 of 66 big farmers scattered over ten districts in five states—Orissa, Andhra, Mysore, Madras and Gujarat.[5] The aim was not to obtain a representative sample from which one could generalise about the population of big farmers as a whole—such a project would have been beyond the capacity of an individual—but rather to concentrate on detailed case-studies of big farmers selected purposively, with a wide geographical scatter. Information was collected on every aspect of the economic operations of these cultivators, with particular emphasis on their investment behaviour. I must admit to starting with a certain bias: an extreme scepticism about the significance of the new developments outside Punjab, and an assumption that research into conditions in other less-publicised areas would show that Punjab, the fastest growing state in India, was an exception. After completing the field work and going through the data, however, my view has altered completely. A new class of capitalist farmers *is* emerging: this is a phenomenon common to every region, insofar as every area has been subject to the same forces—albeit operating with varying intensity—of an expanding market and enhanced profitability of agricultural production. The rate at which capitalist development is occurring varies widely in different regions depending on many historical and current circumstances; it may be near zero in some: but the reality of the process cannot be denied.

A Historical Process

I suggest that Rudra's survey too clearly shows that the Punjab is experiencing this process of capitalist development, perhaps at a faster pace than any other region in India. The reason for Rudra's negative conclusions, in the face of his own very positive data to the contrary, is merely the fact that he applies, implicitly, an unhistorical and incorrect method of analysis to the phenomenon of capitalist development. This is reflected in the idiosyncratic way he sets about trying to identify the capitalists. His formulation of the statistical problem involved is quite incorrect as a result.

The development of the capitalist form of organisation must be looked at as a *historical process*, not as a once-for-all event. The capitalist does not suddenly appear out of the blue as a clearly-defined 'pure' socio-economic type: he develops within the pre-existing, non-capitalist economic structure. It follows that some understanding of the post-colonial agrarian structure is absolutely essential to an understanding of what is taking place today. In what sense was the agrarian economy in the colonial period just prior to and at In-

dependence, non-capitalist? (This term is preferable to "precapitalist", since the latter implies that capitalism has made no impact at all, whereas ex-colonial countries like India are characterised precisely by a limited and distorted development of capitalism which does not revolutionise the mode of production.) An answer to this question is necessary if we are to answer the question: in what sense is there a tendency towards capitalist development today which was not present earlier?

These questions are not as simple as they might seem. The unique feature about the Indian agrarian structure as it had evolved in the colonial period just prior to Independence (the feature which distinguished it sharply from other comparable ex-colonial countries), was the existence and growth of a large force of full-time agricultural labourers. The 1921 Census returned 21.3 per cent of population supported by agriculture, as labourers; by 1931 this had risen to 31.2 per cent, even if large numbers of unspecified and general labourers are excluded. (The majority of these were in fact likely to have been engaged in agricultural wage-labour. Their inclusion raises the percentages to 26.2 and 38.) Even the conservative estimates are very high indeed, as high as the proportions returned for many countries in capitalist Europe (Austria, Bulgaria, Estonia, Germany, Ireland, Lithuania, Sweden, Switzerland) as well as the USA and Canada at the same date.[6] In China, by contrast, an astute observer like Mao Tse-tung estimated the proportion of agricultural labourers at 3 per cent or less of rural population: petty tenancy, i e, rent rather than wage-exploitation, was on the other hand extremely widespread.[7]

Growth of Labour Force

How is the growth of such a large force of rural wage labourers to be explained and interpreted? Only in part and to a negligible extent can a pre-colonial source be traced in the labour force of slaves and serfs in South India who worked on large estates owned by big landowners.[8] The main source was the poorer majority of the peasantry which tended to become pauperised and proletarianised under the imperialist impact in the colonial period—in particular under the combination of a rigid demand for revenue by the State and increasing vulnerability to fluctuations in world prices as commercialisation grew. This is clear from the fact that in South India, as in every other region, the proportion of population dependent on wage labour rose in almost every decennial Census, far beyond the maximum possible proportion that the precolonial unfree labour-force could have contributed, and combined with the latter, led to a higher incidence of wage-labour in South India than in any other region.

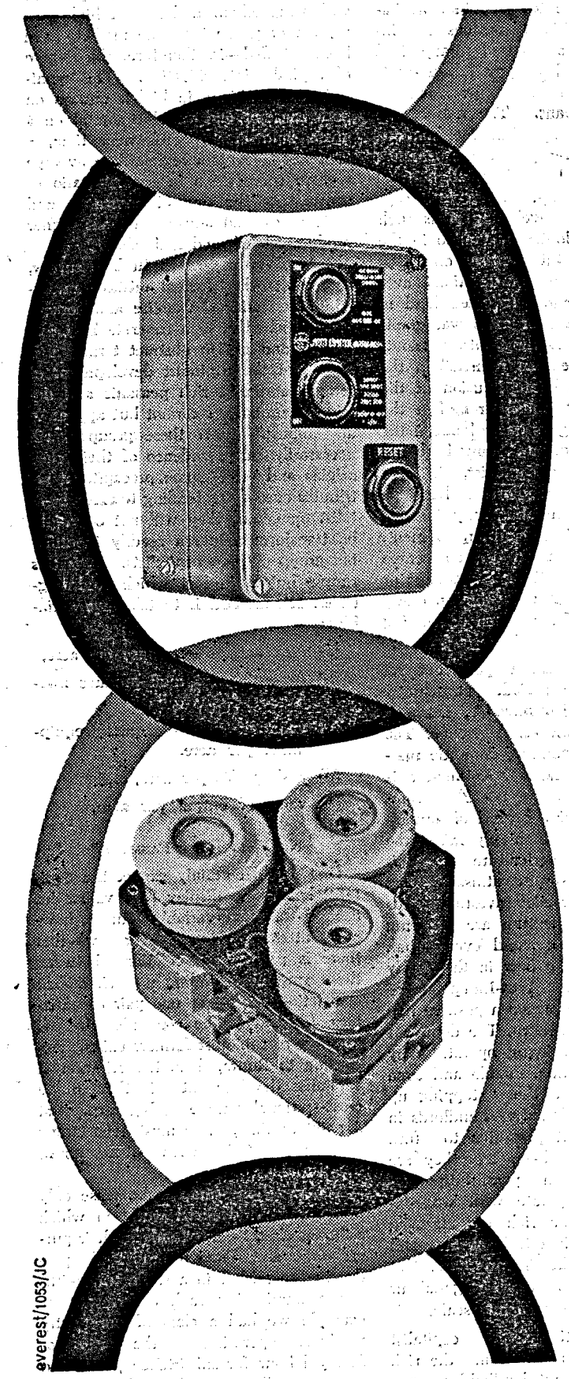
Given a large regionally concentrated and predominantly free class of wage-labourers, does this imply that capitalist relations of production had already penetrated the precapitalist structure (at least in the regions of concentration) to a substantial extent, even in the colonial period: are we to regard the big landowner who operated entirely on the basis of free wage-labour, as a capitalist? If the answer is yes, we would have to argue that a substantial capitalist sector has existed in agriculture, covering as much as 20-25 per cent of cultivated area, ever since at least 1930 (even if the plantations are excluded).

This in my view would be a superficial and incorrect argument. Operation on the basis of wage-labour is a necessary but not a sufficient condition of capitalist organisation. The distinction is particularly important in the context of India which experienced the classic process of pauperisation and proletarianisation of the peasantry under the imperialist impact; but did not experience that parallel rise of modern industry at a pace fast enough to absorb the proletariat so created, which would have stimulated capitalist production in agriculture by steadily expanding the market for agricultural products. In other words, colonised India did undergo the first phase of the European bourgeois revolutions: the undermining and breaking-down of her pre-capitalist organisations, under the imperialist impact; but not the later phases of a complete reconstitution of these organisations on a more productive capitalist basis. While the dissolution of petty production and the creation of a class of people divorced from the means of production is a necessary condition for the rise of capitalism in agriculture—indeed of capitalism in general—it is not and in the colonial situation could never be, a sufficient condition. Functioning markets in land and labour developed in the colonial period; to apply E Mandel's valid distinction (valid in the colonial context), bourgeois property relations developed, without being accompanied by the development of capitalist relations of production in agriculture. In this unique context, the mere existence of a large force of free wage-labourers is no proof of the prevalence of capitalist organisation.

Dominant Landholders

The rural wage labourers in India are indeed free insofar as they are not generally tied to particular pieces of land: but, in the absence of alternative job opportunities, they are effectively tied to agriculture as a main source of livelihood, even though this source gave a casual adult labourer only 197 days of employment in the whole year in 1956-57. The absence of alternative employment imposes constraints analogous to the earlier explicit tying to the land. The totally unorganised nature of the destitute labour force combined with a vast underemployed reserve army ensures that wages are wholly demand determined and in practice barely enough for subsistence. The big landowner does not employ free wage labour for profit; he maximises the returns from destitute labour tied to agriculture and forced to accept bare subsistence wages. Such a big landowner, who has traditionally operated on the basis of hired wage labour rather than leasing his land out to tenants—as landlords typically do—I term the dominant landholder. He may be distinguished from the rich peasant who also employs wage-labour by the fact that he and his family members do not perform any manual labour but merely manage and supervise. Such a group of dominant landholders has been in existence for decades. The productivity on their holdings very often is no higher than the average for the peasantry as a whole, and even the share of output marketed may not be particularly high. The choice between operating with hired labour and leasing out to tenants may represent for such landowners a purely contingent, reversible decision taken on the basis of current circumstances—e g, the comparative terms on which labourers and tenants are available in that locality.

It follows from this argument that a landowner is not entitled to be termed a capitalist merely because he is entirely dependent on wage-labour. Nor is operation on the basis of wage labour a sufficient criterion, by itself, for isolating the capitalist sector of the agrarian economy, as both S C Gupta and G Kotovsky seem to think.[9] Both have attempted to estimate the proportion of rural households and area operated under capitalist organisation, by applying data on use of hired labour by holding size, to the overall all-India figures of distribution of households and area operated. They estimate that 6-7 per cent of households and about 25-30 per cent of area came under capitalist ope-



everest/1053/JC

the correct combination

JYOTI MOTOR STARTERS

India's least replaced starters

An outstanding product—the outcome of extensive and intensive research and experimentation. At Jyoti's modern Research and Development Centre.

BHARAT LINDNER CARTRIDGE FUSES

Positive protection to electrical equipment

- Cartridges are ready wired, correct sizes marked.
- Interchangeable in same ratings.
- Easy and quick to replace.
- Optical indication of blown fuses.

Let Jyoti Starters protect your Motors—
Let Bharat Lindner Fuses protect your Starters

JYOTI CALOR-EMAG LTD.
BARODA 3
Branches:
New Delhi • Bombay • Calcutta • Madras • Lucknow
Jaipur • Secunderabad • Bangalore • Patna

ration in 1953-54. Clearly, they have taken operation with wage-labour to be a sufficient condition of capitalist organisation, which in our view is incorrect. Their estimate of "capitalist" holdings gives merely the holdings satisfying only *one* necessary condition of such operation, that of being wholly dependent on wage labour. On this criterion, as mentioned earlier, there would have existed at least as large a 'capitalist' sector in the 1920s since the proportion of work-force dependent on wage-labour was no higher in 1953 than at the earlier date.

Generation of Surplus Value

Production for the market is, similarly, only a necessary condition. The colonial period saw a growing commercialisation of agriculture and greater regional specialisation. Sale of most of the produce on the market was not necessarily a characteristic of big landowners operating with hired labour, alone. Cotton-growers in Berar, jute-growers in Bengal or sugarcane growers in UP could as well be, and are, petty commodity producers operating with family-labour. Production for the market must not therefore be confused with capitalist production: the former antedates the latter and though necessary, is not sufficient for its development.

What of the dominant landholder who, by definition, operates entirely with hired labour, and who also sells a high proportion of produce on the market? Typically, even when fulfilling these two conditions, dominant landholders have not, by and large, attempted to raise productivity by capital investment in land. The characteristic of the capitalist is not merely appropriation of surplus value generated by the wage-labour he employs, but also accumulation and reinvestment of surplus value in order to generate more surplus value. The whole *raison d'etre* of capitalist operation is generation of surplus values on an ever-expanding scale. It is this crucial characteristic which dominant landholders have lacked, by and large, in the colonial period. High rates of surplus value were generated on the basis of destitute labour: but very rarely did this find its way back into agricultural investment, into capital intensification. The commonest avenues of surplus utilisation remained the precapitalist ones of moneylending, trade, and purchase of land to let out to tenants. In a few, exceptionally favoured areas some investible funds flowed into industry (for instance, most Coimbatore textile millowners started as dominant landholders and moneylenders). The reason was simply the high rates of return available on the traditional avenues of investment, given a mass of pauperised peasants prepared to pay hunger-rents for small bits of land and usurious rates of interest on loans. The risk of default might be high, but the landlord or moneylender always had the peasant's crops, his land, and failing all else his labour, as security. Even in exceptionally favoured developing areas such as the Canal Colonies of Punjab in the early decades of this century, one finds the same preference for traditional avenues of investment. Irrigated land in blocks of 100 acres or more was granted to what M L Darling, rather quaintly, terms the "yeomen farmers" in the hope that "a moderate infusion of the capitalist element would strengthen the colony". Darling goes on to bemoan the fact that the "yeoman" turned out to be anything but a capitalist, since he preferred, like the landlord, to lease his land out to innumerable petty tenants, put no capital into land-improvement, and usually lived as an urban absentee on rent. "The last thing a capitalist or yeoman contemplates is the spending of a large sum of money on developing his grant..."[10]

It is in this crucial respect that the post-Independence period, particularly from the mid-1950s onwards, marks a definite break with earlier trends. The creation of an expanding domestic market owing to the large investment outlays by the State under the Plans combined with a lagging behind of agricultural production, has sharply raised the profitability of agriculture *vis-a-vis* other avenues of surplus utilisation. For the first time in decades investible funds generated in agriculture are flowing back into the land, and even urban funds are tending to flow in this newly profitable direction. Post-Independence land reforms have played a positive role in penalising absenteeism. The dominant landholder is intensifying operations by investing in irrigation, double and even triple cropping, and thus stepping up cash outlays considerably. Landlords in many areas find it profitable to turn tenants off the land—in this they are helped by legislation permitting "resumption"—and operate with wage-labour instead. The rich peasant who can generate an investible surplus and has access to credit similarly intensifies operations, employs more wage-labour and moves up the economic scale.

The characteristic of the capitalist which distinguishes him from the rich peasant and dominant landholder—once the necessary conditions of operation with wage-labour and sale of high proportion of product on the market, have been satisfied—is, therefore, the degree of capital intensification. This manifests itself initially in higher outlays on both constant and variable capital on a given land area; with, over time, a tendency towards a higher than average organic composition of capital (ratio of constant to the sum of constant and variable capital) and consequent higher productivity of land and labour.

Let us revert now to Rudra's survey, and the methodological mistake underlying his statistical exercise and conclusions. Looked at as a concrete historical process and not in abstract terms, it is clear that the capitalist development of former landlords, rich peasants and dominant landholders cannot but appear in an "impure" form: these groups will necessarily carry evidence of their class origins and retain some precapitalist attributes even when tending towards capitalist operation; they will not overnight be transformed into a readily identifiable group of pure capitalists. It is this simple but basic fact which Rudra ignores. His method is to take five variables:

(a) cash outlays on wages per acre,

(b) percentage of total produce marketed,

(c) value of modern capital equipment per acre,

(d) cash profits per acre, and

(e) value of output per acre,

No Capitalist Farmers?

One would certainly expect the capitalist holding to display high values for each of these five variables. Rudra, however, attempts to discover whether there is positive association between these variables. Finding no significant association except for one pair of variables, (d) and (e) he concludes that no category of capitalist farmers exists. According to Rudra, then, the criterion of capitalist development is that in a cross-sectional sample of big farmers at a point of time, there must exist strong positive association between the above five variables.

This criterion would make sense only in an unreal, idealised world in which different classes existed only in their purest form, and different modes of production co-existed in a static way without contaminating each other. If for example we had a class of pure petty producers operating on the basis of family labour for subsistence juxtaposed to an equally pure class of capitalists

producing on the basis of wage labour for profit, then indeed with a Rudra-type cross-sectional study we would get strong positive association between the variables. The family-labour based producer would never sell most of his produce, and the capitalist operating with wage labour would never have a lower value of capital equipment per acre than the peasant, or produce for consumption. To put the same point in a different way, Rudra's criterion has a chance of being satisfied only if the process of capitalist development has been carried to its limit, so that capitalism is already the dominant mode of production which has eliminated all transitional forms. The criterion is thus relevant to a question he has not formulated, namely whether capitalism is already the dominant mode in Punjab's agriculture; his 'negative' result confirms what one would have presupposed, that it is not. The criterion is not relevant, however, to the question he *has* formulated, namely, whether it is possible to "define scientifically and identify empirically" a category of capitalist farmers.

In the concretely given, historically evolving agrarian structure we find that classes do not and cannot exist only in their "pure" form: there are a variety of transitional forms, a complex interaction of developing capitalism with precapitalist organisations. We find that family-labour-based holdings produce for the market, while wage-labour-based holdings do not necessarily invest in capital; that is, petty commodity producers and dominant land holders exist. Similarly, there is no reason to expect high rates of profit to be associated with high values of modern capital equipment per acre; dominant landowners may well appr priate high rates of surplus value, as we have discussed earlier, without investing in modern capital equipment.

It follows that we should not be at all surprised, as Rudra is, that in a cross-sectional study at a point of time there is no strong positive association between his variables. On the contrary, we should anticipate this so-called "negative" result, since as we have seen, many of the attributes of the capitalist are not unique to the capitalist alone when taken individually. Indeed it is the positive association reported by Rudra between one pair of variables which requires explanation, rather than the lack of positive association among the remaining variables. There is thus no reason whatever to expect that if a process of capitalist development is taking place, Rudra's criterion must be satisfied. As R S Rao in his critique of Rudra's work has pointed out,[11] the only situation in which a positive association between the different variables may be expected is when repeated samples are taken from the same population at consecutive points of time, and the estimated parameters studied as time series. A secular tendency for the proportion of output marketed to rise may well be accompanied, for instance, by a secular tendency towards greater monetisation of inputs.

Table 1: Rates of Profit on Capital Advanced and Rates of Surplus Value

Scale (Gross value of Output, Rs 000)	Rates of Profit A		Rates of Profit B		Rates of Surplus Value	
	p_1 (A) (per cent)	p_2 (A)	p_1 (B) (per cent)	p_2 (B)	s_1' (per cent)	s_2'
0 — 24.99	5.84	4.52	6.56	5.09	71.75	179.01
25.0 — 49 99	7.90	6.16	21.66	17.21	135.99	177.53
50.0 — 74 99	9.55	8.29	23.19	20.48	166.82	209.27
75.0 — 99.99	8.98	7.87	23.38	20.66	181.93	229.22
100.0 — 199.99	12.71	11.93	43.12	41.18	289.98	352.13
200.0 — 499.99	15.74	15.16	62.46	60.91	438.71	511.03
500 and over	23.93	23.74	75.76	75.82	420.44	586.00
All	14.83	14.10	46.43	44.76	307.28	400.39

Notes: (1) Profit rates A and B are calculated on concepts of capital advanced based on fixed capital stocks A and B respectively, where
Capital Stock A=Value of implements and machinery, livestock, all constructions, and land value.
Capital Stock B=Capital Stock A—Value of land.

(2) p_1, s_1' are calculated on total outlays, both cash and kind; p_2, s_2' are calculated on cash outlays only. Thus,

$s_1' = \frac{s_1}{v_1}$ where s_1 = Gross Value of Output — (Depreciation on fixed capital + all current productive outlays, cash + kind).
v_1 = cash wages + kind wages.

$p_1 = \frac{s_1}{c_1}$ where c_1 = Fixed capital A or B + value of average working capital in kind + average working capital in cash.

$s_2' = \frac{s_2}{v_2}$ where s_2 = Cash Receipts from Sales—(Depreciation on fixed capital + current productive cash outlays).
v_2 = Cash wages.

$p_2 = \frac{s_2}{c_2}$ where c_2 = Fixed capital A or B + average working capital in cash.

(3) Profit rates are, more correctly, surplus values calculated on capital advanced; i e, interest payments, which are a very small proportion of surplus value, have not been deducted.

Statistical Criteria

If the attributes of the capitalist, taken individually, are not all unique to the capitalist alone, how are the capitalists to be identified? Precisely by examining the holdings which display *all* the characteristics of capitalist operation, irrespective of whether the remaining holdings display some such characteristics or not. Rudra's statistical variables should in fact be expressed as statistical *criteria;* thus,

(a) higher than average value of cash wages (and cash outlays generally) per acre,

(b) higher than average ratio of sales to value of output,

(c) higher than average value of modern capital equipment per acre,

(d) higher than average value of profit per acre, and

(e) higher than average value of output per acre.

In addition, two criteria measuring capital intensity and labour productivity should be included:

(f) higher than average value of modern capital equipment per unit wage outlay, and

(g) higher than average value of output per unit wage outlay.

The average value may be either the mean or the median, preferably the latter since the mean is affected by extreme values. Other combinations of criteria are possible; in my sample (c) has been dropped and (f) and (g) included.

The set of holdings fulfilling one criterion would not be the same, necessarily, as the sets fulfilling any of the other criteria. Smallest of all would be the set of "pure capitalists" fulfilling every criterion, which would be the intersection set of the six sets fulfilling each criterion separately. In my

TABLE 2 : RATES OF RETURN ON LEASING OUT LAND

S.No.	Area Leased Out (acres)	Value of Land Per Acre (Rs)	Value of Output Per Acre (Rs)	Rent Per Acre (Rs)			Per Cent Rate of Return Col 6 ÷ Col 2	Rent as Proportion of Output Col 6 ÷ Col 3
				Value of Cash Rent	Value of Kind Rent	Total		
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
11	395	75	8,500	1500	400	250	650	7.60	43.33
		200	10,000	1170	—	650	650	6.50	55.56
		100	2,500	780	—	325	325	13.00	41.54
19	10		5,000	675	—	486	486	9.72	72.0
20	115	95	7,500	900	—	469	469	6.25	52.11
		20	7,500	3150	750	—	750	10.00	23.81
21	5		3,000	576	225	—	225	7.50	39.06
23	5		10,000	1,500	500	—	500	5.00	33.33
34	15		10,000	1,125	—	720	720	7.20	64.00
35	5		15,000	8,880	—	3,700	3,700	24.67	41.66
38	5		10,000	1,250	—	675	675	6.75	54.0
All	555		7558.56	1294	463.1	585.2	562.1	7.44	43.42

sample this set of "pure capitalist" constituted about 16 per cent of the total sample. We may then relax one criterion after another to obtain various combinations of sets fulfilling the criteria taken five, four, three and even two at a time and resulting in larger and larger intersection sets of less and less "pure" capitalists. In my sample the least restrictive criteria were high land productivity and high cash inputs per acre; the most restrictive were high capital intensity and high level of sales to output, since with their inclusion the number of holdings in any intersection set was lowered considerably. It would be interesting if Rudra could give us the results of carrying out this exercise of isolating the pure capitalists and ranking the criteria according to degree of restrictiveness, on his sample of big farmers in Punjab. He does mention that a number of holdings had high values for every variable: the set of pure capitalists in Punjab would no doubt be fairly large.

SIZE AND SCALE

Secondly, it would be useful if Rudra could retabulate his data so as to make the scale effects clearer. Only in a stagnant agriculture with uniform techniques can the size of holding be taken as a proxy for scale of operation: as capital intensification by particular groups of cultivators takes place, the identification of scale with size becomes more and more unsatisfactory. Clearly, a small holding which is intensively cultivated with high levels of inputs, output and labour productivity, may well represent a larger, more capitalist scale of operation than a large, extensively cultivated low-productivity holding; and this is true even when gross sown rather than net sown areas are considered. As an example, take the 8-acre irrigated holding in my sample (which was one of three exceptions to my rule of studying farms of more than 20 acres); 11 acres of gross sown area under crops and fruit trees (sugarcane, high-yielding paddy, maize and tapioca, cocoanut) produced more than Rs 50,000 worth of output annually, with sales at nearly 95 per cent. Inputs per acre and yield were one of the highest in the sample, and the net investible surplus of Rs 20,000 (after covering all costs including depreciation and consumption of the small three member family) had been put into deepening the irrigation well and new pumpsets.

By contrast a 53-acre holding, with 50 acres gross sown area under crops (paddy, cotton, wheat, millets) produced a lower annual value of output, about Rs 33,000 and sold 85 per cent of this. Inputs per acre and therefore yield were lower than average, and there was no mechanisation. The holding supported a large joint family of 23 members, so that the net investible surplus was only Rs 5,000.

Evidently the 8-acre farm represents a more intensive, more capitalist scale of operation than the 53-acre one. The importance of distinguishing between size and scale, between extensive operation of large holdings and capitalist operation was pointed out decades ago by K Kautsky in his pioneering "Die Agrarfage" (which amazingly to this date has no English translation) and illustrated clearly by V I Lenin in his "New Data on Laws Governing Capitalist Development" (Collected Works, Vol 22) while analysing agricultural trends in the USA. Lenin showed that the smaller, intensively cultivated Eastern Region farms were more capitalist than the extensive grain farms of the Western US.

VALUE OF OUTPUT

For some reason—perhaps because it is an American practice? — the data collected in India on agriculture, whether by official agencies or by individuals, is almost invariably presented according to size of holding, which makes it useless for the purpose of ascertaining scale effects or the extent of capitalist operation. Thus a vast mass of raw data which could otherwise have been used, is available only by size of holding in the NSS Reports on landholding, and in the Studies in the Economics of Farm Management. (The All-India Rural Debt and Investment Survey marks a welcome departure by presenting the data by asset-groups: but this is still not the same concept as value of capital stock, which would be an adequate indicator of scale.) In any aggregative analysis by size of holding, it would still remain true that the larger size-groups would show on average a higher value of output, expenditure on inputs, etc, than a smaller size-group. However, the effect of aggregation on the basis of size is to blur the scale effects, since in the smaller size-groups the small but intensively operated capitalist holdings such as our 8-acre farm are lumped with low-productivity small peasant holdings, while in the larger size groups, similarly, the large extensively cultivated non-capitalist holdings such as the 53-acre farm, are lumped together with large but intensively operated capitalist holdings. The net effect is therefore to blur the distinction between the capitalist and non-capitalist sectors of the agrarian economy.

Much better indicators of scale of operation than size, are (a) the value of capital stock, and (b) the annual value of output. The first presents difficulties of measurement insofar as a part of capital stock is farm produced, and its evaluation must be more or less arbitrary. The second is the more convenient index of scale. When tabulated according to gross value of output the holdings in my sample show very striking scale effects: land and

labour productivity, the ratio of sales to output, inputs per acre and their degree of monetisation, and rates of profits all show a striking tendency to rise with expanding scale.

Rudra has a mass of valuable information on the economic operations of big farmers tabulated by size of holding. It would be interesting if he could give us the results of retabulating the data by scale of operation. In particular one would like to see what happens to the "discontinuities" he observes in some variables tabulated by size, when they are retabulated by scale. (Incidentally it must be pointed out that Marxists would be very poor Marxists indeed if, as Rudra suggests, they set about trying to define rich, middle and poor peasants on the basis of where discontinuities occur in "the important variables relating to farm economics" when tabulated by size. The Marxist distinction between classes within the peasantry is not derived from such a superficial statistical criterion but is a structural one based on the relations of production. The rich peasant is distinguished from the poor peasant by the fact that the former hires wage-labour to a considerable extent apart from engaging himself along with family members in cultivation, while the latter is forced to hire himself out as a labourer or lease in land on onerous terms in addition to working with family labour on his own land. The middle peasant operates mainly with family labour, neither exploiting much wage labour, nor being exploited himself: he represents the petty self-employed producer, the type that has been idealised, among others, by A V Chayanov in his notion of a "peasant economy" consisting of such "family farms." Rudra should be careful not to confuse undefined terms such as 'big' and 'small' peasant which may or may not be used by rural sociologists, with the very clearly defined Marxist categories of 'rich' and 'poor' peasant.)

RATE OF PROFIT ON CAPITAL ADVANCED

Finally, from Rudra's data it should be possible to work out (a) rates of profit on capital advanced, and (b) rate of surplus value appropriated. The variable he uses is profit per acre, which is adequate if one is interested merely in comparing the profitability of different crops or of the same crop on different holdings. For a comparison of the profitability of farms viewed as enterprises, or of agriculture viewed as an avenue of investment, vis-a-vis alternative avenues such as industry, moneylending, and trade, we need to look at the rate of profit on capital advanced. There are some conceptual and empirical problems here: what constitutes working capital in agriculture, for instance, and what is the period of turnover of this working capital. All outlays which need to be incurred by the producer in the process of production and before the product is realised, are taken to constitute working capital (this concept is basically the same as that discussed by A K Sen[12]); and since at least two and often three crops are raised annually the number of turnovers of working capital is taken as three. On this basis we find an average rate of profit of 14.8 per cent for my sample, when the value of land is included in the concept of capital advanced; the rate of profit rises with expanding scale of operation (Table 1). This average rate compares well with rates of profit in industry, while for the larger scale groups it outstrips the rate normally obtainable in industry.

TABLE 3 : RATES OF RETURN ON MONEYLENDING

S No	Amount Lent (Rs)	Period for Which Lent	Interest for the Period (Per Cent)	Interest per Annum (Per Cent)
3	10,000	2-3 months	10-12	60-48
7	20,000	6 months	15	30
9	12,500	2 mths to 2 yrs	8-36	48-18
17	2,000	1-2 years	9-18	9
26	15,000	1 year	12	12
27	10,000	1 year	15	15
29	100,000	1-3 years	15-36	15-12
30	10,000	6 mths to 1 yr	9-18	18
38	5,000	4-6 months	5-8	15-16
45	9,000	6 mths to 1 yr	9-12	18-12
49	50,000	6 mths to 1 yr	9-15	18-15
50	100,000	4 mths to 1 yr	8-18	24-18
51	12,000	6 mths to 1 yr	9-12	18-12
66	30,000	6 mths to 1 yr	9-12	18-12

The rates of return to leasing out land, and to moneylending have been computed as well from the data in my sample. (Table 2). The profitability of buying land to lease out is clearly less than that of buying land and cultivating with hired labour. It is not surprising therefore that there should exist an incentive to shift out of tenant-cultivation into wage-labour cultivation. Insofar as a landowner possesses land already and the choice is between cultivating this land with hired labour or moneylending the relevant profit rate is B, which is considerably higher at 46 per cent on average (the value of land being excluded from the figure of capital advanced). The rates of return to moneylending varied a great deal, were nominally quite high—though allowing for default the real rates would be somewhat lower—and compared well with the rate of profit in cultivation except for the larger scale holdings. One found in the field that moneylending had not been completely ousted by productive investment, but co-existed with it; the most capitalist of cultivators still tended to invest some amount in moneylending, though this was small relative to the amounts put into productive investment. This fact illustrates the point that preference for high-return precapitalist avenues of investment cannot be expected to disappear overnight; indeed given the continued existence of a mass of pauperised peasants and consequent high rates of return, the otherwise fully capitalist cultivator may regard moneylending as a way of diversifying his portfolio of assets and of ensuring a tractable labour supply.

The substantially higher rates of profit on the larger scale farms in the sample no doubt contain an element of differential rent, insofar as costs per unit of output are somewhat less on large-scale holdings than on small, and even the smallest scale holdings made an average profit of around 5.8 per cent. It would be interesting to see comparable estimates for profit rates on big holdings in Punjab, and the variation of the rates by scale of operation.

RATE OF SURPLUS VALUE

The rate of surplus value (ratio of annual surplus value to wage outlays) measures the degree of exploitation of wage-labour. In the field, one sees clearly the dichotomous results of capitalist development: high profits and superprofits for the new capitalists, combined with the continuation of meagre subsistence wages for the labourers, marking a worsening of their relative if not absolute position. The data confirm this impression, that high profits are based ultimately on the ability

of the new capitalists, given an expanding market, to exploit a destitute and unorganised labour force to the hilt. The average rate of surplus value for my sample is phenomenally high at 307.3 per cent; the rate shows a clear tendency to rise with expanding scale of operation. Such a high rate reflects the bare subsistence wages paid to labourers. Detailed information on wage-payment was collected: in a large number of cases farm servants were paid only in cereal (paddy in coastal areas, ragi, jowar and bajra elsewhere) and, the daily per capita quantity of unhusked grain worked out to 3.95 kg for men, and 2.77 kg for women. For the 508 adult male farm servants in the sample as a whole the annual per capita value of all wage payments worked out to only Rs 785.27. On all except two holdings the farm servants were landless; on a number of holdings they were in some form of debt bondage, the money advanced to them at the beginning of the year being deducted from their meagre wages. On large-scale farms with increasing mechanisation the wage bill is a lower proportion of total costs while productivity is higher than on small-scale holdings. Far from higher productivity labour receiving higher wages, if anything large-scale farms are often able to hire labour on more advantageous terms to themselves than are small-scale holdings.

One has heard a great deal about high wage rates and labour shortage in the Punjab. It would be interesting to see how the rates of surplus value appropriated by big farmers in the Punjab, compare with my estimates for other areas: it should be possible for Rudra to work out rates of surplus value, along with rates of profit at least for the pure capitalists in his sample. (Strictly speaking, of course, these concepts are only applicable to the capitalist holdings; we have applied them to all wage-labour based holdings only for convenience, to facilitate comparison.)

A final general comment: analysis of the agrarian structure today and particularly of its class nature, is bedevilled by the prevalence of preconceived formulae — e g, that the dominant relations of production are "semi-feudal". In fact, the post-colonial structure with its interaction of developing capitalism with precapitalist organisations is a great deal more complex than can be summed up in a single unqualified phrase. Not least important is the immensely uneven development of different regions, inevitable given the vast size of the country. It is necessary to analyse this complex reality concretely, and not evade the job by falling back on convenient formulae. Secondly, to recognise and analyse the reality of limited capitalist development which is taking place today is very different in my view, from putting forward the thesis that anything like a successful capitalist transformation of Indian agriculture is at all possible. On the contrary, it is necessary to analyse the nature of the capitalist development now taking place, precisely to identify its limits. People who profess to be interested more in the "red revolution" than in the "green revolution" tend, quite incorrectly, to regard the recognition of the fact of limited capitalist development as identical with a conceptual shelving of the "red" revolution in favour of the "green". Hence their eagerness to deny the reality of the process taking place. The casualty of such misconceived radicalism is concrete analysis.

Notes

1 S C Gupta, "Some Aspects of Indian Agriculture", *Enquiry*, No 6; and "New Trends of Growth", *Seminar*, No 38, 1962.
2 T Thamarajakshi, "Intersectoral Terms of Trade and Marketed Surplus of Agricultural Produce, 1951-52 to 1965-66", *Economic and Political Weekly*, Vol IV No 26, Review of Agriculture, June 1969.
3 D Thorner, *The Statesman*, Calcutta, Nov 1 to Nov 4, 1967.
4 A Rudra, A Majid and B D Talib. "Big Farmers of Punjab", *Economic and Political Weekly* Vol IV No 39, A-143 to A-146; Vol IV No 52, A-213 to A-219; Vol V No 26, A-85 to A-87.
5 The results of the survey are incorporated in a thesis in the course of completion entitled "The Organisational Basis of Indian Agriculture with Special Reference to the Development of Capitalist Farming in Recent Years".
6 L Howard, "Labour in Agriculture: An International Survey", pp 45-48.
7 Mao Tse-tung, "Analysis of the Various Classes of the Chinese Peasantry", S Schram "The Political Thought of Mao Tse-tung", Appendix IV-B, pp 241-246.
8 B Hjejle, "Slavery and Agricultural Bondage in S India in the 19th Century", *The Scandinavian Economic History Review*, Vol XV, Nos 1 and 2, 1967; D Kumar "Land and Caste in S India", Chapter III.
9 S C Gupta, "New Trends of Growth", *Seminar*, No 38, 1962; G G Kotovsky, "Agrarian Reforms in India", pp 157-58.
10 M L Darling, "The Punjab Peasant in Prosperity and Debt", pp 135-137.
11 R S Rao, "In Search of the Capitalist Farmer", *Economic and Political Weekly*, Vol V, No 51, December 19, 1970.
12 A K Sen "Working Capital in the Indian Economy", in P N Rosenstein-Rodan (ed) "Pricing and Fiscal Policies".

GOVERNMENT OF INDIA

4¾ Per Cent Loan 1978 (Reissue) to be Issued at Rs. 100.00 Per Cent and Repayable at Par on 1st of July 1978.

5¼ Per Cent Loan 1986 (Reissue) to be Issued at Rs. 100.00 Per Cent and Repayable at Par on 1st of July 1986.

5¾ Per Cent Loan 2001 (Reissue) to be Issued at Rs. 100.00 Per Cent and Repayable at Par on 1st of July 2001.

Subscriptions to the above loans will be received simultaneously and will be limited to a total of Rs 100 crores (approximately). Subscriptions may be in the form of cash/cheque. Government reserve the right to retain subscriptions upto ten per cent in excess of the notified amount.

If the total subscriptions received for the loans exceed the notified figure plus the amount of ten per cent retainable as aforesaid, partial allotment will be made in respect of the subscriptions received and the balance refunded in cash as soon as possible.

Interest for the period 1st of October 1971 to 31st of December 1971 inclusive will be paid on 1st January 1972 and thereafter interest will be paid half yearly on the 1st January and 1st July. Interest on all the loans now issued together with interest on other previous Government securities and income from other approved investments will be exempt from income-tax subject to a limit of Rs 3,000 per annum and subject to other provisions of Section 80L of the Income-tax Act, 1961. The value of the investments in the loans now issued together with the value of other previous investments in Government securities and the other investments specified in Section 5 of the Wealth Tax Act will also be exempt from the Wealth Tax upto Rs 1,50,000/-.

Subscription lists will open on the 1st of October 1971 and close on 4th of October 1971 or earlier without notice.

Applications for the loans will be received at:—
(a) Offices of the Reserve Bank of India at Bangalore, Bombay (Fort and Byculla), Calcutta, Hyderabad, Kanpur, Madras, Nagpur, New Delhi and Patna;
(b) branches of the subsidiary banks of the State Bank of India conducting Government treasury work except at the branch of the State Bank of Hyderabad, Gunfoundry, Hyderabad; and
(c) branches of the State Bank of India at other places in India.

For full particulars please apply to any of these offices or branches.

Weather and Reserve Stocks for Foodgrains

S K Ray

While sufficient meteorological and agricultural data are not available to make a historical analysis of the regional crop-wise variation in production due to the weather, the wide fluctuations in foodgrains production are associated with uncertain variations in the weather. Also, certain areas of the country are more prone to droughts and floods than are other areas. These factors have made sustained growth in production difficult.

Whatever the causes of fluctuations in production, the variability around the trend follows a pattern which is identifiable from an analysis of past production data and can be projected into future years with some probability. Since these fluctuations are evidently unavoidable, the best strategy is to stock a 'certain' quantity of foodgrains to buffer contingencies arising from natural factors.

Scientific planning to meet such contingencies is possible only after an analysis of weather-induced fluctuations in production over different parts of the country. This article attempts to estimate production variations due to weather. Since rainfall appears to be the most important causal factor in fluctuations, suitable rainfall indices are computed to analyse the rainfall distribution pattern and its effect on crop output. Finally, these tools are used to determine the technical size of necessary reserve stocks. Economic constraints, however, are not considered here in determining the size of the required reserve stocks.

[The author wishes to express his gratitude to J S Sarma, S R Sen, A M Khusro, K Krishnamoorty, and C H H Rao, for their valuable help and suggestions in the preparation of this study. Louis H Bean also provided stimulation as the work progressed. The final responsibility for it, including that for the errors, is however the author's.]

THE wide fluctuations in the foodgrains production in India are generally attributed to the weather. Recurring droughts or floods have brought uncertainty in production levels and made sustained growth more difficult.

Sufficient meteorological and agricultural data are not available, however, to make a historical analysis of the regional crop-wise variations in production due to weather. All that is known from past data and various official and unofficial records is that, practically every year, some part of the country experiences famine or near-famine conditions due to either drought or flood. In some years the situation has been acute, resulting in a massive production shortfall. Also, certain areas in the country experience more frequent droughts or floods than do other areas.

Sen [1] for the first time provided some information about the historical variations in foodgrains production in India. He did not attempt to measure or isolate the magnitudes of the fluctuations in past foodgrains production data due to weather. But he did make some interesting observations. Foodgrains production during the first 24 years of this century showed a rising trend, punctuated however by sharp fluctuations. Also, the frequency of the fluctuations in production was quite high: there was a decline from the peak in one out of every 3.4 years. On the other hand, during the next 24 years, production was stagnant but less unstable. The most disturbing aspect as observed by Sen was that, from 1951-52, the frequency of fluctuation in foodgrains production in India was again showing a pattern similar to that noticed in the first quarter of this century.

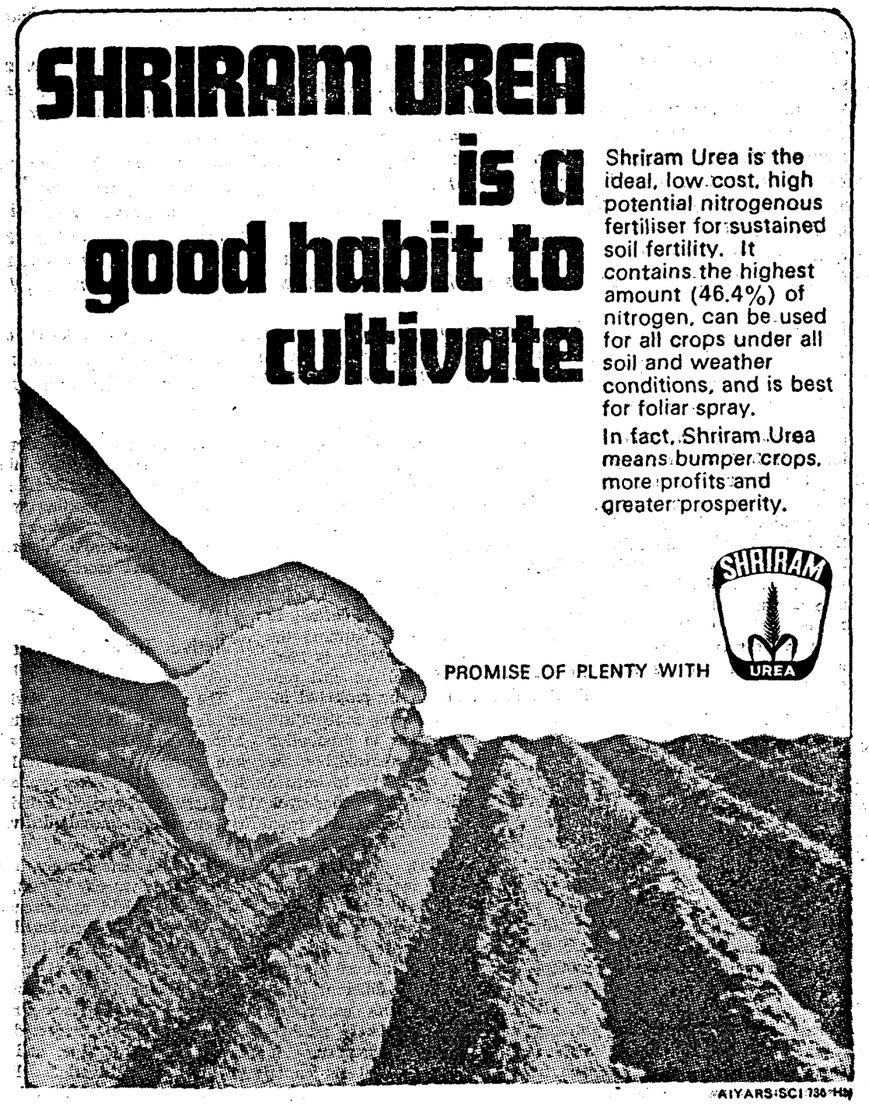
There is a growing feeling that, whatever the causes of fluctuations in production, the variability around the trend follows a pattern which is identifiable from an analysis of past production data and can be projected into future years with 'some probability'. Since these fluctuations in production are to a great extent unavoidable, the best strategy would be to keep a 'certain' quantity of foodgrains-stock to buffer any contingency arising from natural causes.

Scientific planning, to meet the contingency of the inevitable year-to-year production fluctuations due to weather, is possible only in terms of probabilities determined through an analysis of the weather-induced fluctuations in production in different parts of the country. In this paper, an attempt is made to estimate production variations due to weather. As will be seen from the discussion in Part I, rainfall appears to be the most important factor in the sharp production fluctuations in this country. Suitable rainfall indices are computed to make a statistical analysis of the fall distribution pattern and its effect on crop output. These are given in Part II of this paper. Finally, in Part III, variations in production are analysed with the help of rainfall indices to determine the technical size of reserve stocks for meeting specific contingencies. No economic constraints are considered here in determining the size of reserve stocks.

I

Relative Importance of Various Climatic Factors

The production of a particular crop in any region is the resultant of the acreage and the yield per acre. Yield and acreage can be expressed as a function of a number of controlled variables like fertilisers, pesticides, irrigation, prices, etc, and an uncontrolled variable, 'U' comprising the various climatic factors like rainfall, temperature, run of dry days, humidity, day length, etc. Any variation in yield or acreage can thus be conceptually partitioned into two components — one arising out of the controlled variables and the other out of the uncontrolled variable 'U'. 'U' varies according to some natural law and thus causes unexpected variations in yield and acreage, and hence in production. The various climatic factors enter into the production function of a region as exogenous variables — they are determined or fixed by nature. The productivity co-efficients of the various endogenous variables in the system differ over space and time, because the magnitudes of the exogenous or nature-determined variables vary [2].



Variations in agricultural production can thus be man-made or made by nature. Even if the climatic factors follow some repetitive pattern, the production fluctuations would not be proportional unless the relative magnitudes of the effects of these factors on production remain constant over time. The physical frame of reference in agriculture is, however, not invariant with respect to time; men can influence it through technological advances. The variables which are currently exogenous can be made endogenous to the system through human skill and knowledge at a later period. Theoretically and conceptually, it is possible practically to eliminate the unexpected variation in production due to natural factors (for example, on an experimental plot, water, temperature, day length, humidity, wind velocity, etc, can be kept at desired levels through artificial techniques). This idealised proposition is, however, difficult to conceive when we consider the production function of a region or, for that matter, even a plot on the cultivator's field. Physical factors appear as constraints on the production surface; their basic differences from region to region lead to differences in land use and cropping pattern.

Soil is the 'staging area' for plant growth and at any location its quality is itself an expression of the climate. The biosphere over the soil depends on the climate and the basic soil productivity of an area is an expression of the interaction between the biosphere and the climate over years. This basic soil productivity at any location is not subjected to any year-to-year changes, but undergoes a very slow drift over a longer period. For all practical purposes, it is static and cannot be changed. Similarly, when we speak of a region or an area, the natural supply of light, temperature, water in the form of rain, etc, cannot be changed. Their presence or occurrence become inevitable events to the farmers. However, men can influence nature through technological advances. The technology of agriculture in any country, at any period, is an expression of the desire to influence the various natural factors which affect production.

Given the basic soil productivity and assuming no change in the technology of agriculture in an area, crop output fluctuates because the relative magnitudes and the occurrence of the various climatic factors at any time reference point vary from year to year. These variations in occurrence and relative magnitudes of the various climatic factors neither follow a unified pattern nor all of them appear as constraints on Indian agriculture. Some fluctuate more than others and make their impact felt on production.

Table 1 : Famine in India

Year	Parts of the Country Affected
1876-77	Madras (63.9), Maharashtra (67.0), Mysore (70.0), Andhra Pradesh (68.2).
1877-78	Madhya Pradesh (67.6), Gujarat (49.2), Rajasthan (35.2), All-India (75.0).
1878-79	Assam (128.6), Bihar (129.4), Uttar Pradesh (129.1), Gujarat (185.3), Maharashtra (137.7), Andhra Pradesh (153.6).
1884-85	Bengal (80.9).
1886-87	Madhya Pradesh (78.3).
1887-88	Orissa (78.9).
1888-89	Andhra Pradesh (66.9).
1890-91	Kerala (79.2).
1891-92	Bengal (79.4), Bihar (87.7), Punjab (72.7).
1899-1900	All India (73.0).
1905-06	Maharashtra (65.7).
1907-08	Uttar Pradesh (52.5), Punjab (61.3), Madhya Pradesh (75.0).
1918-19	All India (77.4).
1965-66	All India (84.5).

Note : Numbers in parentheses denote the cereals rainfall index.
Sources : Sen [1], Bhatia [6].

Table 2 : Decade-wise Mean Deviation in All-India Cereals Rainfall Index

Decade	Above Normal		Below Normal	
	Frequency	Mean Deviation	Frequency	Mean Deviation
1881-1890	8	4.7	2	4.9
1891-1900	5	12.9	5	10.3
1901-1910	5	5.4	5	15.7
1911-1920	4	11.4	6	13.0
1921-1930	5	3.0	5	6.0
1931-1940	5	6.3	5	5.8
1941-1950	7	5.7	3	4.5
1951-1960	7	9.5	3	12.0

Geographically, India falls within latitudes which encompass all the deserts in the northern hemisphere; it is the strategic locations of hills and mountains that saved her from complete aridity [3]. The escape is, however, not total. And the agricultural pattern differs significantly from region to region. In general, nature is bountiful in bestowing the countryside with all factors conducive to a rich agricultural economy, except one: the crucial water supply which depends mostly on the whims of the rain god.

The origin of the natural water supply in India in the form of rain, river waters, etc, is primarily from the four monsoon currents:

(i) South-west monsoon from June to September.
(ii) Post monsoon from October to December.
(iii) Winter monsoon in January and February.
(iv) Summer monsoon from March to May.

Of these, the south-west monsoon accounts for nearly two-thirds of the annual precipitation for most areas and influences directly more than 60 per cent of India's total foodgrain production. The uneven distribution of rainfall over India is due to wind currents as well as due to the elevation and topography of the land. The wind currents bringing the monsoons of India are very erratic and cause great variations in timing and amount of rainfall received, and hence also in production.

Studies carried out in many countries to examine the effects of various climatic factors on crop output have singled out rainfall and temperature as the most important influencing factors; the various other factors which affect the crops are largely rainfall or temperature dependent.[1] However, in India, temperature does not appear to be responsible for fluctuations in crop output. An analysis of data pertaining to about 50 meteorological stations of India, published in World Weather Records, indicated that month-wise variations in temperature over the years (data series ranging from 30 to 90 years) were not significant (some hilly areas were exceptions to this remark).[2] Also, some factors like snowfall, intensity of light, etc, which generally affect crop output in Western countries, pose practically no constraints on Indian agriculture.

On the other hand, variation in rainfall from one year to the next at any location in India and at any time reference point within a year is generally more than 100 per cent.[3] Too much

TABLE 3 : RELEVANT VARIABLES FOR ANALYSIS OF RAINFALL EFFECT ON CROP OUTPUT AT ALL-INDIA LEVEL

	Rainfall Index (u)	Index of Area (1949-50=100) (A)	Index of Production (1949-50=100) (Y)	Index of Productivity (1949-50=100) (y)
		Cereals		
1949-50	104.6	100.0	100.0	100.0
-51	99.7	99.4	90.3	90.8
-52	81.9	99.3	91.2	91.8
-53	88.2	104.5	101.4	97.0
-54	110.1	111.0	120.1	108.2
-55	101.6	109.1	114.5	104.9
-56	116.8	110.7	114.9	103.8
-57	126.2	111.4	120.5	108.2
-58	94.9	110.3	110.1	99.8
-59	104.4	114.7	129.8	113.2
-60	103.3	115.4	128.9	111.7
-61	104.6	116.7	138.3	118.5
-62	118.0	118.1	143.1	121.2
-63	96.6	118.8	135.9	114.4
-64	98.6	118.2	141.4	119.6
-65	109.7	119.5	154.4	129.3
		Rice		
1949-50	105.0	100.0	100.0	100.0
-51	100.0	100.9	87.9	87.1
-52	87.0	97.7	90.1	92.2
-53	90.0	98.2	96.8	98.6
-54	108.0	102.5	118.6	115.7
-55	99.0	100.6	105.8	105.2
-56	105.0	103.1	114.2	110.8
-57	120.0	105.4	120.4	114.2
-58	96.0	105.5	105.7	100.2
-59	97.0	108.3	127.6	117.8
-60	97.0	110.4	126.2	114.3
-61	106.0	111.4	137.7	123.6
-62	112.0	113.5	142.4	125.5
-63	94.0	116.8	132.6	113.5
-64	110.0	116.7	147.0	126.0
-65	108.0	118.8	156.2	131.5

or too little rain, resulting in floods or droughts, occur every year in some part of the country and affect crop output. Irrigation and flood control can help, but so far their contributions to reducing the fluctuations in crop output are very nominal.[4]

The economic geography of Indian agriculture suggests that the rainfall distribution pattern is primarily responsible for differences in land use, cropping pattern, settlement and density of population in different parts of the country. When viewed in the light of the country's limited irrigation potential, the influence of rainfall on crop output will sustain and, perhaps, will be more pronounced as production increases at a faster rate. The uncertainties in rainfall will cause the same old concern and instability will continue to plague Indian agriculture.

II

Rainfall Distribution and Its Effect on Production

Our attempt to study weather-induced production fluctuations becomes simpler if we assume that, for any region in India and at any time reference point, (i) the year-to-year variations in the various climatic variables are, with the exception of rainfall, very small and, (ii) the effects of the interactions of rainfall with various other climatic factors on crop output are negligible. For, in that case, the fluctuations in production due to weather could be attributed mainly to rainfall, and one needs only to study the distribution of rainfall and its effect on crop output. This is probably an oversimplification of the actual mechanism through which the various climatic factors influence crop output. However, in a systematic study of the weather effect on crop output, an analysis of rainfall distribution pattern and its effect on crop output is an important first step—particularly in a country like India where agricultural production largely depends upon the vagaries of the monsoons. The need to consider other climatic variables will arise if rainfall is unable to explain the greater part of the fluctuations in production. As will be shown later, however, rainfall alone explains most of the variations in output due to uncontrolled factors.

There is another important reason for restricting our analysis to rainfall—*viz*, the paucity of fairly long time series data on various climatic variables. Fortunately, fairly long time series data on rainfall are available for a large number of meteorological stations in India. Meteorologists have divided India into 33 rainfall sub-divisions according to the rainfall distribution pattern. Data relating to approximately 232 stations are presently used in the published official weekly weather report. Of these, 136 stations, with 3 to 6 from each of the 33 sub-divisions, have rainfall records dating back from 1875.[5] The time series data of these 136 stations are condensed to 33 rainfall sub-divisions series (monthwise, from 1875 to 1966) by taking a simple average of the stations falling within each of the rainfall sub-divisions.

The effect of rainfall on crop output at any location is very difficult to measure precisely. For, it is not only the volume of rainfall but also its distribution at different stages of the plant growth which influences the total output. The adequacy and timeliness of the rainfall at sowing affect the sown acreage. Similarly, the volume and distribution of rain at the time of sowing, flowering, maturing, and harvesting, affect crop yield. Consideration of these issues would necessitate introduction of a large number of explanatory variables into the crop-rainfall relationship. The problem is, the short production data series of less than 20 years which is available does not provide scope for such rigorous analysis. Use of a large number of explanatory variables in the structural equation will reduce the precious degrees of freedom for estimating the parameters with adequate level of confidence. Again, the crop calendar is not same throughout the country. For example, rice produced in India is sown and harvested in the different states at different periods and is, therefore, influenced by the adequacy and timeliness of rainfall in the different states during the crop's growth. Taking account of all these differences poses serious problems in statistical estimation, unless the various factors are reduced to a manageable limit. Consequently, aggregation of the rainfall data from different parts of the country into some suitable rainfall indices at the state and national level becomes essential.[6]

We have constructed two rainfall index series at the meteorological sub-

divisional, state, and all-India levels—one for cereals as a whole and the other for rice, a principal crop in India, production of which is greatly influenced by the monsoons. The indices are constructed by assigning suitable weights to volume of rainfall in different periods within a year for each of the meteorological sub-divisions. Since our primary interest is to examine the variations in yield and acreage, and hence in production due to rainfall, use of production as weights seems appropriate. The average of 1959-62 production is taken as the base for computing the indices. All the index series are computed in such a manner that they have the same mean (rainfall index 100) but different dispersions.

The historical record of famines in India provides scope for testing the reliability of indices thus computed. In the early years, there was very limited movement of foodgrains among the different parts of the country and regional scarcities were attributed to crop failures due to floods or droughts. If the indices are fairly good, it should then record very abnormal values (too high or too low from the average) on famine affected years of different regions. That it was so is clearly evident from a comparison of the cereals rainfall indices with the historical record on famines in different parts of the country since 1875 (Table 1).

Moreover, if the indices are reasonably good, the distribution pattern from 1875 should have some semblance with the corresponding production pattern. The year-to-year fluctuation in the all-India cereals rainfall index was less severe during 1924-25 to 1950-51 than during the period 1900-01 to 1923-24 (Table 2). This is consistent with Sen's findings, and suggests that the relatively stable and unstable periods in past foodgrains production were, in greater part, due to rainfall.[7]

A strict comparison of the historical production pattern with the computed rainfall indices is, however, not possible. Evidently, the weights used in computing the indices would be different as we move into the historical past. The indices are, therefore, unlikely to provide a one-to-one correspondence with the historical production record, even if all details were available. The base period used in computing the rainfall indices reflects the current regional production pattern of different foodcrops and thus makes the indices more suitable for analysing the recent production data series.

For analysis of the rainfall effect on crop output, we will consider here the period 1950-51 through to 1964-65, the last year before the introduction of the 'New Strategy'. During this period, fertiliser consumption was quite low; irrigated acreage increased but the percentage to the total remained more or less constant; high-yielding varieties, with the exception of jowar, bajra, and maize, were not introduced and production increased mainly due to addition of new land and improved practices applied on existing technology. Identification and measurement of the various factors which contributed towards increased production during this period are practically impossible as there is hardly any representative data available for carrying out a rigorous statistical analysis. The cumulative effect of all these factors has, however, caused a trend-like movement in production. Both linear and exponential trend lines fitted to the area, production and yield data for cereals and rice from 1949-50 through to 1964-65 recorded significant time trend at the all-India level [7]. Fluctuations around these lines occurred owing to a host of factors, one of which was obviously rainfall. Therefore, it appears logical to consider the actual observation as a function of time (which serves as a proxy for inputs) and rainfall.

TABLE 4 : ESTIMATED REGRESSION SURFACE

	Equation Number	Estimated Co-efficients of: Constant	t	u_t	u_t^2	log u_t	R^2	D-Statistic
			Cereals					
Area (A)	(1)	89.14	1.30* (0.12)	0.12* (0.05)			0.93	1.04
	(2)	32.99	1.23* (0.12)	1.21 (0.65)	—0.0052 (0.0031)		0.94	0.99
	(3)	1.76	0.0051* (0.0005)			0.12* (0.04)	0.92	0.98
Production (Y)	(1)	55.92	3.76* (0.34)	0.35* (0.13)			0.93	1.32
	(2)	—63.47	3.59* (0.36)	2.68 (1.94)	—0.0111 (0.0092)		0.94	1.53
	(3)	1.25	0.0134* (0.0013)			0.36* (0.12)	0.93	1.20
Yield (y)	(1)	68.66	2.11* (0.24)	0.23* (0.09)			0.89	1.46
	(2)	7.90	2.02* (0.27)	1.41 (1.44)	—0.0056 (0.0068)		0.90	1.63
	(3)	1.49	0.0084* (0.0010)			0.24* (0.09)	0.90	1.45
			Rice					
Area (A)	(1)	90.90	1.41* (0.09)	0.05 (0.05)			0.96	1.23
	(2)	38.92	1.37* (0.10)	1.06 (0.95)	—0.0049 (0.0046)		0.96	1.11
	(3)	1.87	0.0057* (0.0004)			0.06 (0.04)	0.96	1.29
Production (Y)	(1)	28.29	3.87* (0.38)	0.60* (0.19)			0.92	1.89
	(2)	—138.16	3.77* (0.40)	3.86 (3.91)	—0.0157 (0.0189)		0.93	1.99
	(3)	0.83	0.0141* (0.0014)			0.56* (0.17)	0.92	1.82
Yield (y)	(1)	40.72	2.14* (0.35)	0.53* (0.18)			0.83	1.71
	(2)	—72.48	2.07* (0.38)	2.74 (3.72)	—0.0107 (0.0179)		0.84	1.79
	(3)	0.96	0.0085* (0.0015)			0.51* (0.18)	0.82	1.59

Note : Figures in parentheses denote standard error. Significance at 5 per cent level is denoted by *.

Three relationships were considered to analyse, at the all-India level, the influence of rainfall (u) on area (A), production (Y) and yield (y) for cereals as a whole and rice separately.

$$A_t \text{ or } Y_t \text{ or } y_t = a_0 + a_1 t + a_2 u_t \quad \ldots (1)$$

$$A_t \text{ or } Y_t \text{ or } y_t = a_0 + a_1 t + a_2 u_t + a_3 u_t^2 \quad \ldots (2)$$

$$\log A_t \text{ or } \log Y_t \text{ or } \log y_t = a_0 + a_1 t + a_2 \log u_t \quad \ldots (3)$$

where 't' is a linear integral-valued time variable with values 1, 2, 3, ... and 'u'

TABLE 5 : STATE-WISE EFFECT OF RAINFALL ON PRODUCTION

	Index of Proportion of Sown Area Irrigated (All-India 1959-62=100)		Percentage Deviation from Average Normal Rainfall Production Trend Line for One Point Increase in Rainfall Index from its Average			
			Unadjusted		Adjusted	
	Cereals	Rice	Cereals	Rice	Cereals	Rice
North						
Jammu and Kashmir	156	266	0.26	0.23	0.20	0.16
Punjab and Haryana	181	203	0.22	0.30	0.17	0.22
Rajasthan	108	46	0.38	1.34	0.28	0.95
Uttar Pradesh	106	37	0.38	1.66	0.29	1.18
East						
Assam	114	73	0.36	0.84	0.27	0.69
Bihar	113	90	0.36	0.68	0.27	0.49
Orissa	49	61	0.83	1.01	0.63	0.72
West Bengal	116	74	0.35	0.83	0.27	0.59
West						
Gujarat	34	34	1.20	1.81	0.90	1.29
Madhya Pradesh	30	35	1.36	1.76	1.03	1.25
Maharashtra	52	60	0.78	1.02	0.59	0.73
South						
Andhra Pradesh	180	247	0.23	0.25	0.17	0.18
Kerala	203	131	0.20	0.47	0.15	0.33
Mysore	76	168	0.53	0.37	0.40	0.26
Tamil Nadu	112	246	0.36	0.25	0.27	0.18
All-India	100	100	0.41	0.61	0.41	0.61

TABLE 6 : OBSERVED AND EXPECTED PHASE LENGTHS IN CEREALS AND RICE RAINFALL INDEX

Phase Length	Observed		Expected (for cereals or rice)	X^2-Statistic	
	Cereals	Rice		Cereals	Rice
1	46	35	36.67		
2	16	22	15.95	2.48	3.25
3	3	2	4.54		
Total	65	59	58.33		

is the rainfall index for cereals or for rice.

Equation (1) is linear in time and rainfall; it ignores the adverse effect of rainfall such as a flood. The quadratic term u^2 in Equation (2) is included to take into account this effect; it introduces a single curvature in the regression surface. Area, production, or yield changes under this relationship occur from one index point to another with an optimum at $u = -a_2/2a_3$. Consistent result would require $a_2 > 0$ and $a_3 < 0$ (if too much or too little rain has a detrimental effect, the surface should record a single maxima on the positive quadrant). Equation (3) is the usual Cobb-Douglas type. Variations due to rainfall under this specification is superposed over an exponential growth curve. Since the marginal increase in production is likely to decrease with increase in u, we should expect a_2 to lie between 0 and 1.

Details of the regression analysis, carried out at the all-India level with the data from 1950-51 through to 1964-65 (Table 3), provided some interesting results (Table 4). Either Equation (1) or Equation (3) can explain more than 90 per cent of the variations in cereals area, production, and yield, and indicates strong positive effect of rainfall. For rice also, similar results are obtained; however, both equations suggest that rice acreage is not significantly influenced by rainfall. Equation (2) hardly improves the value of R^2 from that obtained by using either Equation (1) or Equation (3). However, in all cases, it provides u and u^2 co-efficients with consistent signs.

The insignificance of u and u^2 co-efficients does not speak positively against Equation (2). Consistent signs of the co-efficients rather suggest that the indices are probably not sensitive enough to measure the flood effect on area, production, and yield. However, even with very sensitive indices, it is difficult to measure the effect of flood from an all-India analysis. Although floods are frequent for the country as a whole, in that they occur in one part of the country or the other, their effect on the aggregate level is relatively small. Equation (2) will, therefore, be more appropriate to use for regional analysis.[8]

The significant co-efficients and high value of R^2 are not sufficient to attach confidence on the impressive results provided by either Equation (1) or Equation (3). In fact, they are misleading. The high value of R^2 is obvious because of the highly significant trend variable which practically explains all the variations. The value of D-Statistic, though not significant in most cases, is low enough to suspect positive serial correlation. This is particularly so for acreage and suggests that a linear time variable is not adequate to explain the trend in acreage; its use can be reasonably justified only for production and yield analysis. Even if we ignore these, there are some conceptual problems that speak against the use of Equation (1) and against the mode of analysis. Equation (1) has apparently provided good fit to area, production, and yield data. However, by definition, production equals yield multiplied by acreage, and if Equation (1) is accepted for yield and acreage, then for production the relationship ought to be different from Equation (1). Only Equation (3) satisfies the definitional identity, since

$$\log Y = \log (Ay) = \log A + \log y$$

Rainfall has a positive effect on acreage. With favourable rain, marginal lands are generally brought under cultivation. When this happens, cultivated acreage goes up but average yield figures go down. In an average-yield analysis, the effect of rainfall on productivity thus gets obscured by the interaction between acreage and productivity. In this context, a yield-rainfall analysis is of debatable value.

Our primary concern is to explain production fluctuations around its trend line. These fluctuations are due to the joint effect of yield and acreage fluctuations—and these, we postulate, arise mainly from the year-to-year variations in rainfall. If the indices are reasonably good, it should then be possible to explain a greater part of the residual variations in production around its trend line. Since an exponential growth curve explained reasonably well the trend in production during the studied

TABLE 7: SERIAL CORRELATION OF ALL-INDIA CEREALS AND RICE RAINFALL INDEX

Order of Correlation k	Cereals r_k	Rice r_k
1	—0.00	—0.09
2	0.08	—0.11
3	0.09	0.14
4	—0.16	0.01
5	0.01	0.04
6	0.10	0.02
7	0.04	0.02
8	0.14	0.13
9	—0.16	—0.17
10	—0.06	—0.11
11	0.08	0.02
12	—0.08	—0.07
13	—0.04	—0.14
14	0.14	0.15
15	—0.30	—0.29
16	0.05	0.07
17	—0.04	—0.03
18	—0.21	—0.26
19	0.10	0.11
20	—0.09	—0.03
21	0.01	—0.03
22	0.14	—0.01
23	0.06	0.03
24	0.15	0.19
25	0.03	0.03

period, it follows that, the year-to-year changes in production would have remained constant if there were no variations in rainfall from one year to the next. However, since the latter varied, the relative changes in production also recorded fluctuations. Taking the first differences, therefore, it follows from Equation (3) that:

$$\log Y_{r,t} = a_1 + a_2 \log u_{r,t} \quad \ldots(4)$$

where $Y_{r,t} = 100 (Y_t/Y_{t-1})$

and $u_{r,t} = 100 (u_t/u_{t-1})$

Equation (4) expresses relative changes in production as a function of relative changes in rainfall and explains the fluctuations in production around the assumed form of constant production growth rate (which is antilog of $a_1 + 2a_2$).

Equation (4), fitted at the all-India level to cereals and rice production data from 1950-51 through to 1964-65, provided the following results:

Cereals: $\log Y_{r,t} = 1.2024 + 0.4065 \log u_{r,t}$
(0.0953)
(R^2=0.60; D-Statistic=1.79) ... (4.1)

Rice: $\log Y_{r,t} = 0.7864 + 0.6149 \log u_{r,t}$
(0.1452)
(R^2=0.60; D-Statistic=2.42) ... (4.2)

The estimated equations now provide results impressive enough to speak with confidence about the effect of rainfall on cereals and rice production. In both equations, the co-efficient of $u_{r,t}$ turned out to be highly significant (significant at 0.001 per cent level). Moreover, they are reasonably stable, as is evident from a comparison of the results obtained from Equation (3) and Equation (4). The value of D-Statistic also increased significantly to remove the suspicion of positive serial correlation.

Thus 60 per cent of the past variations in cereals and rice production around their respective trend lines can be accounted for by rainfall alone. Weather-corrected growth rates, computed from these estimated equations, suggest that if rainfall were uniformly the same during this period cereals and rice production could have increased at higher rates than was actually recorded.[9] Assuming the production trend line as one corresponding to the average normal rainfall index of 100, an increase or decrease in the cereals-rainfall index by one point from the average has in the past caused cereals production to deviate from its trend by 0.4065 per cent; for rice it was 0.6149 per cent — more than one and a half times higher than the estimate for cereals.

Since production at the state levels exhibited different forms of trend, the above functional relationship is unlikely to provide significant results in a state-wise analysis. However, using the all-India estimates, rough approximation to the estimated effect of rainfall on state-wise production can be obtained. The amplitude of production fluctuation differs significantly among the different states of India. Rao observed [8] that irrigation and rainfall variability are the two main factors responsible for state-wise differences in the co-efficient of variation in yield. The states with lower variability in rainfall or more irrigated acreage recorded lesser variability in yield than the states with higher rainfall variability or less irrigated acreage.

Given the rainfall distribution pattern, and its variability, it follows from the above that, the causal effect of rainfall on production fluctuation will decline with increase in the proportion of area irrigated; and that, therefore, for the co-efficient of variability in production, the effects of the two are inversely related. As pointed out earlier, the proportions of area irrigated under cereals and rice, at the all-India level, remained more or less constant during the studied period. If we assume the same to be true at the state levels, then given the state-wise variability in rainfall indices, the effect of rainfall on production, estimated at the all-India level, will be relatively higher in those

TABLE 8 : STATE-WISE VARIATIONS IN PRODUCTION

	1968-69 Normal Weather Production (million tonnes)		Co-efficient of Variation in Production (per cent)		Standard Deviation in Production with Mean at 1968-69 Level (million tonnes)		State-wise Relative Weights Corresponding to Unit Deviation in Production at the All-India Level	
	Cereals	Rice	Cereals	Rice	Cereals	Rice	Cereals	Rice
North								
Jammu and Kashmir	0.89	0.40	4.80	4.06	0.04	0.02	0.01	0
Punjab and Haryana	9.38	0.86	3.97	5.37	0.37	0.05	0.06	0.01
Rajasthan	4.30	0.80	6.52	21.41	0.28	0.17	0.05	0.04
Uttar Pradesh	13.84	3.23	5.46	20.87	0.76	0.67	0.12	0.18
East								
Assam	2.88	2.84	3.07	6.45	0.09	0.18	0.01	0.05
Bihar	7.94	5.13	3.96	6.68	0.31	0.34	0.05	0.09
Orissa	4.71	4.41	9.98	11.22	0.47	0.49	0.08	0.13
West Bengal	6.28	5.98	3.58	8.07	0.22	0.48	0.04	0.13
West								
Gujarat	2.90	0.44	19.43	28.76	0.56	0.13	0.09	0.03
Madhya Pradesh	8.56	3.24	17.56	21.01	1.50	0.68	0.24	0.18
Maharashtra	6.43	1.47	11.55	9.86	0.74	0.14	0.12	0.04
South								
Andhra Pradesh	7.05	4.71	3.29	3.58	0.23	0.17	0.04	0.04
Kerala	1.33	1.32	2.60	5.73	0.03	0.08	0.01	0.02
Mysore	4.69	1.98	6.26	4.12	0.29	0.08	0.05	0.02
Tamil Nadu	5.80	4.26	4.82	3.18	0.28	0.14	0.05	0.04
All-India	86.98	41.07	4.19	4.71	3.64	1.93	1.00	1.00

TABLE 9: RAIN-INDUCED FLUCTUATIONS IN ALL-INDIA CEREALS AND RICE PRODUCTION

(Deviations in million tonnes from the estimated 1968-69 normal weather production)

With Rainfall Index as	Deviations in Production (million tonnes)		With Rainfall Index as	Deviations in Production (million tonnes)		With Rainfall Index as	Deviations in Production (million tonnes)	
	Cereals	Rice		Cereals	Rice		Cereals	Rice
1875-76	0.89	0	1905-06	—5.84	—2.02	1935-36	—1.84	—1.26
-77	—3.42	—3.03	-07	1.63	0.50	-37	3.28	3.03
-78	—8.84	—5.30	-08	—6.26	—3.03	-38	—1.20	—1.26
-79	0.89	0.25	-09	0.81	0.25	-39	1.98	1.77
-80	3.11	2.02	-10	2.58	2.27	-40	—3.96	—1.01
-81	—2.12	—0.25	-11	3.15	1.26	-41	—0.60	0.25
-82	0.74	0.76	-12	—5.34	—1.76	-42	—3.75	—1.26
-83	0.99	0	-13	—2.90	—1.52	-43	2.44	0.76
-84	—1.03	—1.01	-14	—3.32	0.25	-44	0.92	1.01
-85	3.32	1.01	-15	2.90	1.26	-45	3.18	0
-86	0	0.76	-16	—1.87	0	-46	—0.92	—1.77
-87	2.65	1.51	-17	5.05	2.02	-47	2.51	1.26
-88	1.49	—0.25	-18	7.14	2.78	-48	1.84	0.76
-89	—2.12	—1.52	-19	—7.98	—2.27	-49	1.52	0.51
-90	1.34	1.77	-20	0.96	1.01	-50	1.63	1.26
-91	2.72	2.27	-21	—5.80	2.02	-51	—0.10	0
-92	—4.10	—2.78	-22	0.42	1.01	-52	—6.40	—3.28
-93	8.24	1.51	-23	2.62	3.03	-53	—4.18	2.52
-94	6.37	3.28	-24	—2.47	—2.27	-54	3.57	2.02
-95	5.84	1.01	-25	0.74	0.50	-55	0.56	—0.25
-96	—2.05	0	-26	—1.70	0.50	-56	5.94	1.26
-97	—1.76	0.25	-27	1.02	1.01	-57	9.26	5.05
-98	—0.77	—1.26	-28	0.43	—1.01	-58	—1.80	—1.01
-99	0.24	2.27	-29	—3.11	—1.26	-59	1.56	—0.76
1899-1900	—9.55	—3.54	-30	—1.52	—0.25	-60	1.16	—0.76
1900-01	2.09	1.01	-31	—1.76	—0.50	-61	1.63	1.52
-02	—6.82	—3.54	-32	0.96	—0.25	-62	6.37	3.03
-03	—3.32	—1.01	-33	—2.65	—2.27	-63	—1.20	—1.51
-04	1.34	0	-34	4.18	2.27	-64	—0.59	0
-05	—5.65	—3.54	-35	0.77	—1.01	-65	3.43	2.02

states where the proportion of area irrigated under cereals or rice is less and will be relatively lower in the states where these proportions are high. Cereals area irrigated, relative to the all-India average, is very high in the states of Kerala, Punjab and Haryana, Andhra Pradesh, and Jammu and Kashmir, and it is very low in Madhya Pradesh, Gujarat, Orissa and Maharashtra; for rice this proportion, relative to the all-India average, is very high in Jammu and Kashmir, Andhra Pradesh, Tamil Nadu and Punjab and Haryana, and very low in Gujarat, Madhya Pradesh, Uttar Pradesh and Rajasthan (Table 5). Using the reciprocals of these relative proportions as weights, the state-wise estimates of the effect of rainfall on their respective average normal trend line production levels are estimated from all-India rainfall response co-efficients. The all-India rainfall index being a weighted average of the state-wise rainfall indices, it follows that the weighted average of these state-wise estimates with weights as used for computing the rainfall indices should equal the corresponding estimate derived at the all-India level. To take this into account, the state-wise estimates are adjusted by using the same correction factor.

We acknowledge that these are crude estimates and lack precision. However, as our interest on these estimates is only to examine the relative instability in production among the states, the results which we derive are unlikely to be radically affected. Further, we would like to add here that the accuracy in estimating the reserve stock size is of more importance at the national than at state levels. Given the level of stock to be maintained at the national level, the relative instability in production among the different states helps to identify appropriate areas for location of this stock and since foodgrains can be transported from one location to another without much difficulty, use of the above crude estimates will not be too erroneous.

Large sample tests, carried out on the observed frequency distribution of the rainfall indices, suggest that the assumption of normality in rainfall distribution is statistically valid for all the states' rainfall index series. The question which comes uppermost in one's mind, however, is whether the distribution of these rainfall indices on a time-scale follows a stochastic process. Specifically, the question is whether the realisation of different values of rainfall indices is independent of time or follows a definite pattern. As already pointed out, the all-India cereals-rainfall index series followed a pattern closely resembling the historical production record. The amount of oscillation in cereals rainfall index itself oscillated, recording alternately relative higher and lower oscillations of roughly 24-years' span. Is this phenomenon, which we have observed in the last 90 years' rainfall data, due to a chance relationship or is there any deeper significance in the relationship?

We confess that the available statistical tools are hardly adequate to solve the complexities of the problems involved in identifying the hidden periodicities in the rainfall distribution pattern. A rigorous study of the joint distribution of division-wise rainfall indices would involve mathematical complexities to the point of practical impossibility. Spectral and cross-spectral analyses provide some promise; unfortunately, the series which we have is short—too short to be amenable for the application of these sophisticated techniques.

The reason for opening this Pandora's Box here is sheer curiosity to understand the causal mechanisms behind the rainfall distribution pattern and our desire to extrapolate into the future. If, for instance, we know with some level of confidence about the future year or years which are going to record severe droughts or floods, the strategy for planning to meet these contingencies could be worked out in more concrete terms. On the other hand, if we assume rainfall to have a random distribution, simplicity in working out the strategy is obtained, but at the cost of precision. We would like to opt here for the less ambitious second alternative and examine whether, for our purpose, the distribution of rainfall indices could be treated as random. Since all our calculations will be based on the results derived from an all-India analysis, we will examine here for randomness only the all-India cereals and rice rainfall index series. It might be noted that the conclusions which we will arrive at are only approximate; for, the all-India series is an agglomeration of a complex phenomenon generating a substantial number of different rainfall distribution patterns in different parts of the country.

TABLE 10: FREQUENCIES OF DEVIATIONS IN PRODUCTION

(in million tonnes)

Deviations in Production from 1968-69 Normal Weather Production Level in Million Tonnes	Percentage Frequency	
	Cereals	Rice
—9.99 to —9.00	1.11	—
—8.99 to —8.00	1.11	—
—7.99 to —7.00	1.11	—
—6.99 to —6.00	3.33	—
—5.99 to —5.00	4.44	1.11
—4.99 to —4.00	2.22	0
—3.99 to —3.00	6.67	6.67
—2.99 to —2.00	6.67	5.56
—1.99 to —1.00	11.11	17.78
—0.99 to —0.00	6.67	17.78
+0.01 to 1.00	15.36	14.44
1.01 to 2.00	13.34	18.99
2.01 to 3.00	8.89	12.22
3.01 to 4.00	7.78	4.44
4.01 to 5.00	1.11	0
5.01 to 6.00	3.33	1.11
6.01 to 7.00	2.22	—
7.01 to 8.00	1.11	—
8.01 to 9.00	1.11	—
9.01 to 10.00	1.11	—

Three tests are applied. The first is a turning point test by counting the peaks and troughs in the series and comparing it with the expected number of turning points in a random series. If the series is random, the expected number o fturning points 'p' is given by $E(p) = \frac{2}{3}(n-2)$, with variance: $V(p) = (16n-29)/20$, where n is the total number of terms in the series (9). Also, the mean interval between turning points in a random series is about 1.5, with a variance of about 9/(10n). Against the expected number of turning points of 59.33 for randomness ($2 \times 89/3$ since n is here equal to 91, from 1875-76 to 1965-66), the actual number observed in all-India cereals and rice rainfall index were 66 and 60, respectively. Also, the mean interval between turning points obtained from cereals—and rice-rainfall index were 1.34 and 1.44. These values are reasonably close to a series with random nature.

The second test applied examined the distribution of phase length. In a random series, the probability of a phase of length 'd' either rising or falling is given by, $2(d^2 + 3d + 1)/(d+3)!$ [9]. If the series is random, the expected number of phases of length 'd' in a series of 'n' terms is given by

$$N_d = 2(n-d-2)(d^2 + 3d + 1)/(d+3)!$$

and the expected number of all possible phase lengths is given by

$$N = \frac{1}{3}(2N-7)$$

Table 6 provides the observed and expected number of different phase lengths in all-India cereals and rice rainfall index series. To examine the goodness of fit, x^2 statistic was computed and $\frac{6}{7}x^2$ was compared against the tabulated value for 2 degrees of freedom [9]. In both cases, the test for goodness of fit provided a positive answer, suggesting thereby that both the index series can be considered as random.

Finally we examined the serial correlations. Theoretically, in a random series, the serial correlation: r_k, of log k;[10] is zero for all k except for k=0 for which $r_0 = 1$. In short series, the observed serial correlations do not strictly assume the theoretical values. They fluctuate due to sampling effects and also they are biased downwards. This is evident from the first 25 serial correlations computed from cereals and rice rainfall index series (Table 7). The magnitude of all these co-efficients is, however, with the exception of r_{15} and r_{18}, very close to zero and justifies the assumption of randomness in rainfall distribution pattern. The reasons for r_{15} and r_{18} to record higher values are difficult to find out; they could be spurious or due to some hidden generating process. Since our short series do not provide scope for probing deeper into the causes for these higher values, we would like to give the benefit of doubt and assume the rainfall indices as randomly distributed.

TABLE 11: CUMULATIVE PRODUCTION DEFICITS (—) OR SURPLUSES (+) OCCURRING IN SEQUENCES

(in million tonnes)

Cereals			Rice		
With Rainfall Index as Occurred in Sequences	Cumulative Production Deficit (—) or Surplus (+) (million tonnes)	Length of the Sequence	With Rainfall Index as Occurred in Sequences	Cumulative Production Deficit (—) or Surplus (+) (million tonnes)	Length of the Sequence
1876-78	—12.26	2	1876-78	— 8.33	2
1878-80	4.00	2	1878-80	2.27	2
1881-83	1.73	2	1884-87	3.28	3
1886-88	4.14	2	1887-89	—1.77	2
1889-91	4.06	2	1889-91	4.04	2
1892-95	20.45	3	1892-95	5.80	3
1895-98	— 4.58	3	1901-03	—4 55	2
1901-03	—10.44	2	1904-06	—5.56	2
1904-06	— 5.84	2	1908-11	3 78	3
1908-11	6.54	3	1911-13	—3 28	2
1911-14	—11.56	3	1913-15	1.51	2
1916-18	12.19	2	1916-18	4.80	2
1921-23	3.04	2	1919-23	7.07	4
1926-28	1.45	2	1924-27	2.01	3
1928-31	— 6.39	3	1927-33	—5.54	6
1933-35	4.95	2	1934-36	—2.27	2
1939-42	— 8.31	3	1942-44	1.77	2
1942-45	6.54	3	1946-50	3.79	4
1946-50	7.50	4	1951-54	4.54	2
1950-53	—10.68	3	1955-57	6.31	2
1953-57	19.33	4	1957-60	—2.53	3
1958-62	10.72	4	1960-62	4.55	2
1962-64	— 1.79	2			

We acknowledge that the circular procedure followed here is not complete to arrive at a definite conclusion and that it demands much deeper probing than the preliminary tests that have been made here for randomness. However, in order not to make further digression from the topic of the present study, we would like to remain contented with the assumption of randomness while keeping the issue open for other research scholars to investigate.

III

Reserve Stocks of Foodgrains

We will first make an attempt to estimate the variations in future cereals and rice production in India due to rainfall. The crucial factors are evidently the distribution pattern of rainfall indices and their effects on production. The question is: Can we take these as invariant over time and, if not, what adjustment should we make to estimate the variability in future production due to rainfall?

The indices which we computed from past rainfall data were a single realisation from an unknown population. For each year 't', the rainfall index U_t is a random variable with unknown mean and variance and the actual value u_t observed is a single sample realised from this unknown universe. If the universe is itself undergoing changes (i e, if u_ts are samples from different populations), there is no way of estimating the parameters from sample observations recorded over time. If, however, we assume the stationarity in mean and variance i e, $E(U_t)$ and $V(U_t)$ to remain constant for all 't', then under certain conditions it can be shown mathematically that the sample mean and variance computed from the recorded time series data provide their estimates.

The question, therefore, is whether the pattern of rainfall is likely to undergo any change in the future. The answer to this question is, of course, not known to us. And even if the natural factors remain the same, there are other man-made factors that could disturb the assumption of stationarity. For example, if the countryside is gradually denuded of all forests, both the mean and variability in rainfall indices will undergo changes. The same will also happen if the technique of artificial rain-making becomes a practical proposition for wider applicability. Based on current technology and knowledge, how-

TABLE 12 : STATE-WISE LOCATION OF STOCKS

(in million tonnes)

	Alternative I			Alternative II			Alternative III		
	All Cereals	Rice	Wheat	All Cereals	Rice	Wheat	All Cereals	Rice	Wheat
North :									
Jammu and Kashmir	0.05	0.02	0.03	0.06	0.02	0.04	0.08	0.03	0.05
Punjab and Haryana	0.42	0.05	0.37	0.54	0.06	0.48	0.66	0.07	0.59
Rajasthan	0.32	0.18	0.14	0.41	0.22	0.18	0.50	0.27	0.23
Uttar Pradesh	0.85	0.58	0.27	1.10	0.68	0.42	1.34	0.86	0.48
East :									
Assam	0.10	0.10	—	0.13	0.13	—	0.16	0.16	—
Bihar	0.37	0.35	0.01	0.46	0.41	0.05	0.56	0.44	0.12
Orissa	0.52	0.52	—	0.68	0.68	—	0.83	0.83	—
West Bengal	0.25	0.25	—	0.33	0.33	—	0.40	0.40	—
West :									
Gujarat	0.64	0.13	0.50	0.82	0.17	0.65	1.00	0.20	0.80
Madhya Pradesh	1.70	0.71	0.99	2.18	0.89	1.29	2.67	0.93	1.74
Maharashtra	0.84	0.15	0.69	1.08	1.10	0.89	1.32	0.33	0.99
South :									
Andhra Pradesh	0.26	0.26	—	0.34	0.34	—	0.41	0.41	—
Kerala	0.04	0.04	—	0.05	0.05	—	0.06	0.06	—
Mysore	0.33	0.33	—	0.43	0.43	—	0.52	0.52	—
Tamil Nadu	0.32	0.32	—	0.41	0.41	—	0.50	0.50	—
All-India	7.00	4.00	3.00	9.00	5.00	4.00	11.00	6.00	5.00

ever, these possibilities appear to be too remote and are unlikely to have any effect. If the past is any indication, the analysis made in the previous section suggests that the assumption of stationarity, in mean and variance in rainfall indices, is reasonably valid. We agree and assume that, for future years, rainfall indices will record the same distribution pattern as observed in the past.

The average normal weather production in any year being defined as expected production (trend level) corresponding to average rainfall index 100, the production will then be above or below the expected level—according as the rainfall index is above or below average. The question is: Will the probability distribution of production variations also remain invariant over time? In other words, will the percentage deviations in production, say, 5 per cent below expected, have the same probability for all future years?

We have estimated the effect of rainfall on production from past data. Since the rainfall response co-efficients are expressed as percentages of expected production, the deviation in absolute terms is a function of the expected level of production. If has production at a future date is 100 per cent higher than the present level, then the use of the same rainfall distribution pattern and its effect on output will also increase the absolute deviations by 100 per cent. Thus if the probability distribution in production variations, expressed as a percentage of the trend, is assumed to be the same for all future years the probabilities will increase of the magnitudes of absolute deviations in production increasing with increase in production. This is one extreme of the situations which we can think of for the future years.

The future production of India is expected to increase at a higher rate than that observed in the past. We envisage this higher growth rate to come from increased cultivation of high-yielding varieties and feel that, as cultivation of *high-yielding varieties depends on* assured water, future additional production will be proportional to increase in irrigated acreage. However, as observed earlier, an expansion in irrigated acreage reduces the effect of rainfall on production variations and the estimated rainfall response co-efficients are, therefore, likely to decline with the passage of time. If the estimated rainfall response co-efficients are agreed to reflect production variations with absolute production at 1968-69 level and then all sumed to decline at the same rate as production increases, then the co-efficient of variability in production around the trend will also record the same rate of decline. On such an assumption, the probability distribution of absolute deviations in production will remain constant for all future years. One has to compute the probabilities of absolute deviations in production by using only the 1968-69 estimated production.

The probability distribution of the absolute deviations in production will be somewhere between these two alternatives, and to compute the distribution of actual variations in production one has to continuously update the type of analysis made here. To simplify our calculations, we will consider here only the second alternative which provides stationarity in probability distribution of actual variations in production for all future years. On such an assumption, the future additional production over the 1968-69 level to meet population and per capita demand growth becomes free from any stochastic component. If the expected value of future production is assumed equal to the corresponding demand, then the per capita availability for any future year 't' is

$$X + [X + \triangle t - E(X)]$$

where X is per capita availability based on production at 1968-69 level and $\triangle t$ is the additional increase in per capita availability over the corresponding value based on expected normal weather production of 1968-69. Since $\triangle t$ is assumed free from any stochastic component, the per capita availability will equal corresponding demand only if the former is equal to $E(X) + \triangle t$. However, as X is a random variable, actual availability in any year 't' will fluctuate around the corresponding demand. To stabilise the per capita availability around the demand, the need to maintain stocks will, therefore, arise which will be released or replenished to reduce the amplitude of fluctuation in X.

Table 8 provides some basic data which we will use to determine the technical size of reserve stocks and its location in the different states. The 1968-69, normal weather production data in this Table are taken from an earlier paper of the present author [10]. The co-efficients of variation in production are obtained by multiplying the corresponding variabilities in rainfall indices and the respective rainfall response co-efficients. The standard deviations in production are obtained by multiplying the co-efficients of variability in production by the corresponding 1968-69 normal weather production.

Given the technical or economic size of the stock to be maintained at the all-India level, its location over the different states will normally depend on each state's level of production and the corresponding co-efficient of variability in production or simply the standard deviation in absolute terms [11].

Thus, for each unit of stock desired to be maintained at the all-India level, the size of the stock C_i to maintain in the i th state should normally be $K\sigma_i$ where σ_i is the standard deviation (in absolute terms) in the i th state's production, and $K = 1/\sum\sigma_i$ is a constant factor of proportionality. The state-wise relative weights for the location of a certain amount of stock desired at the national level are also given in Table 8. With such knowledge, we will now examine the technical size of the stock 'adequate' to smoothen out the amplitude of supply fluctuations arising out of output variations due to rainfall. Needless to say, the word 'adequate' here is in probabilistic terms; what we consider to be an 'adequate stock' might not be adequate for all occasions.

The standard deviations in all-India cereals and rice production due to rainfall with production at 1968-69 level are estimated at 3.6 and 1.9 million tonnes. Based on our assumption of stationarity, mentioned in the previous section, it follows that the average deviations in future cereals and rice production in India are expected to lie within the ranges $\pm$ 3.6 and $\pm$ 1.9 million tonnes. Also, since the rainfall indices have normal distribution, it follows that variations in production will also be normally distributed. Using the property of the normal distribution we can, therefore, conclude that a reserve stock, equivalent to twice the standard deviation, will be adequate in 95 per cent of the cases to offset any individual year's production fluctuation due to rainfall. This suggests the need to have a reserve of about 7 million tonnes of cereals with a rice component of roughly 4 million tonnes (Alternative I). However, a stock at these levels will fail to protect the farmers or consumers if the good or bad years come in sequences. The question, therefore, is: how frequent is the occurrence of these sequences and how severe is their impact on production?

With all-India rainfall indices as obtained from 1875-76 and production at 1968-69 level, Table 9 provides the year-to-year absolute deviations in cereals and rice production which would result if the same sequences of cereals and rice rainfall indices repeat in the future. Table 10, provides the frequency distribution of these deviations. There appears to be a roughly 20 per cent chance (i e, once in every five years) of cereals output recording fluctuations within $\pm$ 1 million tonnes and about 50 per cent chance (i e, once in every two years) of their recording fluctuations within $\pm$ 2 million tonnes. For rice, the chances of fluctuations lying within $\pm$ 1 and $\pm$ 2 million tonnes are roughly 0.3 and 0.7, respectively.

With worst rainfall indices, such as the one recorded for cereals in 1899-1900 and for rice in 1877-78, the corresponding production would record deviations of 9.55 and 5.30 million tonnes. Similarly, with an exceptionally good year, such as 1956-57, cereals and rice production would record deviations of 9.26 and 0.05 million tonnes. Thus to make liberal provision for any individual best or worst year in the future, it will be sufficient to maintain about 9 million tonnes of cereals reserve with a rice component of about 5 million tonnes (Alternative II). The chances of these type of events occurring are about once in a century and, with such a remote chance, the need to maintain the above levels of stocks can be questioned.

However, when we look into the sequences of good or bad years of production, the need to maintain higher levels of stocks appears important to some extent. With rainfall indices as obtained from 1875-76 and production at 1968-69 level, the cumlative production deficits or surpluses that occurred in sequences are given in Table 11. Notice that the sequences of surpluses are more than the deficits; this is due to our defining the average normal production corresponding to the rainfall index average rather than to its modal value. Also, the sequences of length 2 are more frequent than sequences of other lengths, [11] i e, two consecutive years of good or bad harvest are more likely than any other prolonged sequence. There are two sequences for cereals, one of length 3 (1892-95) and the other of length 4 (1953-57), in which the cumulative production surpluses are exceedingly high. If we omit these two sequences and consider the averages of the first three worst sequences and the next three best sequences then the cumulative production deficits and surpluses can be of the order of —11.5 and 10.1 million tonnes. This suggests the need to have a reserve stock of roughly 11 million tonnes to take into account most of the worst and best sequences of cereals production.

Similarly, for rice, there are two sequences—one of length 2 (1876-78) in which production recorded abnormal deficits and another of length 4 (1919-23) in which production recorded abnormal surpluses. If we omit these two sequences and consider the averages for the next three worst and best sequences, than the cumulative production deficits or surpluses can generally be of the order of —5.2 and 5.6 million tonnes. This suggests a reserve stock of about 6 million tonnes of rice. Thus to even out most of the worst and best sequences of production, it appears adequate to maintain 11 million tonnes of cereals with a rice component of about 6 million tonnes (Alternative III). The cumulative production deficits, which we recorded in 1965-67, are unparalleled in the history of Indian agriculture dating back from 1875-76 and in any case it is physically impossible to maintain stocks for evening out such production deficits.

Given the level of reserves desired at the all-India level, the quantity and location of these stocks in the different states will, as mentioned earlier, depend on their respective average production fluctuations. Using the state-wise relative weights, as given in Table 8, stocks that need to be maintained in the different states under the three alternative reserve levels, estimated at the all-India level, are computed and shown in Table 12.

Cereals include rice, wheat, and coarse varieties of cereals, and we have estimated the total stock requirements for cereals as a whole, and for rice separately. If we had estimated stock requirements for each crop under cereals, then total requirements for cereals would have been much higher than estimated under the three alternatives. This actually happened when we computed the rice stock requirements of Assam, West Bengal, and Kerala, which exceeded their corresponding stock requirements for all cereals. For these states, the rice stock requirements are not allowed to exceed their stock requirements for all cereals and the other states' rice stock estimates are then slightly adjusted upwards, by taking into account their future production pattern [10]. Cereals stock in seven states are thus envisaged to have only a rice component. The reason for considering rice separately arises from the fact that, unlike other crops, rice is in short supply in the world market and hence the need to maintain adequate rice stock is of special importance.

There is considerable flexibility in consumers' demand for various items under cereals. Government has at least the machinery of fair-price shops to impose forced substitution as occasion demands. However, as the two crops, rice and wheat, will have increasing importance in Indian agriculture it seems likely that the need to maintain stocks with the Government will in the future centre around these two crops. Wheat being the superior and consumer-preferred item than coarse cereals, supply irregularities due to production shortfalls in the latter can be evened out if adequate wheat stocks are maintained. On such an assumption, cereals stock will have two components, rice and wheat. Table 12 provides the state-wise breakdown of cereals stock into rice and wheat component; the residual of the cereals stock, after making provision for independent estimate of rice stock, is assumed for wheat. It should be noted that, while the state-wise estimates for cereals and rice stocks are based on their respective production fluctuations, the estimates for wheat stock include the production fluctuations for wheat or coarse cereals or both.

To sum up, it appears from past rainfall distribution pattern that reserves of 7 million tonnes cereals will be adequate in 95 per cent of the cases to offset any individual year's fluctuation. To increase this probability to a higher level will require about 9 million tonnes of cereals. However, if we consider the sequences of good and bad years, the need to maintain a higher level of reserve seems desirable. The past rainfall distribution pattern suggests that 11 million tonnes of cereals will be adequate to even out most of the worst or best sequences of production.

References

[1] S R Sen, 'Growth and Instability in Indian Agriculture', *Agricultural Situation in India*, January 1967.

[2] Earl O Heady, 'Priorities in the Adoption of Improved Farm Technology', published in "Economic Development of Agriculture, The Modernisation of Farming", Iowa State University, Ames, Iowa, 1965.

[3] S R Sen, 'Droughts in India: Certain Dimensional Considerations', *Symposium of Planning for Drought Areas* held by the National Institute of Sciences of India at New Delhi, May 1969.

[4] Bernard Oury, "Programme Windex for the Systematic Calculation of a Weather Index to be used in Agricultural Production Analysis", Economics Department Working Paper Number 3, IBRD, August 14, 1967.

[5] OECD, "Co-operative Research on Input/Output, Relationships in Use of Fertilisers in Crop Production", Paris, 1966.

[6] B M Bhatia, "Famines in India", Asia Publishing House, Bombay, 1967.

[7] Government of India, "Growth Rates in Agriculture, 1949-50 to 1964-65", Economic and Statistical Adviser, Ministry of Food and Agriculture, 1966.

[8] C H Hanumantha Rao, 'Fluctuations in Agricultural Growth, An Analysis of Unstable Increase in Productivity', *Economic and Political Weekly*, Annual Number, January 1968.

[9] M G Kendall and A Stuart, "The Advanced Theory of Statistics", Volume 3, Design and Analysis, and Time-Series, Charles Griffin, London, 1966.

[10] S K Ray, 'Foodgrains Demand and Supply, Projection of Regional Imbalances', *Economic and Political Weekly*, Quarterly Review of Agriculture, June 26, 1971.

[11] A M Khusro, "The Economics of Buffer Stocks and Storage of Major Foodgrains in India", Institute of Economic Growth, Delhi, 1970.

[12] William Feller, "An Introduction to Probability Theory and Its Application", Volume 1, New York, Wiley, 1950.

Notes

1 There are exceptions to this general statement. For example, the run of dry days which greatly affects the crops is independent of temperature and quantum of monthly precipitation.

2 Conclusion based on analysis of variance made on each of the meteorological stations data. To save space, the results are not presented here.

3 This variation is generally high at the beginning of the south-west monsoon which arrives at different dates spreading from May to July in different parts of the country (observation based on data described in the next section).

4 Some major irrigation projects and dams constructed after Independence have greatly reduced the damages due to floods. Also, unlike droughts, damage to crops due to floods is generally of localised nature and its effect on aggregate production is relatively small.

5 Rainfall data of these 136 stations are not available in published form. They are obtained through the courtesy of S R Sen and J S Sarma from the Indian Meteorological Department.

6 Many ambitious formulae have been developed for constructing composite weather indices. Of particular interest is the Program Windex developed by Oury [4] though its use in an aggregate analysis is rather difficult, See OECD [5] for a review of various formulae for computing composite weather indices.

7 The higher growth rate observed by Sen during the first quarter of this century was largely due to extensive cultivation. Production on poor quality land being more susceptible to the vagaries of nature, growth in production through extensive cultivation is likely to record higher instability than through intensive cultivation.

8 This is substantiated from an analysis of state-wise cereals yield. Equation (2), fitted to the cereals yield index from 1952-53 through to 1964-65, provided for all the states u and u^2 co-efficients with consistent signs. The states which provided significant results are given in the Table below.

9 Weather adjusted annual compound growth rates for cereals and rice were obtained as 3.6 and 3.8 per cent. The corresponding weather unadjusted rates were 3.16 and 3.37 [7].

10 For computational purpose we have used here the formula

$$r_k = \frac{1}{n-k} \sum_{i=1}^{n-k} (u_i - \bar{u})(u_{i+k} - \bar{u}) \Big/ \frac{1}{n} \sum_{i=1}^{1} (u_i - \bar{u})^2$$

where $\bar{u} = \sum_{i=1}^{n} u_i / n$

11 Exact probabilities of occurrence of these sequences can be easily computed [12]. To keep the discussion at elementary level, we have refrained ourselves from these mathematical niceties.

TABLE OF FOOTNOTE 8

	Estimated Co-efficient of				
	Constant	t	u	u^2	R^2
Assam	—20.84	—0.03 (0.02)	2.20* (0.63)	—0.0100* (0.0030)	0.69
Orissa	—69.16	1.45* (0.59)	2.78* (1.22)	—0.0116* (0.0056)	0.64
Rajasthan	—100.11	0.24 (0.56)	3.80* (1.13)	—0.0166* (0.0050)	0.57
Madhya Pradesh	—102.43	1.38* (0.42)	3.28* (1.12)	—0.0140* (0.0051)	0.68
Gujarat	—103.52	4.19* (1.20)	3.46* (1.11)	—0.0139* (0.0046)	0.72
Maharashtra	—104.32	1.12* (0.58)	4.07* (1.63)	—0.0204* (0.0083)	0.74
Mysore	— 92.93	2.72* (0.32)	3.43* (1.00)	—0.0153* (0.0046)	0.92
Kerala	+ 35.06	2.84* (0.24)	0.81* (0.32)	—0.0030* (0.0014)	0.96

Note: Figures in parentheses denote standard error. Significance at 5 per cent leve is denoted by*.

Land-Based Credit Policies and Investment Prospects for Small Farmers

N S Jodha

Although the problem of small farmers has received considerable attention and several alternatives have been suggested to make their economy viable, most of the solutions suggested require a resource base which is beyond the capacity of the small farmers. Any plan to revitalise the economy of small farmers would therefore require outright financial grants or liberal credit from external sources.

Lending policies of existing agencies that provide long-term farm finance, however, are biased against the small farmer who in their terms is not an attractive client. Even the land development banks which are co-operative institutions have lending policies that automatically discriminate against the small farmer.

This paper considers the availability of long-term finance to small farmers in the context of the lending policies of the Gujarat State Co-operative Land Development Bank which is one of the most successful LDBs in the country, and what changes may be necessary if small farmers are not to be excluded from the gains of agricultural development.

[The author is grateful to M D Desai for his valuable comments and suggestions.]

THE problem of small farmers has received considerable attention from economists and planners in recent years. Several alternatives — ranging from intensive cultivation through adoption of new technology to diversification of farm resource use through adoption of mixed farming — have been suggested for making their economy viable.[1] However, most of these alternatives require a restructuring of the resource-base of small farmers. This calls for investment capital among other things, which is beyond the capacity of the small farmers. Revitalisation of the economy of small farmers would, therefore, require outright financial grants or liberal credit from external sources.

However, the existing agencies engaged in providing long-term farm finance not only do not have a bias in favour of the small farmer, but even tend to benefit only the large and medium farmers. For understandable reasons, the small farmer is not an attractive client for commercial (including nationalised) banks.[2] The land development banks (LDBs), being co-operative institutions, have, therefore, to be the major source of investment credit for the small farmer for a long time to come. But the lending policies of the LDBs are also such that the small farmer stands automatically discriminated against. It has been clearly demonstrated, by various studies of rural credit in India, that the credit co-operatives, though conceived to be the strength of the weaker farmers, have in fact benefited only the better-placed sections of the farming community.[3] As far as long-term finance is concerned, a close examination of the lending policies of the LDBs shows that such a situation was inevitable, since the crucial variable determining the amount of long-term credit to a farmer is the area of land owned by him. The present paper attempts to analyse the question of availability of long-term finance to small farmers in the context of the present lending policies of the Gujarat State Co-operative Land Development Bank (hereafter called LDB-Gujarat) which is one of the most successful LDBs in the country.[4]

I

This article draws upon data collected from four selected branches of the Bank — two, each, in the Central Gujarat and Saurashtra regions of the State — by the Agro-Economic Research Centre, Vallabh-Vidyanagar, for a study which was part of an all-India study during 1969 of loans advanced by LDBs made by different Agro-Economic Research Centres. The data used here consists of (a) the details about the total number of borrowers (numbering 4,200), as collected from the Bank records, in the four branches during 1965-66 to 1967-68, and (b) details collected from 144 sample borrowers, selected from among the borrowers during 1966-67 and 1967-68, in the four branches. From each branch, which covered one taluka, 36 borrowers were selected, following the cluster sampling technique in the selection of villages and the stratified random sampling technique with PPS allocation in the selection of borrowers.[5]

Small Farmers and Their Share in LDB Loans

The definition of 'small farmers' raises several conceptual problems. Various criteria for identifying the small farmer could be indicated, but lack of usable data forbids use of most of these criteria. Therefore, despite the known limitations of treating the physical land surface as an indicator of the size of the farm business, we have used the same to demarcate the small farmers for the present exercise. Accordingly, the LDB borrowers have been classified into four groups, *viz*, farmers owning land (i) upto 5 acres, (ii) 5 to 10 acres, (iii) 10 to 15 acres and (iv) above 15 acres; this classification will also ensure comparability with the holdings classification as followed by the 1961 Census Reports. We have treated farmers in category (i) as small farmers.[6]

According to the Census 1961, the small farmers (owning land upto 5 acres) constituted more than 35 per cent of the total land-holders in the four talukas selected for the present study. There is no likelihood that their number has decreased — if at all, it might have increased.

Our data reveal that farmers in this category, in spite of their greater numerical strength as well as their greater dependence on external sources for investment capital, have not benefited from the LDB finances in proportion either to their number or their needs. According to Table 1, during the three years under review, their proportion in the total number of LDB borrowers was less than 9 per cent. On the other hand, farmers in category (iv) (i e, holding above 15 acres) constituted more than 42 per cent of total borrowers in spite of their relatively low proportion (22 per cent) in the total number of land-holders in the selected talukas.

Regarding the share of different holding groups in total credit advanced by the LDB during the period, the situation was still worse. While the small farmers accounted for only 5.41 per cent

TABLE 1: PERCENTAGE DISTRIBUTION OF LDB BORROWERS AND LDB LOANS IN SELECTED BRANCHES ACCORDING TO SIZE OF HOLDING 1965-66 to 1967-68

Holding Size Groups: (Acres)	Proportion in Total Holdings 1961 (Census)	Proportion in LDB Borrowers during				Percentage Share in LDB Loans during			
		1965-66	1966-67	1967-68	Total	1965-66	1966-67	1967-68	Total
1	2	3	4	5	6	7	8	9	10
Upto 5	35.38	7.19	10.60	9.65	8.97	3.87	6.78	6.43	5.41
5-10	26.28	22.13	25.39	26.50	24.83	18.52	23.15	24.41	21.10
10-15	15.92	21.48	25.48	26.02	24.07	21.04	24.69	28.03	24.39
Above 15	22.02	48.60	38.53	37.83	42.13	56.57	45.38	41.13	49.10
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Note: Date pertains to total borrowers in the four branches during three years.

TABLE 2 : HOLDING-WISE PERCENTAGE DISTRIBUTION OF LDB LOANS FOR DIFFERENT PURPOSES IN THE SELECTED BRANCHES, 1965-66 to 1967-68

Holding Size Groups (Acres)	Percentage Share in Borrowing for the Following							
	New Well	Repairs of Well	Oil-Engine	Electric Motor	Other Irrigation Facilities	Tractor	Others	Total
1	2	3	4	5	6	7	8	9
Upto 5	7.34	10.94	3.99	17.65	7.33	2.17	9.14	5.41
5-10	29.38	20.74	16.98	32.36	18.72	9.60	7.96	21.10
10-15	23.32	25.25	25.06	31.13	8.69	21.76	29.07	24.39
Above 15	39.96	43.07	53.97	18.86	65.26	66.47	53.56	94.10
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Actual Rs (PC)	4166100 (31.82)	101000 (0.68)	8155487 (62.29)	239652 (1.83)	167937 (1.29)	179250 (1.37)	82900 (0.63)	13092326 (100.00)

Note: Data pertain to total borrowers in farm branches of the Bank during three years.

of total credit, the farmers with the largest holding group were able to claim more than 49 per cent of total credit. With minor variations, the situation during the individual years under review was broadly similar to this. No data are readily available on the position in earlier years, but in view of the circumstances responsible for it — which will be presently discussed — the situation could not have been any different during that earlier period.[7]

Even if the total LDB lending (Rs 130.9 lakhs) in the selected talukas during the three years is arranged according to the purpose of the borrowing (see Table 2), the situation depicted in Table 1 remains unaltered. For none of the purposes (except electric motors), did the share of small farmers in total borrowing exceed 11 per cent. The share of the largest holding group ranged between 40 and 66 per cent of total borrowing for different purposes. Thus, whichever way we look into LDB lending to farmers, it is quite apparent that small farmers have not benefited substantially in the matter of receiving LDB loans.

II

This situation is not the result of any deliberate attempt by the Bank to discriminate against small farmers. Yet, the operational policies of the Bank are designed to provide credit only after adequately safeguarding the interest of the Bank and do not keep in view the adequacy of the credit for the purpose for which it is given. Consequently, while the medium and large farmers can satisfy their full credit needs, the small farmer can rarely obtain the full credit he needs for making investment. This will be clear from the following discussion.

OPERATIONAL POLICIES

The most relevant problem in the present context is proper determination of the quantum of loan, so as to protect the interests of both the lender and the borrower. Ideally, the quantum should be determined such that:

(a) the loan sanctioned is sufficient to meet the proposed investment outlay.
(b) the repayment schedule is realistic enough so that the repayment instalments are in tune with the repaying capacity of the borrower (after taking into account the incremental income due to new investment).
(c) the loaning limit is fixed such that it leaves a sufficient security margin for the lending institution.

Thus, the operational policies for proper determination of loans should basically address themselves to three aspects:

(1) cost aspect of the proposed investment by the borrower.
(2) profitability of the investment and repaying capacity of the borrower.
(3) value of the security offered.

However, in practice, the LDB Gujarat (like most LDBs in the country) while processing loan cases concentrates, almost exclusively, on the third aspect, viz, the value of land offered as security. The other two aspects are looked into only casually.[8]

The actual practice in brief is as follows:

Before determining the quantum of loan, the Bank decides the value of the land mortgaged as security. Though land valuation is a highly specialised task, the Bank uses a ready-made formula for the same. Like other land banks in the country, the LDB Gujarat follows the method known as 'assessment multiple method,[9] under which the assessment rate of the mortgaged land plays a crucial role in the determination of the value of land. The assessment value is multiplied by another value (we may call it 'multiplier'), decided upon by the Bank from time to time. The present value of the 'multiplier' is 500.[10] Thus the value of a piece of land, according to the Bank, is equal to its revenue assessment multiplied by 500.[11]

Since, as per the Bank's by-laws, the loan limit is 50 per cent of the value of mortgaged land, the determination of the quantum of loan is reduced to a simple exercise of multiplying the assessment rate by 500 and dividing it by two. Other factors, like cost of the asset and repaying capacity of the borrowers are looked into as mere formalities and, in practice, they seldom influence the Bank's decision regarding finalisation of the loan amount. Thus the factors which ultimately affect one's borrowing from the LDB are:

(i) area of the land one owns (and is, therefore, able to mortgage);
(ii) assessment rate of the mortgaged land;
(iii) the Bank's safety margin.

The Bank's over-concern with the security (as reflected through 50 per cent safety margin), and the method of land valuation based on land assessment (which normally undervalues the land), tend to act as important limitations on the size of the loan — more so for the small farmer who is faced with the additional and most crucial constraint of paucity of owned land and because of which (unlike farmers with larger holdings) he is unable to counter (at least partially), the restriction on his borrowing imposed by the Bank's safety margin and method of land valuation.[12]

TABLE 3 : AVERAGE COST OF ASSET AND AMOUNT OF LDB LOAN PER BORROWER ACCORDING TO LAND HOLDING SIZE

(in Rs)

Holding Size Group (Acres)	Assets	New Well		Electric Motor		Oil Engine		Others		Total	
		Cost	Loan	Cost	Loan	Cost	Loan	Cost	Loan	Cost	Loan
1		2	3	4	5	6	7	8	9	10	11
Upto 5	2671	1463 (54.77)	—	—	3607	3366 (93.31)	—	—	3128	2779 (72.86)	
5-10	2727	1906 (69.89)	2758	2305 (83.58)	3321	3460 (104.19)	452	381 (84.29)	2727	2640 (96.81)	
10-15	2618	2489 (95.07)	3084	2798 (90.73)	3523	3889 (110.39)	602	512 (85.05)	2692	2768 (102.82)	
Above 15	2829	3124 (110.43)	2882	2900 (100.62)	3634	3851 (105.97)	2260	2090 (92.48)	3048	3247 (106.53)	
Total	2765	2694 (97.43)	2886	2637 (91.37)	3522	3747 (106.38)	1264	1144 (90.51)	2957	2897 (97.97)	

Note: The details pertain to 144 sample borrowers. Figures in parenthesis indicate the LDB loan as percentage of actual cost of the asset.

III

The situation described above, has several far-reaching implications for the economy of small farmers. A few of them may be briefly discussed.

UNDERFINANCING OF FARM ASSETS

When the amount of land mortgaged is a principal consideration in determining the quantum of loan, the cost of the proposed asset, in practice, ceases to have any operational significance for the lender. Consequently, a situation may emerge in which farmers with sufficient land to mortgage would get a loan equal to, or at times greater than, their actual investment outlay. The small land-holders, on the other hand, would find that sanctioned loan covers only a part of their investment cost.

This was actually found in the case of sample farmers in the selected branches. As shown in Table 3, the average cost of construction of a new well was more or less similar (ranging between Rs 2,671 for small farmers to Rs 2,829 for large farmers) as between different holding size groups. But the average lending by the Bank to the small farmers for the same asset was less than half of the average amount advanced to the largest farmers. While the LDB loan constituted only 55 per cent of the cost of the new well for small farmers, the loan was 110 per cent of the cost of the well in the case of the largest farmers. On other assets, the disparity was not so glaring, yet it is clear from Table 3 that the LDB loan, as percentage of the cost of the asset, increased with the increase in holding size.

The phenomenon of overfinancing of assets in the case of big farmers and underfinancing in the case of small farmers, apart from encouraging the diversion of loans in both cases (for different reasons)[13] accentuates the already disadvantageous position of the small farmer *vis-a-vis* the larger farmer. For instance, in such situation the dependence of the small farmer on the traditional source of credit is perpetuated. This is partly seen in Table 4. In the case of the selected farmers, about 64 per cent of the assets (in value terms) acquired during 1965-66 through to 1967-68, were financed by the LDB. But the contribution of the LDB was the lowest to the farm-level capital formation of the small farmers compared with the other holding groups. The LDB contribution was only 50 per cent for the small farmers, while in other cases it ranged between 60 and 71 per cent. The small farmers had to depend on other agencies, mainly traditional ones, to the extent of 26 per cent of the asset value; while the corresponding dependence of the other holding groups did not exceed 11 per cent, although their investment in absolute terms was much higher than that of the small farmer.

TECHNOLOGICAL GAP

The limitation on borrowing, imposed by the holding size, compels the small farmer to opt for traditional assets which (even though less efficient) are relatively cheaper. This contention is partly supported by the distribution pattern of the assets acquired by about 4,200 farmers through LDB finance in the selected branches during the three years under consideration. The information has been summarised in Table 5. Of the total of small farmers who borrowed from the LDB, during the three years, about 70 per cent did so for meeting capital expenditure on traditional items like construction of wells, repairs of wells, bunding, etc. The proportion of small farmers going in for modern assets like oil-engines, electric

motors, pipelines, etc, was only 30 per cent.[14] The position got reversed as the size of holdings increased. In the largest holding group, the proportion of farmers borrowing for acquisition of modern and traditional assets were 67 per cent and 33 per cent, respectively. In view of the technical and economic superiority of modern assets, the implications of this are too obvious to need elaboration. If such tendencies persist — which is quite likely under land-based credit policies — the position of small farmers *vis-a-vis* big farmers would deteriorate even in terms of non-land farm assets, and there would be an ever-widening technological gap between the two.

Self Liquidating Loans

The rationale behind changing the character of land banks (*viz*, from being lenders for redemption of old loans to becoming creditors for more productive purposes) was that, by financing productive farm assets land banks would add to the production potential of the agricultural sector and that the loans would be self-liquidating. However, the extent to which a farm asset (say, construction of a well) adds to the production potential of the farm and makes the loan self-liquidating depends upon the extent and efficiency of utilisation of the asset; this, in turn, depends on (besides other things) the extent of supplementary investment that takes place to meet certain technical and economic requirements of the acquired asset. The simplest example is a completed well, which requires blasting (necessitating additional investment), to increase and stabilise the rate of recharge in the well. Several other instances, could be cited to show that the efficiency of a given asset remains substantially low unless it is complemented by another small or big asset. A well without oil-engine, a well equipped with oil-engine but without adequate field channels or pipeline, a well without proper drainage and land levelling in its command area, an oil engine without a machine-room on the well, a tractor without a trailer, etc, are a few such examples. In all such cases, the entire asset complex has to be looked at in its totality, while considering the production potential and self-liquidating character of the investment. However, under the land-based credit policies, it is not always possible to follow the approach described above. Hence, as permitted by the amount of land mortgaged (and its assessment rate), only a part of the "asset complex" can be financed.

TABLE 4 : AVERAGE VALUE OF FARM ASSETS ACQUIRED BY SAMPLE BORROWERS AND SOURCES OF FINANCE, ACCORDING TO HOLDING SIZE, 1965-66 TO 1967-68

Holding Size Group (Acres)	Average Value of Assets (Rs)	Percentage Share of Different Sources		
		LDB	Other Agencies*	Owned Funds
1	2	3	4	5
Upto 5	4069	49.80	26.33	23.87
5 - 10	4510	70.57	7.62	21.81
10 - 15	5128	69.48	3.22	27.30
Above	7420	59.54	10.99	29.47
Total	5730	64.01	8.93	— 27.06

* *Mainly include traditional agencies like money lenders, fellow farmers, etc.*

TABLE 5 : DISTRIBUTION OF THE LDB BORROWERS WHO BORROWED FOR TRADITIONAL AND MODERN ASSETS, ACCORDING TO SIZE OF HOLDING 1965-66 TO 1967-68

Holding Size Group (Acres)	Number of Borrowers	Percentage of Borrowers Who Borrowed for Assets	
		Traditional	Modern
1	2	3	4
Upto 5	377	69.89	30.11
5 - 10	1043	56.57	43.43
10 - 15	1011	44.71	55.29
Above 15	1770	33.04	66.96
Total	4201	46.54	52.46

Note : Date pertain to total borrowers during the three years.

Here, too, farmers with adequate land can manage to overcome the problem by mortgaging the remaining part of their land for second or third borrowing even before the earlier loan is repaid. But this facility, for making their assets more efficient and their loans self-liquidating through second or third borrowing (e g, for blasting the ground rocks in the well), is obviously not available to the small farmer. Table 6 illustrates this situation.

Out of the 144 sample farmers, nearly 32 per cent borrowed from the LDB for the second time before they could clear the earlier loans. Similarly about 5 per cent of the sample farmers borrowed for the third time. However, as Table 5 shows, most of these fortunate borrowers fall in the bigger land-holding groups. In the small-farmer group, there was not a single person who could borrow more than once. In the case of the biggest holding size group nearly 40 per cent and 6 per cent of the borrowers borrowed twice and three times, respectively.

Enduring Vicious Circle

The size of holding has been an important factor in creating the vicious circle of low output and low investment on small farms. The same factor under the land-based credit policies, also blocks the chances of breaking that vicious circle using borrowed capital. The new farm technology, by facilitating substitution of capital for land, has offered some scope for the small farmers to cross the viability limit. Due to its features, like divisibility and absence of scale bias, the new technology is considered the best hope for the potentially viable small farmers. But all high hopes would be belied and unique opportunities for progress towards viability would be lost to the small farmers, unless the capacity of small holdings to absorb new technology is raised—by enabling them to create an adequate farm-level infrastructure, again mainly through institutional credit. From this standpoint, the future of small farmers is closely linked to the basis for providing long-term credit needs.

IV

The present overemphasis on land in the credit policies of the land banks stems largely from the notion that, land is the most dependable security against defaults. Yet, apart from the problems of auctioning the defaulters' land, that land can hardly be considered an effective security against defaults as compared to the assured flow of incremental income from properly financed farm assets. This is more so in a changing agriculture, where due to the new technology land becomes a less predominant factor in growth, compared to capital.[15] Hence, in a rational credit policy, factors other than land should get due consideration. Thus, instead of taking decisions on loan applications with reference only to land offered for mortgage (and its assessment rate), the applications should be appraised as investment projects

TABLE 6 : DISTRIBUTION OF SAMPLE BORROWERS ACCORDING TO NUMBER OF BORROWINGS FROM THE LDB GUJARAT

Size of Holding Groups (Acres)	Percentage of Farmers Who Borrowed			
	Once	Twice	Thrice	Total
1	2	3	4	5
Upto 5	100.00	—	—	100.00
5 - 10	72.29	25.32	2.39	100.00
10 - 15	61.22	34.10	4.68	100.00
Above 15	54.40	39.72	5.88	100.00
Total	63.19	31.94	4.87	100.00

with technical and economic feasibilities playing a decisive role. In practical terms, it would mean introducing closer supervision (as recommended by the All India Rural Credit Review Committee Report),[16] so that proper assessment of the farmer's overall resource position and the likely impact of the LDB loan on his production potential and thereby on his repayment capacity becomes possible. The constraint on the borrowing by small farmers can also be reduced by introducing some degree of flexibility in the security margin and the repayment schedules determined by the Bank.

However, even after the credit policies have been thus rationalised, injecting permissible flexibility in the credit policy, a large number of small farmers would remain unaffected. In such situations, two innovations, tried by the LDB Gujarat, may prove partially helpful.

One of them is the provision of joint loans, where farmers can apply for a loan and acquire an asset, jointly. Repayment, however, remains an individual responsibility of the borrower. The scheme has worked successfully in some areas like Mehsana.[17] However, in the branches covered by the present study, no significant number of cases were found, except in assets like tractor, where mainly big farmers have taken advantage of the facility that was basically designed to help the small farmers. The most important factor preventing small farmers from taking advantage of this facility was the lack of physical contiguity of plots owned by them, because of which they could not go in for assets like wells or oil-engines—the only assets to which they aspired.[18]

Another innovation, very recently adopted by the Bank, is the system of marginal guarantee by government in the case of small farmers. Accordingly, recovery of that part of the loan which remains uncovered by the security offered by the farmer, is guaranteed by the state government. This system can be extended to other areas of the country as well, especially after the Small Farmers Development Agency starts its operations to help the small farmers in such areas.

However, the big question in these matters is to draw the line to demarcate the extent to which such guarantees could be offered. In view of the cost and risk involved and in the interests of a rational use of scarce resources, it would be essential to identify the potentially viable farmers for help through such guarantee scheme.

Finally, the small farmers, who are too small to sustain any capital investment and therefore cannot be helped by guarantee schemes, etc, have practically no future as farmers in a competitive agriculture—unless the custom service of agricultural equipment and machinery, through the Small Farmers Development Agency or other agencies become an effective reality within the means of such farmers.

Notes

1 See for instance,
   (i) Seminar on Problems of Small Farmers, Indian Society of Agricultural Economics, Bombay, Seminar Series—VII, 1968.
   (ii) Case Studies of Small Farmers in different parts of the country, summarised in the Report of the All India Rural Credit Review Committee, Reserve Bank of India, 1969, pp 548-562.

2 In the absence of data one is unable to comment on Nationalised Banks' performance *vis-a-vis* small farmers. However, in view of the existing low resources position and the extent of risk on small farms on the one hand and the Banks' insistence on 'deposits first', and system of guarantors on the other, it is not likely (unless some extremely welfare-oriented steps are taken), that small farmers will be able to depend on these banks on a sizeable scale for the satisfaction of their credit needs.

3 C H Hanumantha Rao, 'Farm Size and Credit Policy', *Economic and Political Weekly*, Review of Agriculture, December 26, 1970.

4 The LDB-Gujarat, successor in title to the Saurashtra Land Mortgage Bank is in the field since 1951. In a relatively short span of time, the Bank has achieved spectacular success. With its unitary structure, the Bank has branches in 181 out of 185 talukas of the state. It had covered nearly 79 per cent of the villages of Gujarat by 1967-68. The Bank advanced Rs 7,267.72 lakhs as long-term loans from its start to June 30, 1968. During 1967-68, the recovery was 91 per cent of the demand. Besides, development of minor irrigation (through wells and mechanical lifting devices) in the state is largely attributed to the LDB. However, the performance of the Bank regarding financing of the small farmers is not in tune with its successes in other directions. For details see, "Some Aspects of Long-Term Agricultural Finance—A Study of Two Areas in Gujarat", Agro-Economic Research Centre, Vallabh-Vidyanagar, Research Study Number 20, 1969 (*Mimeo*).

5 *Ibid.*

6 One may not agree with the idea of treating a 5-acre holder as small farmer in all talukas, irrespective of the inter-taluka variations in soil and water conditions. An attempt was made to analyse the available data by treating 5 acres as small farm in areas with relatively better soil-water conditions and 10 acres as small farm in areas with relatively poor soil-water conditions. The results thus obtained were also in line with the trends already presented in the paper, where holdings upto 5 acres have been treated as small farms in all the talukas. Moreover, assessment rates in the four talukas were not very different and hence, while appraising the land value (through assessment multiple method), the Bank has treated 5 acres in different talukas at par.

7 Data analysed for Gujarat state as a whole for 1967-68 and 1968-69, also depict a picture similar to that presented by Table 1. For details, see "Some Aspects of Long-Term Agricultural Finance", *op cit*, pp 134-136.

8 On the insistence of the RBI, the Bank does observe certain formalities (e g, collection of data to assess the repaying capacity of the borrower), but the manner in which this is done itself speaks for their ineffectiveness in determining the quantum of loan. For details, see "Some Aspects of Long-Term Agricultural Finance", *op cit*, pp 116-122.

9 It is understood that, a few months back, the LDB-Gujarat substituted the multiple assessment method by a new system, under which standard value of land for each taluka has been fixed by taking into account the actual productivity of the land. However, the present paper deals with the situation prior to this change.

10 The value of the 'multiplier' was 200 till 1964-65, and 350 upto 1965-66. At present it is 500. These

upward changes were made on the ground that market price of land has been increasing. However, the precise relationship between changes in the market value of the land and changes in the value of 'multiplier' is not known.

The LDB Gujarat also has three more methods for land valuation under which sales statistics of land, valuation by panchayat, and average assessment rate for the village as a whole, etc, are utilised for valuation of land. However, in practice the method described above is the only method generally used by the Bank for land valuation.

Of course, in some cases, where the proposed loan exceeds the eligibility limit, half of the cost of proposed investment is added subject to an overall ceiling equivalent to full value of the land. This in fact is a big step towards helping the small farmer. But, in spite of this concession, owing to low holdings most farmers fail to get sufficient funds.

13 See "Some Aspects of Long-Term Agricultural Finance", *op cit*, pp 162-174.

14 Partly, this phenomenon may be due to the danger of under-utilisation of modern assets on small holdings. But the widespread practice of custom service (including sale of water), underutilisation may not be a big factor for the above phenomenon. As noted earlier, it is their limited land-holding, which deprives them of the LDB finance for bigger investment needed for modern farm assets.

15 "Farm Size and Credit Policy", op *cit*.

16 *Op cit*, pp 580-581.

17 'Small Farmers in Mehsana District of Gujarat: A Case Study' (by RBI) incorporated in, "Organisational Framework for Implementation of Social Objectives"; (Report of a Study Group of the National Credit Council), RBI 1969.

18 One way to help the small farmers in such situation could be linking them with the neighbouring big farmers while granting the loan. It may be made obligatory for the neighbouring farmers possessing well (or oil-engine, etc), to supply water to the small farmer at reasonable rates. The justification for this lies in some lacuna in land rights prevailing in the country. Accordingly, the sole right for using the water from a well belongs to the owner of the plot where the well is located, notwithstanding the fact that utilisation affects the water table of the neighbouring fields, too.

Wages of Agricultural Labour

N Krishnaji

This paper seeks to use the data published by the Directorate of Economics and Statistics to study trends in agricultural wages since 1956. An attempt is also made to compare the current wage levels with those of 1951.

Since wages constitute the bulk of earnings for this class of the rural population, it is expected that the analysis of this paper will throw some light on trends in earings as well.

THERE were two comprehensive enquiries into the living conditions of agricultural labourers, one in 1951 and the other in 1956. The data collected in these two studies, although not strictly comparable, indicate that real wages in 1956 were below their 1951 levels almost all over the country. Apart from these surveys, the Government publishes on a regular basis wage data for a few villages in most districts of the country. The reason given for the collection and publication of these data is: "Agricultural wages constitute a major item in the cost of production of crops and it is essential to have an idea of agricultural costs"[1]

It is our purpose here to use this information[2] (data published by the Directorate of Economics and Statistics — DES for short) to study the trends in agricultural wages since 1956; we shall also attempt to compare the current wage levels with those of 1951. Since wages constitute the bulk of earnings for this class, we expect that such an analysis will throw some light on trends in earnings as well.

Methodology

Throughout this paper we shall be concerned with the wage rate for adult male labourers. For most of the states for which data are published, wages of field labour — presumably an average for all agricultural operations (ploughing, harvesting etc) — are available. For a few states, wages for the different kinds of operations are also given; in this case, we have taken the average over all agricultural operations. Thus we have developed data for the category of field labour uniformly for all the states. These data relate to the total cash equivalent of all payments made to labourers.

We may note at the outset that no information is available on how the villages are chosen within each district, except that villages are "so selected as to represent the wages and general agricultural conditions of the district".[3] Since there is considerable inter-village variation within the same district, it is difficult to assess the degree of accuracy in the resulting 'district averages'. Our final results are, therefore, subject to this important limitation.

A casual study of the wage data reveals that most villages do not exhibit any seasonal variation at all. This conflicts with the facts of real life and suggests that the data are of dubious value. We begin, therefore, by studying the pattern of variation over time (i e, months) and space, particularly to test the hypothesis that the published data do not reflect any seasonal variation. For this purpose we have selected the following four samples.

(A) 1956-57 — 16 districts in five states.[4]

(B) 1960-61 — All (20) the districts of Andhra Pradesh. In both (A) and (B) we have used averages of villages in each district as our basic data.

(C) 1960-61 — 20 villages from five states (two districts from each state and two villages from each district).

(D) 1964-65 — 12 villages from three states (two districts from each state and two villages from each district).

In respect of two samples, (C) and (D), the village wage rate was the basic variable while in (A) and (B) the basic variable was the district average. Analyses of variance of these samples is given in the Appendix, Tables (A), (B), (C) and (D), respectively. The analysis shows that most of the observed variation is accounted for by spatial variation; variation among months is insignificant in all but the 1956-57 sample. But in the 1956-57 sample, we have taken the district averages as the basic variable for the analysis of variance. On re-examination of the original data, we find that the number of villages available for estimating the district average is not the same over all months; moreover, in a few instances, even the villages (of a district) for which data are given

Table 1: Estimated Wage Rate of Male Agricultural Labourers

State	Wage Rate (Paise per day)			Consumer Price Index of Agricultural Labour			Index Number of Real Wages 1956-57=100	
				1950-51=100		1960-61=100		
	1956-57	1960-61	1964-65	1956-57	1960-61	1964-65	60-61	64-65
East Zone								
Assam	236	230	225	117	107	131	107	81
West Bengal	164	163	206	108	110	137	97	83
Bihar	115	122	178	90	89	149	107	104
Orissa	100	125	189	101	109	143	114	120
South Zone								
Kerala	148	169	246	104	114	133	104	114
Mysore	125	160	220	103	116	146	114	108
Andhra Pradesh	113	127	179	110	116	125	107	120
Madras	108	125	199	—	—	—	—	–
Central and West Zones								
Maharashtra	141	138	186	—	—	151	—	89*
Gujarat	130	166	203	—	—	134	—	91*
Madhya Pradesh	101	127	146	106	106	139	126	105
North Zone								
Punjab	294	273	354	101	103	139	90	84
Himachal Pradesh	269	258	302	101	103	139	94	79
Uttar Pradesh	98	157	174	—	—	160**	—	69*

Note: Price Indices are computed from *Indian Labour Statistics*. The 1956-57 figures are averages of first 6 months of 1957, 1960-61 figures are averages of 12 months (July-June), 64-65 figures are averages of 10 months, September-December, 1964, and January-June, 1965.

* 1960-61=100

** Based on the first 6 months of 1965.

Table 2: Estimated Change in Real Wages, 1950-64

State	Wages—Paise Per Day		Real Wages, 1950-51=100	
	1950-51	1956-57	1956-57	1964-65
Andhra Pradesh	97	95	89	107
Assam	190	169	76	62
Bihar	126	100	88	91
Bombay	101	95	—	—
Kerala	126	141	107	122
Madhya Pradesh	79	84	100	105
Madras	97	92	—	—
Mysore	90	92	99	107
Orissa	72	88	120	144
Punjab	184	218	117	98
UP	118	101	—	—
West Bengal	166	157	87	72

Note: 1950-51 wages were taken from "Agricultural Labour in India, Report on the Second Enquiry", p 110; 1956-57 wages were the result of adding 10 per cent to the 56-57 figures from the same source. Real wages were worked out using the price data given in Table 1.

are not the same in all months. Thus, what passes off as seasonal variation here includes a spatial component which cannot be separated. Also, the mean square among months (462) is very low compared to the mean square among districts (49405). All this goes to establish the fact that, if we ignore seasonal variation (i e, base our analysis on data for just one month), we shall not be losing much information (i e, our results will not be very different from those based on the data for all the 12 months).

A comparison of the 1956-57 DES data with the data from the Second Agricultural Labour Enquiry (1956) shows that the former are higher. While the two sets are not comparable it seems reasonable to conclude that the DES data conform to peak-season wages. We have accordingly chosen one peak season month for each state for estimating state averages: December for Andhra Pradesh, Assam, Bihar, Maharashtra, Gujarat, Mysore, Orissa, UP and West Bengal; April for Punjab and Himachal Pradesh; October for Kerala; November for Madhya Pradesh; and January for Tamil Nadu. We may add that, even if seasonal variation is present in the DES data (this can only happen if the samples we analysed were not representative — which is a very remote possibility), it will still be valid to compare wages prevailing in the peak season month in one year with those in the same month in another year to estimate annual changes.

For each district, we have computed the average of all the villages (each year) for which data are available. Since considerable inter-village variation (within districts) is present, this introduces a bias in the comparison of one year's average with another's if the villages are not the same. To estimate change over the years, therefore, it is essential to retain the same villages; but this will cut down the number of villages available for estimating the district average. We followed both procedures whenever sufficient data were available and found that the results are not very different except in one case. Details are given in the Appendix Table (E). Finally, we used the 1960-61 census figures of the number Male Agricultural Labourers in each district as a weight to compute the weighted state average wage rate for 1956-57, 1960-61, and 1964-65 (Table 1).

Trends in Real Wages

Table 1 also gives the Labour Bureau's Index Number of Consumer Prices for

Agricultural labourers. In the last two columns we give an index of real wages with 1956-57 = 100.

We can see that, in six out of the 14 states, *viz*, Assam, West Bengal, Maharashtra, Punjab, Himachal Pradesh and UP real wages in 1964-65 were appreciably lower than their 1956-57 levels. In Bihar, Mysore, Gujarat, and Madhya Pradesh they have remained more or less at the same level. It is only in Kerala, Orissa, and Andhra Pradesh, that we can say that real wages have risen during 1956-64.

We shall now attempt to compare the 1964-65 wage levels with those in 1951. Now, the wage data collected in the first (*1951*) and second (*1956*) *Agricultural Labour Enquiries* are not comparable because, in the first, kind payments were converted into cash equivalents at retail prices, while in the second, this was done at wholesale prices.[5] Available price data[6] relate to those prevailing in towns; but if we assume that similar relations hold in rural areas it appears reasonable to assume that retail prices were higher than wholesale prices by 10-20 per cent in different areas. To this we must add the fact that only about 50 per cent of the wage payment was in kind (in 1956, according to the Second ALE). It then follows that, if we inflate 1956 wage rates by about 10 per cent they would then be comparable with the 1951 figures. In Table 2, we give these estimates along with an index of real wages in 1964-65 with 1950-51 = 100. This last column gives us a magnitude of change in relative wages over the period that roughly corresponds with the first three plans. We can see that only in Kerala and Orissa real wages have increased during 1950-64 to a significant extent; on the other hand, they have fallen appreciably in Assam and West Bengal and possibly in the Bombay region as well; in all the other states, real wages have remained more or less at their 1950-51 levels.

To conclude this section, we must now ask whether these falling trends have been reversed after 1964-65. For 1968-69, data on the wage rate is published for a few villages in the recent issues of *Agricultural Situation in India*. By comparing these with the wages for the same villages in 1964-65, we find that wages have risen between 25-50 per cent in different areas. Price increases in the same period were 33 per cent, which shows that living conditions of agricultural labourers probably continue to be the same today as ever before.

We hear the argument that the Green

APPENDIX

Analysis of Variance

Sample (A):

1956-57, Assam — North Lakhimpur, Mangaldai, Barpeta and Karimganj.
Bombay — Ahmednagar and Kolhapur.
Madhya Pradesh — Sagar, Betul, Nimar, Chindwara and Raipur.
Mysore — *Chitaldurg, Kolar and Hassan.*
West Bengal — Midnapore and Hooghly.

TABLE (A)

Source of Variation	Degree of Freedom	Sum of Squares	Mean Square
Between states	4	646038	161509.50
Within states	11	95045	8640.45
Between districts	15	741083	49405.53
Between months	11	5079	461.73
Residual	165	36724	222.55
Total	191	782886	

Sample (B): 1960-61 — The 20 districts of Andhra Pradesh for which data were available.

TABLE (B)

Source of Variation	Degree of Freedom	Sum of Squares	Mean Square
Between months	11	4184	380
Between districts	19	170408	8969
Residual	209	54112	259
Total	239	228704	

Sample (C):

1960-61, (1) Andhra Pradesh — Hyderabad (Arutla and Vennachadu); Karim Nagar (Kodurpak and Cheppial).
(2) Gujarat — Bhavnagar (Kundla and Umrala); Amreli (Khambha and Lathi),
(3) Madhya Pradesh — Mandla (Shahpur and Bichhia); Betul (Samundra and Ranipur).
(4) Orissa — Cuttack (Mahanga and Jagatsinghpur); Keonjhar (Champna and Anandpur).
(5) Himachal Pradesh — Chamba (Sarol and Chowari); Mandi (Surajpur Bari and Kumi Behna)

In the following, a cell stands for the configuration of four villages of a state in a given month.

TABLE (C)

Source	df	ss	ms
Between months	11	5136	466.9
Between districts	9	1417070	157452.2
Dists X months	99	24456	247.0
Between cells	119	1446662	12156.2
Within cells (res)	120	187845	1565.3
Total	239	1634507	

Sample (D):

1964-65, (1) Mysore — Chitradrug (Doddamagadi and Moradihally); Kolar (Mudurvadi and Doddasivara)
(2) Madhya Pradesh — Sagar (Sanodha and Basahari); Chindwara (Beradi and Chandangaon).
(3) Maharashtra — Ahmednagar (Rashin and Deolali); Kolhapur (Gargoti and Kadoli)

A cell here has the same meaning as in sample (C).

(Continued on next page)

TABLE (D)

Source	df	ss	ms
Between months	11	40085	3644.0
Between districts	5	358052	71610.4
Dists X months	55	32091	583.4
Between cells	71	430228	6059.5
Within cells (res)	72	199145	2765.9
Total	143	629373	

TABLE (E) Estimated Change in Wages by Two Methods (Per Cent)

State and Period		Method I	Method II
Andhra Pradesh	(1960-64)	42	40
Assam	(1956-60)	—2.6	—5.3
Bihar	(1956-60)	4.3	5.2
Maharashtra	(1956-60)	—17.6	—4.2
,,	(1960-64)	31.4	31.1
Gujarat	(1956-60)	27.5	24.8
,,	(1960-64)	49.1	52.6

Note: Method 1 refers to district averages based on whatever village data were available in each year. In Method 2 we retained the same villages at both points of time and is thus more reliable. The agreement is close except in the case of Maharashtra for the period 1956-60. Our final estimates for Maharashtra for 1956-57 are based on Method 2 together with the 1960-61 average wage rate.

Revolution will lift agricultural labourers above the poverty line through increased pace of agricultural activity, greater demand for labour, and higher wages. It is patently false because, in those small pockets where the Green Revolution has penetrated to a significant extent (like Punjab) wages are kept low through the import of labour from neighbouring states. Also, the Revolution is unlikely to spread wide enough to increase employment to a significant extent.

INTER-STATE DISPARITIES

Table 1 also gives us an idea of the trends in inter-state disparities in the wage rate. These disparities appear to be shrinking; the co-efficient of variation (a weighted index, with the number of male agricultural labourers as weights) has declined from 28.6 per cent in 1956-57 to 22.5 per cent in 1960-61 and to 19 per cent in 1964-65. This is, in a large measure, due to the fact that money wages increased at a faster rate in those regions where they were relatively low; in real terms, there were sharp falls in wages in Assam, Punjab, Himachal Pradesh and West Bengal, where the wages are relatively high. If this process of inter-regional convergence continues, the wage rate will settle at a uniformly low rate all over the country.

We do not attempt to 'explain' the inter-state disparties here; however, a few comments are in order. The states of Punjab, Himachal Pradesh, and Assam where the wages can be regarded to be relatively high, contribute barely 2.5 per cent to the total agricultural labour population. In other states, like West Bengal, Maharashtra, Gujarat, and Kerala where the wages are high compared to other states in the same regions, prices are also relatively high. If we take these two factors into account while reading Table 1, there is very little inter-state variation left to 'explain'. The conclusion is inescapable that, stagnant agricultural wages characterise the whole country.

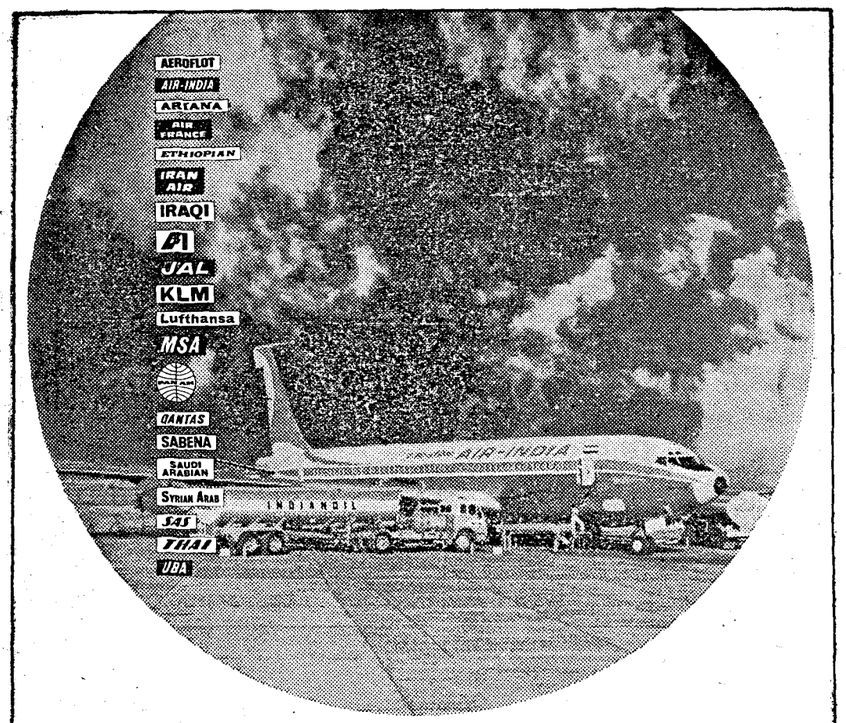
Notes

1 Agricultural Wages in India, 1964-65, Directorate of Economics and Statistics, p 554.
2 Agricultural Wages in India, an annual publication.
3 Agricultural Wages in India, 1964-65, p 555.
4 Details are given in Appendix.
5 "Agricultural Labour in India, Report on the Second Enquiry", Volume 1, All India, pp 110-111.
6 Agricultural Prices in India, 1956, Economic and Statistical Adviser, Ministry of Food and Agriculture.
7 *Indian Labour Statistics*, 1970. (The Consumer Price Index rose from 139 in 1964-65 to 185 in 1968-69.)

Standard Mills

STANDARD Mills has obtained industrial licence for expansion of its chemical plant to the extent of 17,330 tonnes of caustic soda, 15,012 tonnes of chlorine, and 5,000 tonnes of hydrochloric acid and also a licence to import plant, machinery and mercury of the value of Rs 1.11 crores. This expansion does not fall under the provisions of the MRTP Act, because the project was initiated before the commencement of the Act. The company has also been issued a 'letter of intent' for the manufacture of carbon tetrachloride and chloroform. Government has intimated its willingness to issue an industrial licence as well as import licence, provided the company obtains foreign exchange loan, equivalent to a little over Rs 7 lakhs. Total cost of this project is estimated to be Rs 50 lakhs. These projects and the modernisation and renovation programme in the textiles division would together involve a capital outlay of over Rs 7 crores. Out of this, Rs 1.11 crores is to be provided by ICICI by way of foreign exchange loan on a deferred-payment basis to meet the cost of plant, machinery and mercury. A sum of Rs 2 crores would be raised by issue of 40,000 convertible bonds of Rs 500 each, and the balance amount would be found from funds generated through internal accruals like depreciation, development rebate and retained profits.

The convertible bonds will carry interest at 8 per cent per annum, subject to tax, payable half-yearly. The bonds will be repayable on expiry of 12 years from the date of issue, with liberty to the company to redeem them at par at any time after 10 years by giving 6 months' notice. These bonds will be convertible into equity shares on the holders applying for such conversion within the period July 1 to December 15, 1976. In exchange of each bond, the company will allot one equity share of Rs 100, fully paid up at a premium of Rs 275 and pay Rs 125 in cash. If, however, the company at any time before the end of 1976 were to issue bonus equity shares in the proportion 1:4, the basis of conversion would be that, for each bond, the company would allot one equity share fully paid up at a premium of Rs 200 and pay Rs 200 in cash. The holders of the bond will be entitled to interest thereon till the date of conversion, *viz*, upto December 31, 1976. The equity shares to be so allotted in conversion of the bonds will rank for dividend *pro rata* from the date of allotment. Application to the Controller of Capital Issues for his consent to the issue of bonds will be made in due course.



KEEPING A NATION ON THE MOVE

As many as 20 airlines of international repute avail of INDIANOIL's expert refuelling service. In the growth of India's transport and communications, INDIANOIL has been playing a distinct role. But that is not to belittle its contribution to the nation's agriculture and industry.

In a short span of a decade, INDIANOIL has emerged as the biggest oil refining and marketing organisation in India—meeting more than half of the nation's total requirements of petroleum products.

With a chain of refineries processing indigenous crude, a vast pipeline transportation system, and a countrywide storage and distribution network, INDIANOIL has ensured an uninterrupted flow of oil for India's defence and development.

As part of the nation's planned development INDIANOIL ceaselessly strives to take the country towards self-reliance and self-sufficiency in petroleum.

INDIANOIL

a national trust for economic prosperity

INDIAN OIL CORPORATION LIMITED

B. Dattaram -IOC-7B

ECONOMIC AND POLITICAL WEEKLY

Founder-Editor : **Sachin Chaudhuri**

Vol VI No 39 September 25, 1971

For Whose Benefit?—Mum Is the Word — Failing to Calculate?—The 'Revolution' in Perspective 2030
Business 2032
Letters to Editor 2036
Capital View 2037
Companies 2038

From Our Correspondents
New Delhi: Fumbling with the Economy 2041
Planning for the Few 2042
Wide Canvas 2043
Gujarat: Socialist Forum Cut to Size 2044
West Bengal: A Pre-Puja Rite... 2045
Lucknow: Deluge by Default 2345
Singapore: Friendship without Commitment —Harish Chandola 2046
The Indo-Soviet Treaty —Mohit Sen 2047
The Fourth Estate 2049

Reviews
Middlemen's Margin —L S Venkataramanan 2050
Not for Debate —Yogesh Atal 2051

Special Articles
'Freeing' the 'Free' Press —*Pran Chopra* 2053
Unemployment and Brain Drain —Kamalesh Ray 2059
The Dollar Crisis: Possible Solutions and Their Implications for India —Samuel Paul Charan D Wadhva 2063

ECONOMIC AND POLITICAL WEEKLY
Skylark 284 Frere Road Bombay 1
Phone 26 60 72
Editor
KRISHNA RAJ
Assistant Editors
Rajani X Desai, Jawid Laiq
Business Manager: A Fernandes
Circulation Manager: Shiv Patil
Editorial Staff
Colin de Souza, Haresh M Advani
Shireen Heerjee, Ashok Rao

Emerging Consensus?

THE tenor and tone of Indira Gandhi's and other Central leaders' speeches does not in the least suggest that we are bracing ourselves for any kind of confrontation with Pakistan by embarking on a 'forward' policy in Bangla Desh. The Government seems to be much more occupied with other questions like Telengana, liberalisation of industrial licensing and most important, the politicking for the state assembly elections early next year. The build-up for the elections and the Bangla Desh plus refugee issue could be related but the Government and the Congress party are not attempting to establish any connection; it even seems possible that they are deliberately playing down the Bangla Desh question. But this does not mean that Bangla Desh can just be wished away.

In this context, the flights of statesmen between Delhi and Moscow assume significance. The Soviet top-level diplomat, S K Tsrapkin, flew into Delhi last Wednesday. D P Dhar flew to Moscow a short while back. Indira Gandhi will be flying there next Monday. Swaran Singh has flown to New York for the UN General Assembly session and seems to have been meeting Gromyko quite frequently. What is going on, especially over Bangla Desh? Are there any indications that a political solution is going to be imposed on the people of Bangla Desh or are we planning to be more forceful in their cause?

Indira Gandhi's letter to Chou En-lai may be an important pointer, as its timing and content could be based on a number of calculations. It could be thought of as a move to isolate Pakistan so that India would be relatively less inhibited in giving all-out aid to the Mukti Bahini. Or perhaps, South Block might have in mind the hope that closer relations with China, as well as the West and the Soviet Union (Indira Gandhi's projected flights to Moscow and the capitals of the West may be part of the strategy), could be used to arrange a political solution in Bangla Desh which would stop short of independence, so as to overcome at least some of Pakistan's susceptibilities, but provide enough autonomy and guarantees by the big powers, to satisfy a large number of Awami Leaguers.

The Chinese, it appears from a number of negative signs, might very well be reconsidering their thoughts on Bangla Desh and Pakistan. Radio Peking has not repeated its warnings about likely "Indian aggression" against Pakistan for some months now. Nor has there been any reply to Indira Gandhi's letter, though this might be due to whatever 'mystery' that might be unravelling itself in Peking these days, if Western and Japanese Press speculation is to be believed. The Chinese have also been noticeably quiet about the Indo-Soviet Treaty.

The goings to and fro between Delhi and Moscow may only mean that the Russians are worried about Indian intentions towards Peking. But the recent lack of any choice invective against Chinese policies is a likely indication of a Russian mood of conciliation towards China. *Izvestia* has, of course, again lashed out against Chinese external policies, but the finer print suggests that the Soviet Union is trying to establish some sort of *modus vivendi* with China. The Soviet news media have been repeating that China is weakening the anti-imperialist front and thus playing into the hands of the imperialists, but the implication is clear; the Chinese are still not considered to be quite in the camp of Russia's main adversaries, the (Western) imperialists. It follows that the Russians are probably groping towards an easing of tension on their Asian perimeter—with China and in the Indo-Pak subcontinent. In fact, the Pakistani Foreign Secretary, Sultan Khan, came back from a visit to Moscow brimming with joy which might well turn out to be justified. The Indo-Soviet Treaty does not prevent the Russians from strengthening their ties with Pakistan and trying another Tashkent trick.

On the Pakistani side, the long drawn-out struggle in the East, possible schisms within the ruling military *junta*, and Bhutto's renewed threats about mass direct action against the military regime, might have persuaded Yahya Khan to think again after his uncompromising barrackroom outburst in his interview with *Le Figaro's* correspondent. A calmer assessment of the East Bengal situation, especially when faced with the possibility of the Chinese cooling off towards Pakistan, may be taking place. The appointment of a civilian Governor in the East, figurehead though he is, might also be a sign of rethinking.

With the Americans and the Russians both obviously keen to bring about a political solution in East Bengal within the framework of an undivided Pakistan and the indirect, though significant gestures of India, Pakistan and China, showing that they are not altogether averse to working towards such a solution, a convergence of policies regarding East Bengal seems to be taking place. Gov-

ernments can be enormously flexible when faced with situations which threaten to get out of their control. And all the governments, whether American, Russian, Chinese, Indian or Pakistani, do not want the type of situation where an independent and politically conscious national liberation movement could grow up uncontrolled and, more important, uncontrollable, by them.

Food Surpluses

For Whose Benefit?

ONE more expert committee—appointed by the Planning Commission just over a year ago—has reported on storage requirements. It has estimated a capacity requirement for foodgrains storage of 9.12 million tonnes by 1973-74, implying the need to create 3.08 million tonnes of additional capacity; it has recommended that the central storage committee of the Union Department of Food should collect information on the foodgrains needs of the various districts, regions, and states, with regard to local conditions; and it has advised that the Reserve Bank, the land mortgage banks, and the Agricultural Refinance Corporation be geared to finance building up of storage capacity mainly *via* the co-operatives. While the Committee's recommendations are unexceptionable, they miss the nub of the food surpluses problem, which is that foodgrains surpluses as such are a regional problem confined to 'surplus' states whereas in the national perspective they must appear as problems of regional distribution and of equity. Overall, we have yet to reach the level of adequacy. Though the 'promised' ban on 'concessional' food imports is to be implemented, words have now been redefined: 'concessional' imports under soft loans are to be banned, but foodgrains imports financed out of grants are to be continued. Foodgrains for Bangla Desh refugees have come in under grants, which explains at least partly the Centre's confidence about its capability to meet foodgrains demand of the refugees as well as of the deficit regions.

Solutions to the two problems—of regional surpluses and of regional and class equity in foodgrains consumption—will have to be interlinked. The emphasis on 'fair procurement prices' to surplus farmers and the complaints against the Food Corporation of India at the Food Ministers' Conference last August reflected more the pressures on the Centre than the relative importance of the issues for the country as a whole. It may even be that, as usual, procurement prices will be pitched at levels that suit the margins of the surplus farmers, that the FCI may be expected to procure quantities that support the price, and that the related storage and movement problems approach in a way that meets these particular aims. In the process, however, the basic aims of food policy—to underpin growth with adequate foodgrains supplies, and to make food available to the poorer sections who cannot today express their need through effective monetary demand—may be lost.

While it would suit surplus farmers to have their stocks bought up at high government-fixed prices the procuring agency can, given its finances, procure that much less, the issue prices would be similarly higher, and alternatively the centre might have to make additional finances available to procurement or subsidise issue prices. Foodgrains prices, in fact, have failed to reflect fully the rise in foodgrains production. Progressive dismantling of the distribution network (which has also been under way) might on the other hand help the market oriented farmers to reach deficit areas independently. But it will also cut the ground from under an effort at price stability to sustain growth, not to speak of failing to reach the benefits of the Green Revolution to the poor. This year's floods may not have stalled the progressive rise in overall production to over 107 million tonnes, but even that production is still primarily dependent on the monsoon, failing which estimates are that an approximately nine-million-tonne buffer stock will be required excluding two-three million tonnes for operational stocks.

The point is that while the surpluses of the surplus areas need to be procured they need to be procured, stored, and distributed, not on the terms of the large surplus farmers of these regions but to meet the requirements of economic development. For this, a strong central agency is necessary with a wide and deep procurement and distribution network. This agency could be the FCI which with the help of the co-operatives and its own staff could directly reach even the small farmers in the surplus areas. But FCI's strength has been often sapped by the Centre's stop-and-go policy on distribution and zones, while its effectiveness has been limited by deficit as well as surplus states allowing it entry only when it suited them. Its past operations equip it to be the agency for assessing local needs and availabilities for planning and executing local as well as national storage programmes (on which now, thanks to the panic of affluent farmers, Rs 22 crores are to be annually spent, implying an increase over earlier Plan allocation). But FCI's energies are spent on *ad hoc* solutions to avoidable emergencies in highly surplus regions. Are the arithmetical exercises of the central storage committee of relevance then in the general confounding of policy directions?

ABC

Mum Is the Word

A Correspondent writes:

WHY did the Press not report the proceedings of the Audit Bureau of Circulation's annual general meeting? Whatever happened to those papers that are crying from the house-tops about losing their freedom?

For the second time in the 23-year old history of the Bureau, it almost looked as though the practices of the Bureau would burst out into the open. Fortunately for the ABC and rather unfortunately for the country, the professional peace-makers in the newspaper world were able to quieten the rebels. In effect they were successful in suppressing all dissenting voices.

Even before the Bureau's registered office in Ballard Estate, Bombay, could spew out its circulars announcing the date and venue of the meeting, some persons were busy collecting proxies. The war was certainly not between radicals and conservatives. Nor was it between liberals and rightists. It was being fought for the protection that is virtually gurarenteed if a publication is represented directly or otherwise on the council of management of the ABC.

No wonder then, the chief executives of leading newspapers were fighting it out to find a place in the council. For the four newspaper representatives' seats that were due to be filled by election, there were six contestants. One withdrew on the pretext that he was making room for younger blood in the council. The 'young blood' from Bangalore was in turn pressurised to withdraw in favour of 'new blood' from Calcutta. The pressure applied on the Bangalorean was unnecessary, as this publisher-editor knew quite well that the Calcutta man had all the proxies.

The point at issue is not the election itself. Such infighting is only to be expected in any such organisation. But being a member of the ABC's council of management guarantees tangible benefits. The circulation figures 'certified' by the Bureau are not always above question. The Bureau claims to make 'surprise' checks 'independently'. But those represented in the council know when these raids will be conducted. They can then make appropriate arrangements to welcome the raiders.

What do newspapers and other periodicals gain by inflating their circulation figures? First, the figures are used to sell space to advertisers. More important, they are also used by newspapers and magazines to raise advertising rates. Most important of all, the inflated circulation helps in converting black money into white. As a newspapers claims and gets its newsprint allocation on the basis of its circulation, a higher 'certified' circulation earns the newspaper a larger quota of newsprint. The income from selling surplus newsprint in the 'open' market can then be shown as the legitimate income from the (non-existent) high circulation.

It is about time those who shout the loudest about the freedom of expression acted with some restraint in exercising some of their other more dubious prerogatives.

Foreign Capital

Failing to Calculate?

A Correspondent writes:

WHILE rethinking on foreign investment and collaboration is reportedly going on in different Government departments in New Delhi, the absence of a central policy-making body, to which *all* matters relating to foreign investment and collaboration have to be directed, creates considerable confusion for would-be foreign investors. The Foreign Investment Board (FIB), established in 1968, is modelled on the Foreign Investment Council (FIC) of Japan; but the FIB has borrowed only the form, not the substance, of the FIC. Consequently, major policy decisions on foreign investment and collaboration are taken without reference to the FIB. This is partly because FIB's members (including its chairman) are mostly secretaries of ministries who do not have the necessary political sanctions to decide on major policy issues. Policy statements are issued by the various ministries, and these often reflect poor co-ordination.

The Foreign Trade Ministry, for example, takes policy decisions on Indian joint ventures in foreign countries. Also, it was at its instance that Parliament approved the policy of granting permission to foreign controlled companies and foreign subsidiaries to expand should 60 per cent of the incremental output be exported. But it is for the Ministry of Industry to decide on royalty rates and on the extent of foreign participation for different items of manufacture. Such overlapping of areas of decision-making creates confusion. Unless the present diffusion in policy-making on matters of foreign collaboration and investment is ended, unpleasantness to the intending foreign investors is inevitable.

Judging from the manner in which an Italian firm's proposal for shifting its scooter manufacturing plant to India was handled, Government seems still unclear about its own policy objectives. Lambretta, the world-famous scooter manufacturing firm, wanted to shift its entire plant from Italy to escape the higher labour costs in Italy. It was granted permission to establish its plant in India. Government apparently did not insist on the entire output being exported, but instead insisted on minority equity participation for the foreign firm. Lambretta at first grudgingly agreed to 40 per cent equity participation, leaving 40 per cent of the equity to the Indian Government and the remaining 20 per cent to the Indian public. Now, reports have it that, the firm has opted for Kuala Lumpur, Malaysia, even though Malaysia does not have as much supply of skilled and relatively cheap labour as India might have offered.

The issue involved in this case should not be overlooked. The Italian firm's offer was very attractive since it was willing to undertake export of the entire production from its plant. In the circumstances, was majority foreign participation too heavy a cost? Government's policy to refuse permission for formation of new foreign subsidiaries is based on the rationale that they would offer unequal competition to similar Indian enterprises, would involve higher dividend remittances, and would through their production policies create destabilising conditions in the national market. But if a foreign subsidiary undertakes to export its entire production these unfavourable repercussions are automatically avoided. Since the entire output would be exported, there can be no inequality in competition for Indian enterprises; and the foreign firms' production policies can hold no destabilising potential for the national market. As for dividend remittances, since the firm would earn foreign exchange from its exports, dividend liabilities would only be a portion of its own export earnings.

On the other hand, there are some obvious benefits accruing to the country from such proposals, despite majority foreign participation. There is in the country today abundant supply of skilled labour, either unemployed or not gainfully employed. Steps need to be taken to increase employment opportunities to the growing supply of technical and non-technical personnel. Part of the answer may be to allow access to export-oriented foreign firms. Offers similar to that of the Italian firm have been received from West Germany, Japan, and the United Kingdom, for manufacturing items such as calculating machines, jack and shock absorbers, electrical equipment, shaping machines, and machine-tools. While first reactions have been of suspicion, it is well to judge the motives of these firms only after looking to the growing labour shortage and the increasing labour costs in Europe and Japan that make these labour-intensive industries less profitable in these countries. If, after careful cost-benefit calculation, the units are permitted to operate in India, they could yet start a chain reaction of considerable employment opportunities while at the same time contributing significantly to our foreign exchange earnings.

Indeed, it seems to be increasingly recognised in several developed countries, that Indian labour costs are low and that Indian labour's productivity in relation to these wage costs is many times higher. It is also acknowledged that the present supply of skilled labour is high and that India has the necessary institutional set-up to keep up that supply. If India does not take advantage of these offers the firms will go to other developing countries even though these may not offer them as attractive an environment. Confusion at the policy level will foreclose the issue for this country.

Agricultural Prices Commission

The 'Revolution' in Perspective

A MAJOR contribution of the Agricultural Prices Commission's Report on the price policy for kharif cereals of the 1971-72 season has been to put in proper perspective the 'breakthrough' in foodgrains production and the 'massive problems of plenty' which received such resounding publicity at the recent conference of State Chief Ministers convened by the Union Ministry for Food and Agriculture. The report should help to subdue what, in the Commission's own words, is "an exaggerated impression of the success of the New Strategy" in agriculture.

The report underscores that "it would be helpful to recall that the foodgrains output for each of the years, 1967-68 to 1969-70, has been far below the corresponding values extrapolated for the years, on the basis of the trend line for the preceding period, 1949-50 to 1964-65.... There seems little basis here for the inference that the foodgrains output of the country in recent years has moved away to higher growth path". Even the exceptionally good showing in 1970-71, with its increase of 8 million tonnes over the previous year, is, according to the Commission, largely attributable to the "bounty of nature". The more enduring component of the increase due to developmental programmes suggests no marked departure from the historical growth rate realised earlier. Says the report: "With the exception of wheat and possibly maize, then, it is at best a story of something like the maintenance of historical growth rate". As for 'the exceptions', the Commission questions whether the dynamism that has been achieved in wheat production will itself endure at the pitch of the last few years.

Consequently, the immediate problems in the wake of the bumper harvest of 1970-71 — which had been described as 'massive problems of plenty' at the Union Food and Agriculture Ministry's recent conference — appear not as consequences of organisational bottlenecks arising out of the foodgrains output attaining "embarrassingly high levels", but as indicative of certain imbalances within the foodgrains production plan. Thanks to the sizable increase in wheat output, an additional 2 million tonnes of cereal did flow into the procurement net within a short period, creating problems of purchase operations, movements, and storage.

The Commission, therefore, stresses that the present euphoria in government circles and to some extent also in the Planning Commission should not be allowed to weaken the procurement effort (particularly in rice) or to curtail the public distribution system — though this has in fact been happening. The Commission holds that the likely demand on the public distribution system for rice will increase in the coming year and that, since market prices of foodgrains are again under upward presssure, the public distribution network actually calls for further strengthening.

BUSINESS

Internal Constraints

OF the Rs 117-crore increase in India's exports during 1970-71, the increase in iron ore exports contributed as much as Rs 20 crores. Nearly 21 million tonnes of iron ore were exported in that year, which earned Rs 115 crores in foreign exchange. An export target of 24 million tonnes of iron ore was set for 1971-72, of which 15 million tonnes were to be the responsibility of MMTC, and the remaining 9 million were to be exported by the private sector mainly from Goa. With nearly half of this year over, there are serious doubts about whether the export target of 24 million tonnes can be reached. What is significant is that it is not unfavourable demand conditions in the international market that are hindering exports but rather the supply bottlenecks at the mining and the transport stages. A major part of India's iron ore exports go to Japan, and almost all the exports by MMTC directed to Japan are on the basis of short-term and long-term contracts already agreed upon. Naturally, the MMTC export target of 15 million tonnes for 1971-72 was based on the understanding that it would be able to maintain its delivery schedule.

It is now anticipated that exports might be, in fact, 2 million tonnes short of the target in the current year and as much as 6 million tonnes short in 1973-74 for which year the target had been set at 31 million tonnes. This will mean a foreign exchange loss of over Rs 10 crores in 1971-72 and of Rs 30 crores in 1973-74.

Evidently, it is the growing inadequacy of port facilities at Madras, Vizagapatnam, Paradeep, Haldia and Marmugoa that is contributing to the lower level of performance. The harbour works have fallen behind schedules for several reasons, important among them being the shortage of equipment, steel, and other materials, and the delays in decisions and in clearances of schemes. Moreover, the National Mineral Development Corporation, which is in charge of supplies from Bailadilla, is facing mechanical difficulties and will thus be unable to give MMTC all the supplies it had contracted for. Another difficulty is the non-availabillty of wagons in the Barajamda area of the eastern sector from where ores have to be lifted.

MMTC needs to be fully aware of the implications of its failure to observe supply schedules, especially to Japan. Many of the Japanese steel mills are located along the coast and their spatial capacity to stock iron ore is very limited. The production programmes of these steel mills is therefore closely linked to regular and assured imports of iron ore from various parts of the world. Any discontinuity in the supply schedule by major suppliers, such as India, creates difficulties to these steel mills. It is partly because of India's unfavourable reputation that the Japanese have diversified their supply sources and sought new sources of ore in Latin America. In 1959, Japan's iron ore imports from Brazil, Chile, and Peru, were 0.3 million tonnes; by 1969 they had risen to over 20 million tonnes. In 1959, India's share in the Japanese market for iron ores was 32 per cent; by 1969, it had slumped to 15 per cent. Australia, which started with a minor export of 65,000 tonnes of iron ore in 1964, emerged by 1969 as the most important single source of iron ores for Japan. In 1969-70, Australia's iron-ore export earnings were $ 291 million, and by 1974-75 they will be between $ 600-775 million. World trade in iron ores has expanded rapidly during the past decade, yet despite its rich iron ore reserves India failed to gain fully from it. And unless we keep to the already agreed supply schedules to important and growing markets such as Japan, there is little hope of any sustained growth in this export sector.

Cotton Textiles

To Bolster Co-operatives

A Correspondent writes:

THE cotton textiles industry in Maharashtra is in for a bad time. The state's cotton crop will not be more than 10 lakh bales against the average of slightly over 15 lakh bales. And the state government has meanwhile decided to introduce a procurement scheme, the justification for which is not entirely straightforward. New Delhi initially objected to the move and subsequently relented on condition that it would be consulted before fixing the price to be paid to the farmer.

Under the scheme, the state government is to be responsible for procuring, processing and marketing the entire crop, valued at around Rs 150 crores. The mills in the state will now have to contend with two potent upward pressures on prices. There is, to start with, the shortage of cotton. Secondly, forays into cotton marketing by a state agency will inevitably lead to an artificial scarcity. The first year's experience with the Cotton Corporation of India, in canalising the import of cotton, is indicative. Not even half the promised imports were effected in the 1970-71 season, which contributed to the spiralling price trend.

In the statement of objects and reasons for the Bill, introduced in the Nagpur session of the state legislature, it was pointed out that "there are a large number of intermediaries and also defects as a result of which it is noticed that growers of cotton in the state do not get a fair or reasonable price." Yet those who have closely followed the marketing of cotton, especially in the last year, know that the farmers have made it good, obtaining unprecedented high prices. If there were isolated instances of cultivators getting low prices, they were themselves to blame having over-indulged in the practice of mixing of all shades of cotton to exploit the scarcity conditions.

The fact is that cotton is no longer free of political calculations — if it ever was. The reason for introducing the procurement scheme in the state is the need to revitalise the co-operative movement in the state. But if the co-operative societies in Gujarat, accounting for the bulk of the cotton marketing in the state, can flourish side by side with private cotton traders, why not the co-operatives in Maharashtra? Cotton has had a sellers' market for quite some time now. Then why this state solicitude for the farmer? And when the government agency becomes the only buyer in the market, how can the interests of the farmer be safeguarded?

Thus, while the advantage to the farmer is dubious, the mill industry, the ultimate consumer, will, judging by past experience, be called upon to pay a higher price for whatever cotton the state decides to make available. This apart, the mills will no longer be in a position to pick and choose as freely as they are used to in a free market economy.

The scheme is to be in operation till the end of June 1980. And, there is to be a nine-month interregnum in which private traders can take stock of the situation to decide whether they will stay in business. The Bill further provides that the season will start from July 1 and not September 1 as at present.

Export Promotion Councils

Much of a Muchness

THE committee set up under the chairmanship of Bhagawan Singh to review the working of the Export Promotion Councils (EPCs) has made its recommendations. These are, by and large, concerned with improving the constitutional machinery, the administrative set-up and the financial structure of the Councils. The Committee has suggested, *inter alia*, that the Councils should be freed from having to seek the government's approval for their budgets in respect of non-coded items and should get greater assistance from the Market Development Fund for their activities. It has also suggested concessional membership for small-scale exporters and the setting up of a Heavy Machinery and Transportation Equipment Export Promotion Council. Whether as a result of implementing these recommendations the EPCs will be able to offer better service to exporters is a moot point; more relevant perhaps is the need to define the role of the Councils in the overall institutional structure for export promotion that has developed over the past decade.

The process of establishment of specialised Councils for commodities that make a substantial contribution to foreign exchange earnings started in the mid-fifties with the setting up of the Cotton Textile Export Promotion Council. Since then the number of the Councils has swelled and at present there are some 19 of them. Initially, in the absence of specialised agencies for providing the necessary services to exporters, it was thought that these Councils would act as the collective instrument of manufacturers, exporters and government in promoting Indian goods abroad. Accordingly, their functions covered almost the entire range of export services including guiding new exporters, helping members with problems of export production, procurement and marketing, sponsoring trade teams and delegations, collecting and disseminating market information, programming for export publicity and what have you. The Councils have tried to offer all these services at varying degrees of competence, depending upon the budgetary position and quality of expertise of individual Councils. In the process they have stretched their efforts and resources over a vast area instead of building up specialisation in one or two important areas. Our export effort is hamstrung mainly by the non-availability of export samples, inadequate knowledge about the indigenous talent and material that can be harnessed to exploit overseas markets and lack of an effective forum for concerted export effort. It is to these areas that the EPCs should divert their attention.

EPCs are only one of the links in the broad export promotion set-up that we have. Since the beginning of the sixties, various autonomous specialised agencies have come up with government patronage to cater to the requirements of the exporting community. In addition to the Ministry of Foreign Trade's bewildering empire of territorial, commodity and service divisions, directorates of intelligence and statistics, exhibitions and publicity and the long arm of trade commissioners, we have now commodity boards, councils and panels with their export promotion cells. Then there is the Indian Institute of Foreign Trade, the Indian Council of Trade Fairs and Exhibitions, the Federation of Indian Exporters Organisations, and the services divisions set up in the public sector export corporations and the Directorate of Small-Scale Industries. Lately, the Trade Development Authority has also come into existence with its own package of services to offer.

The proliferation of these export promotion organisations has really brought to the fore the problem of

eliminating the development of parallel functions and duplication of work. It is to this question that we need to pay greater attention, if we are to avoid dissipating our export promotion effort.

Tractors

Lure of Imports

THE Planning Minister has evidently succeeded in committing the Government to a ban on tractor imports after 1972. At the same time, Government has recently controlled the distribution and sale of tractors and increased the deposit from Rs 100 to Rs 500. The control on distribution and sale was recommended by the Estimates Committee to curb blackmarketing in tractors where the premium ranged between Rs 6,000 to Rs 10,000. Blackmarketing flourished especially in Punjab and Haryana where the success of the high-yielding varieties has been the greatest.

The blackmarket in tractors, which has led to official control on distribution and sale of tractors, might lead one to believe that there is an acute shortage of tractors in India and that the ban on imports might therefore aggravate the shortage. In fact, however, the indigenous tractor industry has a sizeable stock with it and in 1970 it had curtailed its production by 25 per cent for want of demand.

Such demand as there has been for tractors has generally got diverted to imported tractors. The availability of imported tractors, the comparatively high price of Indian tractors and the narrow price differential among the various size-ranges, have been responsible for the restricted demand for Indian tractors. The low price differential among various sizes has also queered the pitch for small-sized tractors. For example, against the Rs 17,910 charged by Eicher for their 27 HP tractors, Hindustan market their 50 HP tractors at Rs 22,350 while TAFE charge Rs 21,140 for their 35 HP tractors. Affluent farmers using high priced Indian tractors therefore favour the higher horse-power tractors.

The narrow price differentials of the different capacities may be explained with reference to the highly individual designs of the different tractor makes and the tie-up between the local assemblers/manufacturers and their respective collaborators requiring the indigenous manufacturers to depend on their collaborator for their needs of basic components and parts. Besides, as the Tariff Commission pointed out in its Report in 1967, in a majority of the cases the royalty payable to collaborators increased in proportion to the indigenous content. Of the five existing units, four have entered collaboration agreements which require payment of royalty at 2-3 per cent for all imported components replaced; in one case, royalty is to be paid at the flat rate of 2.5 per cent on the total cost of the tractor irrespective of import content.

In the circumstances, farmers who are just outside the most affluent bracket have preferred to buy the lower capacity (12-14 HP) DBHP tractors imported from East European countries under barter arrangement. If demand for these tractors is depressed now and thousands of them are awaiting disposal with the State Agro-Industrial Corporations it is partly because banks and other institutions have reduced credit to farmers for the purchase of tractors (in 1970, three-fourths of tractor purchases were financed by banks and land mortgage banks). The Indian tractor industry, with its high-priced products is also finding it difficult to get customers.

A more long-term reason for the tractor surplus is the overestimation of tractor demand which led the Government to permit liberal tractor imports. In 1970-71 alone 35,000 tractors were imported. The Government also launched several measures to increase domestic production. The tractor industry was delicensed in the beginning of 1968 so that, technically, Government clearances are no longer necessary either for setting up new capacity or for expansion and diversification of installed capacity. However, all expansion programmes or new projects involving foreign collaboration or foreign currency have to obtain prior sanction of the Government, Licences to about 15 manufacturers and nearly 25 letters of intent were issued.

The annual offtake of tractors between the Second and Third Plans was expected to increase twofold from an annual average of 5,000 to an annual average of 10,000 tractors. Between the Third Plan and the initial Fourth Plan period demand was projected to increase threefold to 30,000. And by 1973-74 demand is expected to be around 68,000. Indeed, more recently the Planning Commission has put the requirement of tractors between 20 HP and 50 HP at 90,000 in the last year of the Fourth Plan. The special Committee set up by the Development Council for the automobile industry, on the other hand, placed demand at plan-end at 50,000 to 60,000.

The NCAER which has been asked to submit a fresh estimate of demand may make available yet another figure! While these exercises may not help the Indian farmers to obtain their tractors cheaply from domestic sources, they will have a longer-term impact *via* the import and licensing policies. But immediately, with the price of domestically produced tractors remaining beyond the reach of many of even the well-to-do farmers, imported tractors will continue to be demanded and the ban on imports while affording protection to the domestic industry will at the same time give a boost to the blackmarketing in imported tractors.

IFC

Slow Trot

THE annual report of the International Finance Corporation for the year ended June 30, 1971, shows that the institution has still to find its role in a world where it is semi-unwelcome. Initially, when IFC was started—this year's report, incidentally, contains an overall review of 15 years of IFC's operations — it was expected that IFC would operate as the private-enterprise, commercial financing part of the World Bank group, with IDA providing soft loans and the World Bank providing market loans for infrastructure.

Evidently, the world is not fitting into this neat picture drawn by bankers. The role of the private sector in underdeveloped countries — barring inconsequential exceptions like Taiwan, South Korea and Thailand — is actually declining with most African and Latin American countries opting for a strong government presence in industrial enterprises, in the absence of a local entrepreneurial class. Distrust of foreign capital is even greater than that of local private enterprise. Countries which encourage private capital are not eager to pay a high price for foreign capital, even if it be risk capital. The World Bank itself is gradually moving towards acceptance, and financing, of public sector industrial enterprises in developing countries.

It is not surprising, therefore, that IFC's operations showed little progress last year. Total sanctions amounted to $ 101.4 million, of which $ 88 million were for industrial projects. The sanctions covered 18 manufacturing enterprises in 11 countries — showing the limited regional and industrial coverage of IFC's operations. The largest sanction was for $ 13.1 million and the smallest for $ 49,467, the average being $ 4.2 million. The projects were mostly in the artificial fibre, cement and paper industries.

Clearly, IFC's role in international financing is marginal. It takes positions in a few high-profit operations and its major role is to support (and thereby reduce the stakes of) foreign companies which take up operations in developing countries.

Shipping

gh Cost of Collaboration

E excellent results reported by ith India Shipping for 1970 are in with the expectations of the shareders and should compensate for the ely disappointment at the failure hich appears inevitable) of the company's effort to acquire a controlling erest in Jayanti Shipping. What is nost as noteworthy as the performce of the company is the quality of e directors' report published with the counts for 1970. The report is rearkable for its comprehensive and pert analysis of the present trading nditions in shipping, particularly of e forces operating in the freight mart. The report could be emulated by her companies who use their directors' ports mostly to plead for more conssions from government.

South India Shipping's performance in ie seven years of its existence brings ut a few things very distinctly. The ompany started on a relatively small apital base and in consequence had a ery adverse equity-debt ratio of round 1:20. By now, however, it has een able to bring the ratio down to within the permissible limit of 1:6. This does suggest that there may be a ase for a flexible approach to such ssues as the capital base of a company, especially in an industry like shipping. Of course, South India Shipping has been able to improve its equity-debt position through the liberal tax concessions available to shipping as well as through the rather favourable market conditions. But this does not detract from the expect handling of the company's affairs by its management. Incidentally, the company can claim to be one of the few managed almost entirely by professional managers. The negotiation and fixing of successful contracts on the Rumanian trade by the Company in 1970 are an example of the sound judgment of its management since at the time these contracts were negotiated they did not look anywhere near as attractive as they do today.

The sale of South India Shipping's shares by its foreign collaborator, the P & O, had attracted much attention last year. At the time of floating the company it was thought that the collaboration with the P & O group would enable the company to obtain more remunerative fixtures and also better service facilities at various places on account of the collaborator's worldwide contacts. Similarly it must have appeared that the collaboration would contribute to operational and management efficiency. In retrospect one wonders how much the company has actually benefited in these respects from its collaborators. The major visible gain from the collaboration appears to have been the large amount of credit that the company was able to obtain from foreign banks. On the other hand, the gains to the collaborators have been the over threefold appreciation (net of taxes) of their initial investment in less than seven years. If it is in fact true that the major gain from the collaboration to the Indian company has been to make available foreign currency loans, then the price paid appears to have been rather high. Liberalising the terms on which Indian shipping companies are allowed to take foreign loans —such as permitting tax exempt interest rates of, say, upto 10 per cent, pledging of rupee deposits as security for such loans, etc — could be a cheaper way of arranging for the foreign credits necessary for the rapid development of the shipping industry than allowing collaborations.

Sugar

Volte Face

SUGAR was decontrolled on May 25 with Government maintaining that the sugar supply was so good that controls were not necessary. It expected prices after decontrol to stabilise around Rs 185 per bag. The industry responded by complaining that it was not being allowed its legitimate return. Sugar prices after decontrol did, in fact, fall from Rs 206, just prior to decontrol, to Rs 182 by June-end — in a month's time.

Meanwhile, monthly releases had been varied also to take care of prices. In April, releases were stepped up to 425,000 tonnes, then to 450,000 tonnes each in May and June which are the months of higher demand. The industry was vociferous in blaming Government for its liberal release policy. In July, the monthly release was reduced by 50,000 to 400,000 tonnes. And industry took full advantage of the cut to push up prices to Rs 189 per bag by July-end. The price push then continued in August and on August 19 prices touched Rs 205. Then, responding to the protests in Parliament, press and public, the usual monthy quota released on August 20 was raised by 25,000 tonnes to 425,000 tonnes. Paradoxically, after the release was announced, prices increased further to touch the season's high of Rs 209 on August 28. Government reduced the despatch validity period from 45 to 35 days. Banks were instructed to raise their margin on lapsed quota from 20 to 30 per cent. And factories were ordered that they may not sell more than 500 bags per day to the same recognised dealer. Further, on August 28, restrictions were put on stocks held by recognised dealers. The orders were modified on September 3 and the factory was permitted to sell 550 bags; further amendments followed on September 16. Mills were permitted to sell 2,250 bags per week. Calcutta dealers, importing sugar from outside of West Bengal, were allowed to stock 5,000 bags. Other dealers were allowed to stock 1,000 bags instead of 500 bags. The fall in prices to Rs 191 per bag has no doubt resulted from these measures.

Meanwhile, industry seems to have changed its tactics. At the beginning of the season, it was ostensibly sinking under the burden of stocks; now it is warning of an impending sugar famine. It is true that area under sugarcane has declined by 10 to 15 per cent; also, prices of gur, which competes with sugar, are ruling high at a record level. Recent floods in UP and Bihar will also delay crushing. Indeed, estimates of sugar production have been steadily falling, from 3.6 million to 3.0 million tonnes, within the space of 8 to 10 weeks. Yet the final figures of the area under cane for the 1970-71 season and the estimates of cane production are not published, though the 1971-72 season starts on October 1. But the industry has not been idling. Its lobby in Parliament and the Sugar Industry Development Council which is a tool in the industry's hands, have been active. The latter has already recommended that minimum cane price should be raised to Rs 10 per quintal. And the President of the Indian Sugar Mills Association has stressed the need for Government to announce its sugar policy for the new

season with a view to maximising sugar production; both the central and state governments should, moreover, give rebates in excise duty and cane cess on purchase tax to induce factories to start crushing early; and bank finance should be made available at far lower margins than at present.

Yet are such concessions and such pessimism called for? In 1969-70, Government had released 4.3 million tonnes. Total offtake, inclusive of exports, was less than 3.5 million tonnes. Stocks had thus increased by 800,000 tonnes to 2½ million tonnes. In the 1970-71 season, total production upto August 22 was 3.75 million tonnes. Total production for the season would, therefore, be about 3.8 million tonnes. Consequently, total availability would be of 5.9 million tonnes. Government has released 4.8 million tonnes for the season, but the offtake is unlikely to be much above 4 million tonnes. The next season will probably begin with a carry-over of about 1.9 million tonnes. So why all the talk about the impending sugar famine? If Government has learnt anything from its past experience, it should be that it is best to leave the industry totally 'free' now. In view of the record level of ruling prices of gur and khandsari, there is no reason for fixing a minimum price for sugarcane and then trying to regulate the price of sugar by so-called 'judicious' releases.

LETTERS TO EDITOR

Sleight of Accounting

YOU have done a national service by pointing out some of the rather curious motivations that presently rule the ritual of preparation and presentation of the Annual Report of the Bureau of Public Enterprises on the performance of Central Government Undertakings ("Sleight of Accounting", July 3). I have always believed that this ritual could have been avoided with a corresponding saving of cost of different kinds, particularly that of misleading, "blatant misuse of accounting terminology" (your words) and even lying. This Report comes in addition to the annual reports of the companies and corporations which are also placed on the table of Parliament. Then, there is the Audit Report (Commercial) of the CAG on which a good deal of discussion takes place in and out of Parliament and which provides a good deal of material to the CPU. The sum total of all this is the duplication or triplication of effort and the additional glare of publicity to which the undertakings are subject, jointly and severally. A large part of this could be avoided to provide the kind of atmosphere in which creative effort in the undertakings could flourish.

The Central Government has shown motives no different from those that one sees in the private sector. First of all, the craze for control by the Government has invariably underplayed sound and rational management policies and practices. Multiplication of control agencies and piling up of mountains of so-called management information have played fun with the entire paraphernalia in conditions in which almost no use can be made of such details. Secondly, almost all the government companies under the control of the central government are private limited companies with the word "private" dropped, perhaps in pursuance of the recommendations of the Krishna Menon Committee, but without transforming them into public limited companies as recommended by the Committee. The purpose behind keeping the HSL a private limited company may not be easily understood by many. Thirdly, shifting of objectives from partly social to fully commercial has not done justice to the undertakings which are criticised if they earned a profit and also if they incur a loss. It is natural for managements to feel desperate in the situation. The childish explanations that are given in support of either profit or loss only add insult to injury for these undertakings, which indeed have some of the most capable managers that the country has but who always suffer from being put into strait-jackets! Fourthly, some of the companies that now show profit should never have been companies at all. Take the example of the ITI. It sells almost its entire production to only one customer, the P and T Department of the Government. The profit of the ITI only adds to the cost of the Government. No attention has been given to this issue so far. Lastly, the BPE has hardly justified its existence. In terms of expertise, it is yet to show any distinction. In fact, I think the CAG could perhaps do the entire exercise much better, in the form of a comprehensive audit report and accounts of all the units now covered by the BPE. Even the journal of the BPE is fast becoming a conduit of prophetic gas.

However, the distinction between "shareholders" and "the Government" indicated by you is not one of "fine semantics" only. There are several undertakings included in the BPE report which are not hundred-per-cent Government owned. Control over these undertakings may have been with the Government by virtue of fiftyone per cent holding. Your criticism is thus relevant only to those undertakings in which all the shares are owned by the Government, though these are the majority.

PARESHNATH CHATTERJEE

Calcutta

Structure of Private Companies

THERE are two points I would like to make regarding the classification in V D Lall's study on the Structure of Private Limited Companies in Maharashtra (July 3, 10 and 17, 1971). Lall's first article includes a table (Appendix Table 2, p 1353) showing Asset Composition and Industrial Classification. It identifies service companies by their low proportion of plant and machinery and inventories of raw materials, but relatively large inventories of finished goods. The group 'Garage/Workshops' has large inventories and insignificant amounts of plant and machinery. It should accordingly belong to the 'service' group and should not be classified as 'others'. 'Navigation' has a very high proportion of net fixed assets and according to the basis of classification, it should not be included in the service section as shown.

Secondly, Table 2 (p 1445) shows the number of companies in each industry. The total number of companies in the service group adds up to 1,462. I have collected data for service companies for the same year (1963-64) and find that there are nearly 2,000 service companies. This discrepancy is probably due to the inclusion by Lall of many largely or purely trading companies in 'manufacturing' groups such as pharmaceuticals and textiles. If such is the case, Lall's group of trading companies, though large, is not comprehensive.

INDU KALE

Bombay

The Moscow Meeting

Romesh Thapar

WANT to draw "the masses"? Well, it's becoming increasingly difficult, but three elements have magnetic power. Indira Gandhi as *mataji*, "fillum estars", male and female, in all their artificiality. And test cricketers, men who actually beat the British. These are the current goddesses and gods. Some kind of massive consensus exists about them across this varied subcontinent. As for the rest, they are busy tearing one another apart.

This thought is sparked by the dreary story of the International Conference on Bangla Desh. Originally mooted by Jaya Prakash Narayan to mobilise independent, non-official, world opinion behind the moves to establish an independent, sovereign Bangla *Desh—and warmly supported by official* India—the conference was inaugurated in an atmosphere of suspicion, innuendo, and political smear. Some 50 foreign delegates found themselves in a typically messy Indian situation.

Stories were current that, the late lamented "Grand Alliance" was staging a comeback (*sic*!), that the enemies of *Indira Gandhi were planning to embar*rass her from the platform of the conference, that the whole idea of such a conference was naive. It could be argued that, in the absence of a coherent Indian policy *vis-a-vis* Bangla Desh, there was little point in organising a conference; but the attempt to deflate it, once it was under way, was a disservice to the cause of Bangla Desh.

Who was behind this deflation operation? Why and how was the GOI made to withdraw its active sympathy? Are we being manipulated by forces which we do not understand and over which we have no control? The national press is so servile that it makes no effort to probe. As for the rest, they do not have the resources to operate. But the truth must somehow be uncovered. It is bound to throw a flood of light on our current contacts with the leaders of Bangla Desh and our thinking on the future.

Meanwhile it does not take much probing to discover that the Bangla Desh situation is to figure prominently in the three-day talks Indira Gandhi will have in Moscow with the Soviet leaders. This first meeting following the signing of the Indo-Soviet Treaty, is likely to set the style in our new relationship.

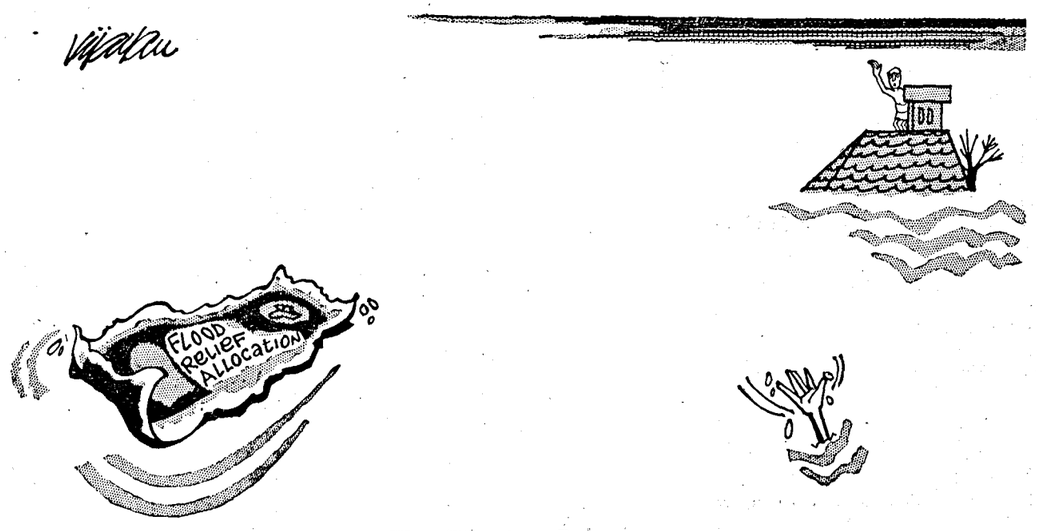
However, the ever-talkative and publicity-conscious D P Dhar needs curbing. His casual, but tell-tale, statements at airports and refugee camps convey the impression that he is the master of the show. Of course, those who know Madame Prime Minister are not impressed. But must we forever be at the mercy of garrulous ministers and officials? They need puncturing—and soon.

Let us hope that the Moscow meeting will go beyond the tidy frameworks provided by the bureaucrats and advisers. If the natural friendship between India and the Soviet Union is to be reinforced and not damaged by the new compact, we should stress the following aspects of friendship and co-operation:

1 Hardware supplies to our armed forces not only have to be smoothened and speeded, but an effective system for the improvement, modernisation and adaptation of the equipment has to be evolved. There is a dragging of feet on this vital aspect.

2 All Indo-Soviet projects must be put under fresh scrutiny to cut waste, to increase indigenous content, and to speed implementation, including expansion. This is particularly relevant in the case of Bokaro Steel and Heavy Engineering which, if allowed to continue unscrutinised by experts, might spell an economic disaster.

3 In the context of the treaty, we must make clear that certain crucial inputs are required in the Indian economy to balance its industrial base. Unless this base is balanced there can be no sizeable economic advance on this subcontinent. We need to study the Chinese experience.



The Floating Rupee

4 And we must constantly make clear that interference in Indian policy-making and implementation will be publicly denounced whenever it shows itself. This may sound naive, but it is the only way to neutralise the dangers of treaties and pacts between natural friends. We should know from our limited experience as 'big brother' in South-East Asia and in the Himalayan kingdoms that 'friendship' and 'co-operation' need their own special 'defence system'.

Much of the trouble we are facing these days, whether on the question of Bangla Desh or our relations with other powers, is rooted in our inability to build any credibility internationally. The Indian is emerging as some kind of specimen, individually talented and sensitive, collectively inane and impossible, but certainly not functioning on any known wavelength. The fact that we refuse to see this is a major part of the problem.

May be, now that we are beginning willy nilly to get involved internationally in the game of power, some of the confusion about us will dissolve. But let us help the process. Let us be down-to-earth, hard-headed, precise, and practical.

The Moscow meeting we shall watch with interest—if only to see whether the style is changing.

September 20

COMPANIES

Amalgamating Strength

Hansavivek

INDIAN CABLE is going ahead with a scheme of amalgamation with itself of Western Insulated Cables (formerly known as Henley Cables India), by allotting 5,72,427 equity shares of Rs 10 each fully paid up to members of the latter company as at the end of October next in the proportion of 16 shares for every 3 fully paid equity shares of Rs 100 each in WIC. The ratio of exchange of shares was agreed upon by the boards of both companies as a result of a joint valuation by two firms of chartered accountants. The equity shares to be issued will rank for dividend from November 1 next. WIC, incorporated as Henley Cables India in 1959, has its works at Hadapsar Industrial Estate, Poona. It has a modern plant that makes products complementary to those of Indian Cable. The unit resulting from the amalgamation can be geared to a higher turnover and gain the benefits of economies of scale being regionally diversified between Jamshedpur and Poona, and will thus be commercially more viable.

Meanwhile, with the finalisation of the Fourth Plan, Indian Cable witnessed an impressive increase in demand for cables and wires during its 52nd year ended March last. Also, better supply and availability of raw materials and practically no disruption of production contributed to the good results. There was serious shortage, however, of certain materials such as plasticisers, aluminium, steel wire, etc, and the supply situation was aggravated by the dock strike in July 1970. Prices of major raw materials continued to show an upward trend and further large increases resulted from customs duties on copper and lead in the recent budget. Issue of *ad hoc* import licences by DGTD during the latter part of the last year facilitated importation of required raw materials. D Fordwood, chairman, points out that rising prices of raw materials can seriously affect exports. Part of the increase in raw material prices is attributable to the prices charged by MMTC and STC and application of Sales Tax on all transactions with them.

SESHASAYEE PAPER has submitted an application for an industrial licence to increase its daily capacity from 105 tonnes to 150 tonnes (including duplex boards upto 10,000 tonnes per annum). With the accrual of full benefits from the earlier expansion and diversification, the company's production during 1970-71 reached 32,649 tonnes against 28,453 tonnes in the previous year. Production might have been higher, but for a 10-day strike in October-November 1970. The strike was withdrawn by workmen after an agreement in which the question of bonus amount was referred to the Industrial Tribunal, and pending adjudication the company agreed to advance 15 per cent of the annual earnings which would be adjusted against bonus as determined by the Tribunal. The company's agreement with the Tamil Nadu government for supply of bamboo from the government reserve forests expired on April 9, 1968, but the company was allowed to draw its requirements, pending decision on the terms for renewal of agreement. The state government has permitted the company to pay the same seigniorage till March 31, 1970. The terms governing renewal of agreement from April 1970 onwards are pending approval with the state government. Last year, the company obtained 57,019 tonnes of bamboo from government sources and 14,571 tonnes from private sources. Besides, 13,946 tonnes of pulpable wood were also procured. Efforts are being continued for use of more mixed hard woods to conserve bamboo. The company produced good results during 1970-71, despite increase in cost of production.

BHARAT STEEL TUBES is taking steps to implement a Rs 16.5-crore project for manufacture of hot rolled steel strips and skelp for which the Haryana government is to acquire about 60 acres of land. An application for import of capital goods is under process by the Central government, and an application for loans of Rs 10.5 crores is under consideration of IFCI, ICICI, IDBI, LIC, UTI, and other financial institutions. After clearance of the capital goods application and sanction, in principle, of loans by the financial institutions, the company will finalise the share issue proposals. It has set up a pipework engineering division to undertake complete designing, supply, fabrication, and erection of pipework required for power plants, fertiliser plants, refineries, petrochemical industries, chemical industries, and other industries where pipework is required. BST claims to be capable of handling the most complicated pipework job of any magnitude at home and abroad. The company earned Rs 108 lakhs in foreign exchange by exporting steel tubes and pipes last year, even though export efforts were inhibited by steel shortage. It has again been awarded a certificate of export recognition, by the Engineering Export Promotion Council, for "outstanding export performance" for 1969-70. The directors are of the view that, if requirements of steel can be met by government, there is much scope for improving export performance. The object clause of Memorandum of Association of the company is being amended to include manufacture of diverse products, such as automobile gears, scooters, motor-cycles, chemicals and fertilisers, and nylon and synthetics, and even for

carrying on of businesses of hotels and deep-sea fishing.

BINANI METAL's factory resumed work gradually after the 9-month strike of the preceding year was called off. Sales during the year to March last, therefore, amounted to Rs 4.50 crores, against Rs 1.16 crores in 1969-70; and the company was able to wipe off the entire loss incurred in the previous year. The results achieved so far in the current year have been encouraging, and the directors hope that if the pace of progress is accelerated the plant will again achieve the pre-strike position in the not-too-distant future. Approval of shareholders is being sought to pay to directors a commission of one per cent of net profits from January 1 last to March 31, 1975.

PREMIER TYRES' results for the 11th year ended March last, turned out to be the best in its career in terms of production and sales. This was brought about by the favourable conditions in the tyre market and the harmonious relations between labour and management. For the first time, there was one majority union of the workers and consequent absence of many of the problems that are generally created by inter-union rivalry. Given these favourable conditions, the company can be expected to produce still better results in the future. Premier has obtained a second sub-loan of about Rs 18 lakhs out of the AID loan from IFCI to meet cost of imported equipment required for implementation of licence for 60,000 automobile tyres and tubes, each, per annum. It has taken steps to expand capacity of automobile tyres and tubes to 6 lakhs numbers, each per annum, for which it has a 'letter of intent'. Also the industrial licence for manufacture of 20 lakh bicycle tyres and tubes, each per annum, is being implemented. ICICI has sanctioned a loan of Rs 49 lakhs for this project. The company's application for import of machinery for bicycle tyres and tubes is pending clearance. Meanwhile, production of scooter tyres and tubes is proceeding satisfactorily. Commenting on the last budget proposals, Chandrakant S Desai, chairman, observes that withdrawal of development rebate for new enterprises and expansion of existing units after May 1974 will retard progress of the industrial sector in the country.

BHARAT LINE, which is already repaying Rs 5 per share of Rs 10 each to shareholders, proposes to pay back another Rs 4 per share in two equal instalments, to reduce the paid-up capital to Rs 10 lakhs. Refund of capital has become possible following sale of m v "Bharatkumar" for $1,212,500 (equivalent to about Rs 91 lakhs) on deferred-payment terms. The company has also disposed of the s s "Bharatdeepak" for Rs 13 lakhs for break-up purposes and now owns only one vessel, "Bharatjal", of 4,993 GRT and 8,890 DWT. During the 25th year ended December last, Bharat Line's total income increased from Rs 66 lakhs to Rs 82 lakhs and the outcome was a surplus of Rs 3 lakhs — against a deficit of Rs 17 lakhs previously. The surplus was utilised to reduce the accumulated deficit to Rs 31 lakhs. No dividend is recommended.

The Week's Companies

(Rs in lakhs)

	Indian Cable		Bharat Steel		Seshasayee Paper		Binani Metal	
	Latest Year 31-3-71	Last Year 31-3-70	Latest Year 31-3-71	Last Year 31-3-70	Latest Year 31-3-71	Last Year 31-3-70	Latest Year 31-3-71	Last Year 31-3-70
Paid-up capital	414	414	172	180	350	350	40	40
Reserves	404	317	242	203	121	17	30	28
Borrowings	255	228	360	321	462	528	178	154
of which Term borrowings	139	147	146	166	112	138	2	4
Gross fixed assets	678	647	495	470	1127	1070	80	85
Net fixed assets	245	245	375	378	786	793	29	34
Investments	5	5	—	—	7	7	—	—
Current liabilities	293	172	107	109	112	114	45	83
Current assets	1116	882	506	435	253	199	264	248
Stocks	466	371	361	291	189	168	173	177
Book debts	612	485	111	135	60	28	90	69
Net sales	1791	1293	906	1277	669	498	451	116
Other income	7	6	4	13	8	10	14	3
Raw material costs	1096	866	524	791	104	84	357	91
Wages	266	236	58	49	70	57	49	23
Interest	28	24	23	38	42	35	12	12
Gross profit(+)/loss(—)	234	38	191	169	189	118	28	—19
Depreciation provision	35	29	28	31	64	50	4	4
Tax provision	103	1	98	21	—	—	1	1
Net profit(+)/loss(—)	96	4	65	117	125	68	23	—24
Development rebate provision	4	3	—	19	56	—	—	—
Transfer to reserves	30	—9	45	81	27	—	*	—
Dividend								
Amount	62	10	E16 P4	E13 P4	42	—	2	—
Rate (per cent)	15	2.50	E12 P9.3&9.5	E10 P9.3&9.5	12	—	5	—
Cover (*times*)	1.48	0.10	3.81	7.23	1.64	—	1.00	—
Ratios (per cent)								
Gross profit/sales	13.07	2.94	21.08	13.23	28.25	23.69	6.22	—
Net profit/capital employed	8.94	0.42	8.39	16.61	13.39	7.59	9.27	—
Inventories/sales	26.02	28.69	39.84	22.78	28.25	33.73	38.35	—
Wages/sales	14.85	18.25	6.40	3.84	10.47	11.44	10.87	19.82

* Balance of profit adjusted against carried forward loss.

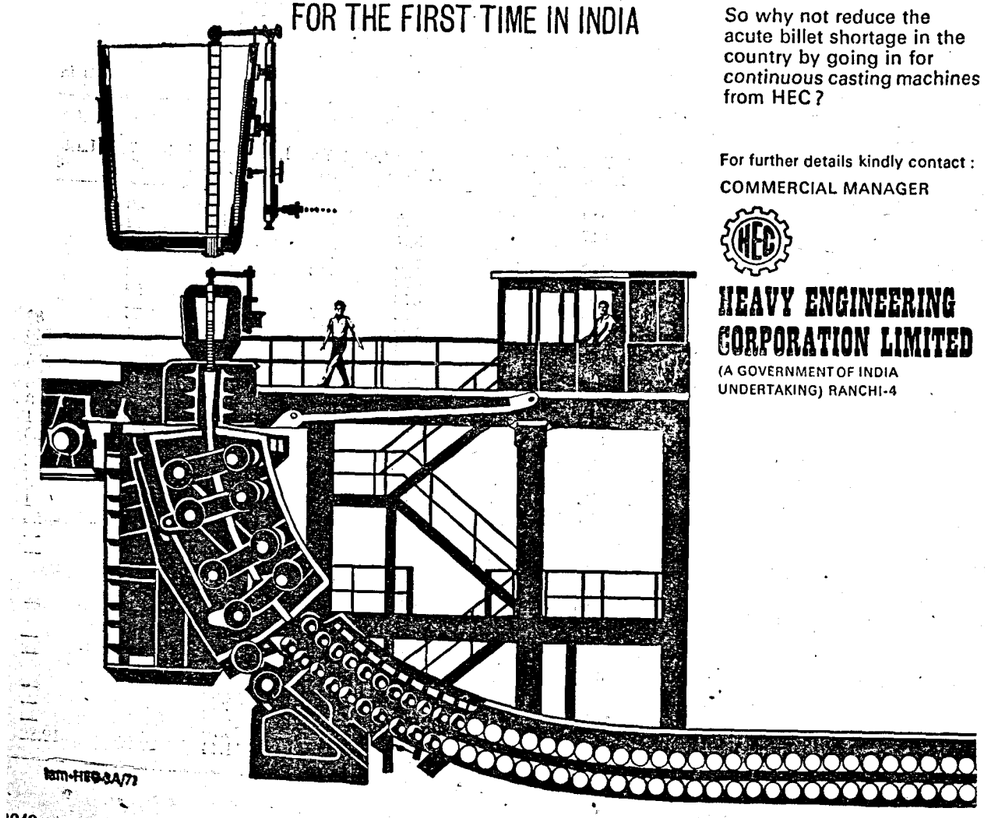
Planning a mini steel plant?

HEC

CAN GIVE YOU MAXIMUM HELP BY MANUFACTURING

CONTINUOUS CASTING MACHINES

FOR THE FIRST TIME IN INDIA



HEC has the expertise not only to design and manufacture vertical/radial/curvilinear continuous casting machines geared to your production needs, but can also set up and commission plants to the exact technical requirements of blooms/billets/rounds you plan to make.

And to give you absolutely the latest know-how on continuous casting machines HEC has entered into a collaboration agreement with LICENSINTORG of USSR.

HEC can manufacture continuous casting machines for blooms/slabs in larger steel plants as well. These include low alloy constructional steels and high alloy steel products.

So why not reduce the acute billet shortage in the country by going in for continuous casting machines from HEC?

For further details kindly contact :
COMMERCIAL MANAGER

HEAVY ENGINEERING CORPORATION LIMITED
(A GOVERNMENT OF INDIA UNDERTAKING) RANCHI-4

fam-HEC-3A/71

NEW DELHI

Fumbling with the Economy

IT was revealing of the approach and mode of functioning of the government that the disturbing trends in the economy were brought up for review in the Political Affairs Committee of the Cabinet just a day before the Finance Minister was to leave for the Commonwealth Finance Ministers' Conference and the annual meetings of the World Bank and IMF. The review is reported to have covered a wide ground, though no decisions could be arrived at. The failure to reach any decisions is the result of the need to delicately balance economic and political considerations, with the latter still exercising overwhelming influence on decision-making in the government.

The only positive outcome of the high-level review of the state of the economy is a little better awareness that the economic situation is becoming really difficult. It is now beginning to be realised that while election slogans have their place, difficult decisions, some of which may not be exactly popular, have got to be taken. But that is about all. When it comes to actually taking decisions, there is hesitation over political implications. The election to the state legislatures early next year is absorbing all the attention of the political leadership and everything else gets subordinated to electoral considerations. Hence the curious spectacle of different things being said at different places. The stark reality of rising prices, growing budgetary deficit and stagnation in development activity all round, particularly in industrial production, is plain enough, but it is not being squarely faced.

Budgetary Deficit

Take the question of deficit financing which has a vital bearing on price stability as well as on the financing of plan programmes in the public sector. If additional resources are not raised, the mounting budgetary deficit cannot be contained. But this simple issue is either evaded or side-tracked. All kinds of excuses are put forward. A marginal improvement in budgetary receipts during the current year found prominent mention in the discussion at the Political Affairs Committee meeting. The implied suggestion was that the budgetary deficit may not after all prove so large as is now feared. It is also suggested that economies in government expenditure, together with mobilisation of larger voluntary savings through public sector financial institutions, could contain overall deficit financing. In fact, neither of these devices can yield anything more than marginal results. There is almost a fear of proposing any measure to raise additional tax resources on the ground that this will evoke the hostility of vocal and influential sections. It was suggested at the Political Affairs Committee meeting that deficit financing may not after all turn out to be more than Rs 450 crores. Even if it is ignored that this order of deficit financing is large enough to cause distortions in the economy, the figure of Rs 450 crores does not represent the overall deficit but only the deficit of the Union Government. There are, in addition, the deficits of the state governments. Then there is the issue of expansion of bank credit to the private sector. It is taken for granted that further credit expansion will be necessary in the coming busy season to sustain even the present low level of industrial activity.

From the Government's pathetic inability to come to grips with the problem of resources flow Yojana Bhavan's fruitless exercises on the Plan and planning. Unlike the state governments of Maharashtra and Bihar, which have honestly come to the conclusion that there is no escape from cutting down plan outlays in their states, the Union government is reluctant to admit that the same fate is in the offing for this year's Central plan. There have been a number of statements by both the Planning Minister and the Finance Minister that there will be no cut in the Plan outlay. As matters stand, there may be no formal cut, but there will be the usual shortfalls in implementation, both in expenditure and, because of price escalation, in the physical content of programmes. In fact, in the Finance Ministry's calculations about the fiscal outlook and the budgetary deficit, substantial shortfalls in Plan outlay during the year figure fairly prominently. But this is not admitted in public — at least not yet.

In this context, the talk of a wages and incomes policy loses all point. When one specific aspect of this problem did come up in the Cabinet Committee discussion last week, it created a minor flutter. The Union Labour Minister, R K Khadilkar, has got himself into an awkward position. He has held out assurances to trade union leaders that the minimum statutory bonus will be doubled to 8 per cent of wages. This proposal came in for adverse comment in the Cabinet Committee discussions because, first, it was feared that it would be inflationary in its effect and, second, it was felt that it would hit the public sector enterprises the most since almost all of them have been paying the bare minimum of 4 per cent to their labour. The additional burden proposed by the Labour Ministry would thus add to their losses. As it is, the surpluses expected from public sector enterprises are not likely to materialise; present calculations show that there will be a shortfall of Rs 200 to 250 crores in the resources from these enterprises taken credit for in the Fourth Plan.

Sharp Dip

The most disconcerting part of the present economic situation which has given a jolt to the government is the sharp dip in the rate of growth of industrial production. The slack trend in industrial growth had begun in 1969-70, even before the much-talked-of recovery from the earlier recession had really got anywhere. Last year saw a definite decline in the rate of growth of industrial production; in the first six months of the current year the rate has further gone down to as low as 1.5 per cent. The consequences of this in terms of shortages of vital supplies and rise in prices can be hardly underestimated.

The explanations offered by the Industrial Development Ministry may be very sophisticated, but are hardly satisfactory. They did not impress even the Political Affairs Committee which is normally very prone to accept facile explanations. It was suggested that if the fall in production of some major items such as steel and textiles was ignored, the production index would not be found to be so depressed. Also, the argument was repeated that the index of industrial production did not properly reflect the level of industrial activity since it did not give adequate weightage to new lines of production and to small-scale industries. These arguments are not new and cannot obscure the very

GUJARAT

Socialist Forum Cut to Size

FACTION fighting in the state Congress continues unabated, despite the Prime Minister's renewed intervention. By rushing to the all-powerful matriarch in Delhi to voice their grievances, all the three faction leaders — Ratubhai Adani, Chimanbhai Patel and Himmatsinh of the Socialist Forum — have undermined their positions. Of the three, Himmatsinh, the socialist prince of Mansa, appears to have suffered the most. To begin with, he had backed the Adani-Ghia group against Chimanbhai Patel. Eventually Adani was installed as the GPCC chief by the PM. As part of the bargain, Himmatsinh and his Forum tried to foist men of their choice as office-bearers in the newly-formed district Congress committees which would wield much influence at the time of selection of party candidates for the coming Assembly elections. But when Adani refused to comply, Himmatsinh forged an alliance with Chimanbhai Patel whom he had earlier dubbed as a reactionary opportunist.

Himmatsinh was the first to rush to the High Command with a long list of complaints against Adani, specifically in respect of the formation of the district Congress committees in Rajkot and Jamnagar. General allegations about Adani's lack of commitment to the PM's socialist programme were also thrown in for good measure. But this attempt to make the Forum appear as the loyal watch-dog of the PM's interests to the GPCC did not pay off. On the contrary, Himmatsinh appears to have lowered himself in the esteem of the high command by seeking the support of Chimanbhai Patel. He was not even called to Delhi to plead his case. The backing of Chandrajit Yadav, the General Secretary of the party, did not help much either. The PM did not this time assign any important role to Yadav in sorting out the GPCC tangle.

Naive Slogans

For the time being, therefore, the Forum has no alternative but to lie low and withdraw from the power struggle. It is trying to revive its image as an ideologically-oriented body not interested in faction fighting or in taking over the GPCC. Towards this end a number of young Turks, including Chandrajit Yadav, Chandrasekhar and Shashi Bhushan have been persuaded to visit Gujarat recently. However, in the meantime, the Forum is itself disintegrating. Reports that in exchange for his support Himmatsinh had negotiated with Chimanbhai Patel for 50 tickets for Forum-sponsored candidates has damaged Himmatsinh's prestige. Such a bargain would have worked to Chimanbhai's advantage while the Forum, not having that many candidates to sponsor, would have been blamed for having helped "reactionary and opportunist" elements to capture the GPCC. Himmatsinh has now directed his ire against Jaswant Mehta, Finance Minister in the Hitendra Ministry. His complaint is that Jaswant Mehta, a former PSP-man, has been giving anti-socialist speeches. This has not endeared Himmatsinh or the Forum to former PSP-men like Chandrasekhar.

As part of the campaign to prove the Forum's ideological *bona fides*, and to divert attention from his failure to secure Indira Gandhi's support, Himmatsinh has raised the issue of nationalisation and has advocated takeover of the textile industry, the Gujarat Fertiliser Corporation and the foreign-owned oil refineries. However, the net result has been to convince even its supporters that the Forum cannot be taken seriously — for, who can hope to win elections in Gujarat by demanding nationalisation of the textile industry? Himmatsinh has no background whatever of political work in Gujarat and, after the recent setback, it will not be surprising if he soon disappears from the Gujarat political scene. The rise and fall of the Forum in the state Congress reveals that the basic power-struggle continues to be beween the two original contenders: the Adani group led by old loyalists and the Patel group led by new entrants into the party.

Ratubhai Adani has also suffered for having asked for the High Command's intervention in order to contain the growing opposition to his leadership. He tried to purge the party organisation at different levels of pro-Chimanbhai elements far too swiftly and crudely and thus played into the hands of the Forum. Adani's failure to exercise skilfully the powers entrusted to him seems to have displeased Indira Gandhi. But as was to be expected, in view of the approaching assembly elections and some consolidation of Congress(O) forces in the state, Indira Gandhi did not go to the extent of permitting GPCC a change of leaders in midstream. This does not mean, however, that Adani is to continue having a free hand to structure the party organisation as he likes. The High Command has checked Adani's authority by directing him to conform to 'democratic procedures' in the formation of executive committees in the districts where such committees have not been formed yet, particularly in Jamnagar and Rajkot. To tie Adani's hands still further, the High Command has sent Jaisukhlal Hathi as its representative to resolve the dispute between the pro-Adani and pro-Patel groups over the formation of DCCs in these two districts.

Complicated Intrigues

All these events have compelled Adani to negotiate at least a truce, though not a settlement, with the Patel group. These two factions are fighting not so much for offices in the DCCs as over the distribution of tickets for their men in the coming election and, ultimately, over the Chief Ministership after the election. Therefore the quarrel between them cannot be easily resolved. Hathi so far failed to bring them together. With the improvement in Chimanbhai's bargaining position, Manubhai Shah has also partly regained his importance in Gujarat politics. The Patel group is insisting that, as in the case of the DCCs, the question of party leadership, particularly after the elections, should be decided by majority opinion in the state party and not by the high command. The Adani group understandably wants the high command to choose the leader. The Forum faces a dilemma, for while it stands for the PM choosing the leader it does not want Adani as leader.

The intrigues are getting more complicated and there is bound to be another crisis in the GPCC at the time of selection of party candidates for the Assembly elections. Present indications are that the GPCC will continue to be dependent upon Indira Gandhi and, if the party wins the elections, she will look for a Barkatullah Khan. All attention is therefore focused on her short visit to Ahmedabad for the GPCC political session on October 13.

WEST BENGAL

A Pre-Puja Rite...

THE establishment press in Calcutta has gone into ecstasies over Governor A L Dias's offensive against the CPI(M) leaders of the state government employees. But it is hard to believe that members of so knowledgeable a tribe as Calcutta's top journalists would be so naive as to ascribe this initiative to the boldness of a single individual in the state. There are enough indications that the attack is part of wide-fronted operations, for cutting down CPI(M) to size in West Bengal, which were conceived in Delhi. Final touches to the plan were given by the Prime Minister herself, during her recent visit to Calcutta.

The solid strength of militant trade unionism right inside the citadel of state power — the Secretariat — has long been a thorn in the side of all anti-CPM forces in West Bengal. For years various attempts were made, first by the undivided Congress and then by CPI and its allies, to split the ranks by setting up splinter organisations; but without much success. During the recent 'democratic coalition' rule (of Congress(R), Muslim League, and Bangla Congress, supported by CPI and FB), there was even a mass raid on government employees in Writer's Building undertaken by youth brigades of Congress(R) under ill-concealed police protection. That raid, too, misfired — in that, instead of creating any terror or panic, the assaults further consolidated the mass of the government employees under CPI(M)-led organisations.

The last move of the crumbling coalition government had been to plant some thousands of their tough guys in government offices by appointing them to newly-created jobs. But the ministers had to quit before the plan could be fully put through.

Indira Gandhi, through her Secretary of State for West Bengal, Siddhartha Ray, and the new-found strongman, Governor Dias, is not attempting merely to complete the unfinished task — that has now devolved upon her since the collapse of the coalition cabinet — of lifting the CPI(M) siege on the citadel of Writer's Building. She has, it seems, embarked on something more; for, it must be remembered that West Bengal is a state that has posed a fundamental challenge to all that she stands for.

Moreover, Indira Gandhi has so far failed to score any significant points against CPI(M) in West Bengal, notwithstanding that thousands have been put behind prison bars and tortured in police custody, that police and paramilitary forces are having a field day each day, that political 'resistance parties' backed by the organs of state power have passed into open offensive in many areas of CPI(M) influence as in Alhadpur in Burdwan or in Jadavpur-Tollygunge in Calcutta. CPI(M) has, so far, held its ground.

There is thus nothing to assure that CPI(M) will be conclusively worsted at the next polls whenever they may be held. On the contrary, the party's efforts to mend its bridges to some other Left parties in the state, such as RSP, SUC, etc, have not been a total failure. And if the overtures, started by CPI(M), after its recent Central Committee meeting at Bangalore succeed, then Congress (R) might actually find itself in a rather disadvantageous position. Its relationship with Congress(O) has touched a new low; the split wing of Bangla Congress led by Sushil Dhara has ganged up with Congress (O); Forward Bloc has totally disssociated itself from the democratic coalition after the fall of that cabinet. So, there is no guarantee that, in the event of a new election, Writer's Building can again be kept out of bounds for CPI(M). On the contrary, the stepped-up factionalism within Congress (R) may jeopardise full mobilisation of its own resources for standing up to the CPI(M) challenge.

In the circumstances, Congress (R) High Command (signifying Indira Gandhi and her trusted aides) seem to have decided to give up their tactics of flanking movements against CPI(M) in favour of direct assaults, with the help of state power. The immediate aim is to provoke CPI(M) into some premature action and to use the occasion to substantially weaken it before the next election in the state. Despite the mounting provocations — the dismissal of the leaders of government employees has been followed by orders for pay cut of a large majority of them — CPI(M) has so far refused to oblige, even though its lower ranks seem very restive.

New Delhi is, of course, counting upon crucial tactical help from CPI. It was no mere coincidence that, despite the finalisation of its decision to attack the state government employees' movement much earlier, the actual orders were issued after the state conference of CPI had revealed that the party's Right-wing had further hardened its grip over its politics and organisation in West Bengal. New Delhi had, of course, judged rightly. CPI's state leader, Gopal Bannerjee, and its trade union wing successfully scotched all attempts to organise militant mass protests against Government's high-handed provocation.

For all the pious concern for the flood-affected millions and the evacuees from Bangla Desh, voiced by the West Bengal Government in the preamble to its communique on the dismissal of the employees leaders, only cynical disregard for the interest of rescue and relief operations was revealed in the timing of the orders. Without the least concern for the smooth running of emergency services which might have been thrown out of gear by subsequent protest actions, Government wanted to take advantage of the pre-Puja holiday mood of the Bengalis to forestall any widespread and persistent mass movement.

LUCKNOW

Deluge by Default

ADDRESSING a meeting of flood victims in eastern UP in 1937 Jawaharlal Nehru had said that the country wanted political independence because this would give its people the power to discipline those elements of nature that cause misery, devastation and destruction. As it happens, since Independence most parts of India have not done much to discipline nature, but UP has done the least.

Floods are a recurring phenomenon, destroying the bases of economic growth. The Chief Minister has stated on the Assembly floor that during the current season all the 54 districts of the state have been badly affected by floods. The information media have given the widest publicity to the floods caused by the Gomti in Lucknow. Impartial observers, including K L Rao, the Union Minister of Irrigation and Power, as well as the victims have felt that it is the neglect of anti-flood

measures that has brought the present terrible sufferings to one-third of the population of the city and paralysed it for over a fortnight. Normalcy is still not within sight. The official estimate is that the total loss because of the heavy rains and floods has been of the order of about Rs 400 crores. This estimate does not take into account losses due to closure of shops, factories and educational and other institutions. The Chief Minister has belatedly stated that the Fourth Plan will be re-oriented towards flood control.

In 1960 also the Gomti had touched an unprecedented water level and the city had faced a deluge. But the two factions of the Congress were then busy fighting the elections for the presidentship of the UPCC and nobody was interested in heeding the warnings issued from Sitapur, 50 miles upstream. This year the negligence was not that gross. 'Timely' warning was given, but some of those affected say that they were evacuated six hours after the flood waters had entered their houses. To understand the ravages of the Gomti it is necessary to state that the river bisects the city and four bridges provide the link between the two banks. The technical opinion after the 1960 floods was that three of these bridges be replaced by higher and wider new ones, the bed of the river between the two parts of the city widened and deepened and the two bunds — Butler Road and Birbal Sahni Road — be raised, widened and strengthened. The new bridges have been constructed, but the old ones have not been demolished. The raising of the two roads has actually led to more gaps so that the swollen Gomti was thus provided with easy channels into the city. K L Rao has been forced to admit that because of this state of affairs the flood waters were given avenues for creating havoc in the city.

Flood protection measures have not been completed during the past decade because of the neglect and 'departmentalism' of the state government. The old bridges have not been demolished, the UP Electricity Board has not taken down the telephone poles and the LSGED has not removed the water pipes from the river bed. Had they been removed the flood waters would have got a wider outlet to flow down their usual path. The gaps in the new bunds were not filled as the land acquisition processes proved to be time consuming and, above all, funds were not available. A Minister of the SVD Government had said that in future funds intended for flood control programmes would be diverted to rural areas and that cities would not be pampered. Even when the Army's help was sought in the first few hours of the recent floods, it was ordered to help the civil authorities instead of being allowed to take the initiative in the light of its own reading of the situation. For days, even as the low-lying areas were being flooded, the civil authorities could not decide whether this was the result of seepage or backwaters.

The Prime Minister's visit to the flood affected areas on September 20 has been used by the state government to press its demand for Rs 116 crores as flood relief and the appointment of a Central Flood Control Commission. While welcoming the latter idea the Prime Minister said that the demand for flood relief funds had to be seen in the national perspective. Full compensation for the loss suffered, she said, could not be given. Bihar had also suffered comparable damage and large areas of West Bengal had been badly hit by floods.

The common feeling is that flood control should be made a Central subject. In the meantime, the state government should appoint a commission to suggest long-range protective measures against floods. And so far as the city of Lucknow is concerned, a commission should be appointed to inquire as to why the anti-flood plan of 1961 was not implemented and to determine who the guilty men are. Taking the initiative in their hands, the affected localities of the city are forming their own committees of inquiry to identify the guilty men so far as their own areas are concerned. A Citizen's Committee is probing the possibilities of legal action against the authorities.

SINGAPORE

Friendship without Commitment

Harish Chandola

THIS is a very disciplined and proper country, and constantly struggling as it is to keep up its position as the communications and servicing centre of southeast Asia, it did not have time for ceremonials like flag-waving and lining up the arrival route with cheering crowds during President Giri's state visit, September 14 to 17. As a result about 20,000 Indian citizens here (not counting the 200,000 of Indian origin who are Singapore citizens) did not have occasion to welcome the President. Otherwise, the Singapore Government's arrangements made it a very pleasant visit. The inability of the President to visit Thailand and Malaysia during this tour (as had been expected earlier), also gave Singapore the chance to show their guest that while its two neighbours could not arrange for his visit at short notice, Singapore was always ready to receive him, because it was a true friend of India.

But did India really accept Singapore as its best friend in this region, people in government circles here asked? And if you questioned them further, they were prepared to provide you with the background for what they construed to be the uncertain attitude of India. In 1965, they said, Singapore had asked for Indian officers to train the Singapore Army. But none came. Singapore had then wooed Indian industrialists to invest here, and was prepared to give them all sorts of concessions including a tax holiday for a certain number of years. But the industrialists who made inquiries in Singapore, they said, then went on to set up factories in Malaysia. For these and other reasons it was assumed here that India was not too enthusiastic in participating in Singapore's efforts to industrialise itself and build a defence force.

It is in relation to this background that President B H Sheares of Singapore chose to say in his banquet speech that this visit was "an indication that relations between our two countries are growing closer." Sheares also clearly indicated Singapore's distrust of theocratic states, particularly the Islamic ones, when he said: "There was a time when communities, nations and empires were built on the basis of one thought or rather One Book — the Book. Anything that was not in the Book was falsehood, was evil. People who believed in other books were enemies to be converted or exterminated." He then added that it was Singapore's belief "that today the One Book nation is an anachronism."

One Book Theory

This was obviously said in order to remind India that Singapore and India faced serious problems because both had "One Book" nations as their neighbours (Malaysia in Singapore's case and Pakistan in India's). These remarks also seem to have been made with the purpose of bringing to India's attention the point that One Book nations had much in common and greater affi-

nity with each other than they had with non-One Book nations like India and Singapore. The view that the Islamic nations would always make common cause with each other in time of need and would readily forget their friendship with non-Islamic nations, has been expressed -- privately several times before by Singapore leaders to visiting Indian ministers. It was expressed by Prime Minister Lee Kuan Yew in April 1969 to Morarji Desai when he had visited this country as Deputy Prime Minister, and more recently, to Swaran Singh when he came here last month. Most subtly, it was also hinted that however much India might try to be friendly with Singapore's Islamic neighbour, Malaysia, that friendship would carry no weight if any Islamic country, including Pakistan, came up with the slogan of "Islam in danger".

This is of course Singapore's view which it wants to impress on India. But India feels that it can and should maintain friendly ties with both Singapore and Malaysia. Since India's friendship with them is for mutual cooperation and benefit, India does not regard its friendship with one as being detrimental to the interests of the other.

On the other hand, India would have very much liked the Singapore leaders to express their sympathy for the suffering of the refugees from Bangla Desh and for the burden that India is bearing. Giri referred to this in his banquet speech. But obviously the Singapore leaders though it unwise to say anything on the matter publicly. One cannot, however, lose sight of the fact that privately the Singapore leaders have expressed their concern and sympathy to visiting Indian dignitaries both for India and the refugees. In fact one of Singapore's most prominent leaders said last month that the sound of booming cannons had deafened the military rulers of Pakistan and wondered what would open their ears to the sufferings of their people, particularly those in East Pakistan?

Sympathy Wanted

It is true that there is very little that Singapore can actually do to impress upon Pakistan the need to settle peacefully the problem in East Bengal. But, all the same, the people of Bangla Desh still hopefully look forward to Singapore publicly expressing at least its sympathy some day.

It is felt that relations between India and Singapore could be consolidated if their leaders were to meet often enough. Towards this end, Giri has invited the Singapore President to visit India and has also extended a similar invitation to Lee Kuan Yew for next November. Sheares expressed Singapore's desire for close co-operation when he said that "it would be a pity if the close links between the two countries, which in modern times were forged as components of a now vanished empire, were allowed to rust away with the passage of years."

Evidence of growing co-operation already exists. A well known Indian industrialist is soon going to establish a joint venture in Singapore. Another has already done so. Three Singapore Army Officers are being sent for training to India, one to the Staff College at Wellington and two for special courses.

The visit has also been useful to the Minister-in-Waiting, Om Mehta, who otherwise is Union Minister of State for Parliamentary Affairs and Shipping. Singapore has become the third busiest port in the world because of improved harbour facilities, repair yards and its progress in cargo containerisation. As Minister of Shipping, Om Mehta saw how the port authorities have increased efficiency and have been able to unload and load ships speedily, have almost entirely eliminated pilferage and are now looking forward to establishing shipbuilding yards. He also learnt that over 300 ships flying the Indian flag call at this port every year and that Singapore shipping firms were placing orders for Indian-built ships.

The Indo-Soviet Treaty

Mohit Sen

IT would be quite wrong to imagine that there is a national consensus around the Indo-Soviet Treaty. Far from it. The speed with which it finally came through baffled the Right-wing, put them on the defensive and compelled a tactical approach of welcome. But the whispering campaign went on. After all had not the Jan Sangh and other Right parties made it one of their main planks in the recent mid-term poll that Indira Gandhi was a Soviet agent? Now, these Rightists whisper that the truth of the charge is proved but just now not much shouting can be done about it as the USA is 'stupid' enough to support Pakistan! But they will soon enough return to the subject.

It was also quite characteristic, but revealing nonetheless, that the monopoly Press turned overnight into passionate defenders of non-alignment which they now felt had been sold out. The monopoly Press began by asking "was it necessary?", declaring that the Government of India had overreacted to the Sino-US collusion and the stepped-up bellicosity of Yahya Khan. Within a few days they had changed their tune to pontificating that the Treaty would prevent the Government of India from helping the people of Bangla Desh even to the extent that it was now doing.

It was also quite characteristic, but the views of the monopoly Press being reflected and even improved upon by those who claim to be "Dynamic Centrists" and even "Leftists" up-in-arms against the Establishment.

What a marked contrast these posturings are to the feelings of the politically advanced masses in all parts of our country! The same cadres and activists who had swung into action against the danger of a Rightist takeover in the mid-term polls have equally enthusiastically hailed this Treaty. They correctly see in it a continuation of the same progressive process. Those who pontificate about dynamic Centrism and talk glibly about "elites" should try an experiment. Let them try to organise a campaign against this Treaty in India anywhere. Not only would the response they receive teach them, one hopes, a lesson but the company they would find themselves in would, one expects, make them retrace their steps.

The Indo-Soviet Treaty would have been impossible without the rout that Right reaction suffered in the mid-term poll. With Morarji as Prime Minister, Masani as Finance Minister, Vajpayee as Home Minister and Raj Narain as the Minister for Culture, one could scarcely have expected such a Treaty to be signed. This is the first point our pundits of "dynamic Centrism" and "pure Leftism" should think about.

The Indo-Soviet Treaty represents on a higher plane and at a further swerve of the historical spiral, a return to the days when the Panch Shila agreement was signed and the Bandung Principles were enunciated in 1954-55. It gives non-alignment a sharper and more direct anti-imperialist edge. It will be remembered that at that time, too, the US-Pak military collusion had come nakedly to light. The difference lies in

the betrayal by the Maoists of the process of unity of all anti-imperialist forces which they had initiated so splendidly.

Obviously, the Indo-Soviet Treaty's paramount significance lies in the deterrent effect it would have on Yahya Khan's proclaimed desire to settle accounts with the people of Bangla Desh through a war of aggression against India. Prevention of Pakistani aggression against India is precisely the best help that any international power can render to both India and Bangla Desh at this juncture. Or do the dynamic Centrists and the "pure Left" believe, *a la* the Jan Sangh, that an Indo-Pak war is the best way for India to aid Bangla Desh? Or do they believe that there is no danger of such a war brought on by Yahya Khan's desperation, in which case one must envy them their touching faith in the military dictator and the author of genocide in Bangla Desh!

It is in this sense that the Treaty provides a securer framework for such help being rendered by India to the freedom fighters in Bangla Desh as would best enable them to as swiftly as possible achieve their own emancipation. The rendering of such help would be greatly facilitated by the recognition of the Bangla Desh government by India and other countries. Or is it the belief of the dynamic Centrists and the "pure Left" that the only help India can render is to march the army into Bangla Desh? Rebuffing Pakistani aggression by all means is one thing and unilaterally marching into Bangla Desh is quite another. By providing a securer framework the Treaty thus gives India more chances and more options *vis-a-vis* Bangla Desh.

Unequal Treaty?

Two other points need to be taken up. The first is that the Treaty is "an unequal treaty" — the authors, one trusts, realise that this was the phrase used to describe the humiliating diktats imposed on China by the imperialist powers. What are the arguments advanced? One is that the Soviet Union is much more powerful than India and the other that "servile pro-Soviet elements" would now all the more easily infiltrate the Government of India.

If the Soviet Union is more powerful than India, it is scarcely the former's fault and still less is it to blame if it uses that power to shield India from US imperialist pressure and subversion —a factor which our dynamic Centrists and "pure Leftists" totally fail to mention, testifying to their political bankruptcy if not worse. As for the Soviet Union taking on the role of the "ugly American" let these scribes ask the people of Vietnam and the UAR about this!

As for Indian servility — this is a charge that can be made about many, depending on one's attitude. About infiltration — let the Indian Mcarthyites realise that they have come a little late in the day! They, surely, know which servile lot has done the infiltration and what a menace they are proving now that some desire to move ahead in a progressive direction is being manifested. Why no mention of these very real servile infiltrators, one wonders?

The second point is that the Indo-Soviet Treaty would help to maintain the *status quo* in India and is, therefore, to be opposed. This is an ancient argument with which one is familiar from the days of Lenin's struggle against the "Left" Communists during the negotiations leading to Rapallo and during the Stalin-Trotsky controversy. Any political and economic relations with a non-revolutionary or anti-revolutionary government can be called an act of betrayal on the part of the Soviet and other socialist states.

What the proponents of this argument fail to do is to make a concrete analysis of the concrete situation. In principle nobody can object to a socialist state strengthening its ties with a non-socialist one. What one needs to examine is what kind of non-socialist state is involved, the direction in which it is moving and whether the improvement of relations helps the progressive and revolutionary forces or the reactionaries — to whom does it provide leverage? Socialist states cannot substitute for the forces of progress and revolution within a country. Their relations with a given country should, however, be such as would facilitate the cohesion and advance of these forces. To do more would not only tantamount to interference in the internal affairs of countries but would help precisely the reactionary and *status quo* forces.

If one adopts this set of criteria, then, the Indo-Soviet Treaty certainly is a highly positive development in this sense as well. And this is how it has been seen by the progressive and revolutionary forces in the country. And this, incidentally, was the attitude that these forces adopted towards China in the days of Panch Shila and Bandung. Quite correctly so, through not without debate.

It is very likely that on the basis of the Indo-Soviet Treaty the Government of India would be able to, and by all accounts has, move in the direction of improving relations with China at the state level. This would be a welcome development and one which those who have stood for the strengthening of Indo-Soviet relations have always advocated. But what would our dynamic Centrists and the "pure Leftists" say to that development? How can they welcome it at the same time as they denounce the Indo-Soviet Treaty in the company of the monopoly Press, Morarji and the Jan Sangh?

SUBSCRIPTION RATES

	Inland	Foreign (Surface Mail)		
Six months	Rs 32			
One year	Rs 60	Rs 85,	$ 11.35,	£ 4.75
Two years	Rs 110	Rs 160,	$ 20.75,	£ 8.75
Three years	Rs 160	Rs 235,	$ 30.50,	£ 13.00

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

Easy Judgments

Nireekshak

"WITH the ... invitation to India by the Sponsoring Committee of the Asian and African countries to participate in the table tennis tournaments to be held in Peking, and India accepting the gesture", wrote *Hitavada* recently, "a new era of international diplomacy and understanding has begun". Whether it has or not, many China-watchers have been busy airing their prognostications about the future of India-China relations. Earlier, all of them, without exception, had been smitten by Mao's smile. Their many interpretations of the smile would surely make Mao literally smile. But that was before the 'Sons of Heaven' showed a penchant for ping pong. Ping pong has since put the smile in the shade.

Useless as a Counterweight

As *Times of India* saw it, for example, "an improvement in Sino-Indian relations in the new context [evidently, the context of unanswered correspondence and Bangla Desh] has become contingent on a major change of policy on the part of Peking". Peking has to ditch Yahya Khan and "join Delhi in finding a political solution in East Bengal", it said, or "a fruitful dialogue between the two countries will have to await the establishment of an independent Bangla Desh". Projecting this train of thought a little further, the *Times* then went on to add, hopefully, that "once Pakistan breaks up into two and becomes useless as a counterweight against this country", Peking "is bound to respond to India's friendly gestures". However, few others seemed willing to wait that long. "There is a remarkable consensus in India", wrote *Tribune*, "on the need to explore fully the possibility of a rappochement with China .... However it would be unrealistic to proceed on the assumption that a reconciliation with China can be worked out in isolation from the other actors of the power drama". The Indo-Soviet treaty, *Tribune* thought, "should give an added incentive to China to make up with this country" for the Chinese "would know that India is not talking from a position of weakness or labouring under an inferiority complex". However, it won't do to be overoptimistic. "Probably we have read a little too much in Mao's smile", it said.

Probably so, affirmed *Hindustan Standard*. "Not too much can be read into Chairman Mao's smile which remains as inscrutable and as tantalising as Mona Lisa's". As for ping pong, "it has now been woven into the diplomatic fabric of Red China in such a way as to become a sort of symbol of reconciliation and friendship". New Delhi, the paper added, had wisely refrained from "getting into raptures over the invitation" it had received from China to participate in a ping pong game, and its decision "to play it cool", while also accepting the invitation, "is a prudent one".

Whatever the future holds for ping pong, Peking style, the game of blind man's bluff that Kerala's United Front had been playing with the Congress party there seems now to have come to an end. But not until it had yielded its quota of alarums and excursions. One interesting offshoot of the tussle, essentially between the CPI and the Congress (R), was that the *National Herald*, instead of standing up for the Congress, as it might have been expected to do, found itself arguing the brief of the Chief Minister. When the Congress rejected the Chief Minister's propoal for Cabinet expansion, *Herald* wrote: "By rejecting the United Front offer, the Congress in Kerala has created a deadlock which is not in the interest of the United Front or of the Congress .... On the face of it, the UF offer is sensible .... The Congress, it appears, has been bargaining for the sake of bargaining, and in a state like Kerala, such pettifogging can have disastrous results .... For some time to come, only a coalition Government can remain in office in Kerala, and the Congress should be aware of this and its own limitations." *Mail*, on the other hand, though no great friend of the ruling party, found itself defending the Congress. If the Congress had accepted the Chief Minister's proposal, the paper said, "the criticism would have been rightly made that, when it came to the question of office, the New Congress cared not for principles. No political party, least of all the New Congress which at the last poll improved its performance, can afford this."

The Congress stand that the Cabinet strength should not exceed 13 was in conformity with the recommendation of the Administrative Reforms Commission, *Deccan Herald* agreed. "Credit is [therefore] due to the Congress (R) in Kerala", it said, "for rejecting the Chief Minister's proposals". For sheer originality of interpretation of the Kerala deadlock, however, *Hindu*'s assessment is hard to beat. The breakdown of the negotiations for Cabinet expansion, it opined, could be the result of the "long-range calculations of some of the parties with an all-India stake." It was problematic, the paper said, whether the Congress would have at all agreed to "go through the motions of negotiations" for several weeks unless its objective was to "bring the conflict into the open and force another election in the near future from which the party could emerge with a clear-cut verdict". A mid-term poll in Kerala, along with the State Assembly elections elsewhere in February, was thus a possibility, the paper surmised, with Bihar probably following suit. "Whether such a poll is in the interest of Kerala which has not had a stable, or competent and constructive, Government for a long time is another question." According to *Hindu*, the only hope for Kerala lay in the non-communist parties "sinking their differences and getting together to purge the politics of the State of disruptive ideologies."

Barrack Room Manners

As a footnote to Mao's smile and Menon's frustrations, nothing is probably more appropriate than Yahya Khan's barefaced display of, what Lyceus of *Bharat Jyoti* termed as, "barrack room manners." Yahya's now notorious *Le Figaro* interview evoked sharp reactions in the press. "A mad man's ravings", said the *Indian Nation*. "The Pakistani President was talking like a coward and displaying utter lack of ordinary culture and courtesy by using unseemly language ..." Why, the man was a "moron and a maniac", wrote *Indian Express*. "The most charitable conclusion that can be drawn from General Yahya Khan's foul-mouthed attack on Mrs Indira Gandhi is that he is a psychopathic moron and should not be held responsible for what he says".

Middlemen's Margin

L S Venkataramanan

Cost of Marketing Cotton by M G Pavaskar and V Radhakrishnan; Department of Economics, University of Bombay, 1970; pp 55+viii; Rs 6.00

IT is commonly believed by the public and by the administrators in developing countries that prices at the producers' level are lower and at the consumers' level higher, relative to what is desirable, owing to the imperfect and monopolistic nature of marketing services. It is alleged that those who render marketing services such as grading, transportation, storage, and processing, earn an exploitative return at the cost of producers and consumers. A partial remedy, the administrators believe, consists in fixing a floor for the price to be received by the producer and a ceiling for the price to be paid by the consumer. Replacement of the traditional marketing organisation by governmental or co-operative agencies, the common view holds, would further improve the efficiency of marketing and reduce the marketing margin.

Agricultural marketing, contrary to popular opinion, is however highly competitive and it is not easy to lower the costs of marketing services. Analytical studies on the supply of agricultural marketing services in India are far fewer compared to studies on the demand for and supply of agricultural commodities. There have been a few notable studies on marketing services and pricing efficiency in recent years including those, by Ralph Cummings Jr,[1] Uma Lele,[2] Dutia and Ramesh Chandra.[3] We also have a good survey on 'The Development of Marketing Institutions' by Abbott[4] and an excellent survey paper by Raj Krishna,[5] where among other issues he deals with the pricing of marketing services. Considering the acute dearth of good empirical studies in this area, the work of Pavaskar and Radhakrishnan on the "Cost of Marketing Cotton" is a welcome addition to the stock.

To study the nature of marketing organisation, to find out whether it is competitive or monopolistic and whether marketing of the agricultural commodities is efficient, it is necessary to analyse the interrelationship of prices at the producer and the consumer level, the cost of marketing, and the profit margin. Several hypotheses can be set up and tested for evaluation of the competitive nature of the market organisation, the degree of market integration and the extent of pricing efficiency. One hypothesis would be that the larger the number of traders competing for a given share at any stage of marketing, the more competitive traders are. The size and the number of firms are, therefore, indicative of the degree of competition. Though a classification of the size distribution of traders is not easy to make, from observations it can be said that a large number of intermediaries take part in agricultural marketing and they compete for a very modest net return for services rendered by them.

The other hypotheses[6] that can be empirically tested relating to market competition, integration, and efficiency, are that the prices between primary market and terminal market, between one primary market and another primary market, and between one terminal market and another terminal market, are well-integrated. The hypothesis relating to market integration would be supported if it could be empirically proved that the price differences between primary markets, or between terminal markets, are not out of line with transport and merchandising costs necessary to move the commodity from one market to another. The test of the hypothesis on marketing efficiency would require an evaluation of the cost of marketing and the proportion that this cost bears to either the primary or the terminal market price. For any given quality of marketing service, the lower the marketing cost, the higher the degree of marketing efficiency.

Pavaskar and Radhakrishnan have indicated in common with other studies that there are three alternative cost-accounting methods for computing market shares, *viz*, (i) noting prices and charges at each stage of marketing for specific lots of produce as they move from the primary to the terminal market, (ii) estimating the gross returns and costs covering a specific stage and dividing the difference by the quantity of the commodity, and (iii) estimating the actual margin between prices prevailing at each stage of marketing. The third method, which the authors have used, has been the one most commonly adopted in estimating marketing cost because of difficulties in collecting data that are relevant to the first two methods. For their case study, they have selected four major assembling markets — in Dhulia, Shirpur, Jalgaon and Pachora in Maharashtra — and have computed the cost of marketing the Virnar variety of cotton for distribution at the terminal market in Bombay. Their study relates to the two years 1962-63 and 1967-68. Marketing margins have been computed for each season and also for each week in the season. From the computed margins, marketing costs have been deducted to arrive at net returns to merchants. For calculating the seasonal marketing margin, the daily reported prices of kapas were weighted by the volume of market arrivals of kapas, similarly the daily prices of cotton lint and cottonseed were weighted by the lint and cottonseed outturn of the same amount of market arrival of kapas. The difference between the weighted product price and the weighted kapas price, constitutes the marketing margin. The marketing margin was computed on the assumption of an average lint outturn of 38.5 per cent. The authors have inferred on the basis of the marketing margin estimates for the two years that khandesh cotton farmers receive around 90 per cent of the value of sold cotton lint and cottonseed — deducing therefrom that the marketing cost does not generally exceed 10 per cent of the value of sales. The study indicates that, for kapas weighing 260 kg, if the producer price is Rs 480, the assembling costs are about Rs 6, the processing charges about Rs 25, merchandising charges Rs 6, and transport and miscellaneous charges about Rs 5. The gross returns to the merchants is around Rs 15. To arrive at the net returns received by the merchants, it is necessary to deduct interest cost, expenses on establishment, etc. The results of the study indicate that the returns to cotton merchants are only 3 to 4 per cent of the value of aggregate sales.

The evidence, therefore, suggests that the middlemen's net return is small and that the cost of marketing is no more than what one would expect under competitive market conditions and market integration. The conclusions of the study are supported by similar studies on jowar marketing in Maharashtra and wheat marketing in Punjab.

The authors have done well in providing good evidence on marketing costs and in disproving popular misconceptions regarding inefficiency in the marketing trade.

REFERENCES

1 Ralph Cummings Jr, 'Effectiveness of Pricing in an Indian Wheat Market: A Case Study of Khanna, Punjab', *American Journal of Agricultural Economics*, Volume 5, Number 3, August 1968, pp 687-701.

2 Uma J Lele, 'Market Integration: A Study of Sorghum Prices in Western India', *Journal of Farm Economics*, Volume 49, Number 1, Part 1, February 1967, pp 147-159.

3 B P Dutia and Ramesh Chandra, 'Study of Marketing Margins of Rice', *Marketing of Agricultural Commodities* Seminar Series, The Indian Society of Agricultural Economics, Bombay, 1965.

4 J C Abbott, 'The Development of Marketing Institutions', "Agricultural Development and Economic Growth", H M Southworth and B F Johnston (ed), Cornell University Press, 1967, Chapter 10, pp 364-398.

5 Raj Krishna, 'Agricultural Price Policy and Agricultural Development', "Agricultural Development and Economic Growth", Chapter 13, pp 530-535.

6 Uma J Lele, *op cit*, p 147.

Not for Debate

Yogesh Atal

Pakistan Elections: Background and Perspective by Asit Bhattacharyya; Compars Publications, Calcutta, 1970; pp 56; Rs 1.50.

THIS is a pamphlet, not a book. It is a reprint of an article earlier published in a periodical. As the title would suggest, it is about a country which is, according to Panna Lal Das Gupta — who writes the preface for the pamphlet—"important for us". The author is an economist by training and he has chosen to write about the elections — a political theme — and that, too, from a distance. We are told that he "is a keen observer of the Pakistani scene, as far as observation is possible with the limited materials available here". Further, the writer is claimed to have "neither the hawkish approach of the reactionaries here, nor the woolly sentimentalism of the doves".

The pamphlet was written *prefactum*: it preceded the elections. It does not, therefore, attempt to present analyses which one finds in conventional, though modern and highly sophisticated, treatments on the subject. One would not expect Asit Bhattacharyya to present a trend of opinions based on a survey of a cross-section of people of the country where he cannot conduct investigations. Utilising the newspaper reports and other secondary sources of data available in India, Bhattacharyya has attempted an essay to provide a background and a perspective to the Pakistan elections. More appropriately, he is concerned with the situation brewing in East Pakistan. The politics of Pakistan is viewed as a politics of the two wings. The author feels that the high-handedness of the 'West Punjabis' over the 'East Bengalese', and of the communalist Muslims over the Hindus, has created a very alarming situation. The policy has persistently been followed by each successive ruler with greater vigour. The policy of 'crude communal xenophobia', of 'Olympian aloofness', of 'blunt and brutal' "manifestation of the leadership-principle in the executive organisation of the state", of "absolute centralisation of power and delegation of authority" was pursued by the Ayub regime, according to the author.

It is argued that Ayub's proposal for "a merger of Pakistan in a wider *Islamistan* with a number of other West Asian states" was virtually a confession of the failure of Pakistan as a state. The consequence was a policy of neglect towards East Pakistan and an attempt to externalise the internal conflicts.

It is in response to a dual policy of the military regime — that of favouritism towards West Pakistan and of neglect of East Pakistan — "Bengalese nationalism" is said to have taken birth under the leadership of Sheikh Mujibur Rehman, who formulated the six-point charter (whose demands are not, however, properly listed in the pamphlet). One of the demands was a total financial autonomy. Increasingly, the movement gained momentum and even Maulana Bhashani, a one-time opponent of Sheikh Mujib and an anti-Indian, joined hands with him.

Yahya Khan is described as "the legitimate heir to the illegitimate dictatorship of Ayub Khan", and he "started his rule on a deliberately set low key". We are told that his "strategic aim was to hold on to absolute power at the centre firmly but quietly, and to continue with the misappropriation of the export surplus of East Pakistan for the benefit of West Pakistan monopolists". This is how the author describes the tactical response of Yahya Khan to the demands made by East Pakistanis:

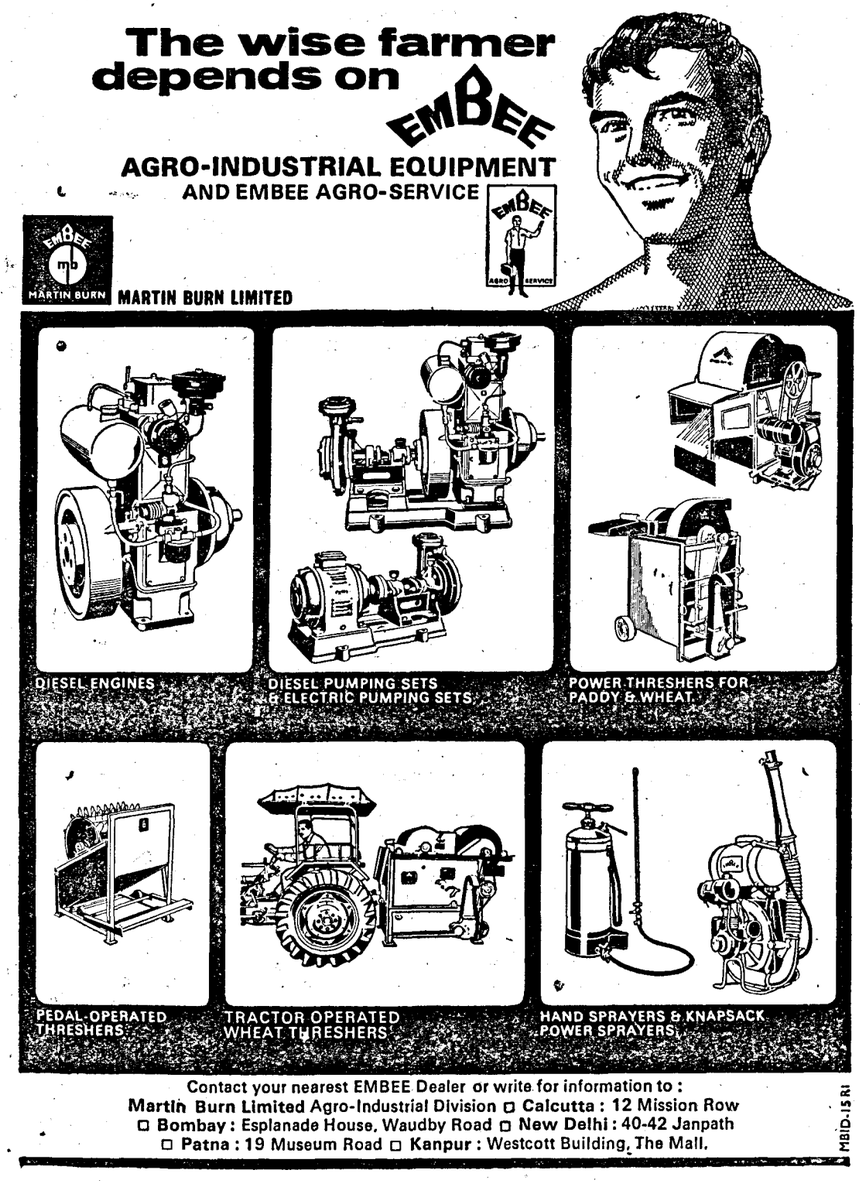
> to appear sympathetic and reasonable, avoid all blunt threats *a la* Ayub as far as possible, to specify what is proposed to be given in order to magnify the gift, and not to specify what the regime is determined to hold back in order to confound such issues in a welter of confusion, and even to bury them by a conspiracy of silence [p 10].

The circumstances prevailing in East Pakistan led the author to conclude that Sheikh Mujib will emerge victorious, and that if his demands were not enshrined in the Statute Book, a stalemate is the only consequence. "If this demand (for autonomy) is not realised through constitutional means, various extremists are only waiting on the wings to take over the leadership of the movement .... It should be obvious to any one that Pakistan, as it is now constituted, cannot last long" (pp 48-49).

The author bases his conclusion, which later events have amply validated, on the historical factors and on "two elements of unreality in the situation". It appears that the author regards the inclusion of East Bengal in the new state of Pakistan as unreal because of the sheer geographical distance between the two wings, and the wide cultural differences. It is culture, more than religion, which has provided a cement of solidarity to the people of East Bengal who have decided to move out of the unfortunate trap in the name of a theocratic Pakistan.

While the author's conclusions are largely valid, the style of the essay is charged with emotion. He has lumped all the West Pakistanis in the category of West Punjabis to be condemned and has forcefully aligned himself with the movement in East Bengal. It remains to be found out whether Ayub was a "political bankrupt", or that "poor Bhutto" is a "great fire-eater" who "outstripped Ayub in warmongering" and that he is a "budding fascist and heroding Herod in political viciousness".

Bhattacharyya's sympathies are clearly with the people of East Bengal, to whom he is culturally close and for whom he would like a free and flourishing nation. The sympathies of this reviewer lie there too. But the pamphlet reads more like a manifesto; it evokes emotion and sympathy: it is perhaps not intended for an academic debate.



'Freeing' the 'Free' Press

Pran Chopra

The main source of the shortcomings of the Government's current proposals to diffuse the ownership of newspapers is that they rely exclusively on the law and not at all on incentive. And that too they do by extending to such a varied and flexible industry as newspaper publishing the complicated provisions of India's most cumbersome piece of legislation, the Companies Act.

The aims of the law for the present purpose should be to

(a) curtail the power of non-publishing finance in the newspaper industry by liquidating the nexus with the high finance of business;

(b) discourage concentration of ownership of circulation by providing for more fair competition and greater dispersal; and

(c) ensure a reasonable degree of editorial independence.

These objectives can be achieved through two of the provisions of the proposed legislation — those relating to corporate finance and managerial personnel —, supplemented by

(a) either a price-page schedule or a steeply slabbed tax on all advertisement revenue above the level needed for comfortable viability at a circulation of, say, 100,000;

(b) a requirement that newspapers must provide safeguards for editorial independence; and,

(c) the power to treat each newspaper in a group as a separate entity for financial purposes but the group as a whole as a single entity for the allocation of newsprint.

Beyond that the government should only use, and needs to use only, incentives which are best applied through a newspaper finance corporation and disincentives which it has the power to apply so long as newsprint has to be rationed. As it is, the slabbed system of newsprint allocation has begun to have some impact: the dip in the statistics of the bigger newspapers between 1967 and 1968 has not been wholly made up. Further refined, and aided by the suggested supplementary legislation, these tools can bring about all the desired changes.

AFTER years of conniving with the big business baron to help him capture the Indian Press, the government is also going to take a bite at the cherry. It has put forward proposals for ending the control of leading newspapers by the top industrial and commercial houses. This is very welcome. Whether these owners prostitute this part of their property or not, using it to serve their other interests, they damage its most priceless virtue: its credibility with the reader. But the government would be doing exactly the same if its proposals went through unamended. This would be progress from the frying pan to the fire. To whom will the Press turn for protection if the government developed the same inclination which is suspected in the present keepers of the Press?

Two Alternatives

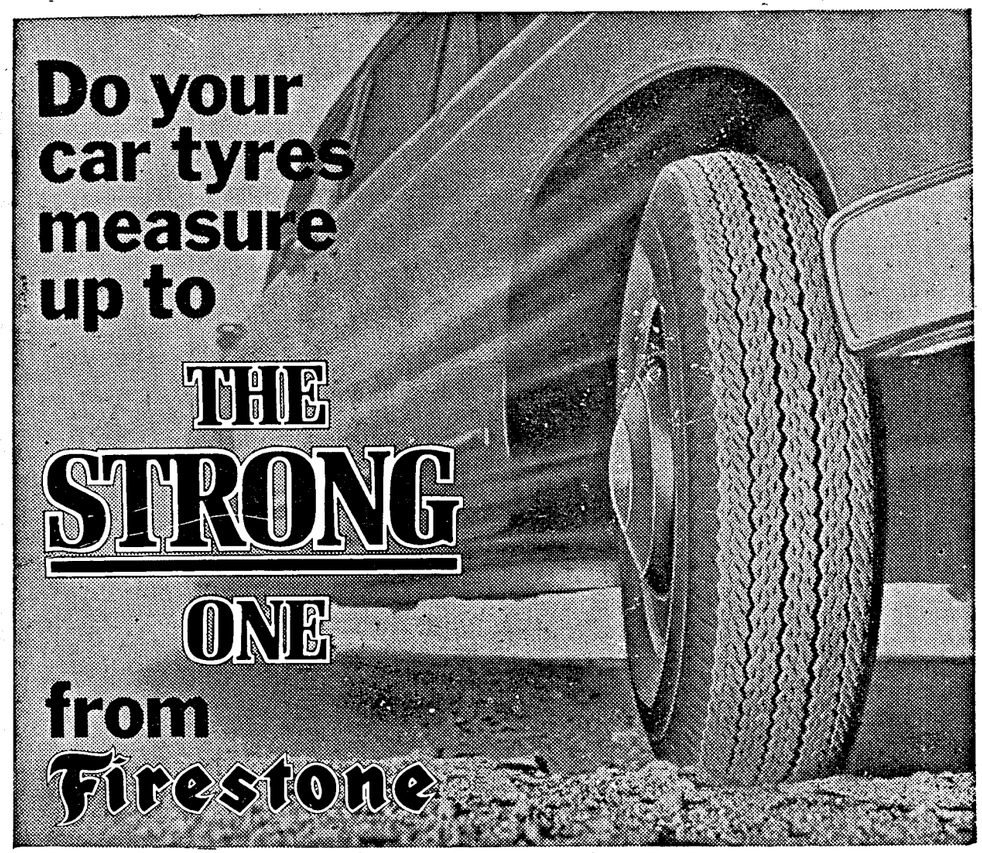
If this fate actually befalls the Press, the responsibility will mostly lie upon those who most vehemently oppose the present proposals. Towards a reform which in its essentials was long overdue, they have adopted an attitude which is wholly negative. This has had two consequences already: support for the proposals comes only from those people now who would make them even stiffer and in the process make them even less practicable in certain respects than they are already; and the choice has been reduced to only two alternatives, either the Press as it is or the proposals as they are. The situation is tailor-made for the proposals, which means the government can happily begin to carve a niche for itself in the boardrooms of all the more influential newspapers.

If these proposals or something more drastic are finally adopted by the country it will not be because slogans make policies and sense does not, but because no sensible man can look upon Press ownership as it is and honestly say that nothing needs to be done about it. Therefore if only the scheme in the field for doing anything is the one sponsored by the government, then this is what will carry the day. That is what makes it tragic that those who ought to know better are either silent or noisily resolute not to see the facts. There are a number of operational and even conceptual drawbacks in the government's scheme. But then someone should bring forward a better set, not turn an angry back upon the effort altogether and stump into a future which may well be worse.

The Statistics

The present is bad enough. I do not wish to overload the argument with statistics. The salient ones will do; they clearly flag the present and foreseeable dangers. Ten leading common ownership units, that is each owning more than one newspaper, controlled 48.2 per cent of the daily circulation in 1967 against 39.3 per cent in 1960.* Daily newspapers owned by all the (65) common ownership units (not to use the slightly pejorative word, "chains") together accounted for only 21 per cent of the number of newspapers but over 74 per cent of the daily circula-

* Almost throughout I have used the figures for 1967, not 1968. On account of a spate of strikes late in 1967 and early 1968, which affected mainly thhe major newspapers, the 1968 returns are contrary to the well-established previous trend and are unrepresentative. No further fall of any significance is shown in the more recent figures; in fact many have resumed the previous trend.



This is the tyre that was built taking into account the most demanding driving requirements. A tyre that can ride smoothly on even rough road surfaces. Can withstand the heat of summer, and provides the safety you need on wet monsoon roads. Can take the wear and tear of frequent stopping and starting.

You get all this toughness in a Firestone tyre, because of exclusive Triple-Strength Construction—that's a special method of bonding the tread to the tyre, reinforcing the sidewalls and insulating the cords.

When you want more kilometres and greater safety for your money—you need **'The Strong One'** from

Firestone

SERVING INDIA FOR OVER 40 YEARS

Sold throughout India—
See your Firestone dealer today.

Recommended Firestone Passenger Car Tyre Retail Prices

Ambassador 5.90-15 White Black 6 PR—Rs. 174.99; 5.90-15 Black 6 PR—Rs. 155.39. • Torino Taxi Special 5.90-15 Black 6 PR—Rs. 170.92. • Fiat 5.20-14 White Black 6 PR—Rs. 149.99. • Standard 5.60-13 White Black 6 PR—Rs. 164.57; 5.20-13 White Black 6 PR—Rs. 159.95. • Willys Jeep 6.00-16 GGND 6 PR—Rs. 221.13.(Sales Tax & Local Taxes extra).

Focus-W-24 (C)R

tion. Since 1963 their share had risen by over 34 per cent. Ninety-five per cent of the circulation of the daily newspapers in the four metropolitan cities was accounted for by the common ownership units in 1967. Among them the units which had most of this circulation — the exceptions are few but some among them are very honourable ones — were owned by people or corporations whose primary occupation and interest were not newspaper publication but some other industry, and most of them in turn — 80 per cent on a rough computation — were what the Monopolies Commission classifies as the top business houses.

Other figures show who controls the commanding heights over here. Because of the larger number of pages which the bigger newspapers can afford and the smaller cannot, their share of the total newsprint allocation and specially of the imported variety is twice as high as their share of the circulation. Their share of the advertisement revenue is higher still, and not only because with higher circulation they can charge higher rates but also because a much higher proportion of their space is taken up with advertisements. In fact newspapers with safe circulation leads occasionally cut back on the number of copies printed (unless they can find printing paper outside the quotas allotted by the government under the rationed distribution of newsprint, which is scarce) to bring out extra large "supplement" issues which are a favourite money earner; the ratio of advertisement space is even higher in them than in the normal daily issue which itself is above 50 per cent in 9 of the top 16 dailies and above 60 per cent in five. That means that while facilities are demanded, especially foreign exchange for the import of newsprint, in the name of freedom of the Press and the value of mass communication, a disproportionate amount thereof is spent upon increasing revenues some of which would otherwise go at least to those among the medium newspapers which circulate where the new agricultural consumer is.

I doubt that the self-interest of the advertiser sufficiently operates as a corrective to this because the highest advertisement revenues stand to the credit of those newspapers mostly which are owned by the top industrial houses, that is owned by those who are also by far the biggest purchasers of advertisement space in the Press. Add to this the fact that many of those who are industrialists plus advertisers plus newspaper owners have also increasingly begun to own or have an interest in advertising agencies, and you have a beautiful example of the circular motion of money: from the industrialist to the advertising agency to the newspaper to the newspaper owner, that is the industrialist.

Concentration *vs* Quality

Upto a point, concentration of resources and circulation in the hands of a few newspapers is justified by the resulting improvement in both the technical and what one may call social quality of the Press. But beyond that point it is not. To begin with, the battle is always between those with financial resources and those with only journalistic quality and value to help them; this is always an unequal battle in favour of the former because if the resources are weak the time for mortality comes much faster than fame for quality where the clientele is so vastly spread out. Only in the next phase is the battle between comparable resources and there, if the point of view does not distinguish one paper from another, as it does not when the ownership of the competing newspapers is in the hands of the same sort of people, as increasingly in India, the competition is only in entertainment value, the cheapest forms of sensationalism and popular appeal which have become the bane of the mass circulation Press in other countries. This has not happened in India yet because that point has not been reached in the circulation war. Once it is, it will. In the meantime, and because of Indian conditions, concentration is attacking quality on three other fronts.

First, like the industrial houses which increasingly own it, the Press is becoming more and more city oriented, more and more distant from its primary function, which is to be the voice and conscience of the whole community, not only of (hopefully) the urban middle class readership and the urban rich ownership. Nearly half of all the newspapers are published in the 12 biggest cities, and 12 of the 16 which have circulations of more than 1,00,000 are published from the four metropolises. Our Press as a national social institution would be much stronger on the whole, if, even at the expense of the technical quality now provided by the top newspapers, we had a hundred newspapers spread all over the country, each with a circulation of, say, a hundred thousand copies, than if all the ten million circulation were shared only by ten newspapers, all of them of excellent technical quality and all them concentrated in the four metropolitan cities. These figures, of course, are a breakdown of a total daily circulation which is only a fraction of what it should be; but the argument would apply more, not less, if the base figure were ten times larger and could be spread over a thousand viable newspapers instead of only over fifty affluent ones in half a dozen cities, all of them owned — as is nearly the case already — by business magnates who are wholly innocent of the qualities which make the true publisher, the man for whom the newspaper he owns is his main interest, not a decoy for his other interests.

The second front on which quality is losing to concentration — I mean the quality of the Press as a social institution, not as a show piece of good printing — is where the government as the political manipulator meets the industrial tycoon as the amateur politician. That is where the nexus between the Press and the leaders of business, and between them and the politician works to perfection. Our system is tailor-made for a particularly unhealthy kind of circular causation. The Press is free to criticise, the government is sensitive to criticism, the Press baron is sensitive to the government's industrial policy, in which free enterprise and regulation are two phases of the same game. If the government's only aim in bringing forward these proposals had been to gain control of the Press for its own purposes, then I would have simply described them as redundant. Government can gain this control — and this is the worst aspect of the present pattern of press ownership in India, so glaringly contrary to its independence that one is surprised to see it being defended in the name of the freedom of the Press — more easily by plying the industrialist owners of the Press either with favours or with the fear of its enormous and flexible regulatory powers; the scope for both tactics is inexhaustible. Fortunately, so far it has been used mostly for raising funds for the Congress, and from this point of view it is just as well that government thinks newspaper policies do not matter. Proprietors think they do, and so we find that while newspapers criticise the government very freely, their owners are rarely touched with the rod of editorial admonishment on the only kind of issues which matter to them.

In answer to this I have lately heard an argument of dazzling cynicism — that the smaller newspapers

bend the knee to the politician more shamelessly and more regularly than the newspapers owned by the big business magnates. But this is bound to happen with things as they are, and will happen even more as time passes unless it passes well for the small newspaper. If newspaper revenues flow in the closed circuit described above, then all those who are outside it are bound to run into extreme deprivation and either face extinction or survive by grovelling before anyone who will give them sustenance. The smaller Press is no better endowed with men of courage than the big Press is, and being without an assured future, such courage as it has runs out rather quicker. Perhaps it would not if the bigger newspapers set it a better example than they do of being fearless of pressure from any quarter, including the owner. But even then one can think of more tenacious fights by some medium newspapers than by those at the very top. One of them buckled in very quickly under pressure applied by the local governor; another made a rather quick change of policy after the last election; the editor of a third took shelter with the government when the proprietor showed his displeasure.

I cannot imagine that fear of the proprietor had nothing to do with the rather startling fact that when the "free enterprise" business magnates owning a leading newspaper, acting in a fit of frustration and personal venom, threw out of the window an eminent arrangement for ensuring editorial freedom against the owners' displeasure, not a single major newspaper in the country found the topic to be worthy of notice; it was the world's Press which reacted, not the Indian.

II

Some critics of the Indian Press sometimes describe it as a monopoly Press. They are factually wrong, and they make a tactical blunder in using this term. There is free enough competition between many of the rival groups of newspapers; they do not gang up against a newcomer any more than against each other; control over resources is not acquired by them by means more corrupt than are customary with their compatriots in other industries, such as fudging accounts. It is true that since everything turns on sales figures (circulation) and it is impossible for audit to check actual circulation, the fudging expert is at a special advantage in this industry. But all newspapers are at an equal advantage in this, whoever may own them and regardless of whether they are independent or "chained". Hence it is a factual error to say that the Press is already a monopoly.

The tactical error is that such a charge immediately attracts the reply that if this is the suspicion, government should first establish the facts and, if they warrant the next step, apply the Restrictive Practices Act instead of launching on the elaborate adventure of the contemplated legislation. The known facts do not suggest that remedy lies in the RP Act. Purely at the level of industrial practices, you will only discover that the race is being won by those who have the resources to offer quality on the requisite scale and stamina to outlast the financial losses. The word monopoly is a red herring; it is best avoided.

But that does not mean that the situation is best allowed to rip along the line of its logic. If it is, we will travel even faster than in the past few years towards a still greater concentration of circulation in the hands of a still smaller number of newspaper owners, and a still higher concentration of industrial and commercial power among them. Remedy will then be far more tenaciously resisted, and to be successful if will have to be far more drastic. India's own experience as well as that of other countries suggests that we will then have a situation which is truly monopolistic. Between 1963 when concentration of ownership was already serious enough, and 1968, the number of new newspapers and journals rose three times faster than the circulation. But most of those which had survived by the end of 1970 were the new members of common ownership families; the share of circulation of the industrially owned among them was higher than of those owned by professional publishers. The dynamics of concentration is therefore flawless, and it will gather further momentum as, with improvements in printing technology, plants are replaced and agglomerated finance acquires still greater advantage.

The British Press has left interesting footprints for us on the road to extinction followed by fine newspapers which, for all their professional excellence, could not keep up with the demands of finance and scale. Through the elimination of rivals, including some which died proclaiming circulations of several hundred thousand each, three leading common ownership units raised their share of the daily week-day circulation from 45 per cent in 1949 to 60 per cent in 1961 and of the Sunday circulation from 61 per cent in 1949 to 84 per cent in 1961. Anything these figures leave to the imagination was fully spelt out by the London *Times* in its evidence before the second British Press Commission in 1962. In a moment of premonition about it own demise as an independent paper in 1967, the *Times* said "To crystallise the matter at its extreme, if one man came to own all the newspapers in the United Kingdom and conditions were such that no one could successfully establish a rival newspaper, than the nation would be in danger".

Dying Competition

Anticipating by a decade an argument lately heard in India, that conditions of concentration in this country are not so serious yet as to warrant anything like what the government proposes to do, the British Press Commission, Hartely Shawcross presiding, said in a reference to the *Times* testimony, "It is possible to take the sanguine view that such results would never arise. It is not, however, prudent to wait till they do arise before taking any action. The conclusion which we have reached, although with some reluctance, is that the potential dangers of deliberately continued concentration of ownership cannot be dismissed and that some means should be sought to protect the order against them". Well may the Commission have uttered this warning: since the previous Press Commission had reported twelve years earlier, one national daily, four national Sunday papers, one provincial Sunday paper, one London evening paper, 12 provincial daily papers, 33 provincial weeklies and 40 national magazines had disappeared.

Across the Atlantic the position is worse. In the year of the latest available figures, 1968, there was no local competition between daily newspapers in 97 per cent of the country's 1500 cities. Fifty years ago the figure was 57 per cent. There were only 45 competing daily newspapers in 1968 against 288 in 1930, 159 chains and groups against 55 and they owned 828 papers against 311 in 1930. And even then, 159 common ownership groups accounted for only 46 per cent of the total daily circulation in the USA in 1968. In India 65 groups accounted for 74 per cent. Riding only the chariot of "free enterprise", the "free" press is travelling towards its nemesis much faster in India than it did in the USA, and it will be over the brink not too

far hence unless something is done about it now.

It matters very little to the reader whether his choice is whittled down by take-overs and mergers, as in Britain and the USA, or by the environment being what the *Times* feared it would become in Britain and as it has very nearly become in India, that "no one can successful establish a rival newspaper". In that statement lies both the justification and inadequacy of the present proposals of the government.

III

Classifying rather broadly, the state of the Press places six tasks before public authority:

(1) to de-link ownership of newspapers from corporations whose primary financial stake and professional interest are not publishing newspapers but other areas of business and commerce.
(2) to diffuse the ownership of newspapers which are of a size above a certain ceiling, however they may be owned, so that their shareholding is more widebased.
(3) to reduce the concentration of ownership of circulation by ensuring that more of the new circulation at least, and if possible the present circulation also, is shared by a larger number of newspapers.
(4) to promote dispersal of the centres of newspaper publication throughout the country, so that the contact between the Press and the community is more varied and extensive.
(5) to make employees of newspapers closer partners in running them.
(6) to ensure the independence of the editor against day-to-day interference by the proprietor, which in Indian conditions is a task of as high a priority as any listed above.

The government's proposals address themselves to the first two and the fifth objectives, and not at all to the third, fourth and sixth. For this reason one must call them very inadequate. Even in tackling what it aims to, the bill makes provisions which are complicated and cumbersome, open to misuse and evasion, and not all their drawbacks in these respects are capable of remedy within the present scheme. Remedy for them lies in an entirely new strategy.

The bill would effectively limit the aggregate participation of all corporation finance in the equity of a newspaper to a maximum of 20 per cent, that of interconnected corporations to 10 per cent and of a single corporation to five per cent. This is excellent. But there are several defects and, as remedies are suggested, the faults of the present strategy will become more clear.

First, the bill applies not only to mainly non-publishing corporations owning newspapers. That it should; but it equally applies to mainly publishing corporations, and the wisdom of that is open to question. After providing against the former pretending to be the latter, corporations whose business and interests are devoted entirely to newspaper publishing and allied activities should either be exempted or brought in only when they cross a much higher than the prescribed ceiling. Since the purpose of the entire bill, and of this provision in particular, is to cut the nexus between the leading newspapers and centres of industrial and commercial power, a distinction should be made between newspapers which are afflicted by the nexus and those which are not.

Second, there are no convincing safeguards against the shares required to be off-loaded by the corporate sector being picked up by it under different disguises. Newspaper employees themselves may be used for this purpose; being employees of a company in which the largest block of shares would still be held by the corporate sector, they would not be as far beyond manipulation by the real purchaser as one would want. Employees of other companies of the corporations may also prove to be handy. Or the apparent purchaser may be only the Trojan horse of other interests whose entry into newspapers claiming to be free and independent is best avoided. For example, political parties or employees of unions which are affiliated to parties. Means should be found for encouraging the desirable kind of purchaser and discouraging the undesirable. Two companion provisions may be worth considering: each purchaser should be required to satisfy designated authority that the purchase money is his own, and monetary assistance should be provided for those who are considered worth encouraging. One way may be to enable whole categories of staff, or even sub-categories, to buy shares against a cut in salary or provident fund, the shares being held, until the money is paid, by the public trustee (or trustees, if representing different categories) who should in such cases, be represented by nominees of the concerned staff.

Thirdly, it is very likely that all the shares will not be diffused in this way, and a substantial portion will go into the hands of the public trustee, a government nominee. This is a dangerous possibility and must be neutralised at once — for example, by laying down that the public trustee shall not participate in any discussion or voting on matters of editorial policy, unless by the methods suggested earlier, the need for appointing a public trustee is eliminated altogether. Alternatively only people of eminence in public life and independent of the government as well as commercial and industrial complexes, people of the kind suggested as trustees for a larger purpose in a later paragraph, should be appointed as trustees for this limited purpose as well.

Under Section 424H, the bill does a much better job of keeping the officialdom of non-publishing corporations out of the newspaper business. This is a swift and unambiguous provision. The way companies function is often determined much more by the nature of the management than by the nature of the shareholding community; hence the importance of this provision. But it needs to be extended. At present it only debars directors, managing directors and managers of non-publishing companies from holding such positions in a newspaper company; it should also debar other employees of the former. Similarly, such officials of one publishing company should also be debarred from holding such positions in another publishing company, to reduce chances of (a) inter-locking of publishing companies, which can also lead to unwelcome concentrations of circulation (b) an existing newspaper publishing company escaping the Act by breaking itself up nominally into companies of a size which is below the thresh-hold of the Act.

As in respect of its main purpose, in respect of one of the lesser ones — workers' participation in management — the bill picks up a good idea and then twists it into an impractical shape, making one wonder whether it is *intended* that the scheme should not get off the ground. As an industrial plant or as a management problem, a newspaper factory is no different from another. It is only as a member of the Press that it has a distinct place in a democratic society. Therefore it is only in its journalistic aspect that the newspaper industry qualifies for special treatment, not as an industrial plant. Why, then, should an accountant or mechanic or lorry driver in a newspaper be treated differently from those in a steel mill for giving them representation on the board of directors? Their claim for it is no less than, but also not more than, of comparable employees in other industries, and

should progress, as it should, alongside theirs. In the meantime, there can be a case, and a good one it is, for bringing journalist members of the staff into association with the management of the newspaper — as a newspaper, not as an industrial plant. Therefore a double distinction has to be kept in view: between the journalist and non-journalist members of the staff, and between the journalistic and non-journalistic functions of a newspaper establishment.

The bill not only ignores both these distinctions but gives to the staff half the seats on the board of directors without their acquiring any shareholding. This is a novel proposition, to say the least. If half the directors of a company have no financial stake in it beyond that of their jobs — which is not to be underestimated of course — then all kinds of short-sighted decisions may be confidently expected, for example on staff salaries. Therefore either these provisions should be substantially scaled down, keeping in view the distinctions mentioned above, or it should be provided that in any newspaper to which these provisions apply unaltered, wages would be directly related to profits. Otherwise the result may be that, like those who would have been tenants instead but became landless labour, newspaper employees will only be engaged as daily wage staff.

Much healthier in this respect is the provision that the bill will not apply at all to a newspaper pubised by a co-operative society of which not less than 51 per cent members are working journalists or other employees of the society. Here also there may be a problem of impersonation. India's experience of co-operatives is rather full of such examples, and various kinds of dodges will be easy to apply if only a small and tightly held co-operative society is formed to own and operate a big newspaper; one cannot see any safeguards in the bill against even the existing newspapers being put on that footing. A small body of "dependable" staff can be safely found which will qualify the society under the 51 per cent provision. But if means can be found for plugging these loopholes, and if financial institutions exist which will prime their pump for such co-operative societies, this provision is healthy encouragement for the right pattern of newspaper ownership. Economies of scale have a part to play so long as they do not get out of hand, and the bill rightly allows for them in the case of newspapers with a co-operative or diffused ownership.

Negative Approach

But the bill errs on the side of making only a negative approach to what is in all circumstances a desirable objective and will become increasingly desirable when newspapers have no additional readership to cater for and start to snatch readers from other newspapers. While correct in not placing a restriction on the rise in circulation of leading circulation papers provided their ownership schemes conform, the bill should even now encourage those newspapers, by discriminating in their favour, which do not form part of chains and groups and are not published fom the existing main centres of newspaper publication. To some extent, further concentration of circulation in a few hands and a few areas will be discouraged when the play of the powerful concentrates of urban-oriented industrial high finance is reduced in the newspaper industry and the terms of competition made less unfair. But it is not too soon to start giving positive encouragement to newspapers which can even now make a contribution to the diffusion of circulation.

The greatest lacuna in the bill, so glaring that one cannot assume the ommision is accidental, is this: No matter who the owner may be, it is one of the most essential requirements of a genuinely free Press that the owner should not interfere with the day-to-day responsibilities of the editor. But the bill is silent on this. If a proprietor desires such a close degree of control on his paper, he should appoint himself as the editor and not use another's shoulder for firing his ideological guns. The proprietor is fully entitled to lay down the broad policy mandate; he should be completely free to declare in it that he stands for the abolition of the Directive Principles of the Constitution or of all land legislation. But in fairness to the reading public the mandate should be laid down in a public document. Once the editor accepts it, he should be left free to work within its ambit, and the judgment whether he is faithful to it or not should neither rest with the editor nor the owner but with an agreed and declared third party of credible independence.

This was the essence of the scheme of editorial independence which the present owners of *The Statesman* accepted when the newspaper changed hands and subsequently, in an enormously irresponsible and arrogant act, abolished overnight in a manner humiliating to the third party, the Trustees, who were men of far greater public standing than any of the proprietors. The full story of that act has yet to be told, but there is no reason to fear that its repetition cannot be prevented. It may be impracticable to find suitable trustees for all the newspapers, but the difficulty is not insurmountable. A beginning can be made with half a dozen of the leading newspapers; they can set such an honourable example that it is bound to have a healthy effect upon all the rest. Or a common authority of the requisite standing can be set up for groups of newspapers or all of them. It can either be made obligatory for newspapers to accept such a scheme or they can be given the incentive of selective relaxation of other provisions of the bill. But it is important to realise that day-to-day proprietorial interference with the editorial mandate can be as bad in the case of a newspaper with one kind of ownership as with another kind. I would possibly exempt only party newspapers but would prefer not to.

IV

The main source of the shortcomings of the present proposals is that they rely exclusively on the law and not at all on incentive. And that too they do by extending to such a varied and flexible industry as newspaper publishing the complicated provisions of India's most cumbersome piece of legislation, the Companies Act. Law should be used only as a supplementary power, to do what cannot be done otherwise; then, in combination with other measures, it can be twice as effective. If it seeks to do much or many different kinds of things it becomes ineffective. That can be the fate of the intended legislation. In order to plug all conceivable loopholes it can make itself hopelessly complex. As it is, it has several more or less duplicating provisions, all trying to achieve broadly the same thing by different means because none of them is good enough by itself. And yet it leaves uncovered not only the loopholes and inadequacies mentioned already but a hole big enough for a Rolls Royce to go through: that a newspaper may escape the provisions of this bill altogether by converting itself into an individual ownership; or into several different editions, each below 15,000 copies but each claiming to be a separate newspaper sharing services with all the others. The fate of such laws is best reflected in what happened in the USA a couple of years ago: anti-cartel and anti-monopoly laws were found to have been so extensively violated that a law had to be passed to regularise the violations. The former laws disappeared over extensive areas of their previous jurisdiction.

The aims of the law for the present purpose should only be (a) to curtial the power of non-publishing finance in the newspaper industry by liquidating the nexus with the high finance of business, (b) to discourage concentration of the ownership of circulation by providing for more fair competition and greater dispersal, and (c) to ensure a reasonable degree of editorial independence. This it can do by using only two of the proposed provisions, those relating to corporate finance and managerial personnel, and supplementing them with: (a) either a price-page schedule or a steeply slabbed tax on all advertisement revenue above the level needed for comfortable viability at a circulation of, say, 100,000 (to be revised upward as total readership grows); (b) a requirement that newspapers must provide the suggested safeguards for editorial independence and (c) the power to treat each newspaper in a group as a separate entity for financial purposes but the groups as a whole as a single entity for the allocation of newsprint, the former to prevent the profits of a successful unit being used to subsidise new additional units, the latter to provide a more direct curb on the growth of chains and groups by slabbing down the allocation according to the total circulation of the group.

Beyond that the government should only use, and needs to use only, incentives which are best applied through a newspaper finance corporation and discentives which it has the power to apply so long as newsprint has to be rationed. As it is, the slabbed system of newsprint allocations has begun to have some impact: the dip in the statistics of the bigger newspapers between 1967 and 1968 has not been wholly made up though it has been largely. Further refined, and aided by the suggested supplementary legislation, these tools can bring about all the desired changes. More slowly but with much greater stability, reforming the Press instead of sending it into financial or professional doldrums.

Unemployment and Brain Drain

Kamalesh Ray

Unemployment and the brain drain necessarily co-exist in a developing country. Both reflect non-utilisation of human resources. Unemployment may be termed internal brain drain, while losing qualified personnel to foreign countries constitutes external brain drain.

Any desire or plan to stem the brain drain is obviously not motivated simply by a desire to hold people within the political boundaries of the home country. If it were so, the solution could be very simple.

Unemployment and migration of personnel become problems only in the context of work which has to be done and tasks which remain to be accomplished in the country. The potential contribution of the utilised work force need to be considered in planning for national reconstruction.

While Government has been anxious to obtain a correct account of the unemployment among scientific and technical personnel at home and of those who have chosen to live abroad, there has been too much emphasis on trying to improve the estimates and to perfect the statistics. But there is no reason why plans of action cannot be evolved on the basis of information already available. And the country does have working statistics for the purpose.

UNEMPLOYMENT and the brain drain necessarily co-exist in a developing country. Both reflect a non-utilisation of human resources. Unemployment may be termed internal brain drain, while losing qualified personnel to foreign countries constitutes external brain drain. Any desire or plan to stem the brain drain is obviously not motivated simply by a desire to hold people within the political boundaries of the home country. If it were so, the solution could be very simple. Unemployment and migration of personnel become problems only in the context of work which has to be done and tasks which remain to be accomplished in the country. The potential contributions of the unutilised work force need to be considered in planning for national reconstruction. It is estimated that over 100,000 persons with scientific, engineering, and medical qualifications are unemployed in India, and that about 30,000 more are abroad.[1]

While Government has been anxious to obtain a correct account of the unemployment among scientific and technical personnel at home and of those who have chosen abroad, there has been too much emphasis on trying to improve the estimates and to perfect the statistics. But there is no reason why plans of action cannot be evolved on the basis of information already available. And the country does have working statistics for the purpose.

Besides, a large number of vacancies exist in the country even today.[2] About half of the vacancies continued to remain unfilled for more than a year. Nobody seems to have inquired why. Unlike in other countries, recruitment at the intermediate and higher levels of scientific and technical work is not done through a 'talent hunt'. Government's embargo on recruitment in November 1966, its partial withdrawal in June 1968, and the ban again in November 1970, have left the various institutions and establishments confused. Meanwhile, several national tasks, requiring work by scientists and engineers, have remained unattended to — even as the country has continued to depend heavily on external assistance. Indeed, though external assistance



If yours is an industry dealing with petroleum, chemicals or explosive gases, there are two ways of dealing with the fire hazards. One is to get the most comprehensive fire insurance to compensate you after the event.

The other is to ensure, with Kirloskar Flame Proof Motors, that fires never occur.

What makes Kirloskar Single Phase Flame Proof Motors the best insurance against fire?

International Specifications

Manufactured to NEMA (US) Standards, and approved by CMRS (Dhanbad) CIE and Fire Insurance Pool Association, the motors are rigidly constructed with a steel shell, CI-covers and with the capacitor housed inside the cover to eliminate any possibility of sparks causing accidental explosions. Besides the perfect suitability of design and guaranteed performance, that only Kirloskar can ensure, with their two decades of experience of Indian Conditions.

So what's your problem? Inflammable gases? Combustible chemicals? Explosive petroleum? Nothing to get burned up about—if you use Kirloskar Flame Proof Motors, the only Single Phase Flame Proof Motors manufactured in India.

● Range: 0.18, 0.25, 0.33 kW continuous rated, 0.55 kW half-hour rated.
● Early Delivery.

All trade enquiries to be addressed to the Hubli Unit.

Manufacturers
KIRLOSKAR ELECTRIC COMPANY LTD.,
P.O.BOX NO. 317, BANGALORE 3 — P.O.BOX NO. 112, HUBLI-20, INDIA.

ASP-KEC-204A

TABLE 1 : INDIAN SCIENTIFIC AND TECHNICAL PERSONNEL ABROAD
(estimated for 1970)

Field	Doctorate	Master	Other Levels
Physics	550	400	General
Chemistry	1,200	500	Science
Bio-sciences	500	250	Fields
Agriculture	250	200	
Other sciences	500	810	
Total science	3,000	2,160	840
Civil	100	1,000	900
Electrical	200	500	1,800
Mechanical	180	500	2,820
Chemical	200	650	650
Electronics and allied	100	250	350
Pharmacy	175	200	125
Other engineering and technology	545	1,400	2,355
Total engineering and technology	1,500	4,500	9,000
Medicine and surgery	500	6,000	2,500
Grand total	5,000	12,660	12,340

Source (and further details): *Technical Manpower*, Volume XIII, Number 2, February 1971.

and loans are by no means cheaper, indigenous talent is not given preference by the planners. "Indeed, Government officials have more than once said, they hoped that educated Indians in large numbers would not return, since the country has no way of putting them to work ... There is practically no one, in India or outside, who feels that India's economic growth is being held back because the country has lost educated manpower."[3]

Such observations are very common. The point is that participation of Indian scientists and engineers is very low (0.5 per cent of work force) in spite of their availability at home and abroad, and that India's economy and production have depended heavily on imported turnkey jobs, blueprints, knowhow, expertise, etc, that have made Indian engineers and scientists redundant and led to migration and unemployment. These factors act deeply and so indirectly that the correlation between slow economic growth and brain drain (external and internal) is difficult to perceive. Yet a country's economic development depends not on the dumping or pumping of foreign assistance, but on intensive utilisation of national resources of men and material.

A detailed breakdown of the brain drain is shown in Table 1. This may be taken for "order of magnitude".

Out of the 30,000 abroad, we may consider, in the first instance, the post-graduate categories as priorities. The post-graduates (17,000) make for 60 per cent of the estimated overseas scientific and technical personnel. Yet we have a backlog of unemployment among engineering and scientific personnel, of over 100,000. We need a plan against this *internal* brain drain. The present unemployment may be roughly estimated as in Table 2.

There is moreover no dearth of work. And, if there is work, how are trained people kept out? An idea of work and personnel is given in Table 3. Unemployment and brain drain of this magnitude can be tackled rationally and effectively in the organised sector if it is made a part of the national plan.

SELF-EMPLOYMENT

To start one's own industry or business can be exciting and challenging, besides being a trigger for economic development. About 4 to 5 per cent of our scientific and engineering personnel are already self-employed; as against about 2 per cent of the American science personnel, and 4 per cent of the engineers who are self-employed in the US.

Limited number of the scientists and engineers have the requisite competence and experience to start on their own. Financial requirements per entrepreneur would be larger than that required to employ one in an organised sector. It would appear, therefore, that the scope is limited in the self-employment field.

Also, its limitations should not be overlooked in the context of the large-scale unemployment and external brain drain.

Much can be said in support of medium- and small-scale industries in India today. Admittedly, large-scale industries are more efficient in terms of unit cost. It would be pertinent to question whether India should try for the advantages of super-duper plants for which foreign money and technological dependence become almost unavoidable. It has been India's experience that over-capitalisation of such plants can produce more goods than can be sold, and the plants have to be run at a partial capacity. This completely offsets the advantages of a large plant, retaining all the disadvantages.

With India's present technological and engineering capabilities it is possible to build up a self-reliant industry with indigenous knowhow which would be profitable but not as efficient as a large-sized outfit built with foreign help. Techno-economic studies for such alternatives can give a pronouncement on short-term and long-term economic benefits and losses. Our copying the methods and industrial philosophies of advanced countries often puts us on a wrong trail. Indigenously built industries could go a long way in stabilising our economy. Such a policy will give us, in the beginning, second-rate technology, but a higher real economic growth rate, and a future with technological advancement. In the other alternative, the borrowed economic culture will bring in prestigious sophistication at the cost of national economy and self-reliance.

Small-scale industries have thus a good place in the country. However, small-scale industry need not be primitive in technology. Modernisation of small-scale industry (as in Japan), run with power and standardised with instrumentation, can become a sound associate to larger industry, as well as being an industry of independent character.

EXAMPLES OF NEGLECT

Many of the employment sectors for scientists, engineers, doctors and other specialists are well known, such as education, research, industry, extension programmes, and resources exploration. I shall draw the reader's attention to a few areas which are vital but are neglected, and where scientists and engineers have to be engaged intensively.

(a) There are certain coal field areas (Raniganj) where coal seams are burning underground for the last few decades. It is a great national loss. Other countries have also experienced similar situations. Two methods are adopted: utilising the heat of burning, and gassifying the burning coal *in situ* for pipeline supply. Yet no scientist or technologist seems to be engaged on the problem.

(b) Floods continue to menace the country. What is more tragic is

that floods do occur even where dams have been built. The causative factors are identifiable, but have not been studied. 'Floods in spite of dams' needs an engineering assessment that can radically alter the dam-building and operational strategies. We need a number of scientists and engineers to study the problem.

c) Adulteration of food and drugs is on the increase. A network of laboratories are needed to test the sub-standard products in the market. A number of scientists will be required if the problems are to be handled seriously. Similarly, the shortage of forensic laboratories is hindering quick and adequate dispensation of justice in many criminal cases.

(d) The country has been heavily depending on foreign technical assistance and collaborations. This has undermined self-reliance, affected the operation of the national economy, and reduced employment opportunities. Direct outflows of money to foreign firms are also heavy. In 1968-69, the total remittances to four Western countries amounted to Rs 219 crores. Profits and dividends amounted to Rs 39.59 crores and interests on loan to Rs 179.63 crores. There is need for evaluation of collaborations, with the help of technologists, scientists, economists, and other experts, to guide the country's future policy in the matter.

These are some of the off-beat areas where scientific workers can greatly contribute.

TABLE 2 : ESTIMATED UNEMPLOYMENT (1970)

Field	Number
Science personnel (Post-grad)	10,000
Science personnel (Graduate)	50,000
Engineering and technical (Degree)	9,000
Engineering and technical (Diploma)	37,000
Medical doctors (Degree)	4,000
Total	110,000

COST ENGINEERING

The spiralling cost of manufactured goods has been causing anxiety, but it goes on unabated. There is no system of *technical* audit or assessment of cost of production which can show the validity of pricing. The entire consumer (community) is under the thumb of producers and sellers. It has to be the function of the engineers and scientists to assess the cost throughout the entire process of production. Engineering *costing* is not merely the examination of ledgers maintained by manufacturers. It involves in fact a complete engineering evaluation with expert knowledge and observations. The magnitude of the task for cost engineers can be appreciated if we consider that the national industrial product is of the order of Rs 5,000 crores a year. Cost engineering is also badly needed for public sector undertakings.

BACKLOG OF NATIONAL TASKS

Table 3 contains a list of suggested work and the corresponding additional employment potential in the next three or four years. The list of work and the allocated task force may be viewed in terms of our present deficiencies. There has been this backlog of work accumulating through the past years. Some illustrations are given to dispel any impression that the manpower requirements reflected in the Table may be unreasonably high.

Consider the first item. Two-thirds of our population depend on agriculture. Fertiliser production is being vigorously planned. Extension people are out in the field to advise the farmers. Yet, the regional characteristics of the agricultural soil are not adequately known. About 500 million acres are of interest in this connection. The extent of soil sampling and testing that has to be done is obviously very large. The basic tests are not of a sophisticated nature. These can be performed by science graduates (including agricultural graduates), under supervision of a few better qualified (post-graduate) scientists. To engage 50,000 science graduates for the basic tests would mean assigning 10,000 acres to each. This would mean some 300 samples per head per month for the next 3 to 4 years. And each soil sample is to be subjected to a number of tests. A few engineers and surveyors may also have to be attached to the teams for location and mapping. The size of the group is, therefore, not too large, and perhaps is even a little too small.

Similarly, while the primary health centres are required to be manned by medical graduates, a few biological and nutritional scientists would also be needed in the teams. A few science graduates can work with them in the infrastructure. The allocation of 5,000 doctors would mean 2,500 centres, i e, one centre for more than 200 villages. This is not extravagance.

Exploration and assessment of natural resources (mineral, ground water, forest, etc) need to be stepped up, since these are the bases of national economy. Considering the size of the country and the variety of resources

TABLE 3 : ADDITIONAL EMPLOYMENT FOR NEXT 3-4 YEARS

Area of Work	Scientific and Technical Personnel (in '000)						Annual Cost*	
	Post-Graduate Science	Engineering Graduate	Medical Graduate	Scientific Graduate	Engineering Diploma Holders	Total	Per Head (Rs '000)	Total (Rs crores)
Agricultural soil survey and testing	2.0	0.5	—	50.0	7.5	60.0	12	72.0
Forest resources assessment	0.7	0.2	0.1	1.0	0.5	3.0	12	3.6
Primary health centres	1.0	—	5.0	2.0	—	8.0	15	12.0
Clinical laboratories	1.0	—	—	3.0	—	4.0	12	4.8
Forensic laboratories	0.5	—	0.5	2.0	—	3.0	15	4.5
Food and drug testing	1.0	—	0.5	3.5	—	5.0	12	6.0
Mineral survey and development	2.0	1.0	—	3.0	6.0	12.0	18	21.6
Ground water investigation	1.0	1.0	—	2.0	2.0	6.0	18	10.8
Flood control studies	0.5	0.5	—	1.0	2.0	4.0	15	6.0
Quality control in industry	1.0	1.0	—	2.0	2.0	6.0	15	9.0
Engineering design and development	1.0	4.0	—	1.0	4.0	10.0	18	18.0
Instruments development	1.0	0.4	0.1	2.0	2.5	6.0	20	12.0
Research and development	10.0	5.0	5.0	5.0	5.0	30.0	25	75.0
Evaluation of R and D	0.4	0.5	0.1	1.0	1.0	3.0	18	5.4
Manpower studies	0.5	0.4	0.1	2.0	1.0	4.0	18	7.2
Study of foreign aids and collaborations	0.4	0.5	0.1	1.0	1.0	3.0	18	5.4
Techno-economic studies for planning	0.4	0.5	0.1	1.0	1.0	3.0	18	5.4
Cost engineering	0.6	0.5	0.1	1.2	0.6	3.0	15	4.5
Total	25.0	16.0	11.7	84.2	36.1	173.0	16.4	283.2

* Includes salary, supporting staff, equipment, and other recurring and capital expenses.

available, we should need a very large number of scientists and engineers for exploration and assessment. But our geological personnel suffer the highest percentage of unemployment among post-graduate scientists.[4] Geological organisations showed the highest (25 per cent) proportion of unfilled vacancies.[5] Paradoxically again, we have given over major tasks of mineral and ground water surveys to foreign companies.

The manufacturers appear to be comfortably situated in a sellers' market. They often produce non-standard and sub-standard goods. Even the raw materials are undependable on quality from consignment to consignment. Quality control is not generally exercised. This affects the internal market as well as export. Quality control is a field in which many scientists and engineers have to be employed to make an impact on the country's economy.

Our Research and Development (R and D) is mostly technology based. Engineering R and D is advancing but slowly in the country. It needs to be accelerated by drawing more engineers into the R and D sector. Design and development with an eye on our future needs and projects have also to be consciously worked out.

A national plan in its various aspects depends on a proper understanding of the available technology and indigenous resources. These therefore need technical studies by our scientists and engineers. At present, the planning parameters — like techno-economic features, evaluation of material resources, utilisation of manpower, implications of foreign aid and collaborations, etc — are left to conjecture and opinion. These are to be studied in depth by scientifically and technically trained people in order to make the right choices and decisions.

The few items of work which have been mentioned in Table 3 show that in order to wipe out the backlog, would require more scientific and engineering personnel than the 150,000 who comprise the unemployed and the brain drain.

The presentation in Table 3 just shows the accumulated tasks and accumulated unutilised personnel; it also shows that the cost of the essential work is not frightfully high. The foundation of the national economy will remain weak if these are not accomplished.

At the moment, Rs 50 crores have been allocated for creating productive employment. The backlog of work and unemployment may cost 5 per cent of the total Fourth Plan allocations. This may signify a minor-sized reorientation, of a major character and consequence.

NOTES

1 'Magnitude of Brain Drain from India', *Technical Manpower*, (Division for Scientific and Technical Personnel, CSIR), Volume XIII, Number 2, February 1971.

2 'Employment Opportunities for Scientific and Technical Personnel in India', *Technical Manpower*, Volume IX, Number 7, July 1967.

3 'Brain Drain or Overflow?', George B Baldwin *Foreign Affairs*, January 1970, (Abridged in the *American Review*, October 1970).

4 "Census Monograph on Scientific and Technical Personnel", (Monograph 1, 1961), K Ray.

5 'Geological Personnel', *Technical Manpower*, Volume X, Number 2, 1968.

The Dollar Crisis

Possible Solutions and Their Implications for India

Samuel Paul

Charan D Wadhva

An attempt is made in this paper to examine the likely impact on India of the Nixon plan for saving the dollar and of some of the possible solutions which have been widely dicussed in the context of the current dollar crisis. An analysis of the problem from the short and the long term points of view reveals a number of implications for India which may not be obvious to the casual observer. The problems and opportunities created by the dollar crisis may not be as simple or marginal as many seem to think.

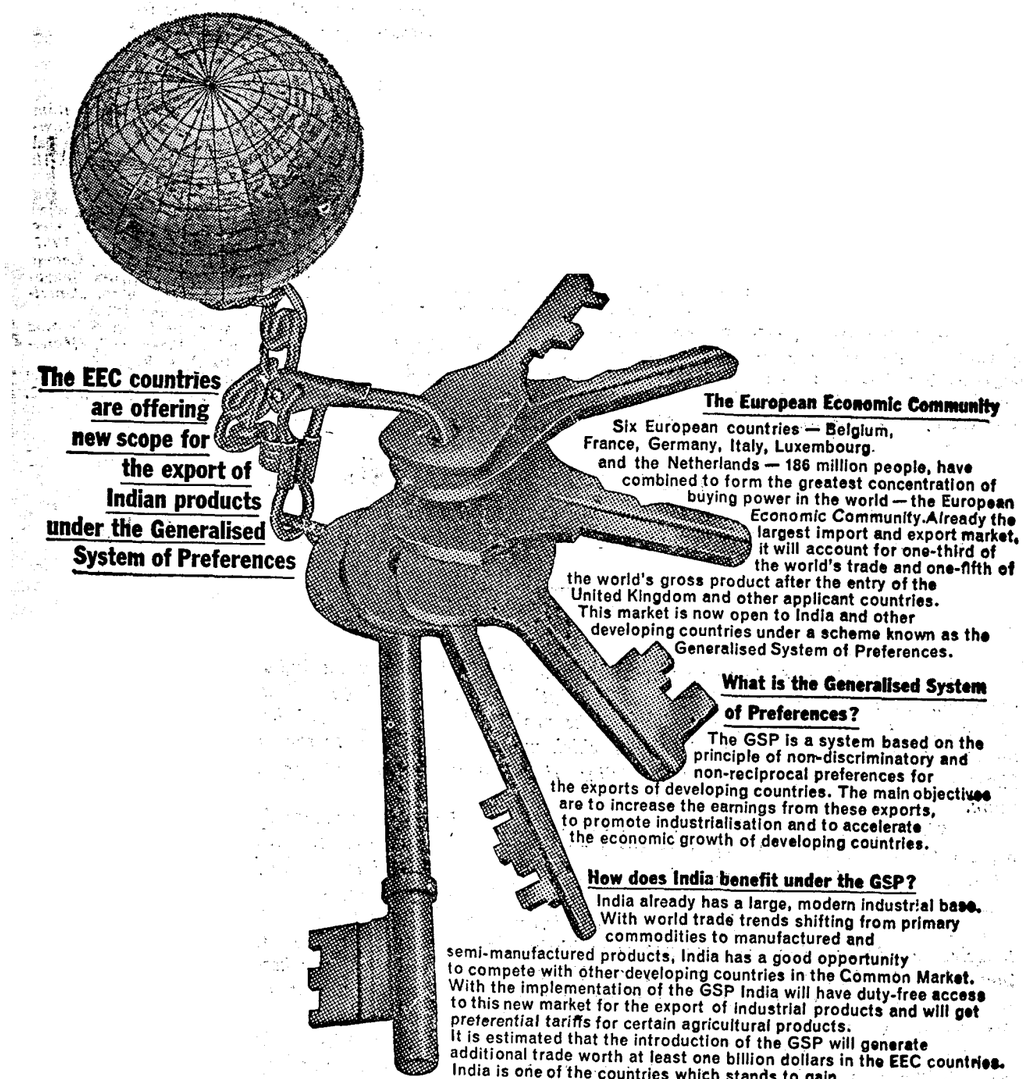
While it is true that the US import surcharge may have only a marginal immediate effect on our exports to the US, the real danger to our exports lies in the restrictive attitudes that may develop in the US in the wake of the wage price freeze. An overall reduction of even duty free imports into the US may occur and in that event is likely to hurt our exports on a wide front.

Prospects of foreign aid will turn worse irrespective of the solution that is finally hammered out to solve the dollar crisis. It does not seem likely that the EEC countries and Japan will fill the gap that will be left by the reduced role that the US will play as an aid donor hereafter. Given this situation and our growing burden of external debt servicing, there is no alternative for us but to go all out for stepping up our exports.

On the brighter side, there is the prospect that our exports to Western Europe may receive a much needed fillip as a result of an effective dollar devaluation. The revaluation of the EEC currencies will reinforce the push given to our exports by the general system of preferences. A similar trend may not develop in our trade with Japan. Because of our strict exchange control system, our import picture is not likely to change very much.

PUBLIC discussion in India has been dominated by a preoccupation with the stern economic measures announced by President Nixon in the wake of the dollar crisis, possibly because of the immediate impact they might have on the Indian economy. While this concern is understandable, it is important to remember that the Nixon measures are in

THERE IS A NEW MARKET FOR INDIA IN EUROPE – THE COMMON MARKET



The EEC countries are offering new scope for the export of Indian products under the Generalised System of Preferences

The European Economic Community

Six European countries — Belgium, France, Germany, Italy, Luxembourg and the Netherlands — 186 million people, have combined to form the greatest concentration of buying power in the world — the European Economic Community. Already the largest import and export market, it will account for one-third of the world's trade and one-fifth of the world's gross product after the entry of the United Kingdom and other applicant countries. This market is now open to India and other developing countries under a scheme known as the Generalised System of Preferences.

What is the Generalised System of Preferences?

The GSP is a system based on the principle of non-discriminatory and non-reciprocal preferences for the exports of developing countries. The main objectives are to increase the earnings from these exports, to promote industrialisation and to accelerate the economic growth of developing countries.

How does India benefit under the GSP?

India already has a large, modern industrial base. With world trade trends shifting from primary commodities to manufactured and semi-manufactured products, India has a good opportunity to compete with other developing countries in the Common Market. With the implementation of the GSP India will have duty-free access to this new market for the export of industrial products and will get *preferential tariffs* for certain agricultural products. It is estimated that the introduction of the GSP will generate additional trade worth at least one billion dollars in the EEC countries. India is one of the countries which stands to gain from this new Common Market policy.

Federal Republic of Germany

the nature of a holding operation and will, sooner or later, be replaced by a more permanent solution to the dollar crisis which is acceptable also to the European Economic Community (EEC), Japan and the International Monetary Fund (IMF). The likely implications of such longer term developments should be of even greater concern to India than the immediate consequences of the unilateral Nixon measures. The long-term answers are still in the process of being negotiated, although it seems fairly certain that a revaluation of the major European and Japanese currencies in relation to the dollar will be a part of the new international monetary system.

The new measures adopted by the United States include the temporary suspension of the convertibility of the dollar into gold or other reserve assets, imposition of a temporary surcharge of 10 per cent on all dutiable imports, a ten per cent cut in the foreign aid programme and a host of domestic fiscal policy measures to enable the economy to stand up to the requirements of its new balance of payments policy. These measures have far-reaching implications for the present international monetary system and for the prospects of achieving high rates of growth of world trade and domestic expansion of both the developed and the developing countries of the world.

I
The Background

The suspension of the convertibility of the dollar into gold or other reserve assets has shaken the very roots of our present international monetary system based on the gold exchange standard. By this act, the United States has violated its basic commitment to stand ready to convert dollars into gold at the fixed price of $ 35 per ounce which it has maintained since January 1934. This was the price agreed to by the IMF in 1947. It was partly because of this commitment which was not doubted by anyone until recently that the United States dollar acquired the status of a "reserve" currency which was not only "as good as gold" but in fact "better than gold", being an interest-yielding asset. The relative weakness of the pound sterling (which was the other reserve currency) after World War II imparted further strength to the mighty dollar.

Even though technically the world was on the gold exchange standard, it became customary for countries to define their parities in 1947 (after the coming into being of the IMF) in terms of the United States dollar. Under these conditions, the world might well have been described as functioning on the dollar exchange standard. The cornerstones of the international monetary system built around the institution of IMF in 1947 were the principles of promotion of freer world trade with relatively stable exchange rates, the convertibility of a few currencies of the major developed countries of the world guaranteed by the promise of one country—the United States—not to change the gold-dollar parity, and its commitment to defend this parity through unrestricted convertibility of dollars into gold (or other reserve assets) for the monetary authorities of the other countries of the world.

Events in recent years have changed the course of the functioning of the international monetary system and in particular the position of the United States in it. The persistent balance of payments deficits of the United States since 1951 together with its dwindling gold stock with the Treasury from $ 24.43 billion in 1949 to a little over $10 billion in 1970 through the continuous conversions of dollars into gold by France and other continental countries led to a build-up of speculative pressures on the dollar. Speculators expected a steady depreciation of the dollar or a rise in the official price of gold (which comes to the same thing as the devaluation of the dollar). Another factor on the changing international scene in the post-World War period has been the emergence of the EEC as a competitor of the United States in terms of the size of the market for traded goods in the world, balance of payments surpluses and strong reserve positions of the member countries. Moreover, productivity has grown faster in the countries of the EEC and more so in the case of Japan compared to the United States economy. The inflationary situation in the United States has also partly reduced the competitiveness of its exports. It is estimated that American prices are about 10 to 15 per cent higher than the prices of similar goods from other developed countries in the world market. Thus, the dollar appears to be over-valued in relation to the major currencies of Western Europe and more so in relation to the currency of Japan. In other words, the major currencies of Western Europe (D-Mark, Franc, Guilder, Lira, etc) and the Japanese Yen are undervalued in relation to the American dollar. Therefore, even within the framework of the present international monetary system, the need for a realignment of the major currencies of the world has become obvious. There is, however, much less agreement on the sharing of the burden of adjustment between the United States on the one hand, and the six countries of the EEC and Japan on the other.

The United States has taken the extreme position that it will not devalue the dollar (or raise the official price of gold) and that it should be the countries of Western Europe and particularly Japan which should revalue their currencies to bring about the appropriate realignment of the currencies of the world. It has used the additional 10 per cent tariff on imports as a power tool to bring pressure on these countries to revalue their currencies. The EEC and Japan have threatened retaliation in the same spirit of using tariffs as a bargaining tool for bringing about the desired realignment of the major convertible currencies of the world. France, in particular, has been equally tough in maintaining that it will not allow the franc to be revalued at least for normal *trade and governmental transactions* and that it is the United States which has the most serious problem of chronic deficits in its balance of payments which should devalue its currency by raising the official price of gold.

It appears that tariffs have worked well as bargaining tools on both sides. Japan was the first country to succumb to the pressure and has changed its position to letting the yen float against the dollar. The countries of Western Europe, including United Kingdom which is expected to become a member of the EEC but excluding France, have not been opposed to the revaluation of their currencies *vis-a-vis* the dollar. And the United States in turn has repeated its intentions of removing the import surcharge once the realignment of currencies has been secured.

II
Possible Solutions

The dollar crisis has once again pointed up the need for basic reforms in the present international monetary system where a few national currencies are relied upon for settling international transactions. These reforms pertain to the gradual replacement of the present reserve currencies (mainly the dollar and the pound) by the newly created Special Drawing Rights by the IMF and the devising of appropriate methods for sharing the burden of balance of payments adjustments between the surplus and the deficit countries. Pending the adoption of these long run reforms, at present four alternative solutions have

been discussed at the meetings of the countries comprising the Group of Ten and the EEC. These are likely to be discussed at the forthcoming annual meeting of the IMF also. Any one or a combination of these alternative solutions in some form is likely to be adopted by the world community soon. We shall now briefly analyse the salient features of these four alternative solutions and in the following section discuss their implications for India.

The first solution is obviously a formal devaluation of the US dollar by raising the price of gold by about 12 per cent. The EEC countries have now agreed at the Brussels meeting held on September 14, 1971 that they would favour the devaluation of the dollar. The IMF has already indicated that it would advise the US government to devalue the dollar.

The dogmatic position taken by the United States to save its face in the international monetary community is certainly unwarranted. A large part of the trouble in the current international crisis has been created by the persistent balance of payments the United States has been running since 1961 and its inability to meet its gold convertibility commitments to the creditor countries. There is no doubt that the United States can now be described as suffering from a fundamental balance of payments disequilibrium as evidenced by the emergence of a deficit in its balance of trade since 1970. The deficit is expected to grow from $ 1.2 billion in 1970 to twice as much in 1971. The facts of the case point only to one conclusion, namely, that the US dollar is overvalued by about 12 per cent in relation to the major currencies of Western Europe and Japan. The United States should accept the fact that under such conditions the demand for the devaluation of the dollar by the countries with balance of payments surpluses and huge dollar balances in their reserve assets is justified. The fact that most of these surplus countries are ready to revalue their currencies to some extent provided the United States devalues the dollar partially should be used by the latter to negotiate an appropriate realignment of the major currencies of the world.

If the first solution fails, the second alternative solution would be for the stronger currencies of Western Europe to be revalued by 10 to 12 per cent and the yen to be revalued by about 15 per cent. Since West Germany started floating the mark in relation to the dollar on August 23, 1971 the mark has already appreciated by about 8 per cent and since the yen started floating one week later than the mark, it (the yen) has by now gained about 6 per cent in value in relation to the dollar.

A third possible solution is to allow wider bands around the fixed parity (say, 3 to 10 per cent) compared to the present limit of allowing only a one per cent fluctuation by the monetary authorities. This solution has been proposed as part of the five-point proposal by the Office of the EEC for consideration by the member countries. This proposal is designed to lead to an effective devaluation of the US dollar through the interplay of market forces within defined bands rather than by official action to change parities. A variant of this proposal is the crawling peg solution where the parity itself is allowed to change by, say, 3 per cent every year in line with the trend of the market rates of exchange prevailing within the wider band proposal. This variant has not yet been discussed in the public statements made by the Office of the EEC but may be in the process of being discussed for presentation at the forthcoming annual meeting of the IMF.

The fourth solution which is different from the above-mentioned solutions has been put forward by the French. This relates to the institutionalisation of a new two-tier system of rates of exchange in international transactions — one relating to trade and governmental transactions and the other relating to capital transactions and tourism. It is proposed that there should be a fixed parity for the first tier transactions to remove uncertainties in conducting normal export and import trade and governmental transactions which should be allowed to fluctuate only within the presently accepted limits of 1 per cent around the defined parities, whereas market forces should be freely allowed to determine the exchange rate on the second tier of transactions. The purpose of this two-tier scheme is to insulate the genuine traders on the monetary authorities from the assaults of speculators on certain currencies which upset the normal functioning of the international monetary system. Besides the French, the Belgians and more recently the Swiss have endorsed this two-tier scheme and it is already in operation in France. This scheme has the potentiality of standing upto the immediate needs of the international monetary system but would need to be supplemented by longer run basic reforms in the system.

III

Implications for India

We shall analyse below the implications of the dollar crisis for the Indian economy under three heads: (1) the immediate impact of the Nixon measures of the import surcharge, foreign aid cut and wage-price freeze; (2) the effective devaluation of the dollar either through the revaluation of the key currencies or an increase in the dollar price of gold; and (3) the long-term prospect of a wider band within which exchange rates may be permitted to move or the adoption of a two-tier exchange rate system. The second and third are more relevant from a long-term point of view while the first concerns the present. A comprehensive analysis must cover both the short- and long-run consequences.

Impact of the Nixon Plan

Judging by the visible reactions to the dollar crisis, the impact on India's trade and money markets is anything but significant. There has naturally been a sense of anxiety in trade circles. Domestic gold price went up, possibly in anticipation of a rise in the dollar price of gold. The stock market, on the other hand, did not show any evidence of turmoil. Thus, by all indications, no crisis of any kind was precipitated in India by the Nixon plan.

When there is uncertainty about exchange rates, two activities which invariably get disrupted are trade and tourism. In the event of an expected realignment of exchange rates, trade transactions and travel plans tend to get postponed or cancelled, holding up productive operations or reducing the foreign exchange earnings of the country. In India, authorised foreign exchange dealers have by now adjusted to the new situation and reports are that transactions are not any longer held up because of the exchange rate uncertainty. As a result of the strict control over capital movements which has been in force in India for many years, disruptions due to speculative transactions can be treated as minimal. It is reasonable to conclude that the initial phase of mild confusion in trade and related transactions in India which followed the announcement of the Nixon measures is over.

The focus of the Indian public commentary on the Nixon measures has been on the likely impact of the import surcharge on our exports. It is estimated that only 15 per cent of our exports to the US would fall within the purview of the surcharge. Jute goods

Table: Distribution of Indian Exports and Imports by Major Markets (1969-1970)

(Per Cent)

Country/Region	Distribution of Exports from India	Distribution of Imports to India
(1) USA	16.9	29.4
(2) United Kingdom	11.7	6.4
(3) EEC	7.1	10.9
(3.1) West Germany	2.1	5.3
(3.2) Italy	0.9	2.5
(3.3) Others	4.1	3.0
(4) East European Countries	21.8	18.0
(4.1) USSR	12.5	10.9
(4.2) Czechoslovakia	2.1	1.5
(4.3) Others	7.2	5.6
(5) ECAFE	24.5	16.6
(5.1) Japan	12.7	4.3
(5.2) Australia	1.7	2.0
(6) Other Asian Countries	5.1	2.4
(7) Africa	6.1	9.0
(7.1) UAR	2.5	1.4
(7.2) Others	3.6	7.6

Source: DGCIS, Calcutta.

(except bags and yarn), cashew, fish, tea, spices, handicrafts, etc, which enter the US duty free account for nearly 77 per cent of the Indian exports to that country. However, the dutiable exports consist mainly of non-traditional items such as engineering goods, chemicals, textile and clothing items. Given this background, what is the overall impact on Indian exports likely to be in the short run?

Indian trade and financial analysts have been unanimous in their conclusion that the impact of the Nixon plan on Indian exports is likely to be marginal. After all, the lion's share of our exports will not be affected by the surcharge. However, this conclusion may be based on a superficial analysis for two reasons. Firstly, the non-traditional goods which fall within the dutiable category constitute the faster growing segment of Indian exports. The US import surcharge by raising the cost of our dutiable items, may reduce our competitiveness in that country and substantially hurt our strategy of expanding the non-traditional segment of exports in the single largest market in the world. Though quantitatively the reduction in exports may not amount to very much, the surcharge would have succeeded in putting an effective barrier on our export front.

Secondly, the import surcharge is only one of the measures announced by Nixon. The wage-price freeze and the general nationalistic fervour generated by the new Nixon policy are bound to have an indirect and adverse effect on all imports into the US. The freeze is no doubt aimed at controlling inflationary spending. A general freeze *per se* will not distinguish between the propensity to spend on domestic as against imported goods. However, when nationalistic feelings are aroused, there is no doubt that the scales will be tilted against foreign goods. At least it is easier to do so. This certainly has some implications even for our duty free exports to the US. Many of these items are consumption goods which become easy targets in an emergency regime of wage-price controls. Reports have recently appeared in newspapers about the serious setback experienced by our shrimp export to the US. Though the freeze is supposed to be lifted in November, some form of control over wages and prices is bound to continue in the US. This may well have an adverse impact on our tourist traffic this year which usually picks up in the winter season. The US today is our single largest trading partner (see Table) and a slump in our overall exports to the US cannot be brushed aside as marginal.

It is important to remember that we are concerned here only with the short-run impact of the Nixon measures. As a result of these measures the US may be expected to regain its strength and vigour eventually. By then the US may cast off its restrictive policies and support trade more willingly. But in the short run, i e, in the next one year or so, the outlook is not bright for such a change. Nor is it easy for us at short notice to make up for the decline in our exports to US by expanding our trade with other countries Some improvements perhaps in respect of jute exports may be feasible because of the turmoil in Bangla Desh. Thus, the short-run impact of the Nixon measures on Indian exports may well be more serious than is made out by most Indian trade analysts.

Implications of Effective Dollar Devaluation

It is expected that the effective devaluation of the dollar either through a revaluation of the major European and Japanese currencies or an increase in the price of gold will be of the order of 10-12 per cent. What is the likely impact of this measure on India's trade prospects and balance of payments?

India has declared her intention to maintain the rupee's parity with the dollar. Once the devaluation becomes effective and the US import surcharge is removed, we would be back to where we were before the Nixon plan in relation to the US. In other words, trade with the US which is our leading trading partner will not be disturbed on account of any change in the foreign exchange rate or extent of protection. However, as has been discussed above, there is a high probability that the new domestic policy of Nixon will cause the US propensity to import to decline at least temporarily.

Similarly, there is no reason to believe that our trade with the developing countries (Asia, Africa and Latin America) would be affected by the dollar devaluation. These countries are certain to maintain their parity with the US dollar and hence with the Indian rupee also.

Some changes, however, are likely to occur in our trade relationships with the EEC countries and Japan. Indian goods will become marginally cheaper in these countries and their products a bit more expensive (10-12 per cent) in India. In order to evaluate the likely developments, it is useful to have some background on our trade with these countries. The Table provides the required summary information for 1969-70.

Exports

In 1969-70, India's total exports and imports were Rs 1413 crores and Rs 1567 crores respectively. It will be noticed that with the EEC countries as a group, we have a trade deficit. The price advantage that the revaluation of their currencies bestows on us may help to increase our exports to them. This trend will be reinforced by the adoption by EEC with effect from July 1971 of the generalised system of preferences (GSP) under which imports from developing countries of semi-manufactured and manufactured goods will be permitted free of duty or at substantially reduced tariff rates. Revaluation together with GSP should give our exports to EEC a much needed boost. As a result, we may have a substantial advantage in the export of textiles, clothing, certain engineering and automotive products to Europe. It is important to remember, however, that we will have to face competition from other developing countries in our efforts to export more to Europe. Our only advantage over them is that we are a little ahead of them in terms of our industrial diversity and potential.

The other country against which our competitiveness will be strengthened is Japan. Theoretically, we should be able to persuade Japan to buy more goods from India. The only snag is that we already have a sizeable trade surplus

with Japan (see Table). Nearly 45 per cent of our exports to Japan consists of iron ore. If Japanese exports to US get hit and her iron and steel industry slows down, the chances are that our iron ore exports may also slump or at least lose momentum. The persistence of a trade surplus may also tempt Japan to bargain for bilateral agreements so that Indian imports from Japan increase. Unlike the EEC countries, Japan is not yet committed to a general policy of trade liberalisation. Faced with a growing threat to her export trade, she may well fall back on restrictive trade arrangements. Our trade relationships with Japan need to be examined closely in view of these potentially harmful possibilities.

India has a trade surplus with UK also. Since the pound will also be revalued, this trend will get reinforced. But our exports to UK consist largely of semi-manufactured goods where the import elasticities are small. Our exports to UK of items like textiles have in fact been declining over the years. The price advantage we gain through the revaluation of the pound will not therefore result in any significant increase in our exports to UK. On the other hand, the danger of UK adopting restrictive trade policies is less serious than that of Japan since as part of EEC she will be committed to increased trade liberalisation.[1]

The role of invisibles in the Indian balance of payments is relatively small. Our credits and debits in terms of tourism, transportation and investment income are on the whole marginal although remittances of profits and interest accruing to foreigners have been growing over time. Though European and Japanese tourists should find India a bit cheaper than before, one doubts whether their response will amount to very much since in this business culture, traditions and attitudes play a dominant role. If our tourism planners can successfully tackle the problem at this level, our increased price advantage may be used as an additional bait.

Imports

Our import prospects are not likely to be affected very much by the dollar devaluation. First of all, we operate within a regime of strict import control which minimises the scope for any major readjustments. Secondly, nearly 50 per cent of our imports are from the US and the East European block neither of which would change their prices for the Indian market as a result of the devaluation of the dollar. India will find imports from the EEC countries and Japan marginally more expensive. As a result, US imports will tend to become slightly more competitive from our point of view. This is an area in which considerations of technology, aid and collaborations play an important role. We do not therefore feel that the dollar devaluation *per se* will have a perceptible influence on the volume and direction of imports.

Transactions on Capital Account

What is likely to happen to long-term capital movements in terms of aid, private investments, etc? In the Indian balance of payments, official capital transactions dominate and account for over Rs 1,000 crores annually. Private transactions are negligible, being around Rs 60 crores. Since we have an overall trade deficit, it is obvious that the excess of imports over exports is financed largely by long-term official capital flows. Nearly 75 per cent of the official capital receipts came from governmental aid 40 per cent of which was accounted for by US aid in 1969-70. A decline in fresh aid authorisations is already evident. In 1969-70, aid authorisations have declined by a third compared to the preceding year and the share of US aid authorisation has dropped from 40 per cent to 33 per cent.

The deepening aid fatigue is likely to be accentuated by the dollar crisis. Nixon's 10 per cent cut in aid is symbolic of this trend. The US may be expected to progressively reduce its share of aid to developing countries. The Europeans have never really taken an active part in expanding aid. It is reported that the official developmental assistance by West Germany, France and Japan together has declined as a per cent of their GNP in 1970 as compared to 1969.[2] The total aid provided by them to India in absolute terms in recent years has been less than half the US official aid during the same period. It is reasonable to conclude, therefore, that the declining trend in foreign aid will be reinforced by the dollar devaluation. Nor is it likely that increased private aid will make up for the slack in official aid. Private foreign investment in India has been on the decline in recent years. The revaluation of EEC and Japanese currencies should make it marginally more attractive for the businessmen in these countries to invest in India. We doubt very much that this trend will develop in any significant fashion in view of our ideological hang-up on foreign investment.

Does this mean that a major foreign aid crisis will develop in India in the immediate future? The answer is "no". As of now, we would have a total of over Rs 900 crores of aid in the pipeline which will see us through at least another year or a little longer even if no fresh aid is forthcoming. What is to be noted is the lower rate of aid inflow to which the economy will have to get adjusted. The most effective way of adjusting to the new situation is by stepping up our exports. Instead of merely preaching self-reliance, we will now have to practise it with all our strength!

An important item in our external capital account is debt servicing. Total debt servicing which was Rs 275 crores in 1966-67 has risen to Rs 435 crores in 1970-71.[3] Nearly two-thirds of this amount is accounted for by amortisation of external debt. To the extent that some currencies of the creditor countries are revalued, the debt servicing burden will increase for the borrowers. It is estimated that of the loans India has to repay in foreign currencies, nearly 30 per cent are due to the EEC countries and Japan. Government as well as private firms which have utilised these loans will now find that the rupee cost of servicing their debt has gone up by about 10 per cent. The annual incidence of this increased cost will be of the order of Rs 15 crores for the economy. The cost of servicing dollar loans, of course, will not be affected at all. One consequence may be a move on the part of India to get a rescheduling of debt arranged with EEC and Japan. Once again, the increased burden of debt servicing underscores the importance of stepping up exports.

Implications of Wider Band/Two-Tier System

The impact of the proposed wider band/two-tier system on India's trade will not be significantly different from that of an effective dollar devaluation which has already been analysed above. However, a couple of comments are in order.

Firstly, under the two-tier system, the market determined exchange rate will apply to non-official capital flows and tourism. The uncertainty about rates may have an adverse effect on the growth of both these components of the balance of payments. In the Indian case, private capital movements are not significant and fluctuating exchange rates may reduce the prospects of these becoming important in the future. Indian investors abroad (joint ventures) will find that their remittances to India will be subject to greater uncertainty.

Tourism which is expected to grow may also receive a setback under the two-tier system because of the greater uncertainty which private travellers will have to face in exchanging currencies while abroad.

Secondly, the wider band may tend to make traders all over the world more cautious in their transactions. Only experience will tell whether this will result in a shrinkage of world trade. However, it is likely that in the case of most of the developing countries with presently overvalued currencies like India, the trend in the operation of the scheme for wider bands will be towards a depreciation of their currencies in relation to the currencies of the developed countries and its effect will be similar to that of devaluation. This may provide greater competitive advantage to Indian exports in the markets of the developed countries and reduce imports from them to some extent. It may make it easier for India to correct the extent of the overvaluation of the rupee in an orderly fashion by adopting a crawling peg scheme.

Impact on Exchange Reserves

India's total international reserves in January 1971 was of the order of $ 1.08 billion which was accounted for by gold worth $ 243 million, SDRs worth $ 162 million and foreign exchange of the order of $ 656 million. The dollar assets of India reported by the US Treasury in January 1971 amounted to $ 236 million or about Rs 182 crores.[4] An effective devaluation of the dollar by 12 per cent (either directly by the US or through the revaluation of the currencies of Western Europe and Japan) would have implied an exchange loss for India of about $ 28 million (Rs 22 crores approximately) in terms of the purchasing power of the dollars held by us *vis-a-vis* Europe and Japan. This effect will be neutralised to the extent that our holdings consist also of sterling and other major European currencies.

The raising of the official price of gold by the US and our maintaining the rupee-dollar parity would imply a capital appreciation in the value of the official gold held by us. The adoption of the wider band scheme or the two-tier system is likely to reduce the need for creating new SDRs in the coming years and India (like other countries of the world) may not count on getting a fresh supply of SDRs. The effects of these schemes on our level of reserves are hard to predict for much will depend on what happens to our export earnings, import bill, capital movements and foreign aid.

IV

Conclusion

In this paper we have examined the likely impact on India of not only the Nixon plan for saving the dollar but also some of the possible solutions which have been widely discussed in the context of the current dollar crisis. An analysis of the problem from both the short- and the long-term points of view reveals a number of implications for India which may not be obvious to the casual observer. The problems and opportunities created by the dollar crisis may not be as simple or marginal as many seem to think.

First of all, while it is true that the US import surcharge may have only a marginal immediate effect on our exports to the US, the real danger to our exports lies in the restrictive attitude that may develop in the US in the wake of the wage price freeze. An overall reduction of even duty free imports into the US may occur and in that event is likely to hurt our exports on a wide front. Secondly, prospects of foreign aid will turn worse irrespective of the solution that is finally hammered out to solve the dollar crisis. It does not seem likely that the EEC countries and Japan will fill the gap that will be left by the reduced role that the US will play as an aid donor hereafter. Given this situation and our growing burden of external debt servicing, there is no alternative for us but to go all out for stepping up our exports.

On the brighter side, there is the prospect that our exports to Western Europe may receive a much needed fillip as a result of an effective dollar devaluation. The revaluation of the EEC currencies will reinforce the push given to our exports by the general system of preferences. A similar trend may not develop in our trade with Japan. Because of our strict exchange control system, our import picture is not likely to change very much. The consequences of the wider band proposal may not be significantly different from those given above except insofar as it may facilitate a realignment of currencies to take place more easily than at present.

Notes

1 UK is not expected to adopt the GSP for a year even after joining the EEC. Our exports to UK will therefore be subject to higher tariffs *vis-a-vis* EEC.
2 See *Commerce*, September 4, 1971, p 466.
3 GOI, "Economic Survey 1970-71", p 158.
4 *International Financial Statistics*, June 1971.

Rehabilitating the Disabled

SOME 300 million disabled people throughout the world require rehabilitation services they cannot get. Motoring and industrial accidents are adding another three million crippled persons every year to the world total of disabled, adds a UN report. The survey of rehabilitation problems calls for increased international assistance for the training of specialists and the setting up of pilot programmes to help disabled people return to active community life. It also advocates more stringently applied regulations to curb traffic and industrial accidents, and stepped-up immunisation and medical programmes to lessen the incidence of crippling and disfiguring diseases.

It notes, for instance, that millions of blind people in the developing world could regain their sight if a simple cataract extraction operation was made available to them. The operation can be carried out by medical aides under the supervision of a doctor.

Wars and civil unrest, diseases of various kinds as well as accidents caused by traffic, work and other means still force millions of people to spend the rest of their lives handicapped by various disabilities, says the report. But nowadays, it adds, the possibility exists for most of them to return to normal active life.

The report points out that more than 850,000 children were being treated for leprosy in 1968, but they were only a small percentage of the sufferers of this crippling and disfiguring disease, and most of them cannot be rehabilitated under present conditions.

The rehabilitation problem is not confined to the developing world. In the United States, for instance, the report says that 207,000 persons were rehabilitated in 1968, but more than 300,000 new physical and mental disability cases requiring rehabilitation remained unattended.

A number of UN and non-governmental organisations have been involved in these rehabilitation programmes.

India Steamship Company Limited

Speech of the Chairman, Sir A Ramaswami Mudaliar

THE following is the Speech of the Chairman, Sir A Ramaswami Mudaliar, KCSI, DCL (Oxon), delivered at the Annual General Meeting of the Shareholders of India Steamship Company Limited on September 23, 1971:

GENTLEMEN,

The Audited Accounts and the Directors' Report for the year ending 31st March, 1971, has been in your hand for sometime and with your permission I shall take them as read.

I have to note with profound sorrow about the sad and sudden demise of our valued colleague on the Board, Mr S K Handoo. His ability, experience and valued counsel were assets to the Company. We all shall miss his matured and wise contributions to the discussion at Board Meetings. The Board has conveyed its condolence and sense of loss to the family of Mr Handoo.

FREIGHT EARNINGS

As the Directors' Report states, the freight earned during the year was Rs 14,20,17,295/- as against Rs 12,63,44,486/- in the previous year which is the highest amount of freight charges earned by the Company in a year so far. It has been explained in the Directors' Report that due to various factors the Company had to contend with during the year, Profit and Loss Account shows an unfavourable result after providing Rs 1,27,05,317/- for depreciation and meeting all other normal charges. It has also been explained that cost increase during the year was on a worldwide basis and quite unprecedented. Most of the costs were controllable in that they were imposed upon shipowners frequently without notice and invariably without any discussion or negotiation. Ports all over the world have been repeatedly facing increasing demand from water front workers, the burden of which Port Administration passed on to owners and shippers. Despite the efforts of the Lines engaged in Conference Service, the earnings could hardly cover the cost of operation and it was an inescapable conclusion that there will have to be additional revenue to meet the increased cost if the Conference services were to be maintained.

SOME BASIC CONSIDERATIONS

During recent months the Conference system has been under severe criticism on account of the approaches made for increase in freight rate levels. In several quarters views have been expressed questioning the efficacy and/or continued need for such type of shipping service. It therefore may not be out of place to point out some of the basic considerations relevant to this matter.

In the first place the nature of India's export trade is such that the main commodities moving cannot be regarded as being solely available from this country. It is an unfortunate fact the Indian exporters face competition, all too frequently severe competition, from alternative sources of supply of such commodities. Understandably Indian exporters therefore seek the lowest possible freight rates especially since commodity values are not at such levels for the freight factor to be regarded as an insignificant part of CIF value.

In recent months tramp rates are very firm. In the absence of a Conference liner service, exporters would find it extremely difficult to bear the level of freight the tramp can and does command. This is irrespective of the consideration whether or not the exporter can offer full ship loads on his own account or in consortium with other exporters. The Conference system of liner shipping offers a certain stability in freight rate levels. Before freight levels can be increased most Conferences (and certainly all Conferences of which the India Steamship Co is a member) engage in consultation with the Trade in an effort to achieve mutual understanding between the Trade and the Conference lines of each others problems, so that fair and proper rates may be fixed. No exporter wishes to see an increase in any factor affecting his costs. The Shipowner is also an exporter (even if his export is of the so-called 'invisible' variety) and he too derives no satisfaction from being compelled to accept increases in his costs. The considerable criticism levelled at Conference liner shipping has been, broadly, two pronged; on the one hand the exporter complains bitterly at the level of rates and on the other hand at the standard of service offered. On a hard freight market ships are not easy to find when required since very firm rates are only commanded when the demand for shipping exceeds available supply. On the other hand the Conference service maintains regularity, frequency and a far more stable rate level than does tramp shipping. The liner vessel rate does not rise to the level that tramp rates go, nor does the liner rate increase from day to day without notice as is the case with the tramp.

UNPRECEDENTED HEAVY INCREASES

The Shipowner, as earlier mentioned, does not derive any satisfaction being compelled to accept cost increases and in the last 12/18 months the Shipowner has been faced with unprecedentedly heavy increases in cost. A dramatic increase in the price of fuel oil; considerable increase in wages to labour at virtually all ports served has raised the cost of stevedoring and other port charges; salaries of the Shipowners' staff especially the floating staff have increased; to say nothing of the increased cost of buying a ship, maintaining it, storing it, and of interest charges and the cost of other aspects of shipowning and operating. It is to be stressed the Shipowner is left with no choice in the matter of accepting increases in cost of oil, stevedoring, port charges, since his position is the unfortunate one of either "take it or leave it". In the matter of negotiating increases in salaries the Shipowner is as responsible as the exporter, faced with the same problem. Shipping can and does operate at a loss for brief periods of time but it literally cannot and therefore does not operate at a loss all the time — no business does since obviously it cannot. I am constrained to make an appeal to exporters, Governmental authorities and to all concerned to be very objective in their assessment of whether or not a Conference service is required. I believe the vagaries of being solely dependent upon tramp shipping especially when mindful of the competing sources of supply of the commodities exportable from India, would introduce such instability, year by year, as would render any possibility of maximalising exports and therefore exchange earnings, an insurmountable task. Commodity prices

frequently rule high especially when the tramp rates rule high. If the commodity is from one source of supply only, the exporter may be in a happy position, but as stated (and it deserves re-stating) commodities moving from India unfortunately are not in such a happy position.

TWO-WAY TRADE

With 25 years of experience of the Conference system I venture to state that the opposition to the Conference system is not well considered and will prove disastrous to the country. It has to be remembered that shipping is a two-way trade and the Conference system sustains the two-way trade. The shippers attack the Conference system sometimes without proper realisation of the consistency of service and the two-way trade that it serves. There are obligations on the part of the members who serve the Conference system which should not be ignored. In times of difficulties in the past few years since Suez Canal is closed, Shippers do not realise how the Conference system placed liner vessels and has maintained a service that is comparatively realistic for its regularity in spite of the various factors that affect its long drawn route consequent on the closure of the Canal. It should be better appreciated that the liner trade has done its best to maintain the trade by its comparative regularity.

DEVELOPMENT REBATE

The pooling system which was introduced some years back has played a great part in securing cargo for the regular liner trade. The liner vessels, however, owing to the obligations to the Conference carried cargo which was not carried by any other system. I earnestly want shippers particularly those who have been associated with the Conference not to withdraw their assistance because they have to stand together through good and bad days. Apart from the question of freight, the Government of India and the Ministry of Transport have strongly supported the Conference system in the past and I hope with earnestness that any hasty condemnation under pressure from shippers will not be levelled at the Conference system. It will be a completely short-sighted policy whether on the part of the shippers or anybody to condemn the Conference system which is the prevailing practice all over the world.

Shipping as is well-known is a highly capital intensive industry and has long gestation period. I endeavoured to explain that due to several factors the industry had insufficient earnings and therefore was not in a position to build up adequate internal resources to meet the cost of expansion programme. The rate of Development Rebate was introduced because the Government acknowledged the characteristic features of the industry and was aware that the depreciation allowed was inadequate to absorb the phenomenal increase in the replacement cost. It is my apprehension that the Finance Minister's hope that the advance notice of abolition of Development Rebate would quicken the pace of investment, would so far as ships are concerned be frustrated. Because even if with the booking position of the world shipyards, it could be possible to place orders for new ships, it would be impossible to obtain deliveries of the ships before May, 1974 against orders placed now. The Fourth Plan envisaged achieving target of carriage of 40 per cent of country's overseas trade by her own bottom and to fulfil the target, it is necessary to order an additional half a million ton over and above the orders for new tonnage which have already been placed by different Shipping Companies. The meagre profitability of the industry burdened by additional tax as proposed together with the abolition of Development Rebate is not expected to create favourable condition for placing order for further tonnage. As a matter of fact, it will not be unrealistic to hold the view that conditions as presently imposed would put a complete stop to the acquisition of any further tonnage in future. Apart from the question of acquiring additional tonnage, it would be a difficult proposition to maintain the strength of the existing fleets by replacement of old and obsolete tonnage with the replacement cost being what it is at present.

REFUGEE INFLUX

From the consideration of national economy, it is not only desirable but essential that as quickly as possible Indian Shipping should be in a position to handle 50 per cent of the cargo moving in the foreign trade of the country. It is my earnest hope that the Finance Minister will see the imperative need for the availability of the relief in the form of Development Rebate to shipping and will reconsider the proposal for its withdrawal.

The year 1970 was a year of unfulfilled expectations and in the year 1971 a new problem has emerged which is staggering in its stupendity. With the influx of nearly 7 million refugees to the country, not only the shattered economy of West Bengal is passing through a great crisis, the country as a whole is confronted with a problem unprecedented in its history and its economy is strained to almost breaking point. In such a situation, the country cannot afford production loss or low productivity in any form which will cause an incalculable damage to employment potential. It is more than ever necessary now to quicken the pace of output and production in all spheres of industrial development.

Your Directors have reported about the sale of the vessel, "Indian Shipper" and the reason thereof. In pursuance of the policy of replacement of ageing ships your Company has placed order for construction of two ships with the Hindustan Shipyard. The launching of the first of the two vessels being constructed in Germany has been performed and that of the second vessel will be done sometime in the end of September or early October. Both these vessels will be added to the fleet of your Company before the end of the financial year and this new addition, I trust, will increase the earning potentiality of your Company.

We have a new Minister of Shipping and Transport, Shri Raj Bahadur. He is not new to shipping having successfully handled the intricacies and problems of this industry during his previous tenure. With his past background and knowledge, I have no doubt he will infuse a new dynamism which is needed in order that Indian Shipping can thrive and prosper in a growing competitive and complex international situation.

THANKS

The Secretary of the Ministry of Transport, the Joint Secretary and Director General of Shipping and his Assistants with whom we have been closely in touch have helped us greatly by their advice and valuable guidance. We are specially thankful to the SDFC for the co-operation and assistance we received from them.

We are thankful to the staff both afloat and ashore for the care with which they have looked after the affairs of the Company during the year; to them I should like to express our thanks. I would like to thank all the Officers and Staff of the Company in India and overseas for their interest in the progress of

the Company and for their diligence in carrying out their duties I should like specially to thank the staff in Office in Calcutta whose devotion to duty under the most difficult conditions has been highly commendable. Our thanks are also due to our Agents both in India and abroad for the care with which they have attended to our ships' requirements both in respect of freight and in other directions. Thanks are also due to the shippers both in India and overseas who have extended their continued and firm support to us.

Indian Rubber Regenerating Company Limited

Statement of the Chairman, Shri K M Philip

THE following is the Statement of Shri K M Philip, Chairman, Indian Rubber Regenerating Company Limited, on the occasion of the Tenth Annual General Meeting of the Shareholders of the Company at Bombay on September 24, 1971:

GENTLEMEN:

I have great pleasure in welcoming you to this Tenth Annual General Meeting of your Company. The Directors' Report and audited Statements of Accounts of the Company for the year ended 31st March, 1971 are already with you.

WORKING RESULTS OF THE COMPANY UNDER REVIEW AND RUBBER INDUSTRY'S PROGRESS

The working of the Company, as you may have observed from the Directors' Report and audited Statements of Accounts, has been satisfactory. During the year under review, the Company's turnover increased from Rs 97.70 lacs to Rs 110.80 lacs, i e, an increase of 13.4 per cent This has resulted in the increase of profits from Rs 15.55 lacs in the previous year to Rs 19.79 lacs. The Company has been able to achieve this performance despite the general slackness experienced by the Rubber Industry on account of constant labour problems and power failures. The production losses in the industry due to various factors have been substantially large. For example, the production of many factories in the Bengal region, which accounts for a good share of the Rubber Industry, was on many occasions interrupted due to the disturbed political situation there. These unexpected developments have considerably delayed the expansion anticipated in the Tyre Industry. Further, there had been no progress in setting up the new units recently licensed. However, with the stable Government at the Centre and more settled political and economic conditions, the Industry has every reason to be optimistic. The latest report indicates that normal production has been started in all Tyre companies from the month of August. Therefore, I anticipate a steep increase in the consumption of rubber from now onwards, and our total rubber consumption for 1971-72 may exceed 1.44 lacs tonnes as against 1.34 lacs tonnes reached in 1970-71.

PROGRESS OF THE COMPANIES

Tyre Industry is the major consumer of our reclaim rubber and because of serious power cuts, labour troubles and continuous strikes in some of the tyre units during the last year and the beginning of the current year, the production of tyres has been affected considerably. Consequently, the Government had to sanction an import of 60,000 tyres during the current year. With the development of the country's economy, the total demand for tyres and tubes and industrial products is growing. I am now very hopeful that the production of tyres during the second half of the financial year will improve considerably. I also expect that practically all the existing companies will complete their expansion plan by 1972-73, and from 1973-74 the production of automobile tyres will cross the 6 million mark from the 4 million reached in 1970-71. With this, the demand for reclaim rubber will also substantially increase. Your Company is ready to play its part in meeting the anticipated future demands for reclaim.

DEVELOPMENT AND EXPANSION

I am happy to say that the Company has received the necessary foreign exchange loan from ICICI and Rupee Term Loan from Dena Bank, for the purposes of implementing expansion and modernisation programme. I take this opportunity to thank both these institutions for the keen interest that they have shown in the expansion programme, the expeditious processing of the application and for the early disbursement of the funds for implementing the expansion. The expansion programme, which includes considerable automation, is expected to be completed by December 1971. With this, the Company would be able to enhance its production to meet the increased demand for reclaim rubber in the country. Even at the present scale of operation, the current year's production will exceed last year's figures and therefore, if the present trend continues and if no unforeseen circumstances develop, I assure you that there need be no anxiety about the future of the Company.

EXPORTS

During the year under review, we ahve exported goods worth Rs 3.48 lacs to Middle East and South East Asia, and Africa. I am happy to inform you that during the current year, we have made a breakthrough in several export markets in a big way and I am hopeful that our export sales will show an appreciable increase in the year to come.

TRAINING AND DEVELOPMENT

You are already aware of your Directors' constant endeavour of implementing changing technology in the field of management. As such, your Company has been giving high priority to training its officials at all levels. During the year several far-reaching recommendations of the National Productivity Council and Bombay Productivity Council were fully implemented. In the field of materials management, you might have observed that as compared to last year's Balance Sheet, this year's Balance Sheet shows considerable reduction in the inventory of Stores & Spares and Raw Materials. We have given intensive training to the materials management officers and staff in order that we may get further benefit in all the cost saving areas.

CONCLUSION

In the end, I would like to congratulate all the workers, staff and members of the management for their continuing efforts to make the Company's working successful.

Rural Electrification Corporation Limited

Address by the Chairman, Shri B Venkatappiah

THE following is the Address by the Chairman, Shri B Venkatappiah, at the Second Annual General Meeting of the Shareholders held in New Delhi on September 22, 1971:

GENTLEMEN

I am happy to welcome you to the Second Annual General Meeting of the Rural Electrification Corporation. My pleasure is all the greater because I am in a position to tell you that much progress has been achieved since we met last. You have before you the Statement of Accounts, along with the Auditors' Report, for the year commencing April 1, 1970 and ending March 31, 1971. In the Annual Report of the Board of Directors, you will find a detailed account of what the Corporation has been able to do during the twelve months of 1970-71. With your permission, I shall take these documents as read.

The first batch of loans passed by the Corporation dates back to March 1970; and, as I write this, the latest batch to receive sanction is no older than the end of August, 1971. The twelve months covered by the Directors' Report are thus part of the longer — but only slightly longer — eighteen months which represent the total active life of the Corporation. Perhaps it would be best for us, on this occasion, to look back at the eighteen months and put ourselves certain questions about what has been done hitherto and what is proposed to be done hereafter. I shall set down three questions and, in the paragraphs which follow, attempt to give the answers :—

I. What has the Corporation achieved so far in pursuance of its main objective as a financial institution, *viz*, the sanctioning of project-based loans for schemes of rural electrification sponsored by State Electricity Boards and Rural Electric Co-operatives ?

II. *In addition, what special measures* has the Corporation undertaken in furtherance of the policy directives by which it is governed ?

III. What steps does the Corporation propose to take for the benefit of areas backward in electrification or classes backward in economic development ?

I. OBJECTIVE AND ACHIEVEMENT

In dealing with the first of these questions, I shall refer to the financial results of the operations, then to the organisational set up and lastly, to the operations themselves.

FINANCIAL RESULTS

The operations of the year 1970-71 ended in a surplus of Rs 53.03 lakhs before deduction of tax and a net profit of Rs 26.13 lakhs after deduction. The Boards of Directors has recommended that out of this profit Rs. 5.45 lakhs should be transferred to the Special Reserve and Rs 10 lakhs to the General Reserve. The Board has also recommended that a dividend of Rs 9 lakhs be paid on equity capital. This leaves a small balance which, together with last year's balance will be carried forward to the ensuing year. I am sure that, equally with the Board of Directors, you are gratified at these results. Not only has there been a surplus for the second year in succession; but, in the very first full year of its working, the Corporation is in a position, after providing for reserves, to pay a modest dividend on that part of its corpus which represents the equity contributed by Government.

ORGANISATIONAL SET-UP

The financial resuts by themselves would signify little unless accompanied by a large expansion of the loan operations of the Corporation; and this in turn would not have been possible — in the context of the project approach which has been enjoined on the Corporation — without gearing the technical and administrative apparatus of the Corporation to its increasingly complex task. I shall have occasion later to refer to the administrative arrangements made for assisting rural electric co-operatives, to the special cell set up for devising and implementing measures of standardisation, and to the various steps initiated for the evolution and propagation of specialised techniques of project formulation, appraisal and execution. The main activity of scrutinising the project reports of State Electricity Boards, inspecting and verifying on the spot the field data on which those projects are based, suggesting modifications in design and forecast — all these and allied items of work which vastly increased during the year under report — could be attended to adequately because of the strengthening, both in number and quality, of the technical teams of the Corporation. Such teams, consisting not only of engineers, but of others with different types of expertise relevant to project evaluation, were constantly on the move for the inspection and appraisal of individual projects.

The extensive touring of different technical teams and the determination of the Board to meet practically once every month to take decisions on loan applications, are among the factors which have made it possible to effect a very large expansion in the main business of the Corporation, *viz*, loans for projects of rural electrification.

OPERATIONAL ASPECTS

During the eighteen months of its active life, the Corporation has sanctioned loans for as many as 137 projects spread all over India. Of these, 132 are projects sponsored by State Electricity Boards, while 5 pertain to co-operatives. The aggregate loan outlay sanctioned by the Corporation for the 137 projects is Rs 88.38 crores. The total number of irrigation pumpsets to be energised under these projects is over 2 lakhs, the exact figure being 2,14,911, which implies that, within a year and a half, the Corporation is already approaching half the target figure of 5 lakh pumpsets which had been set before it as its part of the energisation programme of the Fourth Five-Year Plan. The total of 137 projects hitherto sanctioned also covers 32,408 rural industries, including agro-industries, besides providing for a very large number of domestic and commercial connections. The projects are distributed over 108 districts in 16 States. It is worth noting that, of the 132 projects sanctioned for State Electricity Boards, an appreciable number, *viz*, 56, pertain to "backward" areas while the remaining 76 were classed as "other" areas. Of the 108 districts, as many as 41 are among those selected for the location of special programmes for the development of small farmers and marginal farmers, while 24 are covered under the rural works programme for drought-prone areas. Since the construction of wells and utilisation of ground water by energisation of pumpsets is often a substantial element in

these programmes for the weaker classes and the less favourably endowed areas, the significance of establishing projects of rural electrification synchronously with the special programmes can hardly be exaggerated. A small brochure which, among other things, illustrates the present position in this regard is being separately brought out by the Corporation.

Within the total figures I have given, those pertaining to the period covered by the Annual Report, *viz*, April 1, 1970 to March 31, 1971 may be very briefly indicated. The loan assistance sanctioned during this period was Rs 64.05 crores, of which Rs 12.81 crores pertained to the 5 pilot co-operative projects (all of which were launched during the course of the year) and Rs 51.24 crores to 91 projects sponsored by State Electricity Boards. The disbursements during the year amounted to Rs 4.61 crores for the co-operative projects and Rs 21.48 crores for the State Electricity Boards. Taking the proposals from the Boards and the Co-operatives together, the number of irrigation pumpsets covered was 157942 and that of rural industries 25673.

II. POLICY DIRECTIVES

The particular directives to which I shall now briefly refer are relatable to three important aspects of the Corporation's activities other than its purely financial role. These aspects may be broadly prescribed as promotional, consisting as they do of measures :

(1) to help State Electricity Boards to improve the quality of their projects at different stages of preparation and implementation ;
(2) to encourage the co-operative type of organisation for distribution of electricity in rural areas ; and
(3) to encourage local efforts to raise resources, e g, in the form of rural bonds or debentures, by making appropriate matching contributions to State Electricity Boards.

Under each of these heads, I shall mention a few of the more important measures undertaken during the year.

Project Techniques

In order to help State Electricity Boards to evolve guidelines for formulation and appraisal of projects, an initial step taken was to get together various experts in different fields for concretising the project concept as applied to rural electrification. This was done at a Seminar held in June 1971. A number of papers were prepared analysing various aspects of rural electrification, including the techniques of load forecasting. These constituted the background material for consideration at the Seminar. The experts themselves were drawn from different spheres such as banking, rural economics, electrical engineering and development administration. The conclusions reached at the Seminar are being followed up. Some of them are reflected in the new loan policies which the Board has approved and to which I shall later make some reference. It is being ensured that the State Electricity Boards, and in particular the staff engaged on rural electrification, are involved in the gradual adoption of modern techniques of project formulation, appraisal and implementation. Special attention is being paid to load forecasting and, with the assistance of experts, to the factor of availability of ground water in relation to the programme of energisation of pumpsets envisaged in individual projects. These functions have been entrusted to a "Project Cell" established for this purpose in the Corporation.

Standardisation

The Corporation attaches great importance to standardisation of both material and methods as one of the means of achieving economy in rural electrification. Attention has therefore been paid to the evolution of standardised specifications and designs with regard to equipment, construction techniques and construction practices. The Central Water and Power Commission, the Indian Standards Institution and other expert technical bodies in the country have done a great deal of valuable preliminary work in this sphere. It has been the Corporation's endeavour to carry the work further from stage to stage and on each item of importance such as poles, conductors and transformers, bring about a working consensus among all those concerned so that concrete and useful results would follow. I am glad to report that the efforts so far made have received wide welcome and that active co-operation has been forthcoming both from the State Electricity Boards and leading manufacturers of electrical equipment in different parts of the country. A 'Standardisation Cell' has been set up in the Corporation. It is expected that effective standardisation would lead to a reduction in the cost of material by not less than 10 per cent and that a further reduction of 10 per cent can be effected in the cost of construction by standardising the relevant designs and practices. If it is remembered that the benefits of standardisation would be available not only in respect of the projects financed by the Corporation, but also for the entire range of rural electrification undertaken by State Electricity Boards, it will be appreciated that the input of standardisation on costs can well be very substantial.

Co-operatives

I have alluded to the five rural electric co-operatives set up as a pilot experiment, one each in the states of Andhra Pradesh, Gujarat, Maharashtra, Mysore and Uttar Pradesh. The loan assistance of Rs 12.81 crores sanctioned for the projects submitted by these co-operatives involves, on the completion of the projects, the extension of electricity to 729 villages besides the energisation of 27,605 pumpsets and the provision of service concession to 1553 rural industries. As I have indicated, work has started on all these projects and an amount of Rs 4.61 crores was disbursed during 1970-71. In the light of its responsibility for the promotion of such co-operatives in future, as also of its special role at the present stage in regard to these five pilot experiments, the Board has agreed as an exceptional measure to waive the payment of interest by the five co-operatives for the first 5 years of the loan, on condition that in each case the Society credits an equal amount to a special fund created for purposes approved by the Corporation. The question of initiating feasibility studies for the eventual setting up of a few more projects is under the active consideration of the Board. Meanwhile a 'Co-operative Cell' has been established in the Corporation and the specialists in the Cell as well as the technical and other staff of the Corporation are in constant touch with the working of the five co-operatives. In this, the Board has throughout derived useful advice and assistance from the members of the team of the National Rural Electric Co-operative Association of USA. It has also been helped by an Advisory Committee on Co-operation which has met from time to time to review the progress of the Co-operatives.

Rural Bonds

The Corporation lays emphasis on rural savings being made increasingly available for rural electrification. Indeed, one of the policy directives says in explicit terms that "the willingness of the farmers to invest their own resources in rural electrification should be a factor in consideration of schemes to be financed." There is another and connected directive which calls upon the Corporation to support the efforts of the State Electricity Boards to raise resources in the form of debentures from the rural areas. Measures have been formulated to this end. It is proposed to make a beginning in districts which are not only advanced in themselves but are situated in States which have reached a level of electrification which is above the all-India average. Where, in such a district, one or more loans have already been sanctioned by the Corporation and a further project in the same district is sponsored for a loan, the Corporation on its part will limit such loan to 60 per cent of the cost, the balance having to be found by the State Electricity Board. It is hoped that in such a context the Electricity Boards will endeavour to raise at least half the balance of 40 per cent — *viz*, 20 per cent of the total cost—by way of rural electrification bonds subscribed by the people of the locality. In such an event the Corporation will be prepared to give, in addition to the direct loan of 60 per cent, a matching contribution in the form of subscription to the rural bonds. Such a subscription, not exceeding 20 per cent of the cost, will be also limited to the contribution actually made by the rural subscribers. The details of the scheme are being communicated to State Electricity Boards. While it is thus proposed to make a beginning with rural bonds in the context of local projects, a wider and more general scheme of rural electrification bonds will, it is expected, be introduced in the near future; its finalisation awaits the report of an Informal Group set up for this purpose last year by the Governor of the Reserve Bank of India.

III. SPECIAL CONTEXTS AND NEW MEASURES

Weaker Classes

The special contexts with which the Board has increasingly felt itself concerned could be described as (1) the weaker classes, (2) the backward areas, and (3) that category of States which is below the country's average level of electrification. The Rural Electrification Corporation has a positive contribution to make in respect of each of these groups, but only by way of ensuring that its own operations converge, in the relevant contexts and appropriate areas, with other and larger programmes initiated by the Central Government, the State Governments, or the State Electricity Boards. Thus where the producer happens to be one of those for whom a Small Farmers Development Agency exists, the Corporation's loan and the project financed thereby can be so located and phased that it supplements the efforts of the Agency. I have referred to some of the efforts already made in this direction. Indeed, more than half the districts in which the Small Farmers Development Agency exists and more than a third of the districts in which are located the Development Agencies for Marginal Farmers and Agricultural Labourers are already covered, in one or more parts of the concerned district, with rural electrification projects financed by the Corporation. Nearly a third of the programmes of rural works for drought-prone areas are also thus covered. The Corporation is anxious that, the maximum degree of co-ordination should be effected between the projects financed by it on the one hand and, on the other, those schemes of production or employment which are operative on the ground for the benefit of the weaker classes. This applies not only to the small and marginal farmers, but also to the small entrepreneur in the countryside for whom the provision of electricity would mean either the prospect of setting up a rural industry or of earning a larger income by raising the technological level of an existing unit which he is already operating. I have referred to the fact that, on the estimates made, 32,408 rural industries are covered by the projects hitherto sanctioned by the Corporation. In order to ensure the availability of raw material and other inputs, as well as of marketing facilities, for small industrial units of this kind in the project areas, various measures for co-ordination between the programmes of the State Electricity Boards and those of the Industries Departments of the States, at both district and State levels, have been recommended to all State Governments and have been adopted by several of them. The Corporation has decided actively to pursue such co-ordination in all the States.

Backward Areas and Specially Underdeveloped Hill Areas

As for "backward" areas, that is to say those areas (whether parts of districts or whole districts) which are deficient in electrification and irrigation as well as generally in economic development, it has indeed been a cardinal feature of the policy of the Corporation to devise realistically low "norms" for the return on capital invested in projects of electrification intended to help the development of such areas. Thus, on the basis that "viability" is attained when the net return on the capital is 3½ per cent, the Corporation has already decided to allow as long a period as 15 years for this stage to be reached in a "backward" area, whereas for an "advanced" or "other" area, the point at which "viability" is to be attained is advanced by 5 years, that is to say, on the completion of 10 years from the commencement of the project, instead of 15 years as in the case of "backward" areas. It is in this connection that the Corporation has been confronted with the special problem of under-developed hill areas, e g, some of the hill areas of Uttar Pradesh or Meghalaya, or one or two districts of Himachal Pradesh. Not all hill areas, of course, can be classed as under-developed, but in instances such as those I have mentioned, it is the experience of the Corporation that the attainment of "viability" is likely to take even longer than for what are ordinarily described as "backward" areas. Consequently, after investigation of the problem, the Corporation has decided to extend the relevant period by 5 years in the case of such areas as compared with projects for "backward" areas. In other words, a net return of 3½ per cent is stipulated for "specially under-developed hill areas" at the end of 20 years from the commencement of the project and not at the end of 15 years as for "backward" areas. It is hoped that this decision, which is fully in consonance with the charter of the Corporation, will help the Electricity Boards concerned to formulate suitable projects for such exceptionally undeveloped mountainous and sub-mountainous areas. It may at the same time be pointed out that this liberalisation will be meaningful only if tenable programmes of economic development—based, for example, on the utilisation of forests and forest produce, development of orchards, preservation of fruits, promotion of animal husbandry

and dairying—are in each case formulated, with the necessary expertise and in the requisite detail, for the hill areas in question. Electricity can only enter as an input, albeit an important input, into such a programme.

Agriculture in Its Wider Sense

I have alluded to forests, orchards, animal husbandry and similar items which are significant features of hill areas. Indeed such items along with the agro-industries that go with them, are an important characteristic not only of most hill areas—both developed and under-developed—but also of certain other agro-climatic regions where "agricultural" development in the wider sense is dependent, not primarily on ground water utilisation and pumpset energisation, but on the application of electrical energy to these other natural resources. This wider sense in which "agriculture" includes animal husbandry, orchards, forests, etc, has, as you are aware, found acceptance not only in ordinary usage, but in such statutory contexts as the Agricultural Refinance Corporation Act and the Agricultural Credit Corporation Act. In pursuance of this interpretation, the Board has decided that, while the main thrust of the Corporation's programmes as a whole will continue to be oriented to ground water and pumpset energisation, the wider connotation of "agriculture" will be kept in mind when the special circumstances of particular projects so demand from the point of view of viable economic development of the project area concerned.

Special Category of States

There remains the problem of those States which, as a category, are below the all-India average of village electrification. Investigation has shown that, in such States, one of the main obstacles to more rapid rural electrification is the relative sparseness of high tension transmission lines with the connected substations. The Corporation is concerned with transmission only insofar as it is a necessary preliminary to the building up of a rural load. The Board has decided that, in suitable instances confined to the category of States which I have mentioned, special loans for transmission may be given on certain stated conditions. One of these conditions is that the period of repayment will be 12 years; there will be a moratorium, so far as repayment of principal is concerned, for the first two years; the rate of interest will be 7¼ per cent with a rebate of ¼ per cent for prompt payment.

It is now possible to indicate what types of loans are now offered by the Corporation in pursuance of the decisions mentioned above, as also of a few modifications introduced for the purpose of rationalising the loan structure. The changes made do not, of course, affect the project loans already approved whether for Electricity Boards or for Co-operatives; in all such cases the terms will remain the same as before for the duration of the loan. In regard to future sanctions, *viz*, those subsequent to 31 August 1971, the position is broadly as follows:

There are three types of "ORDINARY" loans and two types of "SPECIAL" loans.

The Ordinary loans are:

(1) for advanced areas (to be repaid in 20 years: full "viability" in the 10th year),
(2) for backward areas (to be repaid in 25 years: full "viability" in the 15th year),
(3) for future Co-operative projects (to be repaid in 30 years).

The Special loans are:

(1) for projects in "specially underdeveloped hill areas" (to be repaid in 30 years: full "viability" in the 20th year), and
(2) subject to certain conditions and in appropriate cases, for transmission schemes in States which are below the all-India level of village electrification (to be repaid in 12 years).

CONCLUSION

It remains for me to express my grateful thanks to the Ministry of Irrigation and Power, and other concerned Ministries and agencies of the Government of India, as also to the United States Agency for International Development, for all the assistance and support which they have consistently extended to the Corporation. I am thankful to the State Governments, the State Electricity Boards, the five Rural Electric Co-operative Societies and the National Rural Electric Co-operative Association of USA for their ready response and help at all times. I would thank my colleagues on the Board of Directors for their advice and collaboration at this important formative stage of the work of the Corporation. The Managing Director, Shri A C Bandyopadhyay and the Technical Director, Shri P A Raman, have worked ably and with great dedication. I know that my other colleagues on the Board join me in recognising and appreciating the very substantial contribution they have made to the growth of the Institution. Finally, on my own behalf as well as that of the Board, I am happy to express my warm appreciation of the long hours of labour put in and excellent team work rendered by the officers and staff of the Corporation.

Thank you.

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

World Bank Aid for Education

UP to June 30, 1971, the World Bank Group has approved financing of 57 education loans in 42 countries for a total amount of US $431 million. Africa, including North Africa, has received 27 loans and 44 per cent of the total lending volume; Latin America 15 and 22 per cent; Asia 12 and 25 per cent; and Europe three loans and 9 per cent of the volume.

So far 72 per cent of the Bank's education financing has been in secondary education. About 23 per cent has gone to universities and post-secondary education and 4 per cent to adult training, while primary education directly (as contrasted to the indirect effect of teacher training) has received little more than 1 per cent of the funds. The post-secondary non-university component has increased lately from 8 per cent to 13 per cent of the total. By curricula, general education, including pre-vocational options, comprises the most important project component both in number of student places provided and as a recipient of funds. The demand for general secondary education has, however, reached a saturation level in some developing countries during the last years, while important needs persist for teachers, technicians and engineers. Consequently, technical education and teacher training have received 48 per cent of student places provided through the Bank projects in 1970 and 1971, as against a 28 per cent average in the earlier period, while student places in general education are significantly reduced from 64 per cent to 45 per cent.

ECONOMIC AND POLITICAL WEEKLY

Founder-Editor: Sachin Chaudhuri

Vol VI No 40 October 25, 1971

More Talk—An Alibi?—Growing Regional Disparities—No Partial Solution—Not by Growth Alone 2078
Business 2081
Companies 2083
Capital View 2085
From Our Correspondents
New Delhi: New Sources of Crude Oil 2086
Maharashtra: Shivaji Image Smudged 2087
South: Turn in Andhra —Mohit Sen 2089
An Infertile Lobby? —Dipak B R Chaudhuri 2090
Area Studies in Indian Universities —J A Naik 2091
Cuba: Institutionalising a Revolution —Mohan Ram 2092
Rangoon: Army Is in Control, But the Poor Are Better Off 2092
The Fourth Estate Reviews 2094
Cost-Benefit of an Enquiry —B V Rangarao 2095
Jumble of Sundry Facts —B V Nimbkar 2097
Special Articles
World Monetary Crisis and Underdeveloped Countries —I S Gulati 2098
Soviet View of the Treaty: Non-Alignment Plus? —Zafar Imam 2101
Growth of Radical Economics in the US —Thomas E Weisskopf 2104
Poverty in India—Policies and Programmes: A Comment —K Jayaraman 2109

ECONOMIC AND POLITICAL WEEKLY
Skylark 284 Frere Road Bombay 1
Phone 26 60 72
Editor
KRISHNA RAJ
Assistant Editors
Rajani X Desai, Jawid Laiq
Business Manager: A Fernandes
Circulation Manager: Shiv Patil
Editorial Staff
Colin de Souza, Haresh M Advani
Shireen Heerjee, Ashok Rao

Medicine for the Few

IN countries where health and medical care comes predominantly through private medicine and private doctors, it is usual for the representative associations of doctors to work closely with the private pharmaceutical industry on matters of mutual interest. The outstanding example of this is, of course, the close collaboration between the American Medical Association and the Pharmaceutical Manufacturers' Association of the US. The two have made common cause on a number of issues; they have fought shoulder to shoulder to protect the fabulous fees of specialists and to defeat any undue expansion of the public health services.

The close rapport between private doctors and the drug industry is natural. For selling their products, the pharmaceutical manufacturers rely on doctors writing out prescriptions specifying drugs by brand names. Each manufacturer expends vast sums of money canvassing the merits of his own particular brands of drugs through detail men, publicity material mailed to doctors, advertisements in medical journals, sponsored conferences of doctors, and so on. The doctors, for their part, mostly pin their faith on the claims made on behalf of particular branded products; indeed, for all but the most conscientious, the brightly printed publicity material put out by drug manufacturers constitutes about the only source of keeping abreast of advances in pharmacology.

The above is, of course, as accurate a description of the situation in India as it is of that in any other country. It is, therefore, with a sense of disbelief that one reads reports of the President of the Indian Medical Association calling for nationalisation of the drug industry. Not that there is much chance of the suggestion being taken seriously by the Government; certainly not when the Government is feeling so smug about the much-touted achievements of its drug price control. What makes the proposal noteworthy is that it comes from the representative body of doctors in the country. The IMA president has also called for nationalisation of health services on the ground that under the present system of private medicine we have on the one hand a shortage of doctors and on the other unemployment and underemployment among doctors which compel large numbers of qualified doctors to migrate to "more affluent countries to work in inferior jobs". Similarly, he points out, while the countryside goes without doctors (there are hundreds of doctor-less primary health centres) there is a glut of doctors in the cities.

In a brochure on "Health in the Fourth Five-Year Plan" published earlier this year, the IMA had referred, *inter alia*, to the question of drugs and pointed out how the process of development of the drug industry had defeated the basic objectives of the Government, laid down in 1950-51, of making the drug industry self-sufficient and of seeing that "profiteering, at the expense of the health of the nation, was curbed". The rapid growth of the private sector in the drug industry had led, according to the IMA, to "an unregulated production of drugs of no consequence ... sold to unsuspecting and credulous buyers". Commenting on the multiplicity of brands of the same drug, the IMA had said: "Unrestricted production of more or less the same type of drugs by various private concerns upsets every type of control, even if the Government intends to impose much restrictions, on manufacture, distribution and price structure. It is known to everybody what colossal amounts of money are spent on advertisement, samples and *various types of presents*. After all, all the expenses incurred on these accounts are ultimately borne by the users of these drugs, with the result that even if there is a remedy for a disease it is not available to the diseased" (italics added). The IMA should know!

The IMA brochure also emphasised the need to make the country self-sufficient in respect of basic pharmaceutical chemicals and intermediates. It advocated production of the basic raw materials in the public sector and their equitable distribution to various drug manufacturers. Under the present system the makers of the basic raw materials, usually the large international companies, can, and naturally often do, starve other manufacturers.

Of course, none of this is very new. What makes these recommendations significant is that they come from the medical profession itself. Unfortunately, the Government has generally paid scant attention to what the IMA has to say on the question of drugs or on matters of public health generally. In fact, the brochure mentioned above complained repeatedly of the Government's failure to consult the IMA on health policies and programmes; and when the IMA had put forward proposals on its own, they had been brushed aside.

Not that the Government does not consult medical practitioners. There are doctors employed by Government who take a hand in the planning and administering of various aspects of the health services. Then there are the doctors

who are appointed to various consultative and advisory committees and panels. Finally, every health minister soon enough collects around him a group of doctors on whom he relies, often more than on those more formally associated with the Government. There is no denying that many of the doctors who have the Government's ear in one capacity or the other are highly successful professionals; some of them are also exceedingly competent. But taken as a whole they have done very well for themselves out of the system of private medicine to which they are fully committed; such knowledge as they have of public health services is gleaned from the advanced Western countries where these services are an adjunct to the system of private medicine. No wonder the pharmaceutical industry finds them —and not the IMA, ignored alike by the Government and the most successful and influential members of the profession—ideal conduits for influencing Government policies and decisions and uses them as such, with the *quid pro quo* taking the form of sinecure directorships, lucrative 'research' assignments, and so on. No wonder also that given the government/successful-private-practitioner/pharmaceutical-industry nexus, medical and health programmes for the vast majority of the population who simply cannot afford private medicine (at pre- or post-Drug Price Control prices!) do not stand much of a chance.

Moscow Visit

More Talk

OFFICIAL communiques issued at the end of international discussions are usually very staid documents and they often hide as much as they reveal. One aspect of the joint statement issued after Indira Gandhi's talks with the Soviet leaders is, however, most revealing. This is the constant harping on the strengthening, preserving and ensuring of peace and the solving of problems by peaceful means. Whether the region discussed is Europe, the Middle East, Indo-China or East Bengal, the communique ends up with some glib words like "policy aimed at strengthening peace, friendship and international cooperation". Which is all very well but for the point that nowhere does the Soviet Union commit itself to come to the aid of its friends and treaty partners. Not that a super power can allow itself to make precise and clear-cut commitments, but it would have been possible for the Soviet Union, had it so desired, to make a vague commitment to aid India in the case of external aggression.

Quite clearly, the Soviet Union is not willing to shake its ties with Pakistan. The operative part regarding East Bengal (in the Russian version of the text, it is consistently referred to as East Pakistan), does not go beyond expressing the same sentiments that Podgorny had expressed in his appeal to Yahya Khan, last April. This part of the statement reads: "... both sides consider that the interests of the preservation of peace demand that urgent measures should be taken to reach a political solution of the problems that have arisen there [East Bengal], paying regard to the wishes, the inalienable rights and lawful interests of the people of East Bengal-Pakistan as well as the speediest and safe return of the refugees to their homeland in conditions safeguarding their honour and dignity." And how do the two countries propose to arrange this political solution? Of course, this cannot be answered in a communique, but the next paragraph is, perhaps, a pointer: "Taking into account the seriousness of the situation which has developed in the Indian subcontinent, the two sides agree to maintain further mutual contacts and to continue to exchange views on questions arising in this connection."

Another significant pointer? Not a single word about China, though all sorts of other places are mentioned.

Bangla Desh Refugees

An Alibi?

A Correspondent writes:

IN the last few months Government spokesmen have never tired of repeating how the burden of taking care of the refugees from Bangla Desh has completely upset the country's development plan for the current year. At last month's meeting of the Political Affairs Committee of the Cabinet, the Finance Minister is reported to have warned of a budgetary deficit of Rs 600 crores (against Rs 220 crores provided in the Budget) and advised a 5 per cent cut in the Government's expenditure, both developmental and other.

What are the refugees really costing us? The Ministry of Rehabilitation released a pamphlet some time back giving, among other things, itemised break-up of the cost of maintaining the refugees. The pamphlet bears no date, but it purports to give the position upto June 22 by when 6 million refugees had registered themselves with the Indian authorities and were living in the refugee camps. The pamphlet estimates the cost of maintaining 6 million refugees for six months and puts the figure at around Rs 300 crores, which works out to Rs 1,000 per annum per refugee. This compares with India's per capita income of Rs 589 in 1969-70. Of course, the comparison is invalid since the figure of Rs 1,000 per annum per refugee includes not merely the refugees' consumption expenditure but also capital cost of things like tents, hospitals, transport vehicles, etc. The cost estimates are presented in the pamphlet in two statements, but the basis of classification is obscure since both statements include items involving current as well as capital and recurring as well as non-recurring expenditure. However, a rough selection of items of personal consumption gives a figure of Rs 449 as the consumption expenditure per refugee per annum. By reference to the computations of per capita consumption expenditure attempted by Dandekar and Rath in their study "Poverty in India", this gives the refugees a standard of consumption slightly higher than that enjoyed by the bottom five deciles (that is, one-half) of the Indian population.

Of course, this is not to say that the refugees are living it up or that we are spoiling them with riches. We are doing nothing of the sort. What the refugees are being given is the bare minimum to keep body and soul together. The squalid conditions of the refugee camps is something that no one who has visited them is likely to forget in a hurry. The purposes of the calculations attempted above are to suggest that (a) the estimates of expenditure on the refugees are exaggerated or (b) not all the money provided for the refugees' upkeep is in fact being spent on them. Both possibilities are plausible. The estimated expenditure of Rs 19.33 on cereals per refugee per month, Rs 5.17 on pulses and Rs 3.33 on edible oil is definitely high compared to the consumption standards of the majority of the Indian or Pakistani population. Similarly, the estimates of capital expenditure provide for one latrine for every 2 families when in the chawls of Calcutta or Bombay there will be hardly a family which does not have to share a latrine with four others. The estimates also provide for sinking one 'tube-well' per 10 families! If indeed the actual financial provisions are being made on these bases, then almost certainly there are substantial leakages flowing into the pockets of the contractors and other agencies which receive lump-sum allocations from the Government on the basis of the number of refugees under their care. Those who have visited the refugee camps know that in fact such leakage does take place, with estimates of the middlemen's illegal 'cut' as high as 10 to 15 per cent. Ten per cent of Rs 30 lakhs (roughly the allocation for feeding one lakh refugees for one month) is a cool Rs 3 lakhs. Refugee relief need not be, it seems, a labour of love!

The other aspect of the question is the direct draft the upkeep of the refugees constitutes on the Central Budget for the current year. In the calculations that follow we will broadly take the official norms of expenditure per refugee, inflated as they are. Assuming that on an average 8 million refugees have to be *maintained in the refugee camps* during the financial year 1971-72, upkeep expenditure on them will amount to about Rs 350 crores to which may be added another Rs 100 crores of expenditure of a mostly capital or non-recurring kind, giving a total of Rs 450 crores. Of this, if Rs 150 crores are taken to be the foodgrains component, that can be met by drawing down foodgrain stocks with the Government without constituting a budgetary outgo. Foregin aid in the pipeline or already committed is reported to be roughly Rs 100-125 crores, leaving Rs 200 crores or less as the net draft on budgetary resources. Of this Rs 60 crores had been provided for in the Budget. Thus on the whole the Bangla Desh refugees can account for a net worsening of the Government's budgetary position to the extent of only Rs 140-150 crores. If the budgetary gap of Rs 220 crores is indeed threatening to widen to Rs 600 crores, other explanations have to be sought for the development.

There may be some merit in depicting the burden imposed by the influx of refugees in the most sombre terms if the Government's purpose was to extract the maximum assistance out of the international community or to persuade the Indian public to submit to additional resource raising effort. The Finance Minister has repeatedly disclaimed any intention of doing the latter. In the circumstances part of the reason for exaggerating the budgetary cost of the refugees can only be to camouflage the basic collapse of planning and plan implementation which appears to have made it virtually impossible for the Government to step up developmental plan expenditure in the public sector.

Agricultural Finance

Growing Regional Disparities

WHAT lessons should we draw from the eight years' experience of the Agricultural Refinance Corporation? There can be no doubt that the Corporation has been doing a creditable job but then that may not be enough in the present context. Looking to the dimensions of the problems of agricultural development, the work has to be done much faster, over wider areas and in greater depth. Available data reveal that added thrust is required in the agricultural finance operations not only of ARC but also of the public sector commercial banks.

Since its inception in 1963, ARC has sanctioned financial assistance for 458 schemes involving Rs 293 crores, its own commitments totalling Rs 249 crores. But the amount actually disbursed comes to Rs 90 crores. Beginning from last year, the World Bank and the International Development Association have taken up seven agricultural credit projects in India involving financial assistance of Rs 124 crores, an amount which is roughly half of the total finance committed by ARC during its eight years of existence.

While these developments are encouraging, one should not lose sight of the fact that regional imbalances in agricultural finance have now become even more conspicuous than they were. Assam, Bihar, Orissa and West Bengal together account for only about 7 per cent of the total financial assistance sanctioned by ARC and Rajasthan, Madhya Pradesh and Jammu and Kashmir account for another 10 per cent. On the other hand, the relatively more advanced states of Andhra Pradesh, Mysore and Punjab have a share of about 38 per cent. Even the World Bank schemes leave the backward states high and dry; they will benefit UP, Gujarat and Punjab.

This lopsided development is largely due to the weaknesses of the organisational set-up in the backward states. Not only are the governments of these states slow in formulating schemes, but the banking set-up (both co-operative and commercial) there is not geared to the task. ARC is aware of this problem and it has now set up a Consultancy Service with headquarters at Lucknow. However, knowing the big gap between project formulation and implementation of schemes in the backward states, it is doubtful whether a consultancy service will make much of an impact on the backlog of development there. ARC has to become more dynamic and in this context it is necessary to once again emphasise the need for making ARC into a full-fledged Agricultural Development Bank so that it can assume direct responsibility for the promotion of agricultural development schemes in backward areas.

A point highlighted by the ARC's Chairman, P N Damry, in his speech at the Corporation's annual general meeting last month is that the ARC will now concentrate its attention on dry farming projects involving improved soil management and agronomic practices in unirrigated lands. ARC would take up for financing a package-type of development programme which would include bunding, levelling, terracing and reshaping of dry lands and generally toning up of the top soil and introducing water harvesting techniques. Damry has pointed out that the banks will have to lean even more heavily upon the state governments in the preparation of such schemes than in case of irrigation schemes. The capital-output ratio in the case of dry farming schemes would be generally very low, implying that the return would be spread over a long period and would be perhaps negligible if only the first few years are taken into account. Obviously, such schemes might not appear creditworthy and hence financial assistance of a different nature — such as that provided by the IDA — might have to be thought of. It may even be necessary for the ARC to consider setting up a subsidiary, a Dry Farming Area Development Organisation, so that a specialised agency with separately earmarked funds available to it on softer terms would be on hand to concentrate all its energies on development of dry farming areas.

Regarding the commercial banks' role in financing agriculture in backward areas, a perusal of the latest data on their advances to agriculture reveals that four states, *viz*, Assam, Bihar, West Bengal and Orissa, together have a share of only 5 per cent in the total outstandings as at end-March 1971. The advances in Meghalaya and Nagaland are negligible. Two other backward states, *viz*, Rajasthan and Madhya Pradesh, together account for only 7 per cent of outstandings. As against this, five states, *viz*, Maharashtra, Tamil Nadu, Andhra Pradesh, Mysore and Uttar Pradesh account for as much as 60 per cent of total agricultural outstandings.

Clearly, banks operating in the backward states have to adopt a more positive approach to helping agricultural development. But while the magnitude and direction of work to be done is obvious, the lack of an adequate organisational set-up in the backward states is, once again, the

major hurdle. The co-operatives in these states, it is acknowledged are too weak to be used as the village level agencies for undertaking a comprehensive agricultural credit programme. One has, therefore, to think of devising new ways of dispensing farm credit in these areas. It needs to be considered whether retail traders could be used as a channel for credit for doing extension work while individual engineers are encouraged to set up repair and other services as well as to undertake construction of wells, etc. In this connection, it may be useful to consider how the operations of the Agricultural Finance Corporation, which has already done some work in Bihar, can be reoriented to place on it certain specified additional responsibilities in backward states, with the ARC even financing it, if need be for shouldering these new tasks. Unless some programme on these lines is drawn up, the commercial banks are likely to concentrate more and more in the already agriculturally developed districts and in the process neglect those areas whose needs are much more urgent.

Education

No Partial Solution

A Correspondent writes:

UNIVERSITIES are in the news again. About half-a-dozen of them have been closed down indefinitely in the past two weeks. The immediate causes for the closure vary; at Bangalore the students have demanded an inquiry into the affairs of the university; at Benaras they presented a charter of demands which the vice-chancellor described as something no 'sane man' could accept. When a student threatened to immolate himself, the Benaras University vice-chancellor decided that he had no alternative except to close the university and eject all students from hostels. At Jodhpur the vice-chancellor resigned after being gheraoed by students.

University authorities claim that it is generally a small group of militant students with predominantly non-academic interests which disrupts the placidity of life on the campuses. If this were indeed so, it is regrettable that over all these years no method has been devised to contain the activities of such elements. But how seriously do those entrusted with administering universities themselves take their tasks? According to reports, only five of the nine members of the executive council of the Benaras University attended the meeting held to consider the situation at the University. This well illustrates how casually the authorities treat the closure of a university.

Perhaps lurking behind both the student agitations and the official apathy is a tacit admission of the total irrelevance of today's university education in the life of the nation. When what a student learns neither improves his chances of getting a job nor contributes to his cultural enrichment, neither he nor the teacher very much minds whether he is in the classroom or out of it. Also if after getting his degree he still has to lead the same meaningless, jobless existence, the student doesn't particularly care whether he takes four years or five or six to take his degree. Until our planners tackle this problem first, it is unrealistic to expect any improvement in conditions on our campuses.

World Bank

Not by Growth Alone

IN his address to the annual meeting of the World Bank's Board of Governors, Robert McNamara is concerned not with development only but also with "problems of development", which he enumerates as nutrition, employment, income distribution and trade. McNamara argues that even at a net reproduction rate of one (an average of two children per couple) reached by the year 2040 — "a possible but by no means certain achievement" —, the population of the developing countries would increase fivefold, from the present 2.7 billion to 14 billion. While more and more countries are shifting to population planning programmes, McNamara deplores "the absence of strong political support" needed to tackle the problem effectively.

Population growth and malnutrition are interrelated; wastage, through ill-health and early death, is the highest among the poor countries. Medical science has established a relationship between mental development and nutrition in the early years and McNamara notes that a small outlay of $ 8 per child per year can make up the deficiency in nutrition.

Without getting himself entangled in Brahminical nuances of meanings of words, as did the committee of economists on employment which reported some time back, McNamara estimates that "on reasonable definitions — including allowances for under-employment — unemployment approximates 20-25 per cent in the poorer countries". He argues the case for tackling unemployment at its source: in rural areas.

The failure of development policies has led to disillusionment with "growth as the primary development objective". Development policies must, therefore, "explicitly aim at greater employment and greater equality of income distribution". The lesson of the last decade has been that "we cannot simply depend upon economic growth alone to solve these problems" — a statement which must cause some raising of eye-brows among the protagonists of growth through incentives for private enterprise in this country.

Dealing with rural unemployment, McNamara notes the uneven impact of the green revolution ("limited to a few crops, limited to irrigated lands, and limited to a few countries") and its tendency to promote inequality. McNamara spikes the anti-land-reform argument regarding size of holding and productivity and urges land redistribution policies. He argues for greater support for small land-holders, stating that "the evidence already available does not indicate that greater attention to the poorer agricultural groups must inevitably entail sacrifices of economic growth".

It is in respect of industrialisation policy that McNamara reverts to traditional World Bank wisdom: export promotion rather than import substitution as the corner-stone of the strategy for growth. For once, he ignores historical experience and has to fall back on citing instances such as South Korea and Taiwan. Insofar as these examples have any relevance at all, it needs to be pointed out that Taiwan's and South Korea's achievements are due more to the level of investment (20 to 25 per cent of national income) than due to any export-oriented growth strategy.

McNamara supports his case also by reference to the developing countries' need for foreign exchange. At present, these countries earn two-thirds of their foreign exchange through export of primary commodities. To meet their increasing needs of foreign exchange, they would need to raise their manufactured exports by 15 per cent per annum in the seventies.

As regards aid, McNamara refers to the World Bank's efforts to expand its operations. Having reached the rate of growth set for a five-year programme for the Bank, he refers to the current planning at the Bank for the next phase of the programme, which he hopes to announce at the next annual meeting of the Bank. But as important as the increase in the quantum of its aid is the new social sensitiveness imparted to the Bank's approach to development.

Commodity Loans Not Enough

INDIA has made one more 'goodwill gesture' towards Ceylon. It has extended new lines of credit worth Rs 60 million and has promised to assist Ceylon's programme of industrialisation. This was evidently the most significant outcome of Swaran Singh's three-day official visit to Ceylon last month.

It is yet too early to say whether these recent Indian offers will amount to closer industrial and technical co-operation between the two countries and help to remove many of the irritants in their mutual economic relations. India has promised to open Indian markets to goods produced in Ceylon; to start with India would buy more of graphite, copra, coconut oil, high grade rubber and a few more consumer goods. Refractories, rubber-based industries, silica, paper and graphite have been identified as the five important spheres for India-Ceylonese joint ventures. Feasibility studies for these are to be jointly undertaken by consultants of both countries. Further, in order to strengthen relations between India and Ceylon, there are to be consultations on economic matters at regular intervals.

Reactions in Ceylon to these plans have been mixed. While Ceylonese official circles claim that this signified a breakthrough in economic co-operation, Ceylonese trade circles were sceptical about India's capacity to spare the funds for the joint ventures envisaged as part of the effort to step up the process of industrialisation in Ceylon. The scepticism has its roots in India's past performance.

During the past decade, while India made frequent goodwill gestures towards Ceylon, they remained merely symbolic and India took next to no corrective action to lessen Ceylon's adverse trade balance with it. India signed a trade agreement with Ceylon in October 1961 under which the two governments agreed that the pattern of trade should be conducive to mutual advantage and that possibilities for expanding trade should be explored in respect of new items. After this agreement consultations were made from time to time to expand bilateral trade. Seven years later, in 1968, the Indo-Ceylonese Joint Committee on Economic Co-operation was formed. The Committee met in January 1969. Faced with the problem of a continually falling volume of trade in the 1960s, it merely stressed the need for increasing bilateral trade, and pointed out that India could step up her exports of machinery, transport equipment, other engineering goods, and chemicals, while Ceylon could export traditional items like copra, coconut oil and rubber and rubber manufactured goods. No agreement was reached on the actual exchange of commodities. A working group on trade of the two countries, which met in New Delhi in November of that year, also agreed that both countries should make efforts to import more from each other and that India should consider the possibility of importing arecanuts, cloves, chanks and arrack from Ceylon. Once again, no agreement was reached about the commodities to be imported into India.

Meanwhile, India's exports to Ceylon had declined from $ 39 million in 1960-61 to $ 24 million in 1965-66, though it subsequently crept up to $ 34 million by 1969-70. Imports from Ceylon increased from $ 8.6 million in 1960-61 to $ 17.2 million in 1962-63, but thereafter they continually declined and in 1969-70 stood at about $ 4 million — less than half the 1960-61 figure. The lowest figure of Ceylon's adverse trade balance during the 1960s was $ 11.3 million during 1962-63. The adverse trade balance was as much as $ 30 million in 1960-61 and $ 29 million in 1969-70.

In the circumstances, India's reliance on only commodity loans to enable Ceylon to purchase more goods from India is hardly 'corrective action'. Prior to the latest line of credit of Rs 60 million, India had given three commodity loans amounting to Rs 120 million for purchase by Ceylon of such goods as textiles, dried fish, tools and various types of capital goods. Commodity loans, by themselves, cannot correct Ceylon's adverse balance of payments. In fact, they would worsen the situation when the loans have to be repaid. The terms of credit granted previously were also somewhat unfavourable. The credit was to cover only 90 per cent of the f o b value of goods from India and the Ceylonese importer was asked to pay the 10 per cent down payment in free convertible currency. It was maintained in Ceylonese circles that the schedules of repayment as well as the rate of interest charged were not favourable. It was alleged that the Indian counterparts did not pass on the advantage of lower freight rates to them but quoted the same c i f prices in Ceylon even when freight rates were lower.

India is frequently tapping on the doors of the ECM countries asking them to lower their trade barriers so as to reduce its own trade deficit with the ECM. India has championed the cause of increased economic co-operation among ECAFE countries for stepping up intra-regional trade, and also led the efforts to establish an Asian Payments Union for encouraging this intra-regional trade. Yet its specific actions in relation to Ceylon are out of alignment with its professed concern. Will it now consider seriously what it should do to reduce Ceylon's adverse trade balance, currently nearly eight times its exports to India?

Oilseeds

Bounty from Government

IN its Second Annual Report for 1970-71, the Groundnut Extractions Export Development Association (GEEDA) pats itself on the back for having consolidated and further improved upon its past achievements. No doubt, it is a matter of some satisfaction that exports of groundnut extractions increased from 6.84 lakh tonnes in 1969 to 7.60 lakh tonnes in 1970. But GEEDA can take little credit for this modest improvement in the export performance. Groundnut supplies were up by more than 15 per cent during 1969-70 over those in 1968-69. The increase in exports of just 11 per cent therefore really falls short of expectations.

But this is not all. What GEEDA conceals is perhaps far more revealing than what it discloses. Some of the facts which GEEDA conveniently omits to report need a little probing. World imports of oilcakes rose by more than 10 per cent in 1970. The prices of groundnut cakes in the international market were in fact up by nearly 13 per cent. Average groundnut oil prices in India were 24 per cent higher in 1970 than in 1969. The net result of all these developments was a favourable turn in the fortunes of the groundnut extraction units and the industry's processing margins showed an almost three-fold increase between 1968 and 1970

PROCESSING MARGINS OF THE GROUNDNUT CAKE EXTRACTION INDUSTRY
(Rs per tonne; annual averages)

	1968	1969	1970
Groundnut expeller cake price	559	675	709
Groundnut deoiled meal price	466	520	548
Groundnut extracted oil price	3012	4183	4822
Processing margins*	30	54.50	84.50

* Processing margin has been estimated on the standard assumption that one tonne of groundnut expeller cake yields 920 kg of groundnut meal and 60 kg of extracted oil.

as will be seen from the accompanying Table.

These favourable developments (in the making of which GEEDA had little share) apart, the Government of India offered freight assistance at Rs 26 per tonne on exports of groundnut extractions to the UK and West European destinations from January to March 1970, at Rs 15 per tonne in April and May 1970 and at Rs 20 per tonne from June to December 1970. And as if even this was not enough, the Government announced in addition development assistance of Rs 6 per tonne on aggregate exports to all destinations.

To sum up, the groundnut cake extraction industry had never had it so good as in 1970. And yet the exports of groundnut extractions in 1970 were barely 50,000 tonnes more than in 1968 when the processing margin of the industry was perhaps hardly adequate to cover processing cost. But in 1968 GEEDA was not in existence and this seems to have made all the difference. Today, with GEEDA, established in 1969 with the blessings of the Government, the industry's appetite for all sorts of concessions and subsidies is continuously growing. Little wonder GEEDA has now petitioned the Government to raise the development assistance for 1970. And, really, why should not GEEDA plead when the Government is so willing to give?

Licensing

Worst of Both Worlds

THE Licensing Committee, like all Government departments and agencies, has apparently learnt nothing from past experience. The Committee has issued a large number of licences simultaneously for scooters, tractors and mini-steel plants — not to speak of breweries and automobile tyres. The number of licences/letters of intent issued for tractors is understood to be 21, for scooters 18 and for mini-steel plants 25.

There are various factors making for decisions such as these. For one thing, there is a natural spurt in demand for licences once a commodity — be it beer or scooters — appears to be in short supply. This is a typical private enterprise response, but one would have thought that the rôle of planning was to prevent precisely such excesses of the free market. Then, perhaps, there are pressures from the different states — witness the applications of the State Industrial Development Corporations for breweries — which a federal Government might not be able to resist. Finally, the Licensing Committee which has been sitting on licence applications for the last three years, wants to show off its new-found dynamism in terms of the number of licences issued.

Whatever the reasons, it is necessary to examine the consequences of this proliferation of licences. Multiple licences create uncertainties about markets and, therefore, lead to non-implementation. They also create excessive pressure on resources — capital goods, finance, foreign exchange, materials, personnel — and result in their diversion, with a slack developing subsequently. Finally, in some cases the simultaneous completion of projects leads to a sudden glut in the market. The economic history of the early sixties is strewn with examples of this kind of folly.

Perhaps the worst consequence of multiple licensing is that it prevents standardisation in the economy. Earlier talk of centralised import of know-how is now no longer heard. Many of the multiple licences recently issued are in the engineering sector where standardisation is both possible and highly desirable. For tractors, for example, the range of engines could have been limited and body-styles defined. We simply cannot afford to have at this stage umpteen models of cars, scooters and tractors.

Cotton

Long and Lean

ARE farmers disillusioned by the poor returns from cultivation of long staple cotton? Reports from Gujarat in the last few days have been particularly discouraging. ISC from Kutch, one of the prized varieties of long staple cottons that this country produces, is currently having a lean period, with practically no buyers. There has been a price fall of Rs 1,000 per candy between January and now.

In the season that has just ended, there had been a perceptible shift in favour of growing Kalyan in place of ISC in some of the cotton tracts of Kutch, with an outturn of nearly 30,000 bales as against 4,000 bales two seasons back. The cultivators had obviously more faith in the steady returns that Kalyan offered throughout the season than in ISC with its fluctuating fortunes. Invariably, sellers of ISC tended to get very attractive prices from January to March. But thereafter they had to take their chance.

At present, the demand for ISC, whether from Kutch, AP Line or Sathamba, is particularly dull. With both the leading spot houses and the mills in no mood to extend their commitments, the possibility of the cotton being quoted still lower in the next few weeks cannot be ruled out. With a record low carry-over and the none-too-promising outlook for the 1971-72 crop, none could have visualised such a fate for the nation's recognised varieties of long staple cotton. Incidentally, India has yet a long way to go before any extra long staple (ELS) cotton of commercial significance is produced in the country. If the fortunes of long staple cotton are in such disarray, it is to be doubted whether the farmers would take to the cultivation of ELS cotton with any degree of confidence.

The Government would do well to undertake a probe into the marketing of ISC and similar long staple cottons in order to find out whether some steps could be taken to ensure a steady and reasonable return to the farmer for his stake in this cotton. It would seem that the cotton has an inherent weakness which manifests itself after the first flush of marketing is over. Maybe, all the lots that come into the market are not similarly afflicted and some of the buyers tend to exploit the anxiety of the seller on this score by putting off their purchases. Apart from correcting the technical handicap, Government should, if need be, take a hand in the marketing of this cotton to safeguard the interests of the farmer. The more long staple that we grow the less will be our dependence on foreign cotton. Confidence established among farmers growing long staple cottons is bound to pay rich dividend in attracting them to the cultivation of ELS cotton. On the other hand, Government's indifference at this stage can only lead to increased spending on foreign cotton.

Gleanings from Enterprise

Hansavivek

GARWARE NYLONS' chairman, B D Garware, says that production of nylon yarn commenced in the country in 1962 with an output of 175 tonnes per annum and increased to 10,000 tonnes in 1970. The present licensed capacity is around 16,540 tonnes. There are 140 applications for industrial licences pending decision. Garware feels that, instead of creating more and more small units of uneconomic size, existing nylon units should be allowed to expand to an annual capacity of 4,000-5,000 tonnes so as to benefit from the economics of scale, make yarn and fabrics available to domestic consumers at reasonable rates, and promote exports. As for the Tariff Commission inquiry, B D Garware maintains that the industry is of very recent origin and so cannot yet absorb the effects of such an inquiry. For the time being, its raw materials are being imported; it is capital-intensive and research-oriented; and it is subject to a high incidence of wear and tear and obsolescence owing to other chemical fibres like polyester, acrylics, etc. Says the chairman: "As such it would be a great burden to the industry to think of expansion and diversification and at the same time to get itself adjusted to the draconian framework that may be suggested or may result by this inquiry". According to Garware, a study of the price structure will have a semblance of reality catering to the needs of Government, the industry, and the consumer, only if for some years to come the industry is given freedom for growth till (i) the consumer preference is examined and developed in its true perspective, (ii) the raw material position is properly assessed, (iii) adequate reserves are built up for desirable expansion, and (iv) research and development and economies of scale are developed.

In addition, the industry should be given higher development rebate and other tax concessions—or, at least, there should be *status quo ante* so that it may go ahead with expansion plans and programmes and also attract more and more entrepreneurs for the achievement of higher targets.

DHRANGADHRA CHEMICAL has applied for a 'letter of intent' to expand capacity of its soda ash plant to 85,300 tonnes per annum. It is also exploring possibilities for manufacture of bromine and hexachloroethane for which it has received 'letters of intent'. Steps are being taken to increase production of beneficiated ilmenite, output of which was affected last year by the short supply of raw ore and operational difficulties in the acid absorber plant. A small quantity has already been exported to Europe, and negotiations are under way for exporting a substantial quantity to the US. The 40 MVA transformer was commissioned last February and it will help to stabilise production of the caustic soda unit. The Tamil Nadu Government issued orders, fixing power rates from April 1968 to September 1970 higher than those provided in the agreement. The amount due to the electricity board, as a result of the revision in the tariff, will be paid in instalments after a settlement with the State Electricity Board. Still higher rates have been fixed by the state government for October 1970 to September 1980. The electricity board and the state government have reserved the right to review power rates before the agreement expires. The revised power rate will add considerably to the company's cost of production. During the 32nd year ended March 1971, production of caustic soda at Sahupuram was 45,156 tonnes against 44,900 tonnes previously, although the unit experienced the usual trippings due to fluctuations in the incoming grid power. The tri/perchloroethylene plant registered higher output and sales in spite of inadequate supplies of calcium carbide. A small quantity of trichloroethylene was also exported. The liquid chlorine plant also performed well, with higher production and sales. Production of soda ash at the Dhrangadhra unit was slightly lower, at 43,410 tonnes (44,298 tonnes), owing to a labour strike early in the year and heavy rains that submerged equipment in the factory and intercepted supplies of grid power in September 1970. Higher sales and better realisation notwithstanding, gross profit turned out to be a little lower compared to the preceding year owing to increased costs of raw materials, packing, freight, and power. The report points out that this year's railway and central budgets will add further to cost. The subsidiary, Plastic Resins and Chemicals, has almost completed erection of plant and machinery for the manufacture of poly vinyl chloride. The plant is to be commissioned very shortly. With the expected shipments of beneficiated ilmenite, exports this year may exceed Rs 1.5 crores.

JIYAJEERAO COTTON is taking on lease from Eastern Spinning Mills a refractory at Bhandaridah in Bihar for 10 years and is seeking government's approval for this under the MRTP Act. Its application for expansion of soda ash capacity, from 500 to 800 tonnes, was turned down, but the matter is still being pursued by the management. For purposes of renovation and modernisation, machinery worth Rs 90 lakhs was installed at the mills last year. The company purchased Wadinar salt works along with its fixed and movable assets for over Rs 18 lakhs. During the year ended March 1971, Jiyajeerao's output of soda ash increased from 1,40,770 tonnes to 1,48,871 tonnes, caustic soda from 20,252 tonnes to 23,188 tonnes, refined sodium bicarbonate from 4,524 tonnes to 5,411 tonnes and ammonium carbonate from 144 tonnes to 394 tonnes. Supply of sweet water was considerably better during the year than in the past. Efforts are being made at early completion of Fadodraness scheme, which was delayed on account of some legal dispute between the contractor and the state government. Unseasonal rains adversely affected production at salt works which are all located in Saurashtra. Caustic soda and soda ash production is short of demand, and deliveries are delayed by 'acute shortage' of railway wagons. The company is using steamers for despatches to port towns. Prices of products were increased during the year owing to rise in costs of raw materials, fuel, hard coke, gunny bags, stores, spares, etc. The textile division experienced shortage and high prices of cotton. Production of blended fabrics was stepped up to suit consumer preference. With a bigger contribution from the chemical division, the company produced good results with rises in sales and earnings. On the company's application for issue of bonus shares, on a one-for-one basis by capitalisation of Rs 1.10 crores from preference shares capital redemption reserve and Rs 1.22 crores from general reserve, the Controller of Capital Issues intimated that capitalisation be made out of free reserves other than preference share capital redemp-

tion reserve. Accordingly, the company submitted a revised proposal for capitalising the entire amount from general reserve.

NATIONAL INSULATED CABLE COMPANY OF INDIA (NICCO) has been experiencing contraction of margins owing to rise in costs, especially in salaries and wages. As expenses are expected to increase further, the management intends to step up turnover by diversifying production and improving efficiency through replacement of old machinery and installation of balancing equipment. This will take considerable time, as suppliers of indigenous equipment quote long delivery periods and as delays are also involved in procuring import licences. Meanwhile, the company expects to increase turnover in the current year from fabrication jobs. Last year, too, fabrication jobs brought in about Rs 6 lakhs more at Rs 25 lakhs. Despite keen competition and reduction in incentives, the company was able to export materials worth Rs 25 lakhs against Rs 23 lakhs in the preceding year. A few sole selling agency agreements for certain territories were terminated from April last. Sales depots were established at Hyderabad, Gauhati and Cuttack to maintain sales in these territories. A sales depot is also being established in MP.

SIEMENS INDIA took two years to recover from the impact of the last recession and to reach a reasonable profitable level of operations. During the year to September 1970, total turnover expanded from Rs 20.31 crores to Rs 25.03 crores and net profit from a mere Rs 15 lakhs to Rs 127 lakhs, even though depreciation required as much as Rs 33 lakhs more at Rs 94 lakhs. Demand for the products and equipment manufactured by the company and its licencees continued to be good. The project business thus developed well. Product business in switchgear, motors and power transformers also expanded satisfactorily. The performance of the components, data and communications division, however, was affected by procedural delays in the issue of import licences and by the longer delivery periods asked for by suppliers. But the sales performance of the medical division was satisfactory. The company stepped up its import substitution drive. To initiate restructuring of its finances on a long-term basis, the company went public with an equity issue of the aggregate face value of Rs 1.20 crores and 8 per cent debentures of the total face value of Rs 2 crores.

FIBREGLASS PILKINGTON has carried through the first stage of expansion and is now in a position to offer much quicker deliveries and better customer service than a year ago. The company is devoting greater resources to technical development and proposes to build additional laboratories at Thana. With further progress in the year ended March last, the company was able to reduce the accumulated deficit to less than Rs 6 lakhs. V J Osola, chairman, stated at the annual meeting that even the balance loss was wiped out in the first quarter of the current year. Turnover in the first five months of the year increased by 16 per cent over that in the corresponding period of last year; profits also showed 'satisfactory progress'. The chairman expresed hope that the company would be able to pay a maiden dividend next year.

The Week's Companies **(Rs in lakhs)**

	Garware Nylons		Dhrangadhra Chemical		Jiyajeerao Cotton		Fibreglass Pilkington	
	Latest Year 31-3-71	Last Year 31-3-70	Latest Year 31-3-71	Last Year 31-3-70	Latest Year 31-3-71	Last Year 31-3-70	Latest Year 31-3-71	Last Year 31-3-70
Paid-up capital	163	74	265	257	564	564	160	160
Reserves	101	91	301	273	894	809	4	4
Borrowings	167	94	562	483	221	247	1	1
of which Term borrowings	135	64	411	360	70	70	—	—
Gross fixed assets	296	253	1288	1171	1954	1798	125	120
Net fixed assets	131	117	617	630	618	577	91	85
Investments	—	6	158	72	161	154	—	—
Current liabilities	128	43	126	126	551	414	52	45
Current assets	2548*	180	399	359	1451	1304	113	90
Stocks	62	43	132	142	651	474	74	57
Book debts	123	42	196	179	466	443	25	23
Net sales	361	314	880	792	2529	2389	171	128
Other income	15	6	17	17	103	84	3	1
Raw material costs	108	85	179	141	1009	996	49	36
Wages	25	23	124	111	418	390	31	26
Interest	8	9	50	30	19	15	2	2
Gross profit(+)/loss(—)	184	155	131	133	433	376	43	21
Depreciation provision	29	32	69	85	118	119	10	9
Tax provision	99	71	9	10	157	98	—	—
Net profit(+)/loss(—)	56	52	53	38	158	159	23†	12
Development rebate provision	2	2	12	22	28	41	—	—
Transfer to reserves	43	41	16	—7	51	39	—	—
Dividend								
Amount	11	9	P7 E18	P7 E16	E70 P9	E70 P9	—	—
Rate (per cent)	11	15	P7.8&9.5 E10	P7.8&9.5 E10	E15 P9.3	E15 P9.3	—	—
Cover (times)	4.91	5.55	1.88	0.56	1.73	1.55	—	—
Ratios (per cent)								
Gross profit/sales	50.97	49.36	14.88	16.78	17.12	15.74	25.14	16.41
Net profit/capital employed	12.99	20.07	4.69	3.75	9.41	9.81	13.93	7.27
Inventories/sales	17.17	13.69	15.00	17.93	25.74	19.84	43.27	44.53
Wages/sales	6.92	7.32	14.09	14.02	16.52	16.32	18.13	20.31

* Inclusive of Rs 2130 lakhs towards application money refundable to the applicants. † Adjusted against previous loss.

By-Election Pointers

Romesh Thapar

FIRST, it was the Union Territory of Delhi which, voting within weeks of the "massive mandate" parliamentary election, shattered the lazy political forecasters by returning an unexpected Jan Sangh majority to the Metropolitan Council — and that, too, despite the incessant talk about the misuse of the democratic process by an all-powerful ruling party. Then, there were a few isolated pointers of solid opposition strength prevailing at the regional level, including the jitters that Planning Minister Subramaniam would undergo every time the DMK was reported to be thinking of double-crossing him in Tamil Nadu. But very much more significant has been the defeat of what one called "Indira Gandhi's candidates" in the Orissa by-elections.

Some of us, who have been working that the Indian people are voting at two levels of consciousness, the national and the regional, and that there could be a "massive mess" in the February 1972 elections to the state assemblies, can claim that the speculation is now getting a certain factual backing. Indeed, opposition parties, somewhat paralysed since the parliamentary elections, might begin to waken to the possibilities of power in the states. If Biju Patnaik can operate, what's to prevent others?

Interestingly enough, the ruling Congress heirarchy, under the energetic prodding of a Prime Minister who is no political chicken, has begun clearing the decks for the battles of 1972 which it expects will be severely contested. The ouster of powerful, but unpopular, chief ministers — and also of their cronies who have made too much money as politicians — is an acceptance of the thesis that unless the ruling Congress looks different and acts different it may well lose many vital contests in the states.

The argument persists that the clean-up in the states is too faction-oriented to really restore to the ruling Congress parties in the regions the dynamics needed to win massive mandates. Largely, the new provincial commitments are patchwork arrangements where the old bosses are attempted to be silenced by the exercise of the PM's power and patronage. Very often, the men — and women! — chosen to lead the new phase have little ballast. Of course, it is possible that these elements will "develop", but the state elections are only five months away.

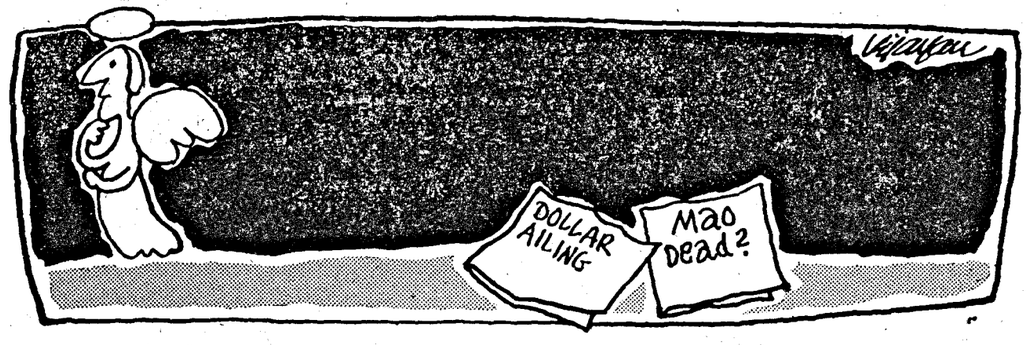
In the confusion that is bound to develop following these reverses, the thesis is being advanced that those elements of the discredited Cong-O who are fed up with its moribund condition should be brought back to the ruling Congress party. This theorising has strengthened following the political broadside delivered against the Cong-O by Ram Subhag Singh, and the reported desire of Kamaraj to reconsider his opposition to Indira Gandhi (even though Karunanidhi of the DMK would have us think otherwise).

Naturally, a certain fear prevails that in order to prevent what could turn into a critical splitting of the vote it might be considered necessary to welcome back Cong-O members who have "seen the light". Such a development, forcing further factional adjustments at state level in an amorphous party, could again usher in a period of do-nothing politics and put a bigger question mark over the future of the party.

One of the positive outcomes of this situation is the emergence of a new realism at certain levels of policy-making. The rigid, mechanical slogans of the Left are at a discount. There is a groping towards solutions which will guarantee a just society. This groping had better become a systematic investigation designed to throw up practical panaceas. The unequal, corrupt, static power structure of India must be challenged with a viable alternative.

If this quest fails, we will be back to the adventurism of the Left — and even of the Right!

September 28



"No wonder men are losing faith in omnipotence and immortality!"

NEW DELHI

New Sources of Crude Oil

THE brief storm in the tea cup last month over the alleged refusal of the foreign oil companies to increase their throughput to meet emergency conditions and to help the country to build up stocks of petroleum products has quietly died down. It was certainly not a case of the oil companies refusing to co-operate in a national emergency as it was made to appear. One of the three foreign oil companies had readily agreed to step up production and actually did so. In the case of the other two, there were operational problems of which the Petroleum Ministry was well aware. In any case, the issue is no longer a live one. But the controversy once again highlighted the strained relations that have developed between the government and the oil companies, specially after the latest steep hike in crude prices.

Agreement with Iraq

A more important and fundamental development in oil policy was the signing last week of the Trade and Economic Co-operation Agreement between India and Iraq. Under the Agreement trade between India and Iraq is proposed to be increased threefold in the next two years. Crude oil and sulphur have been added to the list of imports from Iraq which hitherto consisted mainly of dates. In addition, the Agreement provides for identifying new fields of economic co-operation, including joint ventures such as an oil refinery in India based on Iraqi crude and a steel mill in Iraq based on Indian iron ore. There has also been some discussion on Indian collaboration for a fertiliser plant in Iraq based on natural and associated petroleum gas. The significance of all this is that a positive move has been made to establish new sources of crude oil based on a link-up with national oil enterprise in a crude-producing country.

The talk of nationalising the foreign oil companies, which has cropped up now and again during the past several years, has been more of a propaganda ploy used whenever difficulties arose with any of the oil companies in respect of crude prices or crude import arrangements. The government did manage occasionally to squeeze some small price concessions amounting to a few cents per barrel. This was not too difficult given the declining trend of crude prices, particularly in the West Asian oilfields. This did not in any way affect the entrenched position of the foreign oil companies in the Indian market. The fundamental vulnerability of the Indian position was sharply emphasised in the last few months when the oil producing countries of West Asia took concerted action to protect their rights and to prevent erosion of their incomes from their oil wealth. The oil companies have succeeded in passing on to us the entire increase in crude prices which they had been forced to yield to the producing countries. As a result, whatever small price concessions the government had been earlier able to extract from the companies have been wiped out and there has been a steep rise in prices of imported crude of the order of 35 cents per barrel, with the prospect of further increases to come. The crude import bill in the current year is estimated to go up by nearly Rs 36 crores over the Rs 102 crores paid out last year, all in free foreign exchange.

Import Arrangements

The weakness of the Indian position is further shown up by the fact that the price increases affect equally the public sector refineries based on imported crude; in fact, the Iranian suppliers of crude to the Madras refinery are charging a higher price than is charged by the three international oil companies.

Once the disadvantages of the special refinery agreements with international oil companies had become clear and the government had decided that further development of the oil industry would be in the public sector, efforts were made in the early sixties to bring in oil companies other than the 'oil majors'. The Cochin refinery was put up in collaboration with Phillips of USA. Then followed the refinery in Madras with Iranian and US collaboration. And now a refinery is under construction at Haldia with French and Rumanian collaboration. But whatever the collaboration arrangements for setting up the refineries, the crude import arrangements were similar. In all the cases India had no direct relationship with the sources of supply and foreign agencies were entrusted with making the imports against free foreign exchange to be provided by the Government of India. In addition, the agreements were in the nature of long-term contracts with clauses for price adjustments which have been taken full advantage of by the foreign suppliers. The Shantilal Shah Committee on Oil Prices had, in its report submitted in 1970, roundly criticised all these arrangements. The Committee had found that under the arrangements India could not take advantage of the falling trend of crude prices at that time. Now it is seen that they also offer no protection to India in conditions of price rises.

Meanwhile, a new situation in regard to crude imports is beginning to arise. In the fifties, the entire import of crude was for the foreign oil refineries. The first three public sector refineries were based on indigenous crude. But as indigenous production of crude has been steadily lagging behind requirements, the new public sector refineries which have been set up since or are now proposed to be set up (such as the one in the north-west) have to depend on imported crude. In the case of the three public sector refineries at Cochin, Madras and Haldia, foreign agencies have been entrusted with importing the crude. But with the growing dependence on imported crude, this arrangement obviously needs to be changed. An Indian agency in the public sector, fully equipped to arrange crude imports for the public sector refineries, must now come up.

Direct Links

The idea that India should enter the international market as a bulk buyer of crude had been strongly canvassed by the Shantilal Shah Committee. It had recommended the setting up of a single agency to handle all import of crude by inviting competitive bids in the international market. The experience of Germany and Japan was cited in support of such an arrangement. However, this recommendation was based on the then-existing situation of falling prices and surplus supplies in the international oil market, which situation has now completely changed. Both Germany and Japan are now striving to get a foothold in the international oil business itself so as to gain a measure of direct control over supplies.

While the example of West Germany and Japan, which are for larger consumers of crude, may be only of limited relevance to India, developments in the West Asian oil market are propitious for making new arrangements for crude imports which will be advantageous to both India and the oil producing countries. The growth of national oil companies in these countries and their anxiety to establish direct links with consumers open up prospects for making new arrangements between them and India. In this context the trade agreement with Iraq is of great significance.

The Petroleum Ministry has in the past been too much obsessed by secondary and narrow considerations in approaching the problem of crude imports. The question of price is a case in point. In a direct deal with a national oil enterprise in a producing country, the question of the price of crude should be seen in the context of trade expansion and growing economic collaboration between the two countries. The trade agreement with Iraq correctly links up the question of crude imports with the other collaboration proposals, including that for the north-west refinery. The technical teams which are shortly to go to Iraq to initiate detailed negotiations should pursue matters in this perspective.

Meanwhile, the question of developing indigenous sources of oil remains as pressing as ever. It is to be hoped that the report of the Malaviya Committee on the Oil and Natural Gas Commission, the principal oil explorer in the country, will help to impart some dynamism in this vital area. But the decision to set up the Committee ought not to be made an excuse to sit back and do nothing. There is Oil India, an equal partnership between the Government and the Burmah Oil Company, whose affairs need to be looked into. The Burmah Oil Company is known to be keen to extend its area of collaboration with India to include joint ventures abroad and it has the resources for this. Even if exploration in India is reserved for the ONGC, the advantages of collaboration in oil exploration abroad need to be seriously examined.

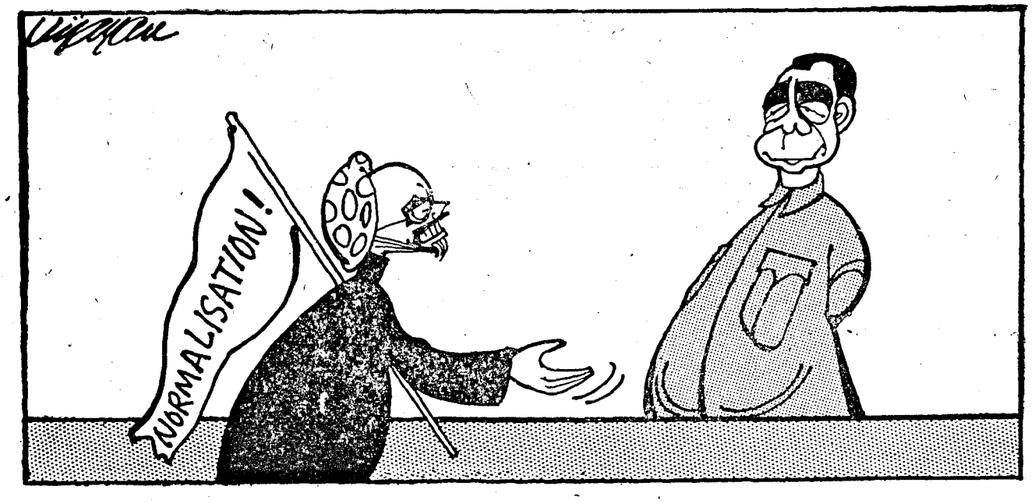
In addition, the work of exploring the offshore areas needs to be taken up with greater speed. The ONGC seems to be struck with fixed platform drilling of the shallow structures off Cambay. Meanwhile drilling of the deeper waters with the assistance of the Japanese and the Americans will have to wait for another year, according to the arrangements arrived at late last year. Meanwhile, why should not arrangements for exploring other structures along the long coastline of India be taken in hand right now?

MAHARASHTRA

Shivaji Image Smudged

THE unanimous resolution adopted by Congressmen from Marathwada at their meeting in Nagpur last month demanding the chief ministership for their region has put Y B Chavan in a tight corner. The move was in effect, if not in intent, a revolt against the hitherto undisputed supremacy of the Union Finance Minister over Maharashtra Congress. The Nagpur meeting was held immediately after Chavan had declared that V P Naik would continue as Chief Minister after the 1972 elections and added, for good measure, that Naik was a "gift" to the state. He had implied that those who were raising the issue of chief ministership were guilty of trying to disrupt the party and had declared that they would eventually be "frustrated". Chavan had hoped that his statement would ring down the curtain on the wrangles over the chief ministership.

Chavan did not stop with issuing



"Actually, Mr Chou, we've become self-sufficient. We can make our own emergencies without your assistance."

his statement. His acolytes in the state party threatened Marathwada MPs, MLAs, district party chiefs and chairmen of zilla parishads with disciplinary action if they attended the Nagpur meeting. According to some reports the party General Secretary, Sharad Pawar, even told Shankarrao Chavan, the chief minister-aspirant from Marathwada, that he would not only not get the chief ministership after the 1972 elections but would not even be included in the next ministry. But these threats did not work and the meeting was held as scheduled. More recently Shankarrao Chavan has declared that if Marathwada's demand for chief ministership was not conceded by Chavan, it would be referred to the party's central parliamentary board and that Marathwada Congressmen would not hesitate to seek Indira Gandhi's intervention.

The revolt of the Marathwada Congressmen is significant for two reasons. First, contrary to earlier expectations — and reports circulated by Vasantrao Patil, the PCC chief —, Shankarrao Chavan has proved his claim that the entire Marathwada party is behind him on the demand that the chief ministership should go to the region. Secondly, and more important, the Marathwada party has flouted the wishes of Y B Chavan, thereby confirming that the Union Finance Minister is no more the undisputed leader of the state Congress. This has not, however, come as a complete surprise. The long reign of V P Naik which has lasted over eight years has made Maratha caste politicians in the Congress restive. The Maratha leaders fear that the changes that Naik has brought about in the power structure during his tenure have reduced their dominant position in the Government. Thus what the Maratha leaders are striving for is to reassert their dominance in the state Congress and in state politics. The demand that the chief ministership should go to the Marathwada region is a cover for this.

Although some political light-weights from western Maharashtra are still with Y B Chavan, there is a strong section from the region led by Y J Mohite which supports Shankarrao Chavan's demand. These leaders have little sympathy for Marathwada's claim to the chief ministership, but they fear that if Naik continues for another term of five years, followed by a term of five years for a chief minister from Marathwada, their own turn to be in power would come only in 1982, by which time they would all be old. So they have joined Shankarrao Chavan in his attempt to replace Naik in 1972 so that their own turn would come after five years.

The support of western Maharashtra politicians led by Mohite and others to Shankarrao Chavan has rattled the Union Finance Minister who feels that this development will undermine his position in state politics which, in turn, will weaken his already none-too-sure position at the Centre. Chavan knows well that the Prime Minister's moves to remove Naik are in fact directed at himself. The Prime Minister cannot hope to acquire control over the party machinery in Maharashtra unless Chavan's position as the undisputed leader of the state Congress is undermined. It follows from this that if the opposition to Naik's continuance gathers momentum in the party, Chavan may shift his stand in the interest of preserving his own leadership.

Meanwhile, the hold of the landed interests on the Maharashtra Congress as also that of the industrialists and property holders in Bombay, Poona and Nagpur on the state government was demonstrated by two important policy decisions announced by the Chief Minister. The state government has, contrary to its earlier resolve, decided not to enact legislation imposing a ceiling on urban property. Naik has also postponed amendment of the ceiling on land to change the unit of holding from the individual to the family. As regards the ceiling on urban property, the state government has now asked the Centre to pass uniform legislation on the subject. On changing the unit of holding from the individual to the family, Naik said that the state government would take a decision after finding out what other state governments were doing in the matter. These two decisions are significant insofar as the earlier decisions to enact legislation imposing a ceiling on urban property and to amend the land ceiling act had been paraded as two major items of the 15-point programme adopted by the Maharashtra Congress and later by the state government.

★

The Chief Minister specially invited journalists from Bombay the other day to visit his lush green farms in his home town of Pusad in Yeotmal district. The purpose was to refute the allegations made by the separatist Vidharba leader and Forward Block MP J B Dhote that the Chief Minister had amassed wealth amounting to Rs 1.19 crores. While V P Naik did not dispute the items of property listed by Dhote, he claimed that the value of the property had been exaggerated by Dhote. After taking the journalists on a conducted tour of his rich hybrid cotton farms, modern dairy, petrol pump and his brother's posh bungalow, Naik addressed a press conference. On the whole what Naik had to say about his assets raised more questions than it answered.

In the first place, all the items of property referred to by Dhote did in fact exist. As for their real value it was, after all, the Chief Minister's word against Dhote's. Secondly, the disclosures had been made belatedly, following reports that the house of one of Naik's close relatives had been raided by CBI. There are also reports that the Chief Minister had received a letter from the Prime Minister suggesting that he should disclose his assets since the allegations against him had been levied by an MP. On the other hand, his colleagues in the party leadership are unhappy at his action since they fear that he has set a precedent and that some of them would also be forced to declare their assets if similar allegations were made against them by opposition members in the state Assembly.

SUBSCRIPTION RATES

	Inland	Foreign (Surface Mail)		
Six months	Rs 32			
One year	Rs 60	Rs 85,	$ 11.35,	£ 4.75
Two years	Rs 110	Rs 160,	$ 20.75,	£ 8.75
Three years	Rs 160	Rs 235,	$ 30.50,	£ 13.00

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

SOUTH

Turn in Andhra

Mohit Sen

THE exit of Brahmananda Reddi gives Andhra a chance to maintain its identity and to continue as an integrated state. If this had come about many months earlier, the people of the state would have been spared so much of anguish and waste of energy. It is, of course, absurd to hold that the ex-Chief Minister was the main reason for the agitation and struggle for a separate Telengana. There were deeper economic and psychological factors behind this demand. But Brahmananda Reddi became the symbol of the domination of and the injustices perpetrated by the landlords and the new rich of the delta areas of Andhra. And his attitude towards the movement made him the target of anger.

At one time it was argued that the removal of the Chief Minister would only whet the appetite of the separatists and make them more adamant. Exactly the opposite has happened. It is true that the sweeping victory of the Congress in the mid-term polls had a sobering effect on the leaders of the separatist movement. Their consistent support for the new measures and attitudes of the Prime Minister convinced the Congress High Command that they were not, in the main, to the Right of Brahmananda Reddi's Congress. Their success in the Telengana region was, therefore, taken as an expression of anger and discontent against the dominant Pradesh Congress leadership. Thus, blinkers were removed and prejudices dispelled. And after many months of probing and pressure, a Telengana Brahmin has emerged as the Chief Minister.

Quiet Exit

Behind the removal of Brahmananda Reddi there was, undoubtedly, the desire of the Prime Minister to cut to size the Pradesh Congress leaders who might act as alternative centres of power. The ease with which the removal was effected has important lessons and it can scarcely be disputed that the exit did not lead to the kind of rumpus that was predicted by many. Brahmananda Reddi is no saint and his final agreement to quit, after tenaciously holding on for so long, came only because the alternative was a clash with the Prime Minister in which he knew he would be worsted.

The first lesson to be noted in this context is the reality of an all-India consciousness and unity. The facts of uneven development and of the nationalities-basis of Indian development are realities that cannot be ignored. Nor can the reality of an emerging India with its corresponding all-India consciousness. Since Independence these two processes have both developed, sometimes convergently and sometimes contradictorily; but it would appear that all-India consciousness has grown faster. This is, above all, because the economic trends that in the final analysis determine significant developments have been more of an all-India nature. An all-India market as the main unit of capitalist development in the country is a more powerful reality than the local or state-wide markets. This has very serious implications for all political parties and personalities in the country, not least for those who strive for revolutionary change. The unit, the interconnected whole or totality, of the Indian revolution will be India and not some region based on localised economy.

The Cash Nexus

The second lesson to be underlined is the demolition of the myth of the 'powerful' Chief Ministers who in a conclave would decide the destiny of India. These Chief Ministers are not powerful since, essentially, they are manipulators. They are not even machinemen of the type that, say, Vallabhbhai Patel was. The doughty Sardar built up an organisation, moulded cadres, and moved the entire party when the occasion demanded. Besides, he represented a powerful Right ideological trend in the national movement which was, to some extent, associated with Gandhi—though this association has often been overstressed to the extent of ignoring Gandhi's connection with Jawaharlal Nehru. Brahmananda Reddi and those like him are not to be considered even as *chhota Sardars*.

The power of manipulation that these gentlemen are so skilled in using is essentially the power of their office and the patronage that they can distribute. There is no ideological binding force nor even the constructive grip of building and sustaining an organisation to weld together the masses for action. Thus, no loyalties develop and no permanent associations. The only connection is the cash nexus which dissolves once the public exchequer is no longer under control. Brahmananda Reddi, above all, knows this since it was he who used this fact to smash the influence of Sanjiva Reddy whose protege he once so pliantly was.

This does not mean that the ex-Chief Minister will now have no following at all or that he will be able to exert no influence on the politics of Andhra. He has used the power of patronage right down to the panchayat samiti level and these gentlemen would rally if all at once their power to make money was threatened. But they would not rally behind their erstwhile patron if their power was not threatened or if a discriminatory approach was adopted.

Shortlived Peace

It is true that P V Narasimha Rao has been a steadfast colleague of Brahmananda Reddi. It is also true that he has no mass base or factional group of his own. The fact that he is a Brahmin would also go marginally against him. But it is more than likely that he would soon shed the character of the ex-Chief Minister's colleague and establish direct contact with the Prime Minister. He could build a team of his own and go about the business of governance.

For some time it is likely that he would have a reasonably peaceful time as the people of the Andhra regions are relieved at the preservation of the unity of the state while those of Telengana expect that some of their economic demands would be met just as they feel that some of their hurt has been soothed. But this would be a pretty shortlived peace. The elections to the State Assembly are only four months away and the scramble for tickets, for particular seats and so on would certainly upset the Congress calm. The re-entry of the Telengana Praja Samiti Congressmen would strengthen the Congress but also complicate the party's internal squabbles.

More important, however, is the fact that the toiling youth of Andhra Pradesh are as impatient for change and growth as their counterparts in the rest of the country. And neither growth nor social change characterise Andhra today. The largely undifferentiated Congress, moreover, does not give even the semblance of a desire for these twin objectives. Spectacular political developments, therefore, are in the offing in this state.

An Infertile Lobby?

Dipak B R Chaudhuri

IT was on a Sunday morning last winter that the idea of a 'Fertiliser Promotion Council' was scotched on the advice of Cabinet Secretary T Swaminathan, who the evening before had finally consulted a few public sector technologists. Though not formally rejected, the proposal has been effectively shelved. What seems to have weighed heavily in the decision is the history and record of another such body, *viz*, the Fertiliser Association of India. The idea of a 'Fertiliser Promotion Council' had its origins in the recommendation of the Sivaraman Committee in 1965 for a 'National Fertiliser Promotion Corporation' to work on sales promotion and farmer education. The idea was develped later, envisaging a statutory board or council on a registered society basis. It was thought that Government must play a role in the distribution of fertilisers because of its responsibilities for increasing agricultural production and for seeing that there is social justice in economic development. The Fertiliser Committee in its report in 1965 thus spelt out three responsibilities: first, to carry the message of balanced fertiliser application to all parts of the country; secondly, to guarantee supply of fertilisers at fair prices, and thirdly, to build up a good fertiliser distribution system in the remotest corners of the country by activising the credit sector. Government would have a special role to play because sales promotion activities of private manufacturers would aim to boost the merits and sales of brand products. This would be to the detriment of balanced fertilisation. The Sivaraman Committee, therefore, felt it necessary to entrust basic promotion to a special representative agency that would supplement the work of the existing official agencies.

Ironically, the idea of the representative agency was subsequently taken up by private fertiliser interests to suit their own ends. When control on pricing and marketing was removed in 1966, private sector fertiliser business interests and the foreign suppliers of fertilisers and fertiliser raw materials started to campaign in favour of the Sivaraman Committee's recommendation in an attempt to dominate fertiliser marketing. The Fertiliser Association of India (FAI) was the major instrument used by this lobby in its attempt to obtain a favourable decision. Indeed, the FAI had by then acquired such power and connections that it was very nearly successful. But it was FAI's own record that finally weighed the scales against another council.

Of course, the FAI does not profess to be a lobby, and it has enjoyed the trust and patronage of successive ministers and senior officials in the Department of Agriculture. Constituted in the mid-fifties by private sector superphosphate manufacturers and by those interested in importing fertiliser raw materials, FAI even succeeded in getting the public sector Fertiliser Corporation of India (FCI) enrolled as its constituent corporate member.

Till 1966, nitrogen distribution was a government-cum-co-operative monopoly. Distribution of phosphates was handled by manufacturers through private dealers and through co-operatives. Till the mid-sixties fertiliser production was one of the areas of the economy reserved for the public sector and government resisted pressures for concessions from local business groups and American agencies. But when, in 1966, Asoka Mehta and C Subramaniam opened this industry to the indigenous and foreign private sector, FAI then found a role cut out for itself, and soon became the organ of propaganda for the private sector. This happened notwithstanding the fact that the public sector FCI, together with public sector FACT in Kerala, have been dominant in the field of domestic production. It is no secret that, though formally part of FAI, the public sector fertiliser managements consider FAI to be not only a lobby of the Indian private sector fertiliser industry and trade, but also a watchdog of American mineral and chemical industries. In fact, though FCI's directors have been included on successive FAI executive boards, the FCI has never taken any active interest in the house-running or operations of the FAI. Moreover, although it is the largest single producer, has multiple producing units and pays the heaviest subscription, FCI enjoys the right of only one vote — at par with smaller private units producing a single superphosphate or even simple mixtures. Yet, a single house or owner in the private sector may exercise multiple votes in the name of different fertiliser firms.

Conflicts of interest between FAI and FCI came into the open over the indirect American campaign against FCI, started when the Trombay unit went on stream and started to market high-analysis complex fertiliser known as ammonium-nitrate-phosphate (brand name Suphala). In Indian conditions, Trombay's ANP is vastly superior to any other complex fertiliser, such as DAP, which the Agriculture Ministry has been importing. The American chemical industry has faced a problem of 50 per cent surplus of DAP since 1963 when it expanded its fertiliser production capacity. Evidently, the US wanted to retain the Indian market; US AID was persuaded to develop a long-term market for it by training a corps of propagators for DAP and other such fertilisers. It is evident that US AID and FAI work in close liaison.

Similarly, the suppliers of sulphur and sulphuric acid and of rock phosphate and phosphoric acid put their fingers in the pie. The Indian subsidiary of a well known American minerals company is known to have retained at least a dozen retired ICS officers and CSIR administrators, not to mention politicians. In fact, ammonium-nitrate-phosphate (ANP) fertilisers, with or without potash, made by the nitric acid acidulation process at the Trombay plant, yield a suitably balanced, highly nutrient fertiliser at lower costs and without any significant use of sulphur. This fertiliser provides both types of nitrogen, *viz*, ammonical as well as nitrate and phosphates, in the water-soluble form and citrate-soluble form, and has been developed by local talent and team work. Its marked benefit is the use of nitric acid to release the P_2O_5, which process is more economic than the use of sulphuric acid, since nitric acid is cheaper. The need for imported sulphur is also eliminated, and no byproduct gypsum is produced even as additional plant nutrient 'N' becomes available in the form of ammonium nitrate.

The FAI also lobbied on a big scale for import of liquid ammonia for manufacture of fertiliser. Indeed, it seems that to facilitate Tata's Mithapur project in Gujarat, Asoka Mehta first cleared the Dharamsi Morarji project in Maharashtra — even though FCI did not support the cause of imported ammonia as feedstock.

But the FAI is not inflexible in its approach. When, at last, the Ministry of Petroleum and Chemicals concurred with FCI directors to let FCI leave the FAI, efforts to accommodate the giant public undertaking began to be made at once. A few weeks ago, there was a meeting between the FAI leadership headed by Charat Ram and the FCI directors. The FAI board agreed to amend the memorandum and articles of association within six months to allow a fair share of influence to multi-unit large-scale producers such as FCI.

Area Studies in Indian Universities

J A Naik

IN most Western countries the academic community gets its due share in shaping the nations' foreign policies. For instance, according to newspaper reports, when President Nixon decided to review his Vietnam policy, the State Department was working in consultation with more than 100 academics who had specialised in related areas. What is the situation in India? Even if the Government had decided to bring academics into the picture at some stage for such a major foreign policy decision as that to have a defence alliance with Russia, what could it do? Where are the persons who can discuss Soviet affairs with specialised knowledge? In the whole of India there might be at the most three or four academics who have taken the trouble of specialising in Soviet studies; similarly, in the whole of the country there is only one centre for Soviet studies employing one specialist. This is how we are approaching the task of encouraging study of an area which should be of the utmost importance to us.

Faultily Conceived Programme

The University Grants Commission had sanctioned a Soviet studies department at the Bombay University nearly four years back and the university had prepared a plan to employ two Sovietologists specialised in Soviet politics, sociology, economics or history. The idea apparently was that the selected specialists would work under the general guidance of the university professors in the department irrespective of whether these professors had any competence to guide the projects entrusted to the specialists. But what happened to even this faultily conceived programme of area studies? Some posts were advertised nearly three years back and the interviews were conducted a year afterwards. The only 'expert' who was invited to judge the competence of the candidates had apparently not so much as spelt the words 'Soviet Union' in his academic writings. To this date the posts remain to be filled. Although it is four years since the UGC sanctioned the department of Soviet studies, the Bombay University authorities have shown not the slightest sense of urgency in taking advantage of the UGC's offer nor has the UGC thought of shifting the department to some other university. The Delhi University already has a department of Chinese Studies; why should not the UGC shift the proposed Soviet studies department to Delhi University and build, on the model of the Columbia University's Institute for Communist Affairs, a centre for communist studies at Delhi?

Specialisation by Themselves

Looking at the 'research' interests of University 'professors' in India, area studies cannot be developed in the existing departments such as those of political science, history, economics, sociology, etc. Area studies are a specialisation by themselves and are unlikely to thrive in the general studies departments. The School of International Studies in New Delhi has produced more work during its existence of less than 15 years than the political science departments of most universities have done in the last 50 years or more. The School has achieved this largely because it was planned and developed as a centre for area studies. Unless the area studies programme is planned on similar lines it is unlikely to progress; and unless area studies are developed it is unlikely that we will have specialists who will be able to contribute to foreign policy debates in the country.

The Bombay University's approach to building a department of Soviet studies has been cited above, but it is by no means an exception. Around the time when the Bombay University was entrusted with the task of developing Soviet and African studies, the University of Madras was provided with grants for starting a South-East Asia studies department. As far as this author is aware, one post was advertised, some candidates were called for interview, but to this date the interview has not taken place nor has anything else been done to build up the department.

Besides the lack of professional competence of the generalists, what makes the task of developing area studies programmes in established general studies departments difficult is the dearth of facilities in these departments for development of area studies. To cite the instance of Soviet studies again, it is unlikely that a professor of sociology in an Indian University would appreciate the problems of developing Soviet sociological studies in India. Area specialisation develops through field trips to the concerned country, knowledge of the language of the region, etc. At present no Indian or foreign scholar can visit the Soviet Union for studying anything, except with the help of scholarships offered by the Soviet government or through cultural exchange programmes between the two governments. An Indian student specialising in American studies—or, for that matter in Saudi Arabian studies—can go to the country concerned and collect material for his research with funds released by the Government of India. The Soviet authorities are, however, still sensitive and selective in permitting study projects by foreign scholars. Recently an Indian scholar working on Soviet-Pakistan relations was not allowed to visit the Soviet Union. In the circumstances, to imagine that an Indian sociologist would be allowed to visit the Soviet Union to do field work on any sociological problem concerning the Soviet Union is to betray profound ignorance of the situation. And yet it is reported that the Sociology Department of the Bombay University is trying to have a sociologist in Soviet affairs!

Development of area studies raises another question. At a time when the Soviet Union has emerged as probably the single most important nation for this country we have hardly half a dozen specialists in Soviet economic and political affairs. Should we really waste money at this stage on studying Soviet family, marriage, folk dances, taboos, etc, and build up a department of Soviet sociology at the expense of producing specialists in the Soviet economy, foreign trade and foreign policy?

19th Century Syllabi

The content of our University education still seems to be based on the 19th century syllabi of British universities. British and (West) European history still dominates the teaching of history at all stages in the colleges and universities. American, Russian and Chinese history has not attracted the attention of our history professors. History of South-East Asia, which was once culturally a part of 'greater India', is hardly known even to university professors. Similarly, teaching of political science is still confined to political theory, constitution, etc, and no effort is made to train area specialists at the M A stage in any university. The emphasis in political science teaching in universities in the West has changed from political theory to political systems and foreign

policy studies. This has yet to happen here; nor will it happen so long as the university authorities do not give up the generalist approach. A lot of specialisation has taken place in technical education in India. Why should the same not happen to the social sciences? Cannot the UGC do something?

CUBA

Institutionalising a Revolution

Mohan Ram

EARLIER this year, the 12-year-old Cuban revolution admitted a new dimension by adopting the law against loafing. The law, as well as the intensive debate that preceded its adoption, epitomised the new political, economic, and social realities of a revolution that is yet to be institutionalised.

THOROUGH REVIEW OF JUDICIAL SYSTEM

But for two years now, Cuba has been engaged in a thorough review of its legal system. Thousands of jurists, members of popular courts, leaders of mass organisations, party cadres, and youth leaders, have been debating a basic project for a new judicial system for Cuba, proposed by a Commission of Juridic Studies. Although numerous laws have been passed over the past 12 years, Cuba is still governed by the Constitution of 1940, by the social defence code of 1935, and by the civil code dating back to the end of the nineteenth century.

The new judicial system that is expected to result from the debate should unite the existing jurisdictions—ordinary or common, revolutionary, popular, and military. The military jurisdiction will retain its present structure, while the other jurisdictions will be integrated into a court system having local, regional, and provincial levels, and falling under the people's supreme court.

The judicial system will be an organ of the revolutionary state and will, therefore, be subject to the control of the council of ministers even while it is expected to safeguard the independence of the judiciary in its functions. This feature, perhaps, will make the judicial system to emerge in Cuba unique among socialist judicial systems the world over.

The system is to be evolved on the basis of the experience of the revolutionary power in Cuba. It would also draw on the experience and legislation of other socialist countries.

As proposed now, the new judicial system provides for collegiate courts, to consist of professional as well as lay judges. Most of them would be elected for a specific term and would be subject to recall by the electors. Judges would in fact be accountable to the electors to whom they would have to make periodic reports. All judgments would be subject to appeal; but it is interesting that there are to be a few exceptions such as the verdicts of the Supreme Court when it has tried a president of the republic, members of the council of ministers, and the political bureau of the Cuban Communist Party.

According to Blas Roca, president of the secretariat of the Commission of Juridic Studies, it is for the following reasons that Cuba wants to unify the jurisdictions and review its civil and penal laws and legal procedures: There are different court systems (ordinary and revolutionary), each governed by different and separate authorities. This creates problems in the way of implementing any uniform policy in penal and correctional spheres, and can be remedied therefore only by unifying the separate jurisdictions, and creating a new system under a single supreme authority for all courts, in a common, structured, court organisation. At the same time, the jurisdictional, penal and civil laws have to be brought into harmony with the social, political and economic realities of the revolution. Some aspects of the civil and penal codes are obsolete for disputes and court cases arising out of the present-day reality.

What is significant is that the debate has revealed a large degree of accord on the new judicial system. The points on which the 'draft project' has been generally criticised are revealing. Some have insisted that the labour justice system should be part of the other jurisdictions. Some have maintained that there should be a military tribunal in the Supreme Court. Some have insisted that all members of the supreme court should be professional judges. Some have been opposed to banning private practice of law. The draft will be revised in the light of all these criticisms.

The process might yet take about a year to complete. It is possible, as Roca thinks, that all the laws examined and redrawn on the basis of the structural changes that have been brought about in Cuba might form the basis for Cuba's socialist constitution. When thus drawn up, the new constitution will institutionalise the Cuban revolution. And in the mean time, the institutions in Cuba would have been renovated and brought up to date.

RANGOON

Army Is in Control, But the Poor Are Better Off

THERE is no doubt that among middle-class Burmese living in Rangoon — and most middle-class Burmese have always lived in the economically dominant port city — there is considerable dissatisfaction with the Revolutionary Government of the Union of Burma headed by Chairman Ne Win and his recently appointed Deputy, Brigadier San Yu. The middle-class has lost jobs to the army officers, who are OSD (Officers on Special Duty) in nearly every important government office or Trade Corporation. They have lost the freedom to travel abroad, particularly to emigrate and earn the 'international salaries', which are so lucrative when compared with Rangoon's. They have lost the freedom to import cars, consumer durables, synthetic fabric clothing, lipstick, nail varnish and the thousand other small luxuries that make up middle-class life. They have, most importantly, lost most of the freedom to make profits and to become rich, although gem smuggling and profiteering in scarce black-market items do offer a chance of high profit with high risks. Under this series of burdens there can be little doubt that Rangoon's middle-class and the middle-class in Mandalay, Maulmein, Bassein and other Burmese towns would prefer U Nu, shuttling between the forests of the Thai border and Bangkok, to their present left-wing military rulers. The middle-class would gain enormously in terms of individual freedom and opportunities to make profits, but it is doubtful if Burma and the mass of the Burmese people have much to gain from a return of U Nu.

EXPORTS DECLINE

The chief problems of any regime in Burma are economic and relate to Burma's trade with the outside world. The prosperity in the years before the War (1936-1941) was built upon exports of rice, teak and petroleum products to British India and the exports of teak, tin, lead, zinc, silver and gems to western Europe and North America. The War, independence and Burmese treatment of the Chettiars and other Indian residents destroyed the pre-War economy. The post-War economy has had difficulty generating a rice surplus of adequate size, problems with the export of teak and a steady dwindling surplus of petroleum. Exports have fallen from 1,069 million kyats in 1964-65 to 574 million kyats in 1969-70 (4.76 kyats equal US $ 1 at the official exchange rate). The trade deficit in 1969-70 was over 160 million kyats and reserves have been steadily falling from 1964. Burma has suffered since 1967 from the gradual reduction of rice imports into India, South Vietnam, the Philippines and Malaysia, as these traditional large deficit countries began to move toward self-sufficiency through new seeds, fertiliser, and the other inputs of the "green revolution". At the same time, the United States and Japan began to sell or give rice as aid and the Hong Kong and Singapore markets were threatened.

The Burmese economy is highly inflexible. The size of the market is too small for production of most items of plant and machinery required for national development. Therefore, most intermediates, many raw materials and all capital goods must be imported. The speed of development depends on these imports and hence on the ability to export satisfactorily. A full-scale export diversification programme is required and the present government has been slow to exploit the opportunities. The petroleum sector is about to be developed with Japanese assistance. There are known reserves of tin and copper. The possibilities in seafood are very large: lobster, crab, prawns are all plentiful on Burma's coasts. The agriculture sector must be encouraged to expand production of lentils, maize, tapioca, beans, tobacco and tobacco products and jute, which can all be produced economically in various parts of the country. The handicraft sector could develop export lines in lacquerware, basketware and the fine cottons and silk. The tourist sector could be encouraged by offering a tourist exchange rate of 10 kyats/$ 1. The industrial potential of Burma in textiles, garments, leather and worked wood products will only develop when a more realistic exchange rate is adopted.

These measures to restore exports and enable the government to expand imports would be required under U Nu as much as under Ne Win. The gains to the Burmese people of a restoration of free enterprise, private capitalism and foreign investment would be very low in the short-term, even if these capitalist forms were 'more efficient' and very costly for Burmese economic welfare in the longer term.

GOVERNMENT'S ACHIEVEMENTS

The claims of the present government are very modest. Per capita income in constant prices has risen only 10-15 per cent since 1964-65 or less than 2 per cent a year (well within the margin of error allowed in such national income statistics). The government admits that the takeover of private trading has led to black marketing and inefficiencies in distribution. Similarly it is worried by the acute shortage of imported commodities. None of these failures is concealed in the English language or Burmese Press. There is little doubt that the economy can be run better.

The achievements of the government are clear-cut. They are providing education for a greater number, particularly in the primary school grades, although the output of university graduates with inappropriate liberal arts qualifications still exceeds the country's needs. They have provided adequate rice, fish and vegetables for the people. Most people have an adequate quantity of cloth for lungis. The gross disparities of wealth in pre- and post-War Burma have gone as the state really does control the means of production and distribution. It is true that the army officials enjoy a privileged position in terms of houses, servants, cars, and official jobs, but the disparities in income levels and styles of life are enormously muted compared to the recent past. In the countryside the bulk of rural indebtedness has been abolished and most farmers find it very easy not to repay state or co-operative loans. The banking system has been considerably extended. The literary programme, for which Burma was awarded a UNESCO prize this year, has made progress, if not all the progress frequently publicised. Medical care has been extended substantially in the rural areas as Burmese doctors are not free to leave for the UK or the USA as are their Indian, Pakistani or Filipino counterparts. An overview of Burma from 1962 might summarise the situation crudely, but accurately as follows: The rich are worse off, the poor are better off and the army is in control.

MINORITIES PROBLEM

The revolutionary government is not, however, in control of the Shans and the tribes in the extreme north on the Thai-Chinese border — 'the golden triangle' of opium—nor is it able to control the Akyab and Chin areas stretching down from the Chittagong hill tracts. Large areas of Burma are not under government control at night, but the same problem is there in Thailand, Philippines and other havens for Western enterprise and investment. The areas outside government control are away from the Irrawaddy delta rice fields and the main valley from Rangoon to Mandalay where 60-70 per cent of Burma's population is found. A weak government in Rangoon could certainly experience difficulties if the 'minorities' such as the Shans and Chins could form an alliance against the Burmans, but they seem very unlikely to be able to reach any such agreement.

The Revolutionary Government of the Union of Burma seems unlikely to be shaken by the middle-class discontent aroused by U Nu or by the 'minorities' backed by the People's Republic of China, but it is possible that a right/left split within the ruling army could prove very disturbing. Burma now needs a crash programme to expand exports. An essential first step would be a more rational policy of national investment raising agriculture's share from 7 per cent to 20 per cent of development expenditure. These economic policies would not involve any ideological conflicts, but they would improve overall economic growth and raise per capita incomes. Burma has achieved a great improvement in income distribution by dismantling private sector capitalism, but the time has come to improve the rate of growth of the economy.

To Make a Martyr

Nireekshak

BRAHMANANDA Reddi's decision to give up office ("because the Prime Minister asked me", as he put it), has earned him much praise in the newspapers. Naturally, opinion in Andhra Pradesh itself was somewhat more agitated than elsewhere. For, as *Deccan Chronicle* observed, "the resignation of Chief Minister Brahmananda Reddi and the decision of the Telengana Praja Samiti to merge with the Ruling Congress, both happening within a week with rapid succession, have added new dimensions to the political situation in Andhra Pradesh". Whether the resignation and the merger were two unconnected, merely coincidental, developments — as the Secunderabad daily implied — or had a causal connection, the paper had convinced itself that Reddi's "decision to step down [was] an act of great statesmanship", showing his "courage and determination".

Amrita Bazar Patrika, viewing the developments from distant Calcutta, and however less extravagant and more to the point in its estimate of the situation. "It is not easy to believe", it said, "that the resignation offer came from Mr Brahmananda Reddi." What had happened was that the Telengana Praja Samiti had won 10 out of 14 seats from the region in the mid-term Lok Sabha election, and, if the Samiti repeated this performance in the forthcoming State Assembly elections, it could "win 70 out of 100 Telengana seats". That was why, *Patrika* said, the Prime Minister had decided to "seek a political solution to the Telengana problem". However, her strategy could succeed only if "influential Congress(R) legislators [took] the ouster of Reddi with good grace". As things are, *Hitavada* interpolated, Brahmananda Reddi's resignation "is a case of political martyrdom". It must be feared, it added, that "if attempts are made to solve problems on the basis of personal animosities, real issues [might be] sidetracked and a premium placed on agitators' stubbornness". Also, it might create a "feeling of insecurity in the minds of able leaders at the state level and even at the centre."

Hardly anyone, in fact, viewed the developments with unreserved satisfaction. Brahmananda Reddi's "retirement after his long and distinguished service and at this stage", wrote *National Herald,* "can be justified only if the Telengana problem is solved and a united Andhra under a united Congress contributes to the social transformation in which the Congress majority in Parliament will be engaged for the next four years and more". If Reddi has been "an outstanding Chief Minister", *Herald* added, he has shown himself to be "outstanding in the way he has ceased to be Chief Minister". It was now "for others to play their part equally well".

Whether "others" will heed this advice or not, Congress politics was certainly in a state of turmoil. As the *Free Press Journal* put it, in direct reference to the dissolution of the Pradesh Congress Executive Committees and Election Committees of Congress(R) in five States, "the Ruling Congress was evidently undertaking a major organisational sweep". And, as for "the pathetic Congress(O)", *Tribune* commented, "both (its) jantar and mantar are fast falling". In Congress(R), *FPJ* noted further, "new power struggles are beginning and instead of old caucuses, new caucuses are in danger of being formed". Therefore, in any effort at reorganisation or revitalisation of the party, "the emphasis ought to be on content, not merely on traditional form, as had been mostly the case in the past". Modern democratic theory, it noted, recognised the party as an "intermediate action mechanism" and, if the Working Committee's decision was a "precursor to a comprehensive and effective programme of action..., it will certainly have done some good".

To a Friend

When the spotlight shifted from Congress politics and Reddi, it rested on another personality in another country: Nikita Khrushchev. The former Prime Minister and party leader of the Soviet Union had always enjoyed a good press in this country. And his death, if it was not received with a sense of personal loss by newspapers, was undoubtedly an event which saddened the press. The "end of a colossus", commented *Tribune.* "Among the most dynamic figures in modern international politics and a great benefactor of Soviet Russia, Khrushchev brought in a deep breath of fresh air into the stifling 'iron curtain' and broke the monolith of communism." He was an "exceedingly human, buoyant and becoming hero" who did not know what "ruthlessness and personal autocracy were." The Khrushchev era, the paper further noted, "was indeed a remarkable one" and "people in India, like those of several other countries, would miss a great friend and sympathiser".

The 'friend of India' theme was prominent also in the *Times of India*'s obituary remarks. "He went out of his way to befriend the non-aligned countries," the paper said, adding that "India has special reason to remember him." He it was who was responsible for "Moscow's political support to New Delhi", for its "generous" economic assistance, "especially for the development of heavy industry" and for the Soviet decision to "supply MiG aircraft, and military aid in other forms as well, to India". Khrushchev, *Times* concluded, "certainly left his country a better place than he found it, both in the eyes of the world at large and in those of a majority of his own people". In the view of *Hindusthan Standard,* while "life may have closed its account with Khrushchev, his account with history still remains to be settled". Khrushchevism, *Standard* recalled, did not die with the fall of Khrushchev. "It is unlikely to go to the grave with his mortal remains. Even those who robbed him of his power and denounced his ways in violent language have not wholly succeeded in effacing his influence on contemporary communist thinking. Even the free world of the West has been unable to escape the impact of Khrushchevism."

Yes indeed, *Deccan Herald* echoed, Khrushchev not only left "an enduring mark on international relations and on Soviet internal affairs but apparently continued to enjoy the affection of the Russian people". He established "close and warm relations" with India and this was of "inestimable value whether at the UN or in stimulating development growth". And the world at large will remember him "as the archetypal Russian peasant, genial, shrewd, unafraid, yet compassionate, the 'Merry Andrew' who did so much to relieve the acerbities of Soviet life and international diplomacy, an unforgettable figure."

Cost-Benefit of an Enquiry

B V Rangarao

Report of Committee of Enquiry, Council of Scientific and Industrial Research, New Delhi, 1971.

THE last five years of the council of Scientific and Industrial Research have been a dark period of suspicions, allegations, counter-allegations and enquiries resulting in a general crisis and desperation among scientists in this country. The CSIR is a major scientific and technological research organisation associated with several research centres through the grants and fellowships that are awarded and certain national responsibilities it has. Besides, scientists and technologists from other research organisations and industries participate amply in its policy formulation and decision-making machinery. This organisation has been a symbol of the state of science in this country.

Background

After Atma Ram took over charge in August 1966 as Director-General, there was a press release condemning several activities of the CSIR and making serious allegations against his predecessor and the Directors of the laboratories. This gave rise to agitated discussions in Parliament leading to the appointment of a Committee of Enquiry under the Chairmanship of Justice A K Sarkar, which in the scientific research community was familiarly known as the 'Sarkar Committee'. This Committee was appointed in May 1968 and it submitted Part I of its Report in February 1970 and Part II in August 1971. The enquiry was on three aspects of the functioning of the CSIR: (i) personnel policies followed and the allegations of irregularities in appointment of scientists and directors; (ii) the policies on royalties and consultation services; utilisation of the results of research conducted under the auspices of the Council; and (iii) review of the functioning of the Council and suggesting means of improvement. This Committee consisting of seven members of Parliament and four eminent scientists after working for more than three years found (Part I) that there were no irregularities in appointment of scientists or directors and that the information provided in Parliament about certain directors was wrong, though there was a need to reclassify the posts in the laboratories. It recommended (Part II) that (i) the programmes of research in the CSIR laboratories should be an integral part of the economic plans for the country's development to be prepared by a proposed national body; (ii) the governance of the CSIR should be vested in the person whose success is with the success of the organisation; (iii) there should be decentralisation of powers at each level and a collegiate system of administration in the laboratory; and (iv) future expansion of the CSIR should depend on its ability to contract sponsored research work from the Government or industry.

These conclusions have resulted after working for more than three years, considering memoranda received from about 150 individuals and societies, interviewing 50 scientists, industrialists and administrators, and most probably spending a few million rupees. It is of interest to note that there are memoranda from scientists—Indian and non-Indian, at home and abroad; almost every scientist in some position in the country has presented his views in writing as well as in person besides several top industrialists and many members of Parliament.

Stalemate in CSIR

During the last five years there were no planned programmes of research, the Director-General and the Directors were at loggerheads, the meetings of the Governing Body were rare and hardly any constructive programme was discussed. Even routine decisions were left pending on the pretext that the Sarkar Committee Report was awaited. The broad recommendations on the reorganisation of the CSIR are very similar to those made at a conference of Scientists, Technologists and Educationalists called by the Committee on Science and Technology in November 1970 in Delhi. Constitution of a National Council of Science and Technology is recommended to identify projects of national priority, plan scientific and technological research in close co-ordination with the socio-economic development plans and programmes of the Planning Commission, co-ordinate their implementation and function as an advisory body to the Government. It is also suggested by both that the NCST should have a strong technical secretariat and panels of experts. The Enquiry Committee recommends, as has been urged at several conferences of scientists, that the decision makers should not be those too busy and prestigious, but men who have technical knowledge, can spare time, put efforts to study problems and critically appreciate the programmes. The present Governing Body consisting of the important ministers of the Central Government, of industrialists, scientists and technologists and administrators, should be wound up. This body, with about 29 members, used to meet twice a year before 1966, but could not meet even once a year during Atma Ram's regime. There are also instances when this body took decisions in one meeting and reversed the decisions in subsequent meetings, in either case without serious consideration of the consequences.

Decision-Making Bodies

It is generally agreed that responsibility and authority should go together. Hitherto in the CSIR, as well as in other scientific organisations, policy making had become a profession of a small group moving from one meeting to another with no responsibility to implement. This had led to the creation of a very unhealthy hegemony in scientific research. In this context the constitution of a governing body with the Director-General as Chairman and four Directors and three members to be nominated by the Government of India from outside the CSIR to bring in expertise in economics, cost accountancy, production technology, industrial engineering, management, etc, along with the Financial Adviser, as members, with a condition that it should meet at least 5 times in a calendar year, introduces purposefulness in the top body.

This is extended to laboratory administration as well, but the participation at the laboratory level is confined only to the project co-ordinators. As stated in the note of dissent by S S Bhandari, this decentralisation has not percolated to the research workers as a community.

Though several of the committees proposed are supposed to have scientists also as members, their activities are limited only to specific issues. Mere nomination to some committees may only create misunderstanding instead of creating a new healthy laboratory cul-

ture. The recommendation about the transfer of some laboratories to research associations, etc, is probably made in a hurry. Scientific and technological research in developing societies is not only for commercial advantages but also for the social benefit of the community. The Enquiry Committee obviously has not made any study of the working of the Co-operative Research Associations in this country. Co-operative Research Associations even in countries like the UK, from where it was copied in this country a few years back, were found to be of doubtful value. In this country the laboratories of the Co-operative Research Associations are functioning as servicing departments for the member industrial units. To take the example of the Leather Research Institute, if it is managed by a Co-operative Research Association, since the small units engaged in leather processing in this country are unlikely to be members of an association of this type, they will never have the benefit of the results that are likely to be achieved even though the CSIR would be contributing 50 per cent of the total expenditure. The technological problems faced by the large industrial units are likely to be radically different from those of small tanners and leather goods producers, towards whom this society has a greater responsibility. Irrespective of the slogans about export promotion and import substitution, the basic duty towards the improvement of the lot of the most downtrodden cannot be left to the mercy of the industrialists in a Research Association or otherwise.

The policy decisions in the Co-operative Research Association would be taken by a body in which the representation from the CSIR or the Government is negligible. In developing societies public funds should be utilised more for the benefit of the community than for the commercial convenience of industrialists. Other methods should be evolved to make the industries pay for research in the respective fields.

Headquarters

Regarding the headquarters itself it has been clearly stated by the Committee of Enquiry that it should be a technical co-ordination and planning body instead of being an administrative office. It is stated that the Technical Divisions, which Atma Ram wanted to abolish, should work for the Governing Body to make it effective. Similar was a recommendation by the Third Reviewing Committee in 1965 and steps were initiated to implement it. But these steps were reversed in 1966 when Atma Ram took over as the Director-General. The Governing Body and the Government failed to direct the Director-General to carry out the decisions taken on this topic; instead confusion was created and the Sarkar Committee's enquiry was initiated. It is a matter of some satisfaction that the Committee of Enquiry, after prolonged deliberations, arrived at the same view and it is to be hoped that the Government and the appropriate authorities would implement its recommendations in the proper spirit for the advantage of scientific and technological research activity in this country.

The recommendation that the control of the Finance Ministry through the Financial Adviser should be budgetary but not regulatory is an important one, acceptance and implementation of which is vital. The Finance bosses are not likely to concede this easily.

Service Conditions

Minor issues, such as distribution of royalties and consultation fees, too low anyway at the moment, have been allotted considerable space in the Report. This reminds one of Parkinson's cycle-stand.

The vast majority of research workers are worried about the personnel policies followed in the CSIR. There are instances where people working for more than 12 years are unconfirmed in the CSIR organisations and are deprived of several benefits due to the permanent employees and even in emoluments there are discrepancies introduced by bureaucrats. The recommendations made by this Enquiry Committee have not clearly stated the suggestions in these matters. The controversy that had arisen in CSIR, even before the constitution of this Enquiry Committee, about dividing the staff into scientific and technical groups has been further accentuated on the authority of the Part I of the Report. While the Committee was of the view (stated in interviews) that there ought to be a clear classification of posts to specify the qualifications and did not mean that service rules should be different, the CSIR authorities were trying to introduce a caste system among people with similar qualifications and performing different duties in the broad chain of R & D activities, which are all considered equally important. It is strange that the five-year assessment is to be abolished at the instance of some directors, while merit promotion would be continued (which has so far benefited the higher ranks), though inconveniences of assessment should be similar to both.

It is stated in the Report that there should be proper evaluation of scientific research carried out in the national laboratories. As rightly stated, evaluation is not feasible as long as the goals are not specified and the responsibilities of different sections are not clearly understood and stated. This type of evaluation requires to be conducted in this country in all social activities including the functioning of committees for enquiries which have become a part of the socio-political life. In this context it may be worth evaluating the functioning of the Committee of Enquiry based upon the efforts of eminent people in different walks of life over such a long period, with a separate office, secretariat and so on. More important is the pretext it has provided for inaction in a research organisation employing more than 8,000 scientists, with a budget of nearly Rs 20 crores a year. The social cost is enormous. Are the results commensurate and such that they could not be arrived at with less cost?

It is symbolic that Part I of the Report had a note of dissent signed by four members while the note of dissent to Part II was signed only by S S Bhandari. The Grand Alliance of 1970 and its disintegrated state in 1971 have their varied contributions.

Effective Co-ordinated Functioning

It is broadly recognised that socio-economic prosperity comes out of effective, co-ordinated functioning of different sections of the society, of which scientific and technological research is only one component. Either for professional advancement of this section or the prosperity of the community in general, effective co-ordinated functioning is absolutely necessary. Whether this social order can survive and prosper depends upon the keenness and capacity of the Government and the different sections of society to function as an integrated system. No body need envy Nayudamma who has to function as DGCSIR with another Director-General (Vigilance) watching and scrutinising the organisation from the next room. It is time that radical changes are introduced to make the scientists and technologists work with pride, confidence and patriotism, to perform their duty in the complex process of attaining rapid socio-economic progress. However costly the Enquiry might have been, it should now be used in the right direction to achieve the noble goals. Even in India there are limits to patience.

Jumble of Sundry Facts

B V Nimbkar

Agricultural Research in India: New Horizons and Perspectives, Indian Council of Agricultural Research, New Delhi, July 1971.

THIS is a short 30-page booklet whose purpose seems to be to inform the layman about agricultural research in India. It gives a resume of agricultural research before Independence and then goes on to review the present scene. It points out the three main factors which gave a fresh impetus to agricultural research—the establishment of agricultural universities, the reorganisation of the Indian Council of Agricultural Research and the initiation of the All-India Co-ordinated Projects.

The booklet laments the fact that the states were tardy in coming forward with proposals for agricultural universities and, later, often half-hearted in implementing them. However, though slow in getting started, and still too few in number, the universities are already beginning to be strong centres of research and education.

Reorganisation of ICAR

The reorganisation of the ICAR in 1965 was an important step forward. From this date it stopped being a Government department. All the agricultural research institutions were taken from the control of the Food and Agriculture Ministry and placed under ICAR's control. ICAR was also given power to make direct recruitment of all staff and revise pay scales upwards to equalise them with those of other scientists in India. An important fact to note is that the 23 institutions now controlled by ICAR are not organisationally subordinated to ICAR, but work rather as constituent units, thus giving them considerable freedom of operation. All these changes make the ICAR and the constituent units much more effective than they were before.

The All-India Co-ordinated Projects were initiated to prevent wasteful duplication of work and to achieve co-operation among the best talents and facilities available in the country. In principle this should foster the ideal climate for agricultural research. In reality, as the booklet points out, the scope of such projects has been limited by limited funds, paucity of reseach centres with good physical facilities for research and scarcity of well-trained and experienced scientists. These limitations could be partially overcome, and a substantial contribution made to the projects by the inclusion of private research organisations. However, the booklet does not mention such a possibility.

This part is concluded after giving the Fourth Plan proposals and the total allocation for agricultural research—Rs 85 crores, which seems extremely low, considering the importance of agricultural research.

The next section, a much longer one, gives a resume of recent advances. It can best be described as an unorganised hodge-podge. In one sub-section certain aims of current research are set out. There follows a discussion of recent research on various crops, without any attempt at relating it to the aims of research. Sub-titles are given without regard to the contents of the paragraphs which follow. For instance, under the sub-title Commercial Crops, only cotton is discussed (with the surprising omission of MCU-5 and Hybrid-4, two new varieties which have generated a lot of interest among farmers all over). A discussion of sugarcane follows later under a separate heading. Several omissions, errors and misprints give evidence of carelessness.

A reference is made to a handbook on irrigation, without mentioning its title or date of publication. Mention is made of agricultural engineering research at the Indian Agricultural Research Institute without mentioning the fact that none of the implements, including the seed drill to which reference is made, developed by the IARI, has been manufactured on a reasonable scale and made available to farmers.

Misprints abound. Atrozine for Atrazine, orhar for arhar, Ploribunda for Floribunda and resin for raisin are just a few examples. The insecticide carbofuran is called a fungicide. In one place the author states that "application of 1 kg each of Simazine and Atrazine are sufficient to control weeds in Maize." One presumes he means Simazine or Atrazine, and the dose mentioned is per acre.

Yields are compared in percentages rather than in absolute figures. This can be a misleading technique, especially when absolute yields are not mentioned at all. An addition of 15 or 20 per cent to a very low yield does not necessarily hold true with a crop that has a high initial yield.

A sugarcane variety is mentioned which has over 18 per cent sucrose. Such a high sucrose content is so far unheard of.

A number of very obvious and elementary statements pass as discoveries. The author states that there is a higher response to phosphorous from crops in low-phosphorous soils than from those in medium-phosphorous soils; that correction of micronutrient deficiencies increases yields.

The first section of the booklet has a definite purpose in an age when everyone is talking and thinking in terms of agricultural research. It contains useful information about the whole organisation of governmentally directed agricultural research in the country, which may interest many who do not know very much about it. The addition of the second section is baffling, however. It is unnecessarily detailed if meant for a layman, and merely a jumble of sundry facts to the knowledgeable. The inaccuracies and errors could easily have been avoided and mar an otherwise attractively printed book.

Books Received

Bozeman, Adda B: The Future of Law in a Multicultural World; Princeton University Press, 1971; pp xvii+229; $ 2.45.

Chopra, Pran (ed): The Challenge of Bangla Desh—A Special Debate; Popular Prakashan, 1971; pp 159; Rs 20.

Danda, Ajit K and Dipali G Danda: Development and Change in Basudha—Study of a West Bengal Village; National Institute of Community Development, 1971; pp 132; Rs 13.

Gaikwad, V R: Small Farmers—State Policy and Programme Implementation; National Institute of Community Development, 1971; pp 83; p 10.

Harris, Nigel and John Palmer (ed): World Crisis—Essays in Revolutionary Socialism; Hutchinson, London, 1971; pp 280; £ 2.25.

Indian Economic Conference, Hyderabad, 1968: Price Level and Economic Development; Popular Prakashan, 1970; pp xi+74; Rs 10.

Nair, Balakrishna N: Systemic Approaches to Indian Socio-Economic Development—Perspectives in Sociology of Knowledge; Associated Publishing House, 1971; pp xiv+584; Rs 63.

Rao, V K R V: Values and Economic Development—The Indian Challenge; Vikas Publications, 1971; pp vi+182; Rs 20.

World Monetary Crisis and Underdeveloped Countries

I S Gulati

There can be no doubt that

(a) the value of the dollar in relation to a few currencies which are now undervalued must be adjusted downwards; and,

(b) the Bretton Woods system of international monetary co-operation based on the key currency role of the US dollar must undergo a radical change.

If the new system which replaces it is to avoid recurrence of situations similar to the one now being faced, it must never again give the key currency role to any national currency or even a group of national currencies. Instead it must be based on an international reserve which is created and can be expanded to meet expanding world requirements under genuinely international auspices.

Unless the underdeveloped countries are alert to the present goings on among the developed countries, certain basic decisions might be taken with regard to the new world monetary system without their interests and requirements being sufficiently taken into account.

What the underdeveloped countries must aim at is to secure an agreement that any secular expansion in international reserves would be allocated exclusively *to them. They should never again settle for allocation in the manner of SDRs which was retrograde, regressive and inequitable.*

[The views expressed in this paper are the author's personal views.]

SO, the Gold Window has been formally closed. The US has withdrawn its commitment to convert *even* the official dollar holdings of other countries into gold. The obligation to convert non-official dollar holdings was withdrawn in March 1968 when the two-tier system of gold pricing was introduced.

Writing early this year ("The Price of Gold", Annual Number, January 1971), I had attempted a forecast that should dollar come under such pressure as compels the US Government to declare it formally inconvertible, "the likelihood is that such inconvertibility will stay on".

The question that confronts the world community is what are the prospects, now that the dollar has actually been declared inconvertible.

Let us first review the circumstances in which the US was forced to declare the dollar inconvertible. Principally, the circumstances that forced the hands of the US Government were:

(i) the price of gold in the free market shot up from \$ 40.70 to \$ 43.94 an ounce within a matter of three weeks between July and August 1971, thus widening the gap between the official price and free price of gold (the lowest price of gold in the free market during 1971 was \$ 37.39);

(ii) the official dollar holdings of the other countries were said to have reached almost \$ 50 billion by the end of July 1971 which meant an increase in US official liabilities to the tune of an estimated \$ 11 billion within a period of seven months (this was possibly the principal reason for the floatation of the German Mark in May 1971);

(iii) the US gold holdings (after allowing for the gold held on behalf of the IMF) were supposed to have gone down during the same period of seven months by almost one billion dollars (at the official price, of course), on account of official demands for the conversion of dollar holdings into gold;

(iv) there was a consequential decline in the ratio of US gold holdings to US official dollar liabilities (as represented by official dollar holdings abroad) from 42 per cent at the end of 1969 and 27.5 per cent at the end of 1970 to an estimated 20 per cent at the beginning of August 1971; and,

(v) finally, but probably most importantly from the point of the fundamental disequilibrium in the balance of payments, not only was the US deficit in the balance of payments "on an official reserve basis" running at the annual rate of \$ 22 billion as against the corresponding deficit of \$ 10 billion for 1970 and \$ 3 billion for 1969 but also, for the first time, the US balance on current account (i e, the balance on goods and services) showed a deficit of an estimated \$ 550 million for the second quarter of 1971.

That the US balance of payments was in a sort of fundamental disequilibrium which could not be corrected without the devaluation of the dollar has been generally recognised in recent years, particularly since the need arose to split up the gold market and to let the free market find its own level for the price of gold. The problem that has not been possible to resolve is how to go about devaluing the dollar. For any other currency, devaluation could be effected by reducing its par value in terms of gold. This would effectively devalue it in relation to all the other currencies. The dollar, unlike the other currencies, plays the role of a key currency or reserve currency. Therefore, if the dollar was devalued by reducing its par value in relation to gold, it would mean an effective revaluation of all the other 100 and odd currencies, all (certainly the majority) of which do not warrant revaluation. As a consequence, all these other currencies not in need of revaluation would have to take appropriate measures readjusting their own par values to put them back on the old dollar parities. If, on the other hand, the few countries with whom the US was principally in imbalance agreed to revalue their currencies by raising their par values in relation to gold and, therefore, to the US dollar, sufficiently to restore the US competitiveness, the problem of fundamental disequilibrium could have been easily solved without upsetting the par values of the vast majority of the countries. The difficulties now being faced have arisen because these few countries were reluctant to revalue their currencies sufficiently or at all, and thereby give up their competitive advantage over the US.

It might well be objected that the US reluctance (or refusal) to devalue in relation to gold derives less out of its regard for the present par value structure than out of a subjective irrational, almost religious, commitment to the gold par value of the dollar which has remained unchanged since before the Second World War.

US Violation

It still remains true, however, that the option which is open to an ordinary country with respect to exchange-rate adjustment is not open to a key currency country in the re-adjustment of the value of its currency in relation to other currencies of the world. But it could certainly be argued that as a key currency country the US was under a sort of obligation *not* to pursue policies which would impose an undue strain on its balance of payments. On this score, the US could, perhaps very justifiably, be placed in the dock for violating or disregarding its obligations as a key currency country by pursuing policies which could be said to be largely responsible for the emergence of the fundamental imbalance with the rest of the world.

In this context, it is pertinent to point out that while the US has incurred a balance of payments deficit on the official reserve basis for 7 of the past 10 years, it has (i) continued incurring sizeable military expenditures abroad, expenditures which averaged \$ 2.4 billion in the first half of the decade and had risen to \$ 3.4 billion in 1970; and, (ii) allowed the outflow of American private capital abroad, mostly to the developed countries, at an expanding pace. The net outflow of American private capital abroad which averaged \$ 4.5 billion a year in the early 1960s is estimated at \$ 6.4 billion for 1970. It is estimated that US direct investment abroad, which stood at \$ 33 billion in 1960 and \$ 54.6 billion in 1966, had reached \$ 71.5 billion by the end of 1970 — an increase of \$ 38.5 billion, which almost matches the increase in official dollar holdings in the same period, estimated at \$ 38.9 billion. Set against these figures, the flow of US official funds to the developing world, towards military as well as economic assistance, which had been running at the average of \$ 3.3 billion a year, had dropped to below \$ 3 billion in 1970.

Add to the above the fact that the US economy has been experiencing a persistent increase in price level for the last five years in succession. Though the rate of price increase had slowed down somewhat, it is generally agreed that the recent reflationary measures of the Nixon Administration would revive the old trend of price increase at around 6 per cent a year.

Prospective Parity Realignment

In the light of the above, there can be no doubt that (a) the value of the dollar in relation to a few of the currencies which are now undervalued must be adjusted downwards and (b) the Bretton Woods system of international monetary co-operation, which though formally on gold was to all intents and purposes based on the key currency role of the US dollar, must now undergo a radical change.

Already, the major currencies in need of revaluation in relation to dollar are "floating" upwards, although in almost all the cases the monetary authorities have not completely given up their intervention and are, in their attempts to keep their respective premiums low, still forced to increase their dollar holdings. It is now generally accepted that revaluation of these currencies is only a matter of time and negotiation. Until a new exchange relationship is agreed upon between the dollar and these currencies, the likelihood is that these latter currencies will continue to float.

The important consideration which would have to be borne in mind in the realignment of exchange rates is that the extent of realignment is such as would be sufficient not only to remove the immediate speculative pressure on dollar so that the present holders of large dollar holdings do not have to buy more dollars in order to support the new exchange rates but also to enable the US to regain its competitive position *vis-a-vis* these countries so that it can, within a reasonable period, reclaim the unwanted excess of dollar held abroad. It may, however, take quite some time to work out the new exchange realignments which satisfy these requirements.

In working out these new exchange realignments, the question of the dollar price of gold is bound to figure prominently. Supposing, for instance, it were agreed that the German Mark should be revalued by 15 per cent (the IMF is reported to have suggested 14 per cent revaluation for the Mark) in relation to the dollar, there might still be pressure to achieve this revaluation partly by the up-valuation of the Mark by say 7.5 per cent in relation to gold and the rest by the devaluation of the dollar in relation to gold. The Fund's Managing Director, Pierre Schweitzer, favours some such solution and so does the EEC, although there may be differences with respect to the weightage to be given to either of the two components of the new parity structure among the developed countries. We would have to return to the question of the price of gold a little later because it is closely related to the question of the role of gold under the new world monetary system. For the present, it is enough to say that devaluation in terms of gold would, if at all, be meaningful if gold is still to play an important role in the new world monetary system.

New Monetary System

Assuming that the new parity structure and the method of achieving it are agreed upon, it will still remain to work out a new international monetary system. President Nixon would not be alone in calling for "the necessary reforms to set up an urgently needed new international monetary system". Other countries too, particularly those now faced with a glut of dollar holdings, would want the new parity structure to operate under a system different than what was set up at Bretton Woods in which no one country or group of countries can so dominate the world monetary system as the dollar did under the Bretton Woods system. Under the new system the US should be in a position to devalue its dollar easily and straightforwardly rather than take to a circuitous method, as the one now under review, of securing the dollar's devaluation. At the same time, any other country should not feel obliged under the new system to hold more of the currency of another country than what it considers desirable.

The present crisis dramatises once again the failure of the gold exchange standard, which is what the Bretton Woods system was supposed to re-establish after World War II. The facts that (i) the parities were set formally in terms of gold and (ii) that the key currency country was placed under an obligation to maintain the convertibility of its currency into gold, were of little help when the key currency itself came under pressure. If, therefore, the new system is to avoid the recurrence of a situation similar to the one now being faced, it might never again give the

key currency role to any one national currency or even a group of national currencies.

The US is clearly in no mood now to continue to play the role of an exclusive key currency country. "The time is past", said President Nixon to US Congress, "for the United States to compete with one hand tied behind her back". Whether the US would agree, or could be persuaded, to the dollar playing the role of a key currency along with one or more other currencies, say, Mark and Yen, may be an open question. But even to raise this question amounts to a continued failure to recognise the fundamental fallacy of the very concept of key currency, namely, that while a key currency could *never* come under pressure, it would keep generating enough obligations abroad to meet expanding world requirements.

Whatever be the shape of the interim arrangements to be made, and these, as we note subsequently, could be quite important, the transition now *must* be from the present system based on a key currency to a system based on an international reserve which is created and can be expanded with a view to meeting expanding world requirements under genuinely international auspices. Under such a system adjustment of parities should be much easier even for the currency of what may still be an extremely important country from the point of view of world trade and payments.

It is not the purpose of this paper to go into the various questions as to the mechanics of the new monetary system such as the flexibility of exchange rates, the obligations on countries to make exchange rate adjustments in the event of persistent deficits or surpluses, regulation of 'hot' money movements, etc.

Developing World's Interest

What we do propose to raise and discuss is a question that should be of particular interest to the underdeveloped countries in the present context. It is our strong fear that unless the underdeveloped countries are sufficiently alert to the present goings on among the developed countries, certain decisions may be taken in regard to the establishment of the new world monetary system which do not take the interests and requirements of the developing countries sufficiently into account.

The above fear is not totally unjustified in the light of the basis decided upon for the *initial* allocation of the SDRs. The allocation of SDRs strictly in accordance with the Fund Quota of each participating country naturally meant that altogether only 25 per cent of the SDRs were allocated to the developing countries. The rest were shared by the developed countries among themselves.

To quote from a recent UN report, "the linking of reserve creation and aid has been broadly advocated in recent years as a way to bypass two of the obstacles to the flow of development assistance most frequently cited by the more advanced countries, namely, the balance of payments and budgetary constraints." Although the pleas and arguments to this effect were being made quite strongly in international forums for quite some years, these made no impact when the decision was taken to activise SDRs.

The argument most commonly adduced to counter these pleas for linking creation of reserves or liquidity to development aid has been that the problems of international liquidity are entirely different from the problems of development and that they raise entirely different issues. Therefore, it would serve no good to confuse the issues by linking liquidity creation with development assistance. But to argue like that is not very different than saying that credit creation within a country should not be linked to domestic development.

On a different plane, it is very interesting to note that while the underdeveloped countries kept arguing, without success, for some sort of a link between reserve creation and developmental assistance, the developed countries were prepared to hold billions of US dollars in their reserves all through the sixties which helped the US finance not only its direct investments abroad but much more. If today these countries are turning back on the US and saying "this is going too far", the fact still remains that dollar reserve creation (and acceptance) financed US direct investment abroad and much else as well. If as part of the overall agreement on steps towards the solution of the present crisis it is decided that surplus dollar holdings abroad should be "funded" by the issue of an international reserve, whatever be its name, it would amount to only a formal recognition of what was happening all through the sixties, namely, the finance of US direct investment by reserve creation. What the developing countries ought to be constantly harping on is that if liquidity creation could be used for the financing of US direct investment, it might as well be linked with development assistance on both moral as well as economic grounds.

What the underdeveloped countries ought to aim at is to secure an agreement that any long-term or secular expansion in international reserves, say at an agreed rate of 6 per cent per annum to match with the overall rate of increase in world trade, should be allocated *exclusively* to the underdeveloped countries. They should never again settle for the allocation in the manner of SDRs, which to say the least, was retrograde, regressive and inequitable. It would be silly on the part of the developing countries to start debating at this stage the criteria for the allocation of these additionally created reserves among themselves. As for the short-term problem of the surplus holdings arising of any currency abroad, including the immediate one of the surplus dollar holdings abroad, the funding in terms of the international reserve can only be regarded as a temporary accommodation which the country concerned must be under an obligation to reimburse in due course.

The claim of the less developed countries to the allocation of newly created international reserves is much stronger than that of the developed countries even on considerations of liquidity. If the need for a secular expansion in liquidity is genuine, then it must initially be placed in the hands of those who are more likely to use it than of those who are more likely to lock it up. Of course, when this consideration is combined with that of development assistance, the claim of the underdeveloped countries to the exclusive allocation of the newly created reserves should be very hard to contest.

Strategy

This brings us to the strategy which the underdeveloped countries ought to follow in the pursuit of their objective to secure the exclusive initial allocation of newly created international reserves. There can be no two opinions about the absolute importance of their acting in complete concert. As things stand, their combined voting power in the Fund adds up to only 25 per cent, whereas the Fund rules require 80 per cent approval votes for any basic change. Therefore, only by acting in complete concert can the underdeveloped countries block any change in the world monetary system without their collective position being fully considered.

But it is not unlikely that the underdeveloped countries may be in a position to win over some important votes from the other camp if they played their cards well on some of the other questions. For instance, on the question of gold the US is likely, though more for political than any other reasons, to put up the toughest possible fight against any suggestion for raising the dollar price of gold—a suggestion that the EEC would strongly urge. Here, the economic interests of the underdeveloped countries as a group should align them with the US.

As holders of monetary gold the underdeveloped world accounts for less than 9 per cent of the total stock of monetary gold. Therefore, the relative gain of the underdeveloped world taken together from the revaluation of monetary gold is likely to be far less than those of the developed countries as a group.

Also, to the extent that the revaluation of gold helps increase effective liquidity of the world monetary system, it will generate a demand for a corresponding reduction in the long-term rate of increase in the creation of international reserves. On the assumption that the entire increase in international reserves would be allocated to the underdeveloped countries, any increase in the monetary price of gold will directly impinge on the question of development assistance through the creation of liquidity.

If, therefore, US support for the claims of the underdeveloped countries can be won over by the latter offering in return to support the retention of the existing dollar price of gold, it will be worthwhile.

Similarly the IMF's support to the claims of the underdeveloped countries might be possible to win if the latter support the Fund on the basic rules for adherence to fixed parities, once the new parity structure is agreed upon. But the underdeveloped countries may have to give in to the suggestion for enlarging the margin on either side of the par value. This is a concession that they might well make if they can in return secure their claim to the newly created reserves.

Soviet View of the Treaty: Non-Alignment Plus?

Zafar Imam

The Soviet view seems to be that non-aligned countries can still play a purposeful role in the newly emerging world power structure, provided they are backed by institutionalised relations with the Soviet Union, as distinct from the traditional Soviet support given to them in the past. This 'non-alignment plus' (i e, non-alignment plus institutional ties with the USSR), as between the three poles of the world power structure, might well eventually emerge as the final pattern of Soviet policy towards the 'Third World'. But we do not know for sure yet. Much will depend on the final Soviet attitude to China's claim in the super power stakes and the Soviet rating of 'viable' and 'non-viable' countries in Asia. The Indo-Soviet Treaty could, therefore, prove to be either an exception or a trend-setter.

It is also necessary to grasp two ideological imperatives behind Soviet foreign policy in order to fully understand Soviet behaviour in world affairs. One is the Soviet preoccupation with the mechanism of social change within various countries and the other is the Soviet framework of looking at international politics as a confrontation between two systems — the world capitalist system and the world socialist system.

The first imperative explains why no government, other than the Soviet one, could have so seriously taken into account the importance of a favourable balance of social forces in India and the dynamic of Indian social change, before signing the Treaty.

ANALYSTS of Indian foreign policy have already said much about the Indian side of the story of the Indo-Soviet Treaty. This need not detain us here, particularly as it is now possible to piece together the Soviet side of the story.

The fact of the matter is that the Indo-Soviet Treaty has simply institutionalised the relationship between the two countries which has been developing at a steady pace since the mid-fifties. It is also true that given the realities facing the two countries, this steady pace of development of the Indo-Soviet relationship could have been maintained without institutionalising existing arrangements. Why then did the Soviet Union agree to sign a treaty suddenly after two long years of negotiations, as it is now known? What does it hope to get out of this institutionalisation of a relationship? We must try to seek answers to these questions in order to comprehend the full import of this treaty for the present and the future.

A quick glance at the policy-making process of Soviet foreign policy in Asia is relevant. Two sets of interrelated problems must be borne in mind here. One set is geopolitical and the other is ideological. The geopolitical problems are well known. The maintenance of peace and stability in Asia — particularly near the Asian borderlands of the USSR, the growing antagonism with China, the emerging tripolar (USSR, US and China) power structure in Asia, and defusing the intra-regional flashpoints, are the most important geopolitical problems of the area from the Soviet viewpoint.

Ideological problems are as a rule dismissed these days as irrelevant dogmatism in considering Soviet foreign policy, yet it is very clear that without their proper assessment Soviet behaviour and conduct in world affairs could never be fully understood. Two ideological imperatives behind Soviet foreign policy are crucial. One is the Soviet preoccupation with the internal mechanism of social change and the other is the Soviet framework of looking at international politics as a confrontation between two systems — the world capitalist system and the world socialist system The Soviet preoccupation with the internal mechanism of social changes is a complex process which calls for explanation. Broadly speaking, according to Soviet categorisation there are two types of countries in Asia, 'viable' and 'non-viable'. The 'viable' countries are those where there are distinct possibilities of accentuating the internal social contradictions in the not too distant future, and where the

flow of Soviet economic and military aid within a bilateral framework and on an institutionalised or long-term basis would eventually prove useful in tilting the balance of internal class forces in favour of desired social changes. Although the degree of change which could be effected might well vary (e g, today India under Indira Gandhi is, in this sense, more viable than Egypt or Ceylon), the overall objective remains the strengthening of the hand of those social forces in a given country which are struggling to bring about changes in furtherance of an eventual social revolution. On the other hand, 'non-viable' countries are those where the possibilities of accentuating the internal social contradictions are remote, even in the distant future. In these countries, a quiet diplomatic presence lying in wait for the objective situation to change favourably, is necessitated. The Soviet approach to these two types of countries is not, however, always sharply defined for it has to take into account so many complex and diverse variables, internal and external, that go into the making of foreign policy.

But the underlying philosophy behind Soviet foreign policy remains a crucial factor. Once this point is understood, the essentially different Soviet policies in viable countries like Vietnam, Laos, Cambodia, India, Ceylon, Burma, Afghanistan and Pakistan (in that order of rating), and in non-viable countries like Indonesia, Iran, Turkey, Malaysia, Singapore, the Philippines, Thailand and Japan (in that order of rating), fall into place like the pieces in a jigsaw puzzle.

The Soviet viewpoint of the confrontation between the two social systems, capitalist and socialist, being the most important determining factor in contemporary international politics, leads to the Soviet Union regarding the non-aligned and semi-aligned countries of the 'Third World' as having a crucial role. The Soviet Union has consistently claimed that the socialist system is gaining an upper hand over the capitalist system and in further improving this favourable situation, the non-aligned and semi-aligned countries of the 'Third World' have been making a substantial contribution. And this trend must be helped along by means such as the Indo-Soviet Treaty.

Lest there are accusations of overstating the case, it must be added that the two ideological imperatives mentioned above do not work out in practice in a straight line; neither do they always bring about the desired results. The changes — constant and temporary, internal and external — in 'reality' (i e, a given, existing situation), very often impose de-ideological behaviourism on Soviet norm and conduct in world affairs. Yet such norm and conduct simply amount to the rephasing of the ideological imperatives and the re-programming of strategies and tactics to achieve them but the organic continuity between ideology and policy is not allowed to disappear completely.

It is against this background of the policy-making process of Soviet foreign policy that the Soviet decision to sign the Indo-Soviet Treaty has to be examined. When Brezhnev first hinted at Soviet interest in an Asian balance of power, India's response was cool. In fact the Soviet leaders themselves then had no clear-cut formula for an Asian balance of power, and they fondly hoped that through discussions with friendly countries like India, a broad framework would eventually emerge. But India's cool response to Brezhnev's tentative proposal proved a hurdle.

Indeed Indira Gandhi then was not in a position to enter into fruitful negotiations with the Soviet Union in view of the precarious position of her government as a result of the Congress split. The Soviet Union certainly understood Indira Gandhi's problems and India's hesitancy amply confirmed their own assessment of the political situation in India. Hence, starting in mid-1969, Soviet news media began to criticise openly those forces that were totally opposed to Indira Gandhi, while undisguised satisfaction was expressed at Indira Gandhi's landslide victory at the polls last March.

The fact that the Soviet Union genuinely showed an understanding of the political situation in India and did not hastily pressurise the Indian Government to sign an Indo-Soviet Treaty —which the Soviet Union was in a position to do — is important. The Soviet Union fully realised that without a favourable balance of internal class forces such treaties as the present one are of no practical relevance to the signatories. They simply become pieces of paper like the ill-fated Treaty of Versailles or the Munich Pact. Perhaps no government, other than the Soviet Government, could have so seriously taken into account the importance of a favourable balance of social forces in India and the dynamic of Indian social change. (This approach must not be confused with the familiar method of rating governments as 'friendly' or 'unfriendly' while signing treaties, for there is an obvious distinction between the two approaches. The distinctive Soviet approach is directly connected with the ideological orientation of Soviet foreign policy, mentioned earlier).

Furthermore, the deterioration of Soviet relations with China and the spectre of a Sino-US *rapprochement* seriously jeopardised the precarious balance in the confrontation between the two world systems, as China was no longer content with merely developing a third ideological centre, but was increasingly pressing for a share in the super-power-oriented international power structure. China's formal invitation to Nixon to visit Peking for serious negotiations was the first concrete step towards staking its claim in the world power structure. Indeed China's ambition to super power status in Asia was known for quite some time but the proposed US presidential visit to Peking was the first practical step that China took towards institutionalising the tripolar power structure in Asia. For the Soviet Union this Chinese step was a new element which raised the ideological confrontation and the worsening of bilateral state relations to a higher plane—to the level of requiring readjustments in the world power structure, particularly in Asia. The question before the Soviet leaders became: what role must China be conceded in the traditional confrontation between the two systems. The Soviet view now is that China has formally joined hands with the US in forging an anti-Soviet world front, thereby weakening the socialist system as a whole. The possibility of a Sino-Soviet armed clash is, however, dismissed as propaganda emanating from Peking and Washington. But this is probably not the final Soviet assessment of China's future role. Much will depend on the results of Nixon's visit. In other words, there seems to be some confusion and hesitancy in evolving a final Soviet policy towards China, though the Soviet leaders have already begun the process of reassessment of the entire range of their policy in Asia.

It is precisely this period of transition which makes India vital from the Soviet viewpoint. China's formal notice for staking its claim as one of the super powers, in Asia particularly, brought home to the Soviet leaders that the role of non-aligned countries in the traditional bipolar contest must also be re-examined. The traditional Soviet view of non-alignment as the third force, in between the capitalist

system and socialist system but tending towards the latter, is no longer valid for China is now a new force to be reckoned with. Perhaps the Soviet Union will eventually look at non-alignment as between the three forces — a difficult and even futile exercise in practice. Yet in this period of transition, as a first tentative stop, the Soviet Union has opted for institutionalising India's non-alignment by institutionalising its own bilateral relationship with India. In other words, the Soviet view seems to be that non-aligned countries can still play a purposeful role in the newly emerging world power structure, provided they are backed by institutionalised relations with the Soviet Union, as distinct from the traditional Soviet support given to them in the past. This 'non-alignment plus' (i e, non-alignment plus institutional ties with the USSR), as between the three poles of the world power structure, might well eventually emerge as the final pattern of Soviet policy towards the 'Third World'. But we do not know for sure yet. Much will depend on the final Soviet attitude to China's claim in the super power stakes and the Soviet rating of viable and non-viable countries in Asia. Therefore, the Indo-Soviet Treaty could prove to be either an exception or a trend-setter. In any case, none of the two signatories of the Indo-Soviet Treaty would lose out in any way.

Geopolitical considerations are also important in the Soviet Union's choice of a country like India in signing such a treaty, even while Soviet policy in Asia is in a period of transition. The very popular theory of India counterbalancing China in the emerging tripolar power-structure in Asia, or such riddles as who needs whom more (i e, does the Soviet Union need India more or *vice-versa*), are hardly realistic. They are not realistic because we in this country, as a rule, tend to forget that India is not in a position to match China's growing might, and no country in the world, not even the Soviet Union, thinks otherwise. To the Soviet Union a frank admission of this fact does not necessarily mean an abject surrender by India of its interests in the face of Chinese might; on the contrary, such an admission could lead to the settlement of India's long-standing disputes with China. The Soviet Union certainly does not want to turn India into the main spring-board of its so-called grand design against China. What the Soviet Union would, however, certainly want from India is a helping hand in finally evolving a tripolar power structure in Asia and in strengthening 'non-alignment plus', as between all the three poles of power, i e, the US, China and the Soviet Union. Indeed the selection of India as a treaty partner is dictated by the Soviet opinion of India as the main stabilising force in the region which has shown the will and capacity to act with responsibility and mature judgment.

In all the crucial geopolitical problems of the region with which the Soviet Union is mainly concerned, namely, maintaining peace and stability in Asia—particularly near the Asian borderlands of the USSR, the emerging new power-structure in Asia and defusing the intra-regional flashpoints, India's role has not been unhelpful to the Soviet Union. More recently, India's policy towards Bangla Desh underscored India's responsible role. India's restrained Bangla Desh policy has certainly acted as a catalyst in hastening the process of institutionalising Soviet relations with India, for the Soviet Union became convinced that a treaty with India would not involve it in a self-defeating exercise, as has happened in its relations with the Arab countries. That is why, if and when an unwanted war is thrust upon India due to Bangla Desh or for its own territorial integrity, Soviet support to India is now assured by the treaty.

Other important factors in Soviet closeness towards India are, traditional Soviet interest in India's problems, genuine appreciation of India's rich cultural heritage and a happy record of Indo-Soviet relations during the last fifteen years. These factors are worth emphasising because they are now often dismissed as old fashioned, peurile arguments in these days of super power politicking. Yet these old, well-worn factors have influenced the Soviet policy-makers in deciding to sign the Treaty.

From the Soviet viewpoint the overall importance of the Treaty appears to be that it is a formal and solemn declaration of the Soviet Union becoming an Asian power desirous of operating unhesitantly in Asian environment. This is the culmination of the process which began during the Indo-Pak conflict of 1965 when the Soviet Union, for the first time, successfully groped with a distinctly Asian problem outside the framework of its traditional equation with the US. Not by the flag following the trade, not by military pacts and wars of intervention, and certainly not by drawing its line of defence beyond its borders, but by an evolutionary process of Asianising its own interests, the Soviet Union has now become an Asian power. The nature of this process is novel and its result is a new development which truly supplements the Soviet Union's position as a Western power. The future will show the behaviour and style of this great Asian power. But one thing is surely predictable: this new development is bound to contribute to the security and stability of the entire region *a la* Europe.

India must take the credit for drawing the Soviet Union to Asia and making it possible for it to become an Asian power. Even in future it must be the task of Indian policy to see that the Soviet Union remains an Asian power for quite some time to come. This would certainly prove conducive to the interests of India and the Soviet Union, in particular, and Asia, in general.

Asian Education

TOTAL school enrolment in 18 Asian countries has jumped from 90 million in 1960 to about 160 million in 1971. The countries are: Afghanistan, Burma, Cambodia, Ceylon, India, Indonesia, Iran, Formosa, Laos, Malaysia, Mongolia, Nepal, Pakistan, Philippines, Singapore, South Korea, South Vietnam and Thailand.

University education has grown especially fast, from 1.8 million in 1960 to about 5 million now. Secondary enrolment has also more than doubled, from 16.7 million to some 36 million today. Although the rate of increase in the number of children at primary schools has slackened recently (from an annual 6.4 per cent in 1960 to a little under 4 per cent now), nine of the 18 countries in the region have an enrolment rate at the first level of 90 per cent and over —compared with five in 1960. Five countries now have rates from 60 per cent to 90 per cent and four are below 50 per cent. A large number of those at primary school, however, are above the normal primary school age. In the region as a whole, less than 60 per cent of children of primary school age are in fact attending school.

Despite the considerable progress made over the last two decades, more than half of the adult population of 15 and over is still illiterate. In 1970, the adult literacy rate was estimated at 58 per cent, a sizeable reduction from the 66 per cent around 1960, and the 76 per cent around 1950.

Growth of Radical Economics in the US

Thomas E Weisskopf

The disaffection with orthodox modern economics that has led to the growth of the new radical economics in the United States is part of a more general process of change that has profoundly affected American society in the past decade.

The attempt to develop a new radical economics represents an effort to provide an intellectual basis for a more effective attack on the manifest ills of American society than the discredited liberals could mount in the past decade. The radical wants to understand better why poverty, racism and sexism persist in the United States, why American troops and bombs continue to be sent to distant lands to wreak their havoc on innocent peoples, why the natural environment is destroyed in the name of progress, why increasing wealth does not appear to lead to greater human welfare but only to a heightened sense of alienation on the job, in the community and at home.

The radical suspects that these problems are in fact deeply rooted in the basic institutions of American capitalist society. To understand and to combat these problems, the radical requires an analysis of the fundamental nature, structure and dynamics of that society.

This article seeks to describe briefly the origins and the content of the new radical economics that has attracted increasing attention and a growing following in the United States.

TEN years ago hundreds of thousands of American college students worked their way through Paul Samuelson's introductory text in an effort to learn the mysteries of economics. If they complained at all, they complained that the book was too long, or too dull, or too difficult. Today, many more thousands of college students continue to work their way through Samuelson. But now there are many more complaints; not merely about its length, its tedium, or its difficulty, but about its inadequacy, its biases, and its failure to deal with the significant issues. And where graduate students were at one time almost uniform in their admiration for Samuelson and his professional colleagues and wished only to become mathematical model-builders themselves, now an increasing number of students—and even some junior faculty members—are openly contemptuous of the "orthodox" economics that continues to prevail in most colleges and universities in the United States.

The signs of change within the past decade—and especially in the past five years—are numerous. Journals and publishing houses that had suffered from obscurity, if not bankruptcy, since World War II suddenly began to prosper because they provided a Marxist or neo-Marxist alternative to the standard economics fare. Long-time Marxist economists such as Paul Sweezy and Harry Magdoff found their books, their articles and themselves in great demand on campuses across the country. To provide an institutional focus for the growing body of dissenters among young American economists and would-be economists, a new organisation called the Union for Radical Political Economics (URPE) was established in 1968. URPE has formed chapters at dozens of universities, its paid membership has increased to more than a thousand, it publishes a regular quarterly *Review of Radical Political Economics* and frequent newsletters, and it holds an annual national conference as well as periodic regional meetings.

What is this new movement all about? Why has it arisen now after a long period of quiescence? In this article I propose to describe briefly to Indian readers the origins and the content of the new "radical economics" that has attracted increasing attention and a growing following in the United States.

I
Origins

The disaffection from orthodox modern economics that has led to the growth of the new radical economics is part of a more general process of change that has profoundly affected American society in the past decade. From World War II until the end of the 1950s, American society was characterised by an apparent stability, if not outright apathy. When conflicts arose, they were quickly mediated within the existing institutional framework; dissent was limited and moderate in tone; the end of ideology was declared to have arrived; cultural activities and life styles were generally sober and conformist; and campuses and ghettoes were quiet. Everyone, it seemed, was or could soon be satisfied under the existing order.

The falsity of this presumption, so well obscured in the 1950s, began to force itself upon Americans in the 1960s. Widespread poverty was "discovered" by Michael Harrington ("The Other America") in 1962. Racism in both the South and the North proved to be more tenacious than civil rights lawyers liked to think. The sexism—or male supremacy—inherent in so many American institutions and modes of behaviour became increasingly disturbing to women and some men too. The continuing poverty of almost all the nations of the Third World became more visible. And the irrationality of stockpiling more and more nuclear weapons, while cities were decaying and essential social services were going unmet, became difficult to conceal behind anti-communist rhetoric.

The initial reaction to these problems as they began to be perceived was an optimistic one; the problems could be solved if only they received the attention and the money that they had been denied when they were ignored in the 1950s. The election of John Kennedy—narrow as the margin was—seemed to promise much; liberals who had remained on the sidelines during the Eisenhower years could now go in and activate the machinery of government to intervene in the economy and the society.

Under Kennedy, and in the continuing Democratic administration under Johnson, the liberals did indeed have their way. A whole host of new programmes designed to improve the state of the world were ushered in: the Peace Corps, the War on Poverty, increased expenditure on education, on urban renewal, and on foreign aid, etc. And while government officials and agencies devoted more and more attention to manifest social ills, many students became active at home and abroad in efforts to help the oppressed help themselves to a better life. As Peace Corps volunteers, as teachers and organisers in Southern towns and Northern ghettoes, young Americans sought to work within the system to force it to perform more responsibly and more humanely than it had in the past.

But the optimism of the early 1960s led inexorably to frustration and to disappointment, as the efforts of the dedicated and the idealistic ran aground on the shoals of reality. Poverty, racism, underdevelopment, and all the social ills that had become so clearly visible did not yield to public speeches, to federal expenditures or to the work of the young activists. On the contrary, things only got worse—and as the aspirations that had been roused by the well-publicised efforts to improve things steadily outpaced actual achievements, the bitterness and militance of the victims of poverty and racism and all related forms of oppression began to rise.

Volunteers returned from overseas dismayed not only by the poverty they had seen—and their own ineffectiveness in trying to bring about any changes—but also by the pervasive and generally reactionary role of the US government. The Bay of Pigs adventure, the intervention in Santo Domingo, and the escalation of the war in Vietnam gave the lie to the rhetoric that accompanied US programmes of aid and the Peace Corps itself. While only a minority came home with the view that the United States represented the prime obstacle to the development of the Third World countries, many became cynical about their own idealism and about the sincerity of US efforts abroad.

Similar developments took place at home as it became clear that government programmes and student efforts had little impact on the prevailing pattern of oppression of the poor and the minority groups. Federal agencies and student activists succeeded mainly in arousing a justifiable sense of grievance on the part of those whom they were trying to help. Many blacks became hostile to the somewhat patronising efforts of whites; they began to rebel in the ghettoes and to raise their own banner of Black Power to oppose the dominance of white society. The poor became bitter and hostile as they discovered how long it took government money to trickle down, and then watched the Poverty budget eroded by the dramatically escalating cost of the Vietnam War. And many of the most idealistic and energetic of America's youth turned away from the frustrating and fruitless efforts they had been engaged in and began to look for an alternative route to a more decent society.

Thus the failures of American liberalism in general, and the escalation of the Vietnam War in particular, created a climate in which hostility to the existing social order could and would grow rapidly. Symptomatic of the change was the conversion of the Students for a Democratic Society (SDS) from an organisation espousing non-violent efforts to improve conditions within the existing system to an explicitly revolutionary group advocating the eradication of the capitalist system. The number and size of Left parties and associations grew to levels unparalleled since the Depression in the 1930s. While the strength of the Left in the United States today is still much less than in almost any other country within the non-socialist world, it is remarkable in the American context.

Out of the turmoil and discontent of the times there arose on campuses across the country a variety of organisations that gave expression to academic dissent. The Union for Radical Political Economics was one of these; others include the Committee of Concerned Asian Scholars (CCAS), organised around opposition to US policy in the Far East (it was a group of young CCAS members who formed the first party of American China scholars to visit the People's Republic this past summer); and caucuses of radical historians, radical anthropologists, radical scientists, etc, within the established professional associations. Each of these group draws its prime strength from younger members of the profession and especially from graduate students at the major universities. Most are motivated not only by disgust at American policy but also by a belief in the need for a profound transformation of American social and economic institutions in order to create a decent society. And all are convinced that the orthodox teaching and writing in their fields of study are not only largely irrelevant to their most pressing concerns but—still worse—serve to prevent the kind of understanding that is required to bring about necessary social and economic change.

II
Content

The attempt to develop a new "radical economics" thus represents an effort to provide an intellectual basis for a more effective attack on the manifest ills of American society than the discredited liberals could mount in the past decade. The radical wants to understand better why poverty, racism and sexism persist in the United States, why American troops and bombs continue to be sent to distant lands to wreak their havoc on innocent peoples, why the natural environment is destroyed in the name of progress, why increasing wealth does not appear to lead to greater human welfare but only to a heightened sense of alienation on the job, in the community and at home. The radical suspects that these problems are in fact deeply rooted in the basic institutions of American capitalist society. To understand and to combat these problems, the radical requires an analysis of the fundamental nature, structure and dynamics of that society.

What then is the content of the "radical economics" espoused by the adherents of URPE? Not surprisingly, one cannot speak of any single line or school of thought. What unites radical economists in the United States is primarily a critique of the orthodox "neoclassical" approach to economics, and as yet no fully consistent alternative has been formulated or accepted. A great number of radicals have been working and writing in different areas, moving from critiques of the current orthodoxy to attempts to formulate more fruitful lines of analysis. Radicals are inclined to differ among themselves as to what constitutes or should constitute radical economics; what follows here is hence necessarily a somewhat personal view of the subject.

The radical critique of neoclassical economics draws attention to a number of faults, among which I shall consider (1) its irrelevance, (2) its analytical inadequacy, and (3) its ideological bias.

(1) From the radical point of view, the neoclassical economist typically asks the wrong — or at least the most uninteresting — questions about a society and an economy. For example, the effort to identify, to describe or to invent optimal growth paths is viewed as arcane gamesmanship; preoccupation with planning models, shadow prices, optimal taxes and subsidies is considered myopic in the absence of any analysis of how decisions are in fact made in a society. The radical concedes that the use of neoclassical economics may at best help businessmen and government officials to administer an existing economic system, but it can say nothing about the far more interesting questions relating to the origins, the dynamics, and the possible transformation of that system. To the extent that it addresses itself to the real world at all, neoclassical economics confines its attention to short-run and marginal problems of possible urgency to the administrator or technician but of much less interest to the academic social scientist.

What the radical economist would prefer to investigate are the basic so-

cial and economic institutions that shape a society and the forces that determine its evolution. Instead of analysing a particular policy in an historical vacuum, he (she) would want to investigate what determines the range of alternative policies that are actually capable of being undertaken in a given situation, and why certain policies are generally implemented while others are frustrated. Aware of the constraints on decision-making imposed by the institutional and political framework of a society, the radical economist tends to be less interested in formulating or advocating economic policy than in explaining or predicting economic behaviour.

(2) But even where neoclassical economics does address itself to behavioural rather than policy questions, the radical economist finds it seriously deficient in explanatory power. The deficiency can be attributed to a widespread failure to take into account important non-economic variables, a typical tendency to shy away from the implications of power and conflict in determining outcomes, and a general reluctance to depart from the unrealistic model of a perfectly competitive capitalist economy. The limitations of the assumptions imposed on most neoclassical models need no elaboration here; they are familiar enough to anyone who has studied a real-world economy. What particularly disturbs the radical, however, is the failure of orthodox economists to recognise how power — economic or non-economic — is often exercised on behalf of a group or a class so that its collective interest is defended in a conflict with other groups or classes. In such circumstances, the usual neoclassical explanations based on individual maximising behaviour lose their explanatory ability; one must instead turn explicitly to theories of power, its acquisition and its use. This in turn obliges one to examine political and social variables and institutions that are usually considered outside the scope of competence of the economist.

(3) Finally, the radical focuses attention on the ideological implications and biases of orthodox economics. By concentrating primarily on questions of administration and on marginal changes in the existing socio-economic system, neoclassicists implicitly support the *status quo*. The possibility — and hence the desirability — of revolutionary changes in the social and economic order is studiously ignored. The overriding concern of neoclassicists with economic efficiency and growth becomes an implicit value judgment: objectives other than efficiency or growth are shunted aside, left to be taken care of by inexplicably omnipotent finance ministers or to be studied by other social scientists without a quantitative background. The glib identification of human welfare with money income — despite the lip service given to qualifications — informs almost all the work and the policy recommendations of neoclassical economists.

More specifically, the body of theoretical neoclassical economics is viewed by radicals as an apologia for capitalism. Labour and capital are pictured in the theory as meeting each other as equals in a harmonious economic game: it is suggested that any man could as soon become a capitalist and hire labour as sell his own labour to a capitalist. The return to capital is equated in ethical terms with the return to any other factors of production; the capitalist is legitimised — if not sanctified — as an economic agent. The ostensible effort by neoclassical economists to *describe* the capitalist system thus slides almost imperceptibly into an elaborate attempt to *justify* it on moral grounds.

Having rejected most if not all of neoclassical economics on grounds such as the above, the radical seeks an alternative approach to the study of the economic issues that seem most relevant. Some general characteristics of an alternative approach can be identified at the outset. First of all, the approach must be interdisciplinary; it must not be limited by the conventional confines of the discipline of economics. Both the problems in which the radical is interested, and the variables which appear important, call for an understanding of the functioning of social systems and sub-systems in all of their interrelated aspects.

Secondly, the approach must be historical in a significant sense. In part this is because the radical economist is generally interested in long-run issues relating to the origin, the evolution and the transformation of social systems. But it is also because the radical economist is basically oriented to empirical work rather than to abstract theorising. To explain how things have come to pass or how they are likely to evolve in the future (rather than how they could have occurred in the past and ought to occur in the future) requires that phenomena be placed in and related to the concrete historical circumstances.

Thirdly, the radical economist is generally persuaded of the significance of basic economic institutions in affecting the patterns of social, political and economic behaviour observable in any society. Thus in analysing different aspects of Western industrialised societies, great attention is paid to the fundamental institutions of capitalist societies (the market in labour, private property, and the legal relations of ownership, etc) and the way in which these institutions are related to and influence observable outcomes. The basic economic system of production, distribution and exchange is viewed as setting overall boundaries within which different social and political configurations can lead to different results.

Finally, radical economists typically focus on conflicts of interest and their resolution through the exercise of power. Unlike the neoclassicist, the radical does not view the economy or the society as an equilibrating mechanism through which conflicting interests are mediated, if not altogether harmonised. Rather, the radical draws attention to the way in which different groups or classes attempt to use their power to structure institutions or affect decisions in their group or class interest — thus confronting other groups or classes with variant interests. The rational self-interest always posited by neoclassicists for the individual is extended forcefully by the radical economist to the class as a whole, and struggle among classes becomes as important as competition among individuals.

Much, if not all, of the foregoing may not strike the reader as very new; in these general terms it sounds very much like an old-fashioned Marxist approach. American radicals have in fact been greatly inspired and deeply influenced by Marx's own writings as well as by the work of contemporary Marxists, notably the late Paul Baran, Andre Gorz and Paul Sweezy. Turning away from the narrow and often apologetic character of neoclassical economics, American radical economists were naturally attracted to the broad and critical spirit of Marxism.

If the recent growth of radical economics represented simply a dramatic surge of Marxism in the United States, that in itself would be important news — for Marx has never attracted much of a following among American students and intellectuals. Indeed, most of the new radical economists would probably describe themselves, however loosely, as Marxists. But there are several respects in which it would be misleading — if not altogether inaccurate — to equate the growth of radical economics with an efflorescence of Marxist economics in the United States.

In the first place, there is relatively little interest among radical economists in labouring through Marx's own writings. Althought most are quite familiar with the "Manifesto", the "Preface to a Critique of Political Economy", and selections from "Capital" and the "Economic and Philosophical Manuscripts of 1844", few have bothered to study a substantial part of Marx's work. In part this is due to the inherent difficulty of the task; but it is also due to a fairly widespread feeling that much of Marx's work, and especially the more narrowly economic theory, is simply not very helpful, if not actually mistaken. The basic Marxian concepts of the mode of production, the forces and the social relations of production, the surplus, the class struggle, the contradiction, and the general approach of historical materialism, are embraced by most radical economists. But relatively few have adopted the labour theory of value or the law of the falling rate of profit. In sum, the general historical and interdisciplinary approach embodied in Marxism has influenced most American radical economists, but much of the specific theoretical content has been rejected by all but a minority of orthodox Marxists.

One element in Marx's own work that has held particular appeal for many American radicals is his early writing on alienation in the Economic and Philosophical Manuscripts. More than earlier generations of economists with some interest in Marx, most of the new radical economists are very much concerned with the social-psychological problems inherent in capitalist society. Concern over the failure to achieve human values of community, self-fulfilment and a meaningful life in the affluent post-War society has led to increased interest in the social-psychological aspects, and not simply the political and economic aspects, of social systems. Marx the humanist, as depicted by writers such as Erich Fromm, has shown more appeal than Marx the economist.

Consistent with this emphasis on the prospect of human liberation, the new radical economists in the United States generally show very little enthusiasm for the brand of socialism that has emerged in the Soviet Union and Eastern Europe. While these countries are seen as having made some important economic strides in increasing (and distributing more equally) welfare among their people, the maintenance of rigidly hierarchical structures of management and control, the lack of effective personal freedom and participation in decision-making, and the general trend away from the communist ideal of a co-operative and egalitarian society, are condemned as simply imitative of some of the worst features of Western capitalist societies. The ideal society of the new radicals does not require a strong centralised state to act in the public interest; on the contrary, it calls for as much decentralisation of economic and political power as possible. Social ownership of the means of production is necessary but far from sufficient to build the new society; there must also be an institutional framework which permits small but viable co-operative and egalitarian communities to flourish alongside one another without the oppressive burden of a huge state bureaucracy. This vision of decentralised or participatory socialism contrast starkly with the reality of most of the socialist nations in the world today; but the experiences of China and Cuba (and to some extent also Yugoslavia and the Israeli kibbutzim) are studied with great interest in the hope that they might serve in some ways as a model for a better future.

III
Conclusions

What has been accomplished by the radical economists in the past few years? Obviously there has been no transformation of American society: the same problems — inequality, alienation, imperialism, etc — continue as before. A new theoretical framework to drive neoclassical economics from the curriculum has not yet been developed. As yet only a minority of students of economics, and a much smaller number of professors, would wish to associate themselves with URPE or any other radical organisation.

Yet there is also much that has been achieved, and a promise of more to come. Radical economists, by developing new courses, reviving long-neglected work and contributing new work of their own, have awakened the new generation of students of economics to issues and perspectives that would have been denied them in the earlier period of unchallenged neoclassical hegemony. New fields of inquiry and new methods of analysis are permitting students to escape from the narrow confines of orthodox economics and to study problems of much greater personal and social significance. Students and teachers have been increasingly obliged to examine the relevance of what they are doing as well as the political implications of their work. Complacency in the American system in particular, and the capitalist system in general, is giving way to a much more critical and perceptive approach.

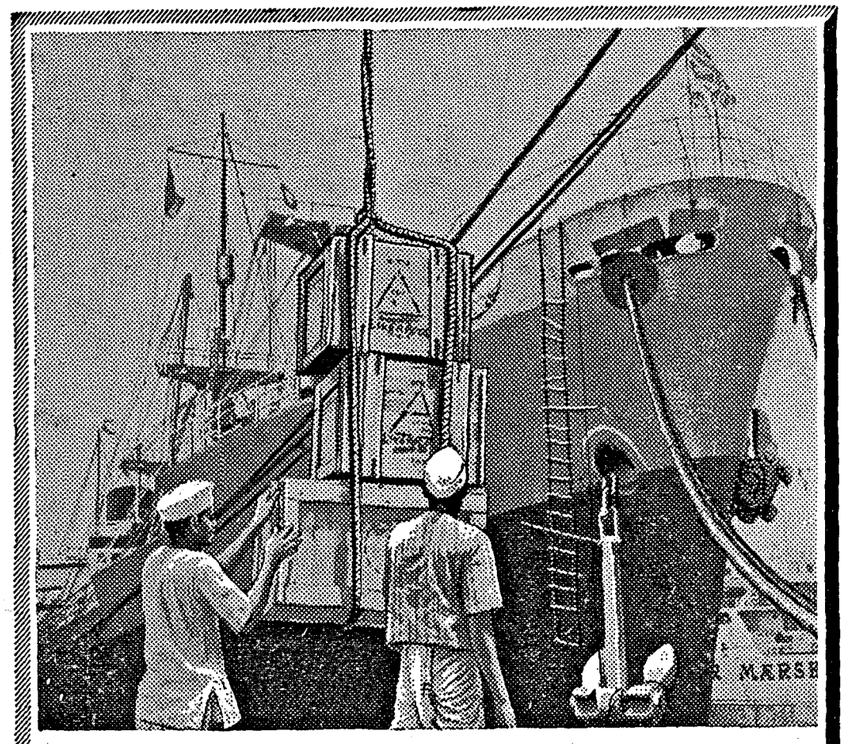
Political activities by radical economists have varied from one place to another. Along with other groups in the overall radical movement, the economists have participated in demonstrations, civil disobedience and other actions against the policies and agencies of the US government. Papers and pamphlets have been written to support the activities of militant organisations and activist groups on the Left of the American political spectrum. Efforts have been made to expose the complicity of universities and research institutions in many of the policies and activities of the US government, notably the War in Indochina. And some attempts have been made to promote student power within universities and to democratise the hierarchical structure of economics departments.

By and large, however, the major thrust of the new radical economists has been on an intellectual plane. This reflects a general belief that the necessary changes in American society cannot be brought about unless a process of demystification allows the American people to discard old myths and to acquire a new understanding of their society and the need to change it. Thus a great deal of effort has gone into analyses of the way in which the structure of the American capitalist system produces so many of America's current social problems, and the way in which contradictions in the present system may lead to possibilities for fundamental change in the future. For radical economists are no more economic determinists than was Marx; they believe that political action taken at the right time and with a correct understanding of the objective situation is essential for human progress. When that time will come, and what will be the nature of the necessary action, are questions that remain of course hotly disputed among all radicals today.

Bibliographical Note

[Readers who are interested in acquainting themselves further with the radical economics that is being formulated and developed in the United States may wish to consult one or more of the following sources. (1) Richard C Edwards, Arthur MacEwan and the Staff of Social Sciences 125, "A Radical Approach to Economics: Basis for a New Curriculum" (*American Economic Review*, Vol LX, No 2, May 1970, pp 352-363) describes briefly the content of a course organised by radical economists at Harvard University. (2) Richard C Edwards, Michael Reich and Thomas E Weiss-

kopf, "The Capitalist System: A Radical Analysis of American Society" (Englewood Cliffs, N J: Prentice-Hall, Inc, forthcoming January 1972) combines a selection of reprinted readings with original essays and introductory notes in a survey designed to introduce students to the field. (3) The *Review of Radical Political Economics*, published quarterly by the Union for Radical Political Economics since 1969, contains a wide variety of articles by radical economists. The July 1971 issue of this journal (Vol III, No 2) is devoted to a set of papers on "Radical Paradigms in Economics" seeking to define radical economics in relation to the current orthodoxy. Interested readers are encouraged to write to the URPE head office at 2503 Student Activities Building, The University of Michigan, Ann Arbor, Michigan 48104, USA, for subscription to URPE publications and for further information about the organisation.]



The exporter's friend
DENA BANK
can help you
to develop and expand
your exports.

Count on DENA BANK to make credit available to you promptly for export of mill machinery, electrical equipment and other capital and engineering goods on cash basis or deferred payment terms.

With correspondents at all important financial centres, our Foreign Department is fully equipped to handle Letters of Credit, Export Bills, Foreign Remittances and also to help you with market information and advice on trade procedures.

DENA BANK
Head Office: Devkaran Nanjee Buildings, 17, Horniman Circle, Fort, Bombay-1.

RATAN BATRA DB/E/212

Poverty in India – Policies and Programmes

A Comment

K Jayaraman

THE crucial part of the excellent study by V M Dandekar and Nilakantha Rath (*Economic and Political Weekly*, January 2 and 9, 1971) is Section VII in which the authors have given their solution to the problem of poverty in India "within the framework of private property". Having ruled out the communist solution of socialising all means of production and thus ensuring a socially equitable distribution of income, the authors have ruled out the other alternative as well, *viz*, of distributing equitably the means of production themselves: (i) land—on the grounds that there is not enough of it to redistribute to enable every one to employ himself and earn a minimum living and (ii) industrial capital—which too is in short supply and is very marginally distributed. Even a labour intensive technology, which with the available capital may be expected to provide employment to all, is not, in the authors' view, a feasible solution judging from the results of the Khadi and Village Industries Programme. A rural works programme of the magnitude of Rs 800-1000 crores, annually, to provide gainful employment to the vast number of persons with no means of production of their own is considered, by the authors, to be the only feasible way for lifting the poor above the poverty line. Even a programme of this magnitude will not, according to them, cover the poorest 10 per cent who will be thus left high and dry.

Where is the money to come from for financing this massive programme? In the authors' own words, "A 15 per cent cut in the consumer expenditure of the richest 5 per cent and 7.5 per cent cut in the consumer expenditure of the rich below them is all that is needed. The burden is not great if the rich will see reason. If they do not, sufficient political pressure must be brought to bear on them. At the same time, appropriate fiscal instruments will have to be designed to acquire the necessary financial resources from them."[2] The authors have not spelled out the details of the needed fiscal measures, except to say that, "both direct and indirect taxation will have to be employed", including a tax on large agricultural incomes and on all luxury goods (such as cars, luxury apartments in the cities, etc). They, however, concede that the additional income to be placed in the hands of the poor must come not from a net transfer of incomes from the rich to the poor but by a net addition of purchasing power in the economy. This accretion to the purchasing power could be mopped up, however, only by the supply of additional quantities of commodities of common consumption which the poor will need and which the rich will not release in any case. "In the ultimate analysis", to quote the authors again, "there is no way of improving the living of the poor without expanding the supplies of the commodities which they need".[3]

Basic Fallacies

There appear to be certain fallacies in some of the basic assumptions behind the suggested remedies for winning the battle against poverty in India. These are discussed below.

(i) In the first place, the assumption that "a large programme of rural works organised as a permanent feature for some years to come will enable some of the agricultural proletariat to withdraw permanently from agriculture and thus help rationalise the existing employment in agriculture", is belied by the experience of these programmes organised so far since the beginning of the Third Plan and in which several crores had already been invested in areas considered to be the pockets of unemployment and underemployment where agriculture offered no scope whatsoever as a means of employment during a major part of the year due to drought or scarcity conditions. As one intimately connected with the evaluation of these programmes in states like Maharashtra, Gujarat, and Mysore, during the last decade, it was appalling for this author to find that even in the so-called chronically scarcity areas the local labour force was, as a rule, either not available or was unwilling to participate in the works programmes of even the very limited nature that were organised. There were instances thus of outside labour having been hired at exorbitant rates to complete the works to fulfil targets. Often, in certain areas, for lack of local effort and participation, contractors were entrusted with the execution of these works. Thus the wages that really accrued to the labourers were minus the middleman's profit inevitable in the circumstances. It is futile to expect that in any massive programme of rural works this experience will not be repeated and that the huge expenditure proposed on such works will percolate to the bottom layer and add significantly to the purchasing power of the poor.

(ii) The more basic fallacy in the authors' argument, however, seems to lie in their assumption that a massive rural works programme of Rs 800-1000 crores a year can be financed by a cut in the consumer expenditure of the rich. True, in India, unlike in the West, the propensity to consume is fairly high at high levels of income, but fiscal and other measures of control have been ineffective both in restricting conspicuous consumption as well as in releasing black money. Rather, the effect of these controls has been to cast an unduly heavy burden on the middle and lower income groups, increasing social inequality and tension and at the same time inhibiting expansion of production and employment. We are, therefore, faced with a dilemma. Even assuming for the moment that fiscal measures alone (including taxation of agricultural incomes) will, as advocated by the authors, bring in the required funds for financing the massive programme to provide employment to the vast numbers in rural areas, where is the money to come from for investment in consumer industries of at least a similar magnitude to mop up the additional purchasing power created by the transfer of incomes? Without this, as the authors have themselves agreed, the purpose of the transfer of incomes will be defeated. Resort to deficit financing on a massive scale, with the inevitable consequences on the price structure, will then be inescapable. The poor, in any case, will not stand to benefit in such an eventuality. Even to date, the success claimed on the agricultural front has not arrested the price inflation. Even though more rapid development of consumer goods industries is urgently needed to mop up rapidly the growing agricultural incomes, basic consumer goods industries like textiles and vanaspati have not had a share in the up-trend of the other lines of industrial production. Engineering industries are also suffering for want of steel, and the shortage has raised their cost of production by forcing them to

produce below optimum capacity. Indeed, many Indian manufacturing operations are still too small to avail themselves of the technological economies of scale. What they need are facilities for fuller utilisation of existing capacity and expansion thereof, so that, through proper fiscal measures there may be considerable expansion of output and employment *via* the well known mechanism of multiplier-accelerator. The expansion of income, thus generated, would also lead to expansion of savings.

Alternative Solution

A far more practical, permanent, and rational solution to the problem would be to re-invest the funds generated by technological development. This will have to be done in a way to achieve an integrated development of agriculture and industry (large and small, alike), leading to the absorption of sizeable numbers of unemployed and underemployed from the rural areas in modern industries. Indeed the economists[4] who assembled in Gauhati last December were reported to have been unanimously in favour of the view (a) that for the first time science had brought about a breakthrough in Indian agriculture and thus enabled us to solve our food problem and the problem of *non-viable* sectors of the rural economy; (b) that with any revolutionary change in the technique of production and productivity, problems of income disparities and regional imbalances were bound to arise and what was called for was not to put any restrictions on faster progress but to take steps to minimise the disparities; (c) that the green revolution should spread not only over the different parts of the country but also in respect to different crops as far as possible, since intensive cultivation and multiple cropping had generated larger employment and a rise in the level of wages to the rural workers, and (d) that, as a corollary, mechanisation be looked upon not as a labour-saving device but as a productivity increasing technique and employment increasing source. The capital intensive nature of the new technology was also emphasised.

The authors of 'Poverty in India' have themselves recognised that "the technological programme (in the so-called developed countries) did not throw anybody out of employment permanently, but made it possible for everybody to be employed at a higher level of productivity".[5] The argument that, khadi and village industries with limited capital and using traditional skills have failed to make any impact on the employment situation, cannot rationally be used against small-scale industry of various kinds which could produce ancillaries required by the new technology in agriculture, could employ modern scientific skills, and could offer greater scope for permanent self-employment (as distinct from wage employment). In the words of the authors themselves, "In small-scale modern industry, a considerable part of the total employment can be self-employment from the point of view of industrial structure, location, and organisation. The principal feature of small-scale modern industry is the possibility of its dispersal in many locations, thus creating a decentralised but modern industrial structure. On both these counts it has much to commend."[6]

Indeed, Punjab and Haryana are two states which are standing examples of prosperity and affluence, where science and technology have played a notable part in bringing about an integrated development of agriculture and small industry on modern lines. In Ludhiana, an industrial complex, consisting of many small units of the specialist type, has already come into being. Most of the entrepreneurs have little formal education but are dynamic and innovative enough to venture into new lines, especially in skilled workmanship and design in the field of mechanical and electrical engineering. Quick to imitate any device, gadget, or machine, they have been largely instrumental in designing prototypes of several imported machines. What is more, large units depend upon scores of these small units for components, and this arrangement has proved economically viable.[7] Therefore, to dismiss labour intensive technology, with the existing factor endowments either of land or capital, as being not feasible in generating employment for the mass of the unemployed or underemployed labour and instead to resort to rural works which will have its base in unskilled work would appear to be taking the country backward and not forward. Any rural works programme can at best serve to supplement, and not substitute, the new technology.

The crucial question remains, how to generate the needed funds for productive investment. The two obvious sources are: taxes and money supply. As regards taxes, the basic assumption is that a country with a low tax ratio (i e, tax revenue as a percentage of the gross national product) has plenty of scope for mobilising internal resources through additional tax measures, while a higher tax ratio is indicative of higher economic growth. In fact, however, tax ratio and economic growth may not always move in the same direction. This is because, in a developing country, the proportion of non-development expenditure often tends to go up as a result of expansion of the administrative structure and increase in wages and salaries. Indeed, it would be a surprise if Parkinson's law did not operate with a vengeance in a massive programme of rural works of the kind advocated by the authors.

The annual growth rate of the real national product in India was only 2.9 per cent in the Third Plan as against 4 per cent in the Second Plan, though the tax ratio increased from 10 per cent in 1956 to nearly 14 per cent in 1966. The real indicator of growth, therefore, is the correspondence between the percentage increase of the tax ratio and the percentage improvement of the per capita income. Judged by this test, it is seen that, while the per capita real national income in India has grown on an average by 1.7 per cent per year between 1959-60 and 1968-69, the average annual growth of tax ratio has been 14.1 per cent. Although India's tax ratio is below that of other developing countries, such as Ceylon, Iran or Thailand, and also below that of developed countries such as Japan, the UK and the US, the annual rate of growth of taxation relative to that of real per capita gross domestic product is much higher here than in all those countries (seven times that of real gross per capita domestic product between 1960 and 1966, as against around two times in advanced countries like Japan and the US).

Adverse Effects

While there is thus a limit on any tax effort, growth in money supply also has its adverse effects on investment and, therefore, on employment. In economically advanced countries, an increase in money supply leads to a rise in demand and indirectly in employment; prices in their circumstances rise due to increase in money supply only after the full employment stage has been reached. In a developing economy, however, the increase in money supply pushes up the prices right away while wages and salaries lag behind. This reduces the purchasing power of the people and thus tells on the demand. Rising prices, however, could induce increased supply, but when supply outstrips demand a recession sets in. In other words, when aggregate supply is affected, growth in monetary resources only tends to aggravate existing imbalances between aggregate demand and aggregate supply.[8] Considerable distortions in the economy occur as a result of persistent inflation. "When an exceptionally large harvest is gathered in, an important addition is usually made to the quantity carried over into later years. The proceeds of this addition are added to the current incomes of the farmers and are treated by them as income; whereas the increased carry-over involves no drain on the income expenditure of other sections of the community but is financed out of savings. That is to say, the addition to the carry-over is an addition to current investment. This conclusion is not invalidated even if prices fall sharply. Similarly when there is a poor harvest, the carry-over is drawn upon for current consumption, so that a corresponding part of the income-expenditure of the consumers creates no current income for the farmers. That is to say, what is taken from the carry-over involves a corresponding reduction in current investment. Thus, if investment in other directions is taken to be constant, the difference in aggregate investment between a year in which there is a substantial addition to the carry-over and a year in which there is a substantial subraction from it may be large; and in a community where agriculture is the predominant industry it will be overwhelmingly large compared with any other usual cause of investment fluctuation. Thus it is natural that we should find the upward turning point to be marked by bountiful harvests and the downward turning point by deficient harvests."[9]

Not only the fluctuations in agricultural production but fluctuations in the prices of the agricultural products also affect the industrial sector. "It is not the absolute prices of the farm products but their relationship with the agricultural inputs that plays a significant role. The difference between the prices of the inputs and outputs constitutes the demand from the peasant community for non-food articles. If the farmers' net gains are high, the rural demand goes up. But, at the same time, if the prices of the agricultural produce are too high, the demand from wage earning consumers for non-food articles drops because of high outlays on the food stuffs. Also, the higher prices of the agricultural raw materials pushes up the costs, thus, causing an overall drop in the demand for industrial products due to higher prices.[10]

The key to the solution of all these problems, including the problem of mass unemployment, can only lie in a faster rate of growth of the gross national product, without which the growth in domestic demand following the accretion to the purchasing power in the economy will absorb most of the industrial products, leaving inadequate surpluses for export and pushing up domestic costs and prices to a point where our products become uncompetitive in world markets. There should be greater concern about the higher volume of imports per unit of production in terms of scarce raw materials, labour, power, transport, and managerial and human resources. This alone can bring about a more rapid transformation of the economy and provide a built-in spur to efficiency all around. "The cumulative rise in prices in recent years", as the Reserve Bank of India warned us a few years ago, "has resulted in a steady erosion of the real value of money incomes and savings. Unless the inflationary trend is arrested, it will be extremely difficult to find genuine savings for investment in both the public and private sectors."[11] In fact, though there has been an increase in national income at constant prices by about 19 per cent since 1964-65, the savings ratio has gone down from around 10.7 per cent to about 7.5 per cent or so, that is by nearly 30 per cent. The *modus operandi* of the massive rural works programme of the magnitude suggested by Dandekar and Rath is not calculated to arrest the inflationary trend and much less to generate *genuine* savings for investment in industry, private or public.

Notes

1 *Economic and Political Weekly*, January 9, 1971, pp 132 to 143.
2 *Ibid*, 144.
3 *Ibid*, p 146.
4 *Economic and Political Weekly*, January 9, 1971, p 89.
5 *Ibid*, p 122.
6 *Ibid*, p 123.
7 H N Pathak in 'Small Industries in Ludhiana', *Economic and Political Weekly*, July 11, 1970.
8 Report of the Central Board of Directors of the Reserve Bank of India for the year end June 1968, p 7.
9 "The General Theory of Employment, Interest and Money", MacMillan, London, 1949, p 329-30.
10 S S Patil in 'Steps to Prevent Demand Recession' *Economic Times*, September 5, 1970.
11 Annual Report of the Central Board of Directors, June 1966, p 5.

Japan's Foreign Trade: New Orientation

THE white paper on foreign trade published recently by Japan's Ministry of International Trade and Industry urges Japan to push trade and capital liberalisation while adopting itself to environmental changes at home and abroad, and to make positive contributions to the furtherance of free trade. The extraordinary expansion of Japan's trade has given rise to new problems in Japan's external economic relations. These problems, according to the white paper, include: (1) frictions in the world's major markets due to Japan's rapid trade expansion, (2) how the Japanese economy, heavily dependent on imported natural resources, should cope with the new development of the North-South problem, and (3) how Japan should adapt itself to the business recovery trend in countries of the Communist bloc and the development of East-West exchanges.

On the basis of this analysis, the white paper stresses the following tasks for Japan:

(1) Trade with advanced countries — promotion of "horizontal" commodity trade and diversification of export markets.
(2) Solution of the North-South problem — offering of preferential tariffs to help developing countries expand their exports.
(3) Promotion of imports — Japan has laid primary emphasis on the importation of natural resources required by the highly paced industrial activity, but hereafter it will have to make the most out of further imports due to the growing labour shortage and diversifying consumption.
(4) Economic development *vs* resources problems — the procurement of low-cost natural resources on a stable basis is essential to Japan's economic stability and expansion.
(5) Overseas investments — to head off frictions arising from Japan's increasing overseas investments, Japan should see to it that such investments will serve to promote economic co-operation with the recipient countries.
(6) Conversion to knowledge-intensive export structure — Japan should shift its export emphasis from the heavy and chemical industries to knowledge-intensive and research and development-intensive goods.

FROM THE CHAIR

The Indian Iron and Steel Company Limited

Statement by the Chairman, Sir Biren Mookerjee

THE following is the Statement of Sir Biren Mookerjee, Chairman, The Indian Iron and Steel Company Limited, at its Fifty-fourth Annual General Meeting held on September 22, 1971:

At the 54th Annual General Meeting of the Company held on the 22nd September, 1971, Sir Biren Mookerjee, Chairman made the following statement.

Before I proceed with the formal business set out in the Agenda for today's meeting I would like to say that as usual I have received many letters from shareholders and as usual some have suggested that the dividend be raised while others have suggested a reduction in the rate of dividend. I need not remind you that although you may, if you so desire, reduce the rate of dividend recommended by the Directors, you are not empowered to increase the dividend.

Profitability and Resources

In recommending a dividend your Directors give very careful consideration to various factors. Essentially there are two criteria for determining the rate of dividend in any responsible institution. These are firstly profitability and secondly availability of resources. You must be aware that much of your basic plant is old and although it is maintained as well as resources and the availability of foreign exchange permit, an old plant requires rehabilitation just as an old body requires medication. The rehabilitation of the major units of the plant requires a great deal of money and the only means of providing this money is through the depreciation charged in your accounts and whatever is transferred to reserve less the dividends declared.

The Middle Path

The Directors are faced with another problem: while shareholders naturally expect higher returns, the banks who are the Company's creditors and who provide it with the necessary working capital, look with disfavour on dividends being paid out of overdrafts. Therefore, your Directors have to tread a middle path in the matter of declaring dividends. The question of maintaining dividends is also of importance. Government's price control policy in regard to steel while the cost of raw materials, freight, consumable stores and labour continues to rise, means only that, other things being equal the available profits will continue to shrink. Maintaining dividends even at the rate of 6 per cent may well prove to be impossible of achievement unless there is a relaxation in the pricing policy. I, therefore, feel that the dividend of 6 per cent is fair in the circumstances and in fact is perhaps too fair. How important maintenance of the plant is will be evident to shareholders from the successive disasters which have struck major units of plant in the other integrated steel plants in India. That your plant has so far escaped such a calamity in spite of seven bundhs and the difficulty in obtaining essential spares and despite the restrictive tactics adopted by the labour speaks volumes for the efficiency of your plant management. It is true that very large sums of money are spent on the proper maintenance of plant, but it has also paid rich dividends so far. As the saying goes "a stitch in time saves nine", even so, the very best maintenance engineers in the world would not be able to properly maintain a plant if essential spare parts, accessories and implements were not made available to them in proper time.

Rigid Procedures

I am happy to say that Government have at last realised the importance of this aspect of plant operation. While the need to conserve foreign exchange is of paramount importance and the need to progressively intensify import substitution is equally so, some relaxation of these rigid procedures must become necessary especially in the case of continuously operating units such as integrated steel plants where delay in obtaining essential materials can lead and in some cases have actually led to drastic consequences.

Revised Scheme

You may well ask me about the present status of your balancing of plant project designed to increase your ingot capacity by some 300,000 tonnes per annum. I might tell you that a revised scheme is now under discussion between the Government and the Company. The only information I can give you at this stage is that the revised scheme will cost considerably more than the earlier schemes which had to be abandoned for reasons well known to you from my statements of earlier years. Since such a large sum of money will obviously not be available from shareholders, if the scheme is to be implemented, it will involve obtaining term loans from Government lending agencies as I hardly think any non-Government leading agency would be in a position to supply capital in the range of 60 or more crores that would be required now as against about Rs 11 crores that would have been required in 1962 had the scheme been implemented then. Loans obtained from Government lending agencies, will, under the new directive, entail incorporation of a conversion clause in the agreement. If the conversion of the loan into equity is implemented, then the share of the existing shareholders in the profits and assets of the Company will be reduced by two thirds. Even if the loan is not converted into equity, interest payments will make severe inroads into the profits of your Company, apart from the repayment of principal out of taxed income. However, before any scheme is finalised or arrangements made, I am sure that your Board of Directors will advise shareholders of all relevant considerations at the appropriate time.

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

The Mettur Chemical and Industrial Corpn Ltd

Review by the Chairman, Dr P S Lokanathan

ADDRESSING the Thirty-fourth Annual General Meeting of the Mettur Chemical and Industrial Corporation Limited, at its Registered Office at Mettur Dam R S on Friday, September 24, 1971, Chairman, Dr P S Lokanathan said:

I have great pleasure in extending to you a warm and cordial welcome to this 34th Annual General Meeting of your Company. The Directors' report and the audited accounts for the year ended 31st March, 1971, have been in your hands for some time now and with your permission, I shall take them as read.

The spectacular victory of the Congress Party led by Mrs Indira Gandhi in the Centre and that of the Dravida Munnetra Kazhagam in Tamil Nadu led by Mr M Karunanidhi in the recent elections has already borne some dividends. The world outside has come to treat India with respect, on account of the strong political stability which the elections have brought about. We can derive comfort from the thought that the Government of India can now afford to do the right and pursue sound economic and social policies without yielding to the pressure of the extremist elements in the party. The crying need of the country is wise and strong leadership in the face of the complex and staggering problems we are confronted with, animated by a sense of realism and pragmatism without being dogmatic.

Towards a Better Life

There is broad agreement in the country about the goal of socialistic pattern of society or socialism. Every party has more or less accepted it. There are of course differences in respect of its content. For example, many people believe that the excessive emphasis on nationalisation by the ruling party is misplaced. In this respect the Ruling Party at the Centre is at least 30 years behind the time. Socialist theory and practice have undergone drastic changes on the issue of nationalisation in the last 50 years. In the 1920s, the common ownership of the means of production, distribution and exchange was the formula which expressed the prevailing socialist orthodoxy. Today, not a single socialist party in the world nor a single socialist leader of repute adheres to the old formula of nationalising all the means of production. In 1957, the socialist international, speaking for more than 30 socialist parties throughout the world adopted a programme that specifically rejected the old doctrine of total nationalisation. In 1959, the new German Socialist Democratic party adopted a programme in which freedom, justice and respect for the individual were declared to be its highest values. Nationalisation does not appear as an item in the programme of socialist parties of Great Britain. It is now recognised that every concentration of economic power even in the hands of the State spells danger and that there can be no individual freedom unless there is diffusion of economic power. In a democratic society, the economic power of private monopolists can be checked and opposed effectively by the political power of the State. When the monopolist is the State itself, who will protect the citizen against the State? We, in India, should therefore avoid this contingency. The pragmatic approach to nationalisation and the principle of selectivity which characterised our Second and Third Plans should continue to be our guiding policy.

The enormous losses which we have incurred through nationalised industries must be a warning that further expansion of the public sector should be both gradual and cautious. Nationalisation of Banks and of Insurance is now a *fait accompli*. It can only be hoped that this measure will justify itself through increased services to the economic and social sectors.

From the point of view of eliminating poverty and raising the standards of living of the masses of the population, nationalisation cannot have a high priority. The true element of socialism is not nationalisation; rather it comprises social and economic equality, social and economic welfare and the ushering in of a welfare State, of which we already have small beginnings. Our Prime Minister herself, in a nation-wide broadcast in 1966, affirmed her commitment to both socialism and democracy and gave us her own definition of socialism: "What we all want is a better life with more food, more employment and opportunity in conditions of economic justice, equality and individual freedom." We can all agree upon this. To attain the above ends, the essential condition is a more rapid growth of the economy. For this purpose, only the system of mixed economy which we adopted some years ago would serve our best interests. This means that anything that would hamper production whether in the private or public sector should be avoided. No expansion for the public sector should be permitted unless the results will definitely be more favourable than can be attained through the private sector, within the framework of a socialist economy.

The ending of inequality based on birth, wide education and opportunities for all, the sharing of wealth with the poorer sections of the society, through taxes and other means, provision of social security and the adoption of all welfare measures as quickly as possible should be our goal, the fulfilment of which requires a consensus on economic and social changes by all the political elements in the country.

The need of the hour is for the people to get together and work for a common programme, especially in view of the threat to our national security and of the calamity that has overtaken us, through the responsibility for the 10 million refugees from Bangla Desh. The social and economic consequences of the refugee problem are too grave to be minimised. The financial burden of feeding, housing and looking after the 10 million refugees would itself cost nearly Rs 800 crores annually. It is unrealistic to expect that all the refugees would go back after a year. A good half will remain in India and they will have to be rehabilitated and found employment. The social, economic and financial burden thrown on the economy by the refugees can be borne only if the people are prepared to make huge sacrifices in various ways, of which there is yet little evidence.

The growing unemployment in the urban areas and in the countryside is causing deep concern to all of us. The Rural Public Works programme and the so-called crash programme are no permanent solution. So far as rural India is concerned, the true problem is not unemployment but sheer poverty due to inadequate work opportunities, poor work participation, low intensity of work and social and other inhibi-

tions. What is needed therefore is the intensification of agriculture and other rural programme combined with social nd political changes. In the urban rea, it is a problem of more and more nvestment on sound lines. Industrial nvestment is still on the low side and Government policies have done nothing o accelerate it. On the contrary, they eem to have been designed to retard he growth of the private investment. mport policy is still restrictive; import ubstitution has been pressed beyond ts usefulness.

Our economy during 1970-71 has shown signs of strength especially in he agricultural and export sectors. At ong last, the food problem has been olved; there will be no food imports rom next year. Exports have also shown great resilience and the target-ed rate of 8 per cent growth has been exceeded. On the industrial sector, there was an increase of only 5 per cent which was far short of the levels of the growth laid down in the Plan. The shortage has been mainly due to lack of certain essential raw materials, continued under-utilisation of capacity and high unit costs. During the year, our balance of payment was not as satisfactory as it was at the end of 1969-70, despite the significant improvement in the export front. The shortage of steel, cotton, oils and oil seeds has necessitated large imports. President Nixon's action in levying import surcharge of 10 per cent on some categories of exports would also affect our exports adversely.

But more than the problems of the balance of payments, the matter of deepest anxiety and concern is the rising level of prices which already is causing distress and suffering to the people, thanks to budgetary factors and other newly emerging elements. The expenditure at the rate of 2½ crores of rupees a day on the refugees in the wake of a deficit budget of 1971-72 will undoubtedly add to the inflationary potential of the country. Unless the Government takes steps on two fronts, (a) to reduce the scale of Plan and Non-Plan expenditure, and (b) mobilise resources both from the tax and non-tax fields, inflation might get out of hand. This is the challenge that faces our country today, and how we meet the challenge will affect the future growth of the economy.

Satisfactory Results

I now turn to the working of our Company during the last year. As you will observe, the results are on the whole satisfactory; our turnover during the year registered an increase of about 8 per cent. This achievement is all the more gratifying because we have had to incur increased costs on raw materials both indigenous and imported, and encountered shortages of some of the most essential raw materials. The increase in freight rate on salt, our chief raw material, has also added to our unit cost. The increases in customs duty, imposed in the recent budget on the imported raw materials, like mercury, have also added to our cost. Another disquieting feature is the Government's insistence that several of the essential items needed by our company should be routed through the STC and the MMTC. The alleged reason for channelising through the State trading agencies is to exploit advantages that come through larger purchases and in the saving of transport costs. But here is an example of the wide gap between theory and practice. Our experience and that of several others have shown that all the items which are imported by the STC and the MMTC are not only more expensive but their delivery schedules were also very irregular. The withdrawal of the Development Rebate effective from 31st May, 1974, announced in the recent budget is singularly inappropriate. There was certainly no need to announce a policy so long ahead of time since the justification and soundness of the policy can only be judged against the economic conditions prevailing at that time. The announcement has, therefore, had a bearish effect on investment and has retarded modernisation of the economy. The imposition of heavy import duty on capital goods also lacked justification.

The major problem which your Company had to face during the year under review was the inadequate availability of graphite anodes. Many units had to curtail production by cutting out some of their cells due to want of anodes. However, the position has improved in the recent months. I am glad to report that utilisation of the co-product chlorine has considerably improved. Up to 1968, the utilization of chlorine was only of the order of 65 per cent but thanks to the exemption granted from the Excise duty and the initiative shown by the manufacturers together with the availability of chlorine at comparatively low prices, the percentage of utlisation has increased recently to as high as 86. But the budget for the year, 1971-72, did away with the exemption from Excise duty, and chlorine is liable to Excise duty at 10 per cent ad valorem. The resultant rise in the price of chlorine is bound to affect the demand for the product and the percentage of the gainful utilisation of the chlorine. We are also suffering from shortage of containers for chlorine. This has hampered our exploitation of our growing export market which has high potential for absorption of chlorine. We have now made a representation to the Government for the grant of actual user licence for import of chlorine containers.

The demand for caustic soda is rapidly increasing. The Government of India have taken note of it and have suggested both a crash programme to increase production in existing factories by 10 to 15 per cent and a programme for the establishment of fresh caustic soda capacity. We are trying to take advantage of both the proposals. We have submitted a scheme to increase our caustic soda capacity in our plant No 1 by 10 tonnes per day and simultaneously have made an application for substantial expansion of our capacity in our Rayon Caustic Soda plant by 50 tonnes a day. We do hope that the Government of India will grant us the necessary permission.

I am glad to report that our relations with our employees during the year were happy and cordial and I would like to record my sincere appreciation of the hard and conscientious work put in by our employees. A word of appreciation is also due to the Company's Distributors who have helped us in marketing our products. My thanks are also due to my colleagues on the Board for their counsel and advice. Finally, I would like to take this opportunity of conveying my sincere thanks to shareholders for their continued confidence and co-operation.

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

West German Labour

RISING wage bills at home are forcing West Germany's large industrial firms to shift an increasing part of their manufacturing capacities abroad. India and other countries in Asia will be gaining from this new policy in as much as more private investment and modern know how will be available from West Germany.

Formerly, German industries would invest abroad mainly to be closer to export markets or to overcome import restrictions. But now the wage level has become the major consideration.

Kirloskar Pneumatic Company Limited

Speech of the Chairman, Shri S L Kirloskar

THE following is the Speech of Shri S L Kirloskar, Chairman, Kirloskar Pneumatic Company Limited, read out at the Thirteenth Annual General Meeting of the Shareholders held on Thursday, September 30, 1971, at its Registered Office at Hadapsar Industrial Estate, Poona 13:

Gentlemen,

I have pleasure to welcome you to to this the 13th Annual General Meeting of the Company.

The Directors' Report and the Audited Accounts have been in your hands for some time now and with your permission, I shall take them as read.

Business

This time last year I was cautiously optimistic about a sizeable increase in your Company's operations. The caution was induced by uncertainties regarding Government policies and the political situation on the eve of elections. It is gratifying to note that despite them, your Company was able to record a substantial increase in its operations. All the lines of manufacture in which the Company is engaged contributed to the increase but the progress was particularly notable in the sales in Transmission equipment and in turnkey assignments in the Air Conditioning and Refrigeration field. Exports once again made a handsome contribution of Rs 43.26 lakhs against Rs 27.25 lakhs in the previous year.

The increase in the activities, however, was not fully matched by a corresponding increase in profits. Higher raw material costs, higher import duties, a larger outlay on octroi and dearer finance took their toll of profitability. Conditions in some of the Compressed Air products were competitive. Besides, during the year the Company undertook the manufacture of new products such as Transmission equipment for Railways, Centrifugal Refrigerating machines and large capacity Air Compressors. It had to incur considerable expenditure on these in the initial stages.

Current Year

As in the past few years, the Company brought forward this year also a larger order book than at any time in the previous years. Sales during the first five months have been well maintained as compared with those of the corresponding period of the last year. With continued vigilance as regards changes in the requirement of the markets, the Company has, over the last few years achieved a remarkable range of diversification and this process is continual. The broad base of its operations has enabled it to maintain its position in the market firmly. It is, therefore, possible, given reasonable stability, especially in Government policies, to look forward to further growth during the year.

Government Policies

As you know, the climate last year, due to a measure of political uncertainty was not particularly congenial for industrial growth. That and a dearer money policy coupled with the enforcement of a rigorous plan for restricting credit tended to upset the planning of industrial production. Government's policies in regard to licensing, to sanctioning of proposals for expansion of the existing projects and of proposals for new undertakings also were not helpful for planning.

I hope the institution of a strong Government at the Centre following the elections will help stabilise Government's policies in these respects. In fact a bold and pragmatic approach in dealing with matters aimed at increasing production in quantity and variety would seem to be called for, for, after all it is only that policy which encourages growth, encourages creation of employment opportunities and encourages activity aimed at attaining conditions of adequacy if not abundance, in any sphere that can lead to the welfare of the community. If creation of employment opportunities is of paramount importance, conditions conducive to operations in that direction should be not only not hampered but encouraged. The present Government has the power to do this. I hope they would soon establish correct priorities that would promote industrial growth.

Dividend

As a sequel to the last budget, the residue of profits after taxation would shrink to some extent from the current year. Notwithstanding such a prospect as also the need to conserve resources with a view to meeting the Company's own expanding requirements the Directors have recommended a dividend of 15 per cent per annum, which I hope you will appreciate.

Expansion and Finance

I told you this time last year that your Company's increasing operations have called for a larger financial outlay. The Company has finalised a Debenture issue of Rs 1 Crore by negotiated subscription by a few financial and investing institutions. Legal formalities with respect to it are already under way.

Research

As you know the Company was engaged in instituting facilities of its own for scientific research in the sphere of its activities. I am happy to report that the research outfit which may be expected to make a significant contribution to your Company's bid for improved and new products was completed and inaugurated during the last financial year.

Thanks

I am sure you will want me to convey to your Managing Director, Maj Gen H M Mohite, his officers, workers and staff, our sincere appreciation and thanks for the splendid work done by them. I would also extend our thanks to the Industrial Credit and Investment Corporation of India Ltd and our Bankers who have from time to time provided finance to meet your Company's capital and current requirements.

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

STC IN 1970-71
INTERNAL CONTROLS AND BOUNDARY RELATIONSHIPS

STATEMENT BY PRAKASH TANDON, CHAIRMAN, AT THE 15TH ANNUAL GENERAL MEETING

On the day our year finished, 31st March, 1971, we announced in the press STC's *provisional* results for the year together with the performance budget for the following year; an account of a task done and a task in front. In retrospect, the final figures show the degree of accuracy of the provisional figures :

	1970-1971 PROVISIONAL	1970-1971 FINAL	1971-72 BUDGET
	Rs. Crores		
Total sales	215.00	217.90	270.80
Exports	70.00	70.60	90.00
Imports	140.00	141.90	175.00
Domestic	5.00	5.40	5.80
Total costs*	5.10	5.30	5.20
Profit before tax	5.94	6.40	6.80

*Excluding provisions and write offs

The publication of provisional figures with such speed and accuracy, of which our Corporation can feel justifiably proud, signifies, first, that it has been able to achieve the new style of management accountability it set out to do, whereby it manages by objectives, measures performance, and self-appraises. The objectives are set out in a performance budget for the year, reviewed however at mid-year, when a new revised budget is prepared, while the actual performance against the budget is reported in detail in daily, weekly, monthly and quarterly statements. For instance, while we prepare a detailed monthly review and profit and loss account, each quarter there is a formal Audited Report and Accounts presented to the Board. This simplifies and speeds up the task of preparing the annual accounts.

Second — and this I suggest with some caution and humility — such a system of knowledge gives management *some* control over its destiny, by substituting a willed progress through the year for what might otherwise be akin to drift. A management that knows in detail within the week that its purchases or sales are going wrong, or within the month that its profit and loss account is wide off the mark, is a management informed in time and able to do something before the deviation takes it too far off course. Planning, performance budgeting, appraisal and timely correctives therefore give our management an excellent action substitute for what might otherwise have to be termed just bad luck.

I do believe too that the risk of failure today is gradually shrinking as the horizon of managerial knowledge recedes; and this is where we are putting our greatest emphasis in the Corporation — in extending our managers' knowledge and making available aids to decision-making; and at the same time reorganising the decision-making levels and processes to ensure greater participation, sounder decisions, and more speed.

As a direct consequence of the introduction of our accountability system and the financial disciplines that it has imposed on our internal operations, we have reaped some tangible benefits in economies and savings in the working capital employed and costs contained. A happy feature indeed was that we ran a Rs. 217 crores business on a self-sustained cash basis, and in fact earned a net interest of Rs. 30 lakhs in the year. To the Shareholders, it has meant that we have raised our equity capital from Rs. 2 crores to Rs. 7 crores, and shortly to Rs. 8 crores, through successive bonus issues, and the dividend is paid every quarter, instead of once a year. These are achievements our shareholders can well feel satisfied with in a public enterprise.

A public undertaking lives in a duality. On the one hand it is heavily dependent upon the will of others — and they are indeed many; and varied are the controls they exercise, directly and indirectly, over both policy and administration — and yet, on the other, while it is constantly under the public gaze, it lives in a near vacuum of *true* accountability of the modern industrial type, that does not just question but also helps construct.

What is perhaps needed is a new three-layered definition of accountability — internal, external and public. Internal accountability would serve as an instrument of knowledge and control by management, who in their appraisal would have to be their own best judges and worst critics. Externally, it would also be the instrument of knowledge and control by those to whom the enterprise is responsible, who therefore themselves possess the skills and sophistication of accountability that they would expect from the enterprises. To industry and public at large it would be the means of communicating the enterprises' activities and results. A brief analysis of this is the theme of my speech today, because I feel that as a public enterprise we have the twin responsibility of defining our self-accountability and placing before all those to whom we are responsible our views on how we feel our accountability might be improved.

A handicap to management and shareholders alike of public enterprises is perhaps the absence of market evaluation mechanism that places a value on shares day by day. Such an evaluation — influenced though it might often times be by such extraneous considerations of short-term nature as political and economic conditions in the country — is nevertheless firmly related in the long run to the performance of a corporation and its success or otherwise in the return it obtains on the resources it employs. A continued adverse market judgement can ultimately choke off its access to fresh funds. Another handicap might lie in the structure of its shareholding, in that it is not spread.

An answer to both might lie, I submit, in some thought being given to creating a new style of shareholding in public undertakings, broader based and well spread, over employees and the public, in the shape of "popular capital". To prevent speculation, several measures can be adopted; small-sized and limited holdings, control on transferability, etc. The concept would be that of a unit trust; in fact there could be a unit trust holding a portfolio of shares in public undertakings. The benefits would be many.

Employee co-determination and joint management would then acquire a new and *real* meaning. A share in equity would give employees not only a personal involvement but also a responsibility for the affairs of the Corporation at present sometimes missing on account of a near total job security. To small public shareholders it would be a new form of investment, but an investment that would be truly public; to the State it would mean a new form of savings; to the Corporation a new source of funds; and to the management a new dimension to their accountability.

Since performance would be constantly evaluated in terms of earning capacity and share values, it would create in management a professional outlook and financial discipline. For a Corporation in gestation the urge to go early on stream and reach profitability; for one in the red to go into the black; control over working capital and costs; a watch over break-even points, self-financed growth, rising premiums placed on shares; conversely, falling share values, lack of demand for shares, and external funds drying up: these would all be in-built challenges or deterrents to management, thus under constant test.

However, whatever form accountability takes at the boundary, internally the management of an enterprise has to evolve its own accountability and simulate its own judgements, which will put it under tests of its own, and subject it to performance pressures it otherwise would not have. This is what we in STC are trying to do — to judge ourselves, to create our own pressures. Heaven knows there are pressures enough upon us, but they are not of the kind that test and stretch us; they are mostly of the critical kind where the judgement is often delivered with a charge.

May I now explain how we are reshaping — at least trying to reshape — the Corporation to a new style of accountability.

We have first tried to give the Corporation an "accountable structure". Beginning at the top, our Board has divided itself into two layers: the total Board, consisting of the executive and non-executive directors, and a Committee of Management, consisting of the executive directors. The Committee meets every week, and sometimes oftener for sanctions and a detailed review of operations and of the work of its sub-committees on finance, personnel, credit services, and of expenditure and other items that are under permanent surveillance, such as travel, overtime, entertainment, debtors, stocks. It gives the executive directors a sense of joint responsibility for the total affairs of the Corporation, instead of a one-upon-one equation between a director and the Chairman. In the culture that prevails, it is altogether easy for a chairman to become the fountain-head of all wisdom and decisions; and yet no matter how able or well informed he is, there is a limit to his capacity for decision-making. Besides the many complex operational decisions, he has his useful boundary function and the promotion of forward planning and policy. He therefore has to regard himself as a modern co-ordinating and prima inte pares kind of chairman rather than the old-fashioned family business and proprietary boss, or the nineteenth century colonial district commissioner.

The Board, in return for this strict accountability and joint determination of the affairs by the Committee, has given it deep trust and wide powers. It however receives detailed reports to enable a Board member to take interest in as much depth as he wishes to. Significantly, the new schedule of powers, that has recently been approved by the Board, is a brief and simple document, in which the Chairman while declared totally responsible for all affairs of the Corporation, yet exercises his powers only jointly with the Committee; alone, he has no powers, except in an emergency, but then so has any other executive director. Then there are the new committees of management being formed in the marketing divisions, under the chairmanship of their own division chiefs.

I have spoken so far about accountability; but there is another important aspect of how we view our basic task. Accountability is at best a quantification of the task budgeted and done; there remains the task itself, and how well we do it to the satisfaction of Government, who set the task, and of industry, for whom we perform it.

Our relationship is dual, stretching to Government on one side and to trade and industry on the other, with us in the middle, as an instrument of one and agent of the other. This is where our task is at its most sensitive and most difficult; and here is where we receive most criticism — partly, I admit, because of our own failings; partly, I sincerely believe, because of the inherent difficulties in the situation in which we are often placed; and partly, too, from an unreasonableness. Let me expatiate.

Government has decided upon a policy of exercising an increasing interest in international trade, especially imports. Importing for long past has been done by merchants and actual users. Both of them are unsympathetic with this policy and regard STC as an intruder — and an inexperienced and inept intruder at that; in their opinion. Let me quote the shape of the problem, as the Review Committee on STC saw it.

> "Unprepared, the Corporation has had to step into fields where traditional trade had long experience and was naturally critical of its early errors and teething troubles. The criticism was sometimes unsparing and often unhelpful, and for the slightest mistake the Corporation was subjected to a strong glare of scrutiny and criticism without any appreciation of the fact that after all, entering these areas was not of the Corporation's own choosing, nor the unpreparedness its own fault. Furthermore, under circumstances of a crisis in supplies perhaps the knowledgeable would have fared no better."

This is therefore where we are trying to put in our greatest effort. Whenever we are asked to move into a new canalised area, we realise that we have to play the role of a service agency to the industry concerned by importing raw materials of the quality they need, at the time they want it, and at the best possible price.

In the last two years, the accent on nationalisation of import trade has meant a spurt in the number of imported products handled by STC. For instance, our Chemicals Division alone has been asked to handle 28 new products since 1st April 1971; our Textile Division, six new products; and IRMAC, our new Industrial Raw Materials Assistance Centre is constantly scouting in new areas. We have evolved a drill, whereby we contact the experienced in industry, and particulary industrial associations, and meet them on a regular basis to find out their needs and how we could best fill them, though here we run into a problem.

We find that importers themselves often import haphazardly. Scarcity of foreign exchange and restrictions on imports have not been conducive to their planning their import needs; they imported as much as they could, when they could. When therefore an item is canalised, industry is inclined to inflate its demands, and if there is likelihood of a shortage developing, it tends to create sometimes a panic condition

to compel STC to import more than current needs. This has at least three disadvantages: it ties up valuable foreign exchange now; it builds unjustified inventories, and results in a carrying cost that at the present interest rates is at least 15% per annum; it may also adversely affect indigenous producers.

We can fully appreciate industry's miscalculations; but miscalculations in the past were of the individual and therefore limited in size. Once canalisation takes place and imports are made by one importer, STC, on behalf of many, they become magnified. The answer is for STC to learn fast and do its homework better by developing adequate market information and forecasting; but having done that it should be left to exercise its own commercial judgement. It would naturally help if industry too were to do its homework and ensure that the advice it gives to STC is fair and accurate, and expect it to import no more than it would have done in its own best commercial judgement. Industry should not regard STC as a surplus warehousing facility, but should commit itself for what it orders and share the consequence of under or over-ordering.

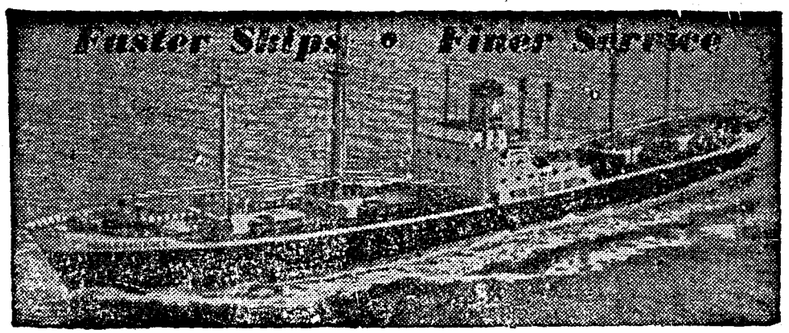
At the other end, in our relations with Government we regard ourselves as its instrument of national foreign trade policy and its cutting edge to ensure that implementation of the policy is done in the best commercial manner. We regard policy as government's prerogative; implementation ours. As an instrument of government, however, we do run into the interesting situation that where in the past, industry and firms made their own case with Government, once canalisation comes they regard STC as their "representative in New Delhi." It therefore lobbys, appeals, and pressures us to wrest the concessions that it used to try and do itself. This adds none too easy a dimension to our task.

I have tried to convey broadly how we view our task, both internally and at the boundary; where we feel our weaknesses lie—some inherent in the situation, others for us to repair; the delicate relationships at both ends; all this not as an apologia but as a perception of our task and problems. The Corporation and its management is placed today in perhaps the most sensitive area of the economy, and upon perceptions of the task will depend how well it performs in this delicate role.

To quote my Minister, the Corporation is doing a fine job. I would say that we are at least trying to, though also only too conscious of the long way we have to go. Of course an understanding by those, whose instrument and agent we are, does help. We do appreciate therefore all the support we receive from government and industry, and especially from our own Ministry; equally as I personally deeply appreciate the effort of our men and women who serve the Corporation in an exciting period of growth and development of a new national policy.

STC

THE STATE TRADING CORPORATION OF INDIA LTD.



Our fleet of seventeen modern freighters offers fast, regular and dependable service between

INDIA—U. K. & THE CONTINENT • INDIA/EAST PAKISTAN—SOUTH AMERICA
INDIA—BLACK SEA & EASTERN MEDITERRANEAN PORTS
INDIA—POLAND Also around the INDIAN COAST

INDIA STEAMSHIP CO., LTD.
"INDIA STEAMSHIP HOUSE", 21, OLD COURT HOUSE STREET, CALCUTTA-1

Bharat Heavy Electricals Limited

Speech of the Chairman, Shri O S Murthy

THE following is the Speech of Shri O S Murthy, Chairman, Bharat Heavy Electricals Limited, delivered at the Seventh Annual General Meeting of the Shareholders held on September 23, 1971, at New Delhi:

LADIES AND GENTLEMEN,

On behalf of the Board of Directors, I have pleasure in welcoming you to the 7th Annual General Meeting of your Company. The audited Accounts for the financial year ended March 31, 1971, and the balance sheet as on that date, together with statements containing statistical information on the important activities of the Company, are already with you and I will take them as read.

I am happy to report that during the year, your Company earned a profit for the first time. The net profit for the year was Rs 65 lakhs, after providing fully for depreciation, interest and contingencies. It is a big step forward in the onward march of this Company and although the net profit during the year is only modest, it signifies a new phase in the operations of the Company. An important factor contributing to this, was the good performance of the Tiruchirapalli Unit.

During the year, the value of production of your Company increased to Rs 48.26 crores from Rs 44.61 crores in the previous year. The production would have been higher but for strikes at Hyderabad and Hardwar Units. The workers at Hardwar Unit struck work on May 12, 1970, and although the general strike was called off on May 25, 1970, the Unit returned to normalcy only in August 1970, after the Agreement was signed by the Management with the recognised Union. Again at Hyderabad Unit, a section of employees went on strike on December 4, 1970. Subsequently, the Management was compelled to declare a lock-out in such of those factory blocks which were adversely affected. The lock-out was lifted in stages as the striking workers agreed to join duties. The strike was finally called off on January 12, 1971.

The measurable loss in production, as a result of these strikes, was about Rs 1.40 crores. The indirect loss was, however, greater as it takes time for employees to reach their normal production levels after resumption of duty.

PRODUCTION

Boilers and auxiliaries, manufactured at Tiruchirapalli Unit, accounted for over half of the total output of the Company during the year. With a gross output of Rs 26.52 crores, out of a total production of Rs 50.03 crores, including inter Unit transfers, the production at this Unit, during the year, was 25 per cent higher than in the previous year. The production of boiler components and auxiliaries increased to about 22,000 tonnes as against 18,800 tonnes in the previous year. More importantly, by off loading to other manufacturers, items of easy manufacture, the production of sophisticated part of the boiler, viz the pressure parts, was stepped up by 40 per cent over the tonnage in 1969-70. At the end of the year, the Unit was engaged in the manufacture of 20 boilers for Thermal Power Stations and 19 process boilers for industrial installations spread all over the country. The 60 MW boiler supplied to Delhi Thermal Power Station, the two boilers manufactured and supplied to Madras Fertilizers Ltd, and one industrial boiler manufactured for Fertilizer Corporation of India, Durgapur Unit, were commissioned during the year. The notable achievement of the year was the efficiency test carried out on the first 60 MW boiler supplied to Ennore Thermal Power Station last year. I am happy to report that, as against the guaranteed efficiency of 87.5 per cent, the efficiency attained was 92.3 per cent at the maximum continuous rating of 260 tonnes per hour.

Although the output at Hyderabad Unit in overall monetary terms declined from Rs 14.59 crores in the previous year to Rs 12.71 crores during the year, the "value added" — which is the true measure reflecting the efforts and the achievements in absorbing sophisticated know-how on the shop floor — increased from Rs 7.48 crores in 1969-70 to Rs 8.70 crores in 1970-71. During the year, the Unit completed two 60 MW sets, one each for the Harduaganj and Delhi Thermal Power Stations and one 110 MW set for Bhatinda Thermal Power Station. The set supplied to Harduaganj Thermal Power Station has since been commissioned and is operating satisfactorily. The Unit also successfully tested 110 MW set for Bhatinda Thermal Power Station. With this, your Company's factories have successfully tested sets for all the three ratings, viz 60 MW, 100 MW and 110 MW at their own works.

During the year, the Hyderabad Unit manufactured 194 nos circuit breakers — comprising 191 minimum oil circuit breakers and 3 air blast circuit breakers, valued at Rs 2.38 crores — as against 139 numbers, comprising 106 numbers of former and 33 numbers of latter, valued at Rs 1.68 crores during the previous year. The highlight of switchgear operations, was the significant reduction in cost of materials as a result of which the percentage of direct material to the value of production came down to 37 per cent as compared to 70 per cent in 1969-70.

At Hardwar Unit, the production increased from Rs 9.44 crores in 1969-70 to Rs 10.79 crores in 1970-71. In the last two years, the Unit's own contribution in the total value of production has nearly doubled. The work on the 100 MW set for Badarpur Thermal Power Station progressed as programmed. The work on the second 100 MW set for Obra Thermal Power Station was also completed, except for some minor assemblies.

By and large, the same deficiencies and obstacles, which hampered the production in the previous year, continued to prevail. Once again, the delays in the supply of alloy steel castings and forgings, both indigenous and imported, proved a major bottleneck in adhering to the production programme. The difficulties being experienced by the Company in the procurement of steel and critical castings and forgings is a matter of urgent concern and unless uninterrupted supplies of these items were ensured, production would continue to be adversely affected. This question is being pursued at the highest level and apart from various other interim measures, your Company has, as a long term solution, suggested to Government the

need for setting up the Central Foundry Forge Plant, to serve the special needs of Heavy Electrical Industry, at Hardwar.

Financing and Operating Results

Against a net loss of Rs 1.50 crores in the previous year, your Company earned a net profit of Rs 65 lakhs, after fully providing Rs 6.17 crores for interest on loan capital, Rs 4.74 crores for depreciation, Rs 1.35 crores for contingency reserve and Rs 1.52 crores expenditure on social overheads in excess of receipts. The manufacturing profit and the cash gain of your Company, during the year, amounted to Rs 11.88 crores and Rs 7.14 crores respectively. It is a matter of satisfaction that, although the Hardwar Unit which accounts for nearly 60 per cent of the total capital investment of your Company is expected to break-even only in 1975-76, your Company, as a whole, earned a profit during the year. This was possible because this multi-unit Company was conceived as a single financially integrated corporation manufacturing products for the needs of power generation, comprising Units having varying periods of gestation, so that it could steer clear of a heavy burden due to continuing losses at one or two of its Units over a long period.

You will recall that we were pursuing with the Government the need for reviewing the capital structure of your Company so as to bring it at least in conformity with the guidelines laid down by the Government for financing the capital investments in Public Sector Undertakings, which envisage that normally each project will be financed on the basis of one half of its capital being in equity and rest in the shape of loans. I am glad to report that, as a result of the efforts made in this regard, the authorised share capital of your Company has been increased from Rs 65 crores to Rs 80 crores. The additional equity capital is expected to be subscribed shortly by converting the loans of equivalent amount into equity. The reduction in financial burden during the development phase resulting from this improved debt equity ratio, which is likely to be of the order of Rs 1.05 crores per annum, will, however, accrue only from the current year.

Order Position

The total value of orders received by your Company, during the year, amounted to over Rs 180 crores. The new orders received include two 60 MW sets, one each for Harduaganj Thermal Power Station, UP and Faridabad Thermal Power Station, Haryana, seven 110 MW sets, two each for Gurunanak Thermal Power Station, Punjab and Panki Thermal Power Station, UP, one each for Ennore Thermal Power Station, Tamil Nadu, Barauni Thermal Power Station, Bihar and Harduaganj Thermal Power Station, two 30 MW hydro-sets for Umiam Hydro Electric Scheme, Assam and three 32 MW hydro-sets for Lower Jhelum Scheme in Jammu and Kashmir. Your Company has also received letters of intent for eight 200 MW turbo-sets and the associated boilers. The new collaboration Agreement with Messrs Combustion Engineering, USA, will provide the basis for the manufacture of 200 MW boilers.

The order book position of your Company is much better now than what it was one year ago. The improved position is the result of efforts made by your Company and the assistance given by the Ministries of Industrial Development, Irrigation and Power, Planning Commission and the State Electricity Boards. Your factories are gearing themselves up with enthusiasm to meet the diverse orders on time.

A satisfactory order book position, particularly in the initial years, when the skills are being developed and technology assimilated, is a prerequisite for a steady growth of heavy electrical industry. In the present context of difficult material position, this aspect has acquired added importance. It is, therefore, felt that there should not only be a perspective power development plan but also it should be translated simultaneously into definite orders for the manufacture of power equipment covering at least a period of 7 to 8 years. Otherwise, the "Power plan" will remain, as far as the manufacturing units are concerned, merely a paper plan. The recent power shortage in many parts of the country has highlighted the need for taking advance action for locating new schemes and it is gratifying that the Ministry of Irrigation and Power have prepared a power development programme for the "decade". In order to avoid periodic strains, arising out of erratic order position and consequential gaps in the utilisation of capacity developed at your plants, your Company has made a proposal to the Government, as a measure of advance action, to agree to placing an "imprest order" for the manufacture of a few turbo-sets in anticipation of their final allocation to definite projects. This proposal has been well received by the Government and it is expected that a suitable method of financing the "imprest order" will be evolved.

Diversification

During the year, the Company concluded collaboration agreements with Combustion Engineering Inc, the leading boiler manufacturers of the USA, for securing know-how for larger capacity boilers of 200 MW and higher ratings and a wider range of medium sized boilers for various industrial applications and special boiler house equipment, like Raymond Pulverisers. This collaboration will place the Tiruchirapalli Unit in a dominant position as a first rate boiler manufacturer to compete in the international market. The Unit is examining the question of setting up additional facilities for absorbing the Combustion Engineering technology and action on this will be taken up during 1971-72.

The Collaboration Agreement with Messrs Nuovo Pignone of Italy for know-how relating to Centrifugal Compressors extensively used in fertiliser and chemical industries, was also concluded during the year. These compressors will be manufactured at the Hyderabad Unit, which is taking the preparatory steps for procuring special equipment and setting up the requisite testing facilities. It is a welcome beginning that the Unit has already received letters of intent for 4 compressors for the fertiliser projects, being set up at Ramagundam and Talcher by the Fertilizer Corporation of India. A large number of inquiries for such compressors are under processing and it is expected that the order book for this new line of equipment will be quite satisfactory.

These diversification programmes will improve the economic viability of your Company.

Export

Considerable progress was made in the shipment of equipment for the first two boilers to Tuanku Ja'afar Power Station, Port Dickson, Malaysia. I am glad to inform, that during the year, Company has secured an order for 3 boilers of 120 MW each for the extension of the same power house in Malaysia. The total value of the order is Rs 9.3 crores approximately. The Hyderabad Unit received an order for one number 66 KV Breaker from Malawi, quoted as part of a composite offer by the Indian Consortium for Power Projects Private Limited.

Research and Development

With the increasing momentum of production at all your plants, the management is giving due attention to Research and Development effort. In an industry of this magnitude and nature, this an extremely important aspect if we are not to be left severely behind in the technological race. Your plants are making independent efforts and are also closely associated with the national organisations engaged in research and development, as for example, in the setting up of facilities for creep-tests in the National Metallurgical Laboratory, Jamshedpur.

Acknowledgement

I wish to thank the large circle of customers in the Public and Private Sectors who extended their patronage, our Collaborators at various Units, the Comptroller and Auditor General of India, various Ministries of the Central and State Governments, Planning Commission, Central Water and Power Commission, Messrs Khanna and Annadhanam and Messrs S Viswanathan, the Auditors of the Company for their valuable co-operation and assistance.

On my behalf, and on behalf of your Board of Directors, I acknowledge the contributions made by the employees of all categories and grades, who by their devotion and purposeful endeavour, have made it possible for the Company to earn profits. I have every hope that greater efforts would be forthcoming in the years to come in ample measure, so that the losses inevitable during the gestation period of the Company will be wiped off within the shortest possible time and surplus made available for nation-building activity in furthering the common good.

Finally, I will like to take this opportunity of thanking my colleagues on the Board of Directors for the consideration they have shown and for their unfailing help in the discharge of my functions as Chairman of this major Public Sector Undertaking.

O S Murthy
Chairman

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

Industrial Finance Corporation of India

Statement by the Chairman, Shri C D Khanna

THE following is the Statement by Shri C D Khanna, Chairman, Industrial Finance Corporation of India, at the Twenty-third Annual General Meeting of the Shareholders of the Corporation held on September 27, 1971, at New Delhi:

Friends,

I have great pleasure in presenting to you the Annual Accounts of the Corporation and the Report of the Board of Directors for the year ended the 30th June, 1971. The printed copies of the Accounts and the Report have been circulated to all the shareholders and I trust, I can take them as read.

Economic Situation

The overall economic situation in 1970-71, the second year of the Fourth Five Year Plan, continued to be satisfactory. The rate of growth in national income at constant prices, estimated at 5½ per cent, was equivalent to the growth rate achieved in 1969-70. The output of foodgrains in 1970-71, estimated at 107.8 million tonnes, was higher than the level of production in 1969-70 by 8.3 million tonnes. However, the production of commercial crops presented a mixed picture. Though the output of some commercial crops was higher than in the previous year, it was not sufficient for meeting the entire requirements of the industrial sector. Shortages were pronounced in respect of cotton and oil-seeds.

Industrial activity in the country has picked up noticeably after the recent recession. During 1970-71, marked improvement in the utilisation of existing capacity was witnessed in a number of industries, like electrical equipment, ball and roller bearings, electric cables, machine tools, aluminium, caustic soda, soda ash, synthetic fibres, paper, automobile tyres and tubes, etc. The cotton textile industry, however, continued to face difficulties, because of shortage and a steep rise in prices of cotton.

The revamping of lending policies of nationalised banks and financial institutions aimed at meeting the legitimate credit requirements of all the sectors of the economy, encouraging new entrepreneurship and bringing about balanced regional development are all significant factors, which are bound to have a healthy impact on economic growth in future years.

Working Results for the Year

The working of the Corporation during the year has resulted in a gross profit before tax of Rs 4.47 crores as against Rs 4.33 crores in 1969-70. After providing Rs 2.37 crores for taxation, the net profit was higher at Rs 2.10 crores as compared to Rs 1.96 crores in the previous year.

With the transfer of Rs 74.54 lakhs to the General Reserve Fund out of the profits for the year, the Fund became equal to the paid-up share capital of the Corporation as on the 30th June, 1971. As permissible under Section 32 of the IFC Act, the Corporation has declared a higher dividend of 5 per cent on its paid-up capital for the year ended the 30th June, 1971. I feel very happy to mention here that it is for the first time since the Corporation was set up in 1948 that it has been possible to declare dividend at the maximum rate provided under the IFC Act. I take this opportunity to thank the shareholders for the patience shown by them all these years.

Provision for Income-tax and Reserves

Out of the profits for the year, provision has been made for income-tax to the extent of Rs 2.37 crores. The total amount of income-tax already paid by the Corporation and that kept apart as provision for the years 1969-70 and 1970-71 for which assessments have yet to be completed, aggregates Rs 18.17 crores. It is a matter of no small satisfaction that as a public sector organisation, the Corporation is contributing its mite to the national exchequer.

During the year, additions made to reserves out of the profits were to the extent of Rs 1.69 crores. The total

reserves of the Corporation, including the General Reserve of Rs 8.35 crores, now amount to Rs 14.24 crores, which figure exceeds the paid-up capital by Rs 5.90 crores.

Operations during the Year

During the year 1970-71, the Corporation sanctioned total financial assistance of Rs 35.32 crores to 61 industrial units compared to assistance of Rs 19.38 crores for 49 industrial units approved during the previous year. Assistance disbursed aggregated Rs 17.35 crores, of which cash disbursements, i e excluding guarantees issued, totalled Rs 17.15 crores. Disbursements in foreign currency loans rose from Rs 1.69 crores in 1969-70 to Rs 3.10 crores in 1970-71.

The projects assisted covered a wide range of industries, including priority industries, like alloy steels, tractors, cement and aluminium. Other industries for which assistance was approved were sugar, synthetic fibres, iron and steel, electrical and other machinery, cotton textiles, metal products, chemicals and chemical products, coal, etc.

Eleven approved projects in 7 States, accounting for about 24 per cent of the total sanctions for the year, would be located in districts notified by the Central Government as industrially less-developed. The financial assistance extended to the co-operative sector during the year aggregated Rs 9.15 crores, i e, about 26 per cent of the total sanctions, in respect of 8 sugar co-operatives and 2 textile co-operatives. Two public sector undertakings were sanctioned loans for projects for the manufacture of telecommunication cables and electrical equipment.

Cumulative Sanctions and Disbursements

The net cumulative assistance sanctioned by the Corporation since its inception in July, 1948, amounted to Rs 365.67 crores. This comprised rupee loans of Rs 238.67 crores, foreign currency loans of Rs 43.58 crores, underwritings and direct subscriptions to shares and debentures of Rs 31.49 crores and guarantees to the extent of Rs 51.93 crores. Assistance actually disbursed upto the end of the year under review aggregated Rs 318.76 crores, constituting about 87 per cent of the total sanctions, this could be considered as quite satisfactory.

Of the total assistance sanctioned to 527 industrial projects, new projects numbering 351 claimed assistance of the order of Rs 233.28 crores and the balance of the assistance of Rs 132.39 crores was sanctioned for expansion, *modernisation* or diversification. In this connection, it has to be emphasised that in the case of a development bank like the Industrial Finance Corporation of India, the key-note of its financial assistance has to be seen in its far-reaching investment effect. It is a gratifying thought that the Corporation's assistance has helped mobilise financial resources of the order of about Rs 1,612 crores for the completion of the projects for which financial assistance was sanctioned.

Foreign Currency Loans

In October, 1970, the Corporation was allocated a further loan of DM 10 million, being the ninth line of credit, under an Inter-Governmental Agreement between the Governments of the Federal Republic of Germany and India, signed on the 19th November, 1970. With the allocation of this credit, the nine lines of West German credit to the Corporation aggregate DM 112.5 million. A notable feature of the DM lines of credit is that they can be utilised for the import of capital goods, engineering know-how and services, etc., not only from West Germany but also from other countries; except certain countries specifically excluded.

Under the UK/India Capital Investment Loan, 1969, the Government of India allocated to the Corporation in September, 1970, £ 1 million to enable it to finance the import of capital goods from the UK. A further allocation of UK Credit to the extent of £ 1 million has been made under the UK/India Capital Investment Loan, 1971. Though the UK lines of credit happen to be tied credits, these are welcome additions to the foreign exchange resources of the Corporation, which are of a limited nature in the absence of any line of credit from the World Bank or further loans from US AID or any other foreign lending agency except Kreditanstalt of West Germany.

As on the 30th June, 1971, the Corporation had sanctioned effective subloans aggregating DM 105.04 million, US $ 26.88 million, FF 12.97 million and £ sterling 0.12 million. While the two lines of credit from the US AID have already been fully utilised, the credits from the Kreditanstalt and BFCE (Paris) also stand almost fully committed. The Corporation is hoping that a further line of DM credit from Kreditanstalt would be made available to it out of the Consortium Aid to Government for 1971-72.

Assistance to Industrially Less-Developed Areas

As is well known, the Corporation has approved sizeable assistance for projects located in industrially less-developed parts of the country. Upto June 30, 1971, of the total assistance of Rs 365.67 crores sanctioned for 527 industrial projects, roughly about 33 per cent i e, Rs 121.80 crores, spread over 149 industrial units, was accounted for by Andhra Pradesh, Assam, Bihar, Madhya Pradesh, Meghalaya, Orissa, Rajasthan, Uttar Pradesh, Andaman and Nicobar Islands and Goa, which have been classified as less-developed States/areas.

The current thinking is that for bringing about a balanced regional development, special attention has to be directed to selected districts/areas. The Central Government have accordingly notified so far 204 districts in 19 States and 8 Union Territories, as eligible for concessional finance announced recently by the all-India financial institutions, *viz*, IFC, IDBI, and ICICI. Even before these districts and territories were notified as industrially backward, the Corporation in the course of its lending operations over the years, was giving special attention to applications for assistance to projects established in backward areas. It gives me particular satisfaction to mention that already in 61 districts and 3 Union Territories out of the notified districts and territories, 109 projects assisted by the IFC with financial assistance aggregating Rs 76.49 crores constituting 21 per cent of the total sanctions, have been or are proposed to be set up.

Financing of Industrial Co-operatives

Financing of industrial co-operatives has for several years now, been an important feature of the Corporation's operations. Upto the 30th June, 1971, financial assistance to the extent of Rs 77.31 crores had been sanctioned to 98 co-operatives and this constituted about 32 per cent of the total rupee loan assistance of Rs 238.67 crores. It is heartening to observe that in the implementation of projects in the co-operative sector assisted by the Corporation, financial resources of the order of about Rs 161 crores have been mobilised, the Corporation's contribution being about 48 per cent. In regard to sugar co-operatives, producer members contributed about Rs 34.41 crores as

share-capital. In addition, a sum of about Rs 20 crores has been collected by co-operative sugar factories which have gone into production by way of non-refundable deposits, as a result of deductions from the price of sugarcane payable to the growers. These figures are indicative of the extent to which financial assistance from the Corporation to sugar co-operatives has been instrumental in mobilising rural savings. In addition, sugar being a labour-intensive industry, sugar co-operatives have been responsible for creation of substantial rural employment.

Assistance to Public Sector Projects

In pursuance of the Central Government's policy announced last year that public financial institutions should also extend assistance to undertakings in the public sector, the Corporation has already sanctioned during the year assistance to the tune of Rs 1.80 crores to two public sector undertakings. The total financial assistance, so far, extended by the Corporation to five public sector concerns now amounts to Rs 6.42 crores. Most of the undertakings in the public sector are organised as private limited companies and are, therefore, not eligible for financial assistance from the Corporation under the IFC Act, as it stands at present. The Corporation has already moved the Central Government for amendment of the IFC Act so that public sector undertakings organised as private limited companies under the Companies Act may become eligible for financial assistance from the Corporation. One aspect of financing of public sector projects is that they would be considered for financial assistance on the same basis as industrial concerns in the private sector.

Conversion of Loans into Equity

In my statement last year, I had attempted to explain the rationale behind the right of development banks to convert, at their option, a part of the loans given by them into equity capital of the assisted concerns. The Central Government have recently issued detailed guidelines to the all-India financial institutions, *viz*, IDBI, ICICI, LIC, UTI and IFC in regard to the policies to be followed for conversion of loans into equity. Reference has already been made to these guidelines in the Annual Report of the Corporation. I would, however, like to take this opportunity of making a few observations on the subject to clarify the position. Conversion rights will not apply to past loans except where it becomes necessary to convert a part of them into share capital as a measure of relief to the assisted concern. Such a right will also not be exercised in case of sub-loans in foreign currencies granted against lines of credit with the Corporation from foreign institutions for sub-lending. The right of conversion will, however, apply to rupee assistance from the institutions to industrial concerns to enable the latter to purchase foreign exchange from foreign lines of credit operated by the Government of India or from any other source abroad. Furthermore, the terms of conversion of loans/debentures into equity capital such as, the quantum of loan to be converted, the issue price of the share, the stage/stages at which the conversion option might be exercised, the period during which the option would remain open, the period of notice, if any, to be given, etc. will be negotiated in each case and incorporated in the relative loan agreement. In the case of existing companies with reserves created out of past profits, in fixing the issue price of the share, consideration will be given to factors, such as the market value of the share, the break-up value of the share, dividend record, current and projected profitability, etc.

I am happy to mention that, despite hesitation in certain quarters, the philosophy governing conversion rights has already gained acceptance. During the year under review, the Corporation stipulated the condition relating to conversion of rupee loans into equity in respect of 21 concerns after negotiations with the promoters.

Bond Issue

As already announced in the press, the Corporation will be in the market with a cash-cum-conversion bond issue for Rs 8 crores from the 5th to the 8th October, 1971. I may mention, in this connection, that for financing its operations, the Corporation has not for the second year in succession borrowed any funds from the Government. I trust, that as on previous occasions, the shareholders of the Corporation as also other investors will give generous support to the bond issue and help make it a success.

Change in the Rate of Interest

During the year, there was a revision of the lending rates of the Corporation as also of the other all-India financial institutions. The effective rates of interest on rupee loans was raised from 8 per cent to 8½ per cent pa, with effect from the 5th December, 1970. The revised rate of interest, however, is not applicable to rupee loans on concessional terms to small and medium-sized projects as also co-operatives to be located in districts/territories notified by the Central Government as industrially less developed. The effective rate of interest on sub-loans in foreign currencies was also raised from 8½ per cent to 9 per cent pa, with effect from the 27th February, 1971.

Constitution of Regional Advisory Committees

With a view to rendering more effective service to its clients, as also to have first-hand knowledge of the industrial environment and for popularising the activities of the Corporation, steps have been taken recently to constitute Local Advisory Committees at the places where the Corporation has already established its offices. Their membership comprises, besides one or two directors of the Corporation, representatives of the financial institutions at the State level, important Chambers of Commerce and Industry, nationalised banks functioning in the area of jurisdiction of the Local Advisory Committee, the concerned State Governments, and a few prominent industrialists.

Additional Offices of the Corporation

In view of the increase in the number of projects financed by the Corporation and for exercising more effective supervision and follow-up of its existing and future investments as also for rendering technical assistance, particularly to new entrepreneurs, the Corporation is taking steps for opening additional offices. A sub-office at Gauhati functioning with effect from the 17th May, 1971. A branch at Ahmedabad was opened on the 18th August, 1971. Arrangements are under way for opening offices at other centres.

Some Reflections

The Corporation, as the first development bank in the country, has completed 23 years of its service to industry. During this period, which has been marked by rapid economic change and industrial progress, the Corporation has endeavoured to play its role in the field of industrial finance, in close collaboration with other financial institutions like the Industrial Development Bank of India, the Industrial Credit and Investment Corporation of India Ltd., the Life Insurance Corporation of India, the Unit Trust of India, State Financial

Corporations, State Industrial Development Corporations and commercial banks. Very often, it is asked whether it is necessary to have so many credit organisations in the field. This question, I submit, is not based on proper understanding of the situation. Each of the institutions mentioned has a definite role to play both at the national and state level. With the capital market in India not so highly developed as in some of the countries in the West and the savings habit through banking yet to grow to the extent required, the requirements of medium and long-term finance in the country are not only vast but continue to expand. In the financing of particularly large projects of high national priority requiring huge capital outlays, there has emerged the consortium approach between financial institutions at the all-India level, each contributing its share either by way of loans both in rupees and foreign currency or share capital. Thus the members of the consortium not only take care of the large financial requirements of a project but work in close co-operation with each other by mutual exchange of views and co-ordination of policies and procedures. Though joint financing of this kind is, on occasions, a time-consuming process, I am glad to say that it has come to be appreciated by entrepreneurs that it is, perhaps, neither desirable nor practicable for a single institution to meet the substantial requirements of a large project.

Each organisation has its special field of activity. There is no competition between the various agencies, but healthy rapport which should be welcome. Again, with the nationalisation of major Indian scheduled banks and with the intensification of activities of financial and developmental institutions at the State level, the area of co-operation, between the financial institutions is expanding, which augurs well for the economic development of the country.

Another matter of general interest to which I would like to refer, is the imperative need for not only setting up facilities for the training of personnel to man the institutions providing medium and long-term credits but also of having agencies for the development and training of entrepreneurial and managerial talent. With the gradual disappearance of family system of management of business, it is necessary to create in this country a class of professional managers with the requisite technical and financial expertise amongst the entrepreneurial strata. It is our experience that while a new class of entrepreneurs at the lower and middle levels of Society is beginning to emerge, it lacks the required training and experience to manage industrial undertakings. Unless such persons are trained in modern management techniques, the projects under their care are apt to come to grief with undesirable consequences for financial institutions and the public at large. I have been giving some thought to this problem and I hope that the Industrial Finance Corporation would be able before long to make a move in this direction and make its contribution towards the solution of this problem.

Changes in the Board of Directors

At the last Annual General Meeting held on the 30th September, 1970, Shri N V Nayudu was elected in a casual vacancy in place of Shri S D Srinivasan.

The Central Government nominated Shri B D Pande, Secretary to the Government of India, Department of Industrial Development, Ministry of Industrial Development, Internal Trade and Company Affairs, as a director in place of Shri T Swaminathan. Consequent upon his transfer from the Ministry of Industrial Development, Shri Pande tendered his resignation from the Board. In his place, the Central Government have nominated Shri B B Lal, Secretary to the Government of India, Ministry of Industrial Development. The Industrial Development Bank of India nominated Dr Samuel Paul and Dr V V Bhatt as directors respectively in place of Dr R N Bhargava and Shri S L N Simha.

On behalf of the Board, I take this opportunity of thanking Dr R N Bhargava, Shri S L N Simha, Shri T Swaminathan, and Shri B D Pande for the keen interest they took in the affairs of the Corporation. I would also like to thank Shri P S Rajagopal Naidu, Shri N Ramanand Rao and Shri N V Nayudu, who would be retiring from the Board from today, for the valuable services rendered by them to the Corporation. I would further like to place on record my thanks to all the present directors on the Board for their valuable co-operation and wise counsel.

Acknowledgements

I would be failing in my duty if I did not acknowledge with thanks the assistance extended to us by Kreditanstalt Fur Wiederaufbau of the Federal Republic of Germany, Overseas Development Administration of the UK Government, the United States of America Agency for International Development and Banque Francaise du Commerce Exterieur of France. Our relations with these foreign friends of ours have been very cordial and we look forward to having still closer ties with them.

I would also like to express, on behalf of the Board, our gratitude to the members of the Advisory Committees for their expert knowledge and experience placed at the disposal of the Corporation and to the non-official nominees on the Boards of Directors of assisted concerns, for looking after the interests of the Corporation.

I would also like to express, on behalf of the Board, our appreciation of the dedication with which the General Manager, other officers and staff of the Corporation have worked. The relations between the management and the members of the staff have remained cordial and I would like to thank the staff for their co-operation. I am particularly happy to mention here that the Directors have agreed to transfer Rs 1.00 lakh from the profits for the year to a Staff Welfare Fund which has been created for the first time.

Friends, I thank you for having spared time for attending the Annual General Meeting and hope that the Corporation shall continue to have your co-operation and goodwill in full measure in the years ahead.

Computers And Census Data

USE of computers to make the most of the information being gained through censuses in Asian countries has been recommended by participants in a training course held in Bangkok by ECAFE. Computer scientists from seven countries drew up a series of conclusions embodying these points:

"Without analysis, the value of census data is minimised."

In many countries of the ECAFE region, censuses have been taken, or are being taken, in 1970-71. Trainees felt, "there has been little provision for the analysis" of the data to be obtained, and there will be a serious time lag between collection and analysis unless the need is treated "as a matter of urgency".

The computer has proved to be a convenient and speedy tool for analysis, and the United Nations should encourage the use of computers in research work.

ECONOMIC AND POLITICAL WEEKLY

Founder-Editor: Sachin Chaudhuri

Vol VI No 41 October 9, 1971

27,500 Worth of Dignity—Agriculture and the Dollar Float 2126
Business 2128
Letter to Editor 2131
Capital View 2133
Companies 2134
From Our Correspondents
New Delhi: The Heaven-Born Fight to Keep Their Place 2136
Bhubaneswar: Patnaik in the Arena 2138
Kerala: Congress Takes Over —M S 2 39
Drought Relief: A First-Hand Account —Balmohan V Limaye Madhav D Rahalkar 2141
Collieries: Alternative to Nationalisation —D C Kale 2143
The Drugs Muddle —M D Nalapat 2144
Dar-es-Salaam: The Struggle in Mozambique —A K Essack 2145
The Fourth Estate 2146
Review Article
Black Power vs Power to the People —M S Prabhakar 2147
Special Articles
Diversion of Long-Term Agricultural Finance: A Study of Past Trends and Future Strategy —M L Bhat 2151
Desirable Features in a New International Monetary System —C Rangarajan 2159
Provisional Population Totals of the 1971 Census: Comment—I —S Raghavachari 2163
Comment—II —K N Shrinivasan 2165
Reply —Pravin Visaria 2166

ECONOMIC AND POLITICAL WEEKLY
Skylark 284 Frere Road Bombay 1
Phone 26 60 72
Editor
KRISHNA RAJ
Assistant Editors
Rajani X Desai, Jawid Laiq
Business Manager: A Fernandes
Circulation Manager: Shiv Patil
Editorial Staff
Colin de Souza, Haresh M Advani
Shireen Heerjee, Ashok Rao

Moonshine on Software

IT is well known by now how, in the Government's decision-making on economic matters, one set of policies and objectives are often neutralised by another. Thus over the years, the objectives of promoting import substitution, of encouraging small-scale industry and of locating industry in backward areas have all come into conflict with and subverted basic investment priorities in industry. As a result, industries in which no investment should have been allowed have come up — on the ground that they substituted imports, or that they contributed to the development of a backward area, or simply that they were set up in the small-scale sector. More recently, with the accent on export promotion, an undertaking to achieve a minimum export performance has been used to get round other policies, whether on investment priorities, terms of foreign collaboration, or restrictions on large business houses. It may be readily conceded that different economic objectives may quite often come into conflict with one another and that the resolution of the conflict would entail sacrifice of one or the other set of objectives. What is a cause for concern, however, is that more often than not the conflict is resolved not on the basis of even very rough cost-benefit calculations but the momentary bargaining strength of different government departments. Thus it is seldom that the prospective export earnings from a low priority industry are weighed against the direct and indirect draft that it would make on scarce real resources. Of course, often even the original promise of exports does not ultimately materialise.

A recent instance of a minimum export commitment being used to get round established policies has been in the rather unlikely field of computers. According to a newspaper report, the Government has agreed to permit a Bombay firm to import a computer in the IBM 360 series on the basis of an undertaking by the firm that it would export software (the programmes by means of which human beings control the working and use of computers) worth twice the foreign exchange cost of the computer in a period of five years. This has come after a period of sustained propaganda about the vast possibilities of export of software from India. The claims have been based solely on the availability in the country of competent programmers at salaries much lower than, say, in the United States. But the cost of manpower is only one component of the cost of software. Software programmes have to be tried out on computers before they are ready for use and, in terms of the cost of computer-time needed for this, we have a cost disadvantage compared to the US or the UK where computer-time is understandably cheaper. That apart, one has only to visualise the potential Indian software exporter, working on a single IBM 360 installation in an environment where the use of computers has scarcely developed beyond routine payroll kind of applications, to get some idea of his competitive position vis-a-vis the US or the UK. Of course, one can go into details of different types of software and mark out the types in which the constraints on the Indian software maker would be relatively less stringent. What is sought to be stressed is that the glib talk of feasible software export from India needs to be far more critically examined than has been done hitherto.

That apart, let us take the commitment to export twice the foreign exchange value of the computer at its face. What is this commitment likely to amount to? The world's leading computer makers (IBM has something like 80 per cent of the world market) follow flexible pricing policies for their machines — depending, among other things, on the age of the machines. The IBM machine proposed to be imported under the software export scheme will be an already used, reconditioned computer. Further, since it has been a major objective of IBM's operations in India to secure Government's permission for import of machines in the 360 series into this country, IBM would not hesitate to offer a pricing arrangement which will appear, on the face of it, quite attractive if that will help it achieve its general objective. For instance, it may be prepared to accept in foreign exchange as little as 15 per cent of the price-tag that it decides to put on the machine (which, for a used machine, will be an arbitrary one anyway) and take the rest in rupees. Thus what the Indian firm in question may be undertaking to do is to export, over a period of five years, twice this arbitrarily scaled-down foreign exchange component of the cost of the computer. Thus the export commitment, on the machine ultimately costing the Indian firm, say, Rs 60 lakhs, may not be more than Rs 15 or 20 lakhs.

This might be acceptable, provided the agreed foreign exchange component of the price of the computer represents the final foreign exchange cost of the machine to the country. However, this is not the case. For one thing, a part of the rupee component of the price, payable to IBM World Trade Corporation, India, will be repatriated abroad. Second, there will be the inevitable

ervice contract for maintenance of the omputer and for supply of components nd spare parts the pricing of which an be suitably adjusted to make up or the relatively small foreign exchange ayment for the original machine. Simiarly, IBM exports keypunches, manuactured by it in this country; the exort prices of these can again be adusted to suit the pricing arrangements hosen for computers imported into his country.

It should be obvious from all this how meaningless any export commitment, linked to the nominal foreign exchange component of the price of the computer, could be — though even this nominal undertaking may not be fulfilled and the Government may be able to do precisely nothing about it. In either case, everything points to the use of the computer installation primarily as a service bureau for routine business data processing which, given the demand for this kind of service in a place like Bombay, would be a very paying proposition indeed. Clearly, there can be no safeguards against this type of 'misuse' of the computer.

None of this would have deserved much attention had it not been for the wider implications. Without these implications, it would have been just another case of business freewheeling in search of a quick buck which is such an accepted feature of our kind of economic system that we do not even call it freewheeling but entrepreneurship! As it happens, the decision to allow a private firm to import an IBM 360 computer subverts the accepted Government policy of setting up regional computer centres with large-scale systems to meet the computation needs of small users and also to meet the requirements for problems calling for large-scale systems. This policy is intended to get the maximum returns out of whatever investment the country is able to make in computers.

The optimum use of investment in computer installations in the country depends on several factors, such as the suitability of the system for a wide variety of applications, its ready accessibility to a wide range of users, and the kinds of auxiliary services provided by the organisation responsible for the installation (e g, programmer and user education, service programming, consultancy in problem formulation and analysis, etc). The policy of setting up regional computer centres based on large, versatile systems and managed as a service facility by an organisation capable of providing training and education to the community of potential users is based on the assumption that the above-mentioned objectives can be best achieved under such a pattern.

By contrast, with some exceptions, the existing pattern of investment in and use of computers is inimical to the achievement of these objectives. Except for a minority of installations, the others are restricted in what they can offer by way of services to a wide class of users. The high proportion of investment in a rather narrow group of commercial data processing systems and the concentration of these in agencies which limit access to them to outside users have resulted in a good deal of the investment in computers in the country being wasted from a national point of view. This waste was brought out by the Work Study Group on Office Automation appointed by the Maharashtra Government whose report became available last year. To quote from the Group's report: "... the feasibility studies which preceded the computer installations generally were overwhelmingly techno-commercial in nature rather than socio-economic in character..."; "... the *more usually* [emphasis in original] selected jobs for computerisation are payroll, financial accounting, production statistics and inventory control..."; "... in general commercial and industrial sector, the decision-oriented applications do not as yet play a prominent role". Stripped of jargon, this means that computers are being used largely for substituting manual work and the considerations behind their adoption are commercial. On the other hand, one of the areas in which the advent of large-scale computers has had a revolutionary influence is that of decision-making. Computer-based management information systems, operations research techniques applied to planning problems, simulation of socio-economic systems, and a wide variety of other complex physical and behavioural systems have altered in a significant manner decision-making processes in the technologically advanced countries. In India, however, there has been no significant application of computers in these areas.

The question then is: do we want, on the basis of specious export claims, to further strengthen a pattern of investment in computers which inevitably leads to their wasteful use in substituting manual work? Clearly, this is an area where the private costs of the individual computer-using firm are bound to be completely different from the social costs. The Government, in its policies, has to be concerned with the latter rather than the former. In any case, even if the most optimistic assessment of the potential for export of software from India is accepted, the capabilities, in terms of the size and range of computers as well as skilled programmers and analysts, which already exist and which can be created at a computer centre such as the one at the Tata Institute of Fundamental Research in Bombay, cannot be matched by a private service bureau type of installation.

There are elementary considerations which should have been obvious to a body such as the Department of Electronics of the Government of India. That in spite of this, it should have, as reported in the papers, agreed to license a private firm to import an IBM 360 computer at a time when the policy of developing regional computer centres is slowly taking shape is proof, if proof were needed, that the association of technical experts with bureaucratic decision-making is no safeguard at all against thoroughly perverse decisions being taken.

The President's Car

$ 27,500 Worth of Dignity

A Correspondent writes:

THANKS to *Current*, the Bombay weekly, a particularly distasteful instance of vulgarity on the part of the New Delhi Establishment has been brought to public notice. In its issue of October 9, the journal has published news of the arrival in Bombay port of a Mercedes-Benz 600, latest model, reportedly the world's most expensive luxury car, for the "personal and official use" of the President of the Republic, V V Giri. The list-price of this six-door giant of a car is said to be $ 27,500 (about Rs 210,000), though it must have cost the Government a great deal more after allowing for freight, handling charges, etc. The *Current* estimates that if the car had been imported by an ordinary citizen it would have cost him $ 81,000 (about Rs 610,000) at current rates of customs and other duties.

Even more reprehensible than the waste of public funds — and scarce foreign exchange at that — is the attitude of mind implicit in the whole business, that the dignity of the office of the President of India remains somehow impaired if he does not have the world's most expensive car. The *Current* report mentions Queen Elizabeth and President Yahya Khan as being among the heads of states who already have similar cars. In that sense, therefore, V V Giri can tell himself that he is now a *complete* President.

Some months ago the marriages of the son and daughter of a Congress member of the Maharashtra Assembly attracted much public attention for their ostentatious display of wealth. There was much indignation at what was considered, quite correctly, an exhibition of feudal pomp and show wholly out of tune with the temper of the times. The Prime Minister herself reportedly wrote to state chief ministers pointing out the impropriety of such vulgar displays by members of the Congress party. But the question is: Is not the decision to import the world's most expensive car for the "personal and official use" of the President on par with the Akluj MLA's extravaganza — except that, unlike in the latter case, the pampering of the President's sense of dignity has been achieved at the cost of the public exchequer?

The argument that President Giri was not personally responsible for the decision to import the car, which would not belong to him personally but would be part of the presidential estate for the use of successive presidents, does not convince. Since one does not know all the facts, one need not go so far as to suggest that the decision to import the car was taken at the instance of the President, but it is impossible that it could have been taken without the President's consent and, had he been moved by any sense of propriety, he could have refused his consent. This is what would have been expected from one who is so fond of referring to his trade union background and to his continuing concern for the 'common man'. Unfortunately, the President does not seem to have seen things in this light.

The only defence that the President can advance is that his conduct in this matter has been all of a piece with what the Establishment in New Delhi and in the state capital is doing day in and day out. It is well known how ministers on assuming office spend more on furnishing their bungalows than what the majority of Indians — those fortunate enough to find employment — earn in their whole working lives! A commentator writing in *Times of India* recently reflected on how Indian delegations going abroad instantly convert themselves into "purchase missions" to grab whatever foreign-made articles they can lay their hands on. No wonder one of the first uses that the Finance Ministry officials found for the country's improved foreign exchange balances was the import, through liberalised baggage rules, of television sets and electric shavers, among other things.

It may be readily conceded that in this grab-what-you-can-while-the-going-is-good milieu, the President's newly acquired six-door, $ 27,500, Mercedes-Benz 600, merits no particular attention — or criticism.

Common Market

Agriculture and the Dollar Float

THE international currency crisis has disturbed the tranquillity of agriculturists in the European Common Market (ECM) countries. Except the French franc the other ECM currencies are all floating. As a result, the price parities fixed earlier for agricultural commodities are subject to continuous disturbance. Fortunately, complications are reduced to some extent due to the Benelux countries' decision to operate a joint float against the dollar under which the Belgian and Dutch central banks intervene to prevent their currencies moving more than 1.5 per cent away from each other in either direction. Since the Italian lira has not moved much away from its old parity and with France deciding not to float its franc in respect of its commercial transactions, Italy and France are clubbed together as one zone under the changed agricultural policy of the ECM. West Germany and the Benelux countries with their floating currencies constitute the other two zones. With the upvaluation of the Mark, agricultural imports into West Germany have become cheaper and so German agriculturists would be adversely affected. Moreover, frequent variations in exchange rates might lead to instability in agricultural prices and distort normal channels of trade among the ECM countries. To avoid such a situation the Brussels Commission has worked out a complicated system of border taxes and corresponding rebates which are linked to an average level of exchange rates in the three zones against the dollar.

The system of border taxes and rebates is, however, far too complicated even for the Dutch farmers who are familiar with the intricacies of foreign trade. According to the Dutch, much of the present trouble is due to France refusing to float its currency in line with the others. But the French government holds firmly to the view that the interests of farmers are best protected through a regime of fixed foreign exchange rates which imparts stability to international trade in agricultural commodities. French farmers have started grumbling at the border taxes imposed against their agricultural exports and the rebates given on imports. They complain that it is unfair to subsidise exports of rich countries like West Germany and the Netherlands and impose taxes on imports from poorer countries like France and Italy. The French farmers who have benefited considerably from the ECM argue that free trade in agricultural products is an integral part of ECM arrangements; they also believe that a climate of stability is essential for agricultural trade and that if the recent floats are continued too long they might lead to trade distortions. Both the Dutch and the French are worried that if the present arrangement of border taxes and rebates continues for long and gets established, member countries, especially West Germany, would be tempted to pursue "go it alone" policies.

It appears that the border tax/rebate system might lead to fresh trouble among the partners of the ECM. Such a system is likely to affect the psychology of farmers by generating a state of continued uncertainty with changing border taxes or rebates. As the border taxes are fixed on the basis of weekly averages they tend to be unrealistic whenever exchange rates fluctuate sharply in either direction. Additional difficulties are created when spot rates differ widely from forward exchange rates. But whatever be the disadvantages of the border tax/rebate system the ECM partners are forced to rely on it until they agree to realign their currency parities. According to the rules established by the Community, common farm prices are fixed in units of account (expressed in terms of gold parity). If the exchange rate of one of the member countries, for instance, moves upward, prices of its farm products would be made cheaper by the extent of the upward movement of the exchange rate. This objective is now achieved by imposing a border tax on its imports or granting rebates on its exports so that its farm prices continue to be quoted at the old rates. Now that the IMF deliberations are over, fresh attempts are likely to be made by the French to open the issue of realignment of the ECM currencies at new parities. The problem has remained intractable due to the refusal of the United States and Japan to budge from their respective positions. It is unlikely that the ECM countries would decide to realign parities of their currencies before Japan and the United States settle their scores with each other. Or the ECM partners might wait until the IMF comes out with its own solution and then decide their course of action. They cannot afford to quarrel among themselves too loudly as that would put common market trade in agricultural products, which has increased more than five times from about $ 1 billion in 1958 to $ 5.5 billion in 1970, in jeopardy.

Accent on Promotion —also Action?

THE Annual Report of the Industrial Development Bank of India for 1970-71, released last week, is noteworthy for two reasons. First, the data contained in it show a very sharp rise in the level of the IDBI's operations. Second, there is a refreshing awareness of the promotional role of the IDBI running through the report.

Aggregate assistance sanctioned by the IDBI in 1970-71 amounted to Rs 131.1 crores or over double the figure for the previous year (Rs 65.2 crores). The sharpest increases took place in direct loans to industrial units (Rs 48.8 crores against Rs 13.7 crores), refinance of industrial loans (Rs 25.6 crores against Rs 14.3 crores) and refinance of export credits (Rs 13.7 crores against Rs 1.3 crores). Of course, in judging these figures it needs to be borne in mind that in 1969-70 there had been practically no increase in the level of the IDBI's activities. A substantial part of the assistance sanctioned in 1970-71, therefore, represents assistance to projects which have been in the pipeline for quite some time and which, for one reason or another, had not fructified in 1969-70. This is evident from the detailed list of the projects which received IDBI assistance in 1970-71.

Of total direct financial assistance to industry of Rs 48.8 crores sanctioned by the IDBI in 1970-71, Rs 27.4 crores went to four large projects and another Rs 10 crores to three others. Of the remaining Rs 11.4 crores, Rs 4.5 crores were accounted for by so-called 'supplementary' assistance to 15 projects to meet cost over-runs, erosion of liquidity, etc. Also, two of the projects in the list, for which assistance of Rs 4.8 crores had been sanctioned, are unlikely to materialise, at any rate not in their present form. While fresh sanctions went up so sharply, disbursement of loans to industry actually declined from Rs 10.9 crores in 1969-70 to Rs 4.9 crores in 1970-71. While partly this reflects the slack in fresh sanctions in 1969-70, it also points to long delays in the processing of projects after assistance has been sanctioned.

The other major component of the rise in the IDBI's direct assistance to industry is refinancing of industrial loans, which increased from Rs 14.3 crores to Rs 25.6 crores. The major beneficiaries of this facility have been the State Financial Corporations, to attract whom the IDBI has been steadily raising the proportion of loans (other than to small industries or units in backward districts) refinanced at the concessional rate of interest of 6 per cent. It has been suggested to the IDBI that it should give up its project-by-project system of refinancing in favour of a system of allotting lines of credit to each SFC and relying on overall performance assessments along with efforts to gear up the SFCs' organisation, procedures and technical competence. The IDBI's annual report does not say if anything has been done to improve the organisation of the SFCs, though it is mentioned that the procedure for refinancing loans up to Rs 2 lakhs has been liberalised so as to make such refinance "near-automatic".

Export finance is an area in which the IDBI has over the last few years developed substantial operations and also considerable technical expertise. However, presumably because of the drop in steel exports, direct loans to exporters remained static at around Rs 11 crores in 1970-71, of which Rs 4.9 crores was in respect of exports to rupee payment countries.

In the discussion in the annual report of the new initiatives taken by the IDBI, prominent mention is made of its efforts to formulate criteria for project selection. The two criteria mentioned are the internal rate of return and the domestic resource cost of earning/saving foreign exchange. In respect of the former it is stated that "a norm of the internal rate of return has been tentatively fixed in the light of the development objectives relating to the growth rate of industrial output" — though, curiously enough, it is not disclosed what this norm is. As for the other criterion, it is prescribed that the domestic resource cost of earning/saving foreign exchange "should not be higher than the prevailing Reserve Bank exchange rate". But would any of the 40 projects which received direct assistance from the IDBI in 1970-71 have passed muster under this criterion? No wonder then that the report proceeds immediately to add that a project rejected on the basis of these criteria could still be taken up "if it is likely to result into demonstrable external effects or extra-economic benefits that subserve the broad development objectives". Surely, almost every large project of the type that IDBI takes up for direct financing would have external effects and would also yield some extra-economic benefits. What then is the relevance of the two criteria in respect of them? Another point which needs to be stressed is that there is a dimension to project selection other than that implicit in either of the two criteria; this is that of deciding the priority to be attached to a project in terms of its social relevance. Or does the IDBI think that its purpose is merely to tote up impressive figures of financial assistance sanctioned without bothering about whether it might not in the process be contributing, directly or at one remove, to the already galloping proliferation of articles of U-Sector consumption?

The major focus of the discussion of the IDBI's promotional role in the annual report is on its efforts to develop industry in the backward states. In this context there is reference to the surveys of industrial possibilities of backward areas which have apparently been completed in all the backward states with the exception of Andhra Pradesh and Himachal Pradesh. One would have, however, liked to know a little more about the follow-up action taken; after all, some of the survey reports have now been available for over a year. The IDBI report also refers to the Technical Consultancy Service Centre (TCSC) which is proposed to be set up in each of the states. Without detracting from the useful work that these Centres might do, it needs to be emphasised that such outside advisory agencies can never make a decisive difference to the industrial development of the backward states; quite often they might end up by being just another hurdle that projects which would have come up in any case are forced to clear. Setting them up cannot, therefore, be a substitute for tackling the more difficult task of strengthening and activising the existing state-level agencies: the State Industrial Development Corporations and the State Industrial Investment Corporations, in addition to the State Financial Corporations.

Shipping

Assisted Growth

IT has been a success story all the way for Shipping Corporation during its first decade of activities; its fleet increased from 19 ships of 194,000 DWT in 1961 to 78 ships of 1,368,000 DWT in 1971. The composition and charter of its fleet were diversified to match the changed pattern of India's international trade. Cargo liner tonnage which constituted 82 per cent of the company's tonnage in early 1962 now accounts for only 44 per cent of the total tonnage. Cargo lifted by its liner vessels increased almost threefold from 870,000 tonnes in 1961-62 to 2,430,000 tonnes in 1970-71 and the number of liner services operated by the company also showed a rise to 21 from 8 in 1961-62. Operating earnings as a result jumped from Rs 7.89 crores in 1961-62 to Rs 64.84 crores in 1970-71 and net profits which were only about Rs 1 crore in 1961-62 increased to Rs 6.9 crores in 1970-71. Total capital employed by the company which was Rs 36 crores in 1961-62 increased to Rs 175 crores in 1970-71.

As is the general case in the shipping industry, a large portion of the Shipping Corporation's expansion programme was financed through internal resources. Self-generated funds amounted to about 37 per cent of the total financial outlay of Rs 175 crores as at the end of March 1971.

It must, however, be noted that the very impressive results of the Shipping Corporation have been made possible by several advantages enjoyed by the company. First, unlike other established companies like Scindias, the Shipping Corporation's entire fleet is almost new, so that no occasion has arisen for scrapping of old vessels. Second, almost 75 per cent of the tonnage acquired by India from East European countries during the sixties under government-to-government credits went to this public sector enterprise. Third, the Shipping Corporation has been the single largest recipient of SDFC funds from government and its dividend payment in the last decade has been pegged at a low level — something which the major private shipping companies have not been always in a position to do.

The accelerated growth witnessed by the Shipping Corporation since the mid-sixties is expected to be maintained in the seventies and on the basis of orders already placed (1,06,200 DWT) its fleet strength is estimated to exceed 2 million DWT by the end of 1974. If negotiations for additional orders currently on hand fructify, the tonnage is expected to cross the 3 million mark in 1975-76 (which would give the company a share of over 50 per cent of the country's tonnage as against its present share of about 43 per cent). It is also reported that the entire fleet of tankers to be acquired under the loan from the IBRD will be passed on to the Shipping Corporation.

However, the overall profitability of the company is bound to be under severe strain in the immediate future partly because of declining profits in liner operations, despite periodical hikes in freight rates, and partly because of the rather steep fall in tramp market rates. Spot charter rates which have been seriously affected by the cut-back in Japanese steel output are, however, reported to be rigged up by the Japanese and more normal conditions are expected to prevail after a short while. While external finance may not prove to be difficult for the company to obtain, the withdrawal of the development rebate is bound to retard cash generation, forcing the Shipping Corporation to increase its share capital (which remained unchanged during the sixties) by the mid-seventies.

Rural Electrification

REC Doing Well

IN its 18 months of operation, the Rural Electrification Corporation has done well in terms of the targets and objectives set for it. Envisaged under the Fourth Plan to be the financial institution for sanctioning project-based loans for rural electrification sponsored by the state electricity boards and rural electric co-operatives. With its capital base of Rs 150 crores of Plan funds and major drawing rights on PL-480 funds, the REC was to help energise 5 lakh pumps under the Plan. With the inspiration coming from the National Rural Electric Co-operative Association of the US (whose representatives have been helping its operations), it is geared to the self-help objective — which, in the Indian context, necessarily precludes borrowers and areas that are truly backward and needy, though this policy directive may be justified in terms of viability.

Within these limits, the Corporation has performed very competently. In the first year and a half of actual operations, it has sanctioned loans that will energise 2.15 lakh pumpsets — against the Plan target of 5 lakhs. Similarly, it has sanctioned loans for over 32,400 rural industries, including agro-industries. These various schemes are covered by 137 projects — 132 sponsored by state electricity boards and the rest by the five experimental rural electric co-operatives. Evidently, state electricity boards, saddled thus far with the unprofitable rural electrification programmes have been gladly turning to REC for financial and other help. The five electric co-operatives represent emulation of the US experience.

REC has done some excellent organisational work. It has not only built up a body of experts to assess data, evaluate projects, and suggest alternatives to the sponsors of projects that come up to it, but has also built up a 'Standardisation Cell' and a 'Co-operative Cell' with the longer term objectives of saving on equipment manufacture (10 per cent saving by standardisation) and on equipment laying and servicing in the rural areas (another 10 per cent saving), and of developing rural self-help centres through the co-operatives for further electrification and servicing. The financial performance of the Corporation for the year April to March 1970-71, partly reflects this competence. REC is one of the still small number of public sector corporations to have shown a surplus (Rs 53.03 lakhs). It had a net profit of Rs 26.13 lakhs of which, after assigning Rs 5.5 lakhs and Rs 10 lakhs to the Special and General Reserves respectively, Rs 9 lakhs are to be paid as dividend on equity capital.

Partly, at least, REC's immediate viability has depended on the choice of projects and areas. Notwithstanding constant references to a significant proportion of projects being for backward areas and sections, these in fact happen to be areas and sections that fall under the special purview and grace of institutions such as the Small Farmers' Development Agencies and the Rural Works Programmes aimed at marginal farmers and agricultural labourers. REC has, in its chairman's words, made sure that its efforts "converge, in the relevant contexts and appropriate areas, with other and larger programmes initiated by central and state governments, electricity boards" etc. Often this means not just the technical but also the financial feedback of one public sector agency to another.

Industrial Production

Purposeless Survey

THE Reserve Bank began some time back gathering data on current trends in production and investment directly from industries. The results of the latest survey covering the period July-December 1970 are published in the *RBI Bulletin* of August 1971. They show the hazards of such surveys.

The Reserve Bank's sample is limited. It covers only growth industries and within these only 301 companies with paid-up capital of Rs 50 lakhs and over. Despite this, the response must be considered unsatisfactory. Only 154 companies (half the sample approached) covering 222 industrial units responded (100 companies with 136 industrial units had responded to the earlier survey of the Bank).

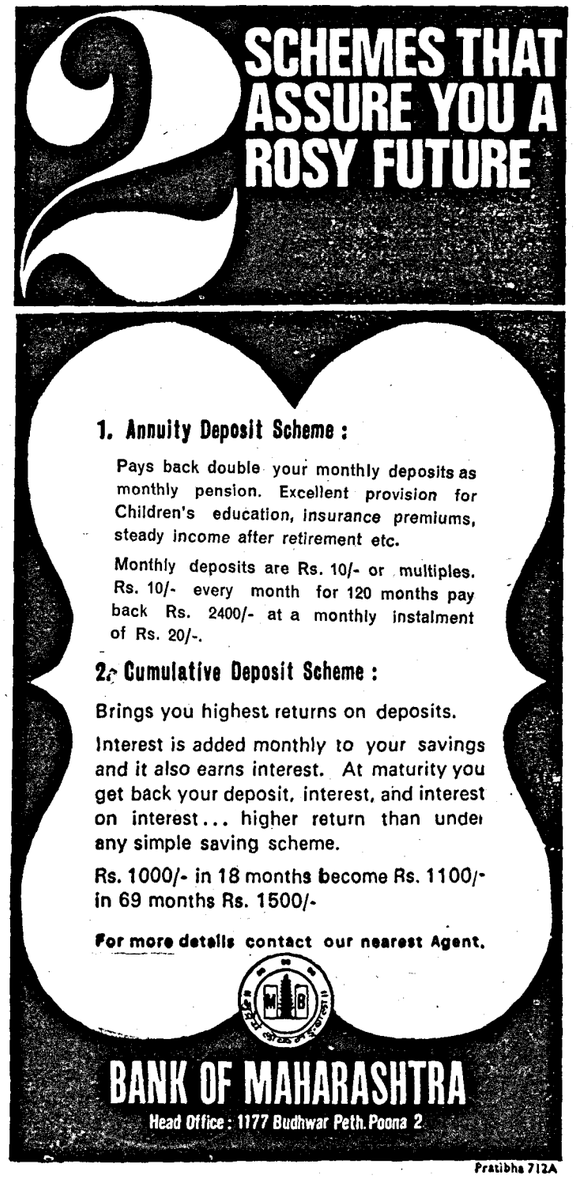
Of the 222 units, 156 reported increase in production and 56 decrease. Significantly, of the latter 56 units, 33 were in engineering industries. Capacity was not a major constraint on higher production. Only 42 reported capacity as not being sufficient to deal with orders on hand, while 169 had adequate capacity.

As regards sales, 159 units reported increase in sales and 47 decline. Of the 47, 24 were in the engineering sector and 11 in the chemical sector. Exports reflected a similar trend; of 122 units, 73 reported increase and 48 (31 in engineering) decline.

Expansion data show the clear slack in investment in these "growth" industries. During July-December 1970, 40 units reported expansion and 182 reported none. As regards proposed expansion during the next 6 months, 71 proposed to expand, while 151 had no expansion programmes.

Yet industry remains optimistic; 139 units expected to increase production during the following six months (January-June 1971). Actually, production data for this period show that growth of production almost came to a standstill during January-June 1971. This is not surprising. Of the common units between an earlier survey and the current one, only 8 had forecast lower production in July-December 1970 whereas 34 units, as it turned out, actually had lower production during the period.

There are two main advantages of this survey method: it gives a more accurate reflection of expected trends and the results are available ahead of statistical data. It is obvious that in India businessmen are not used to intelligent guesses about — let alone scientific analysis of — production trends in their own units, much less in their industries. The results of the Reserve Bank's survey have been published in October 1971, 9 months after the close of the period to which it relates, by which time even more detailed statistical data have become available right upto June 1971. What purpose does the survey then serve?



IIFT

Too Thinly Spread

THE Indian Institute of Foreign Trade (IIFT) has made fairly satisfactory progress during its seven years. From its activities it appears that the IIFT is well set to achieve the objectives before it. At present, its major programmes and activities relate to creating export management personnel, research into problems and functional areas of foreign trade, making overseas market surveys, commodity studies, area surveys, country surveys and export potential surveys of states. The Institute appears to have made some progress towards self-reliance; nearly two-thirds of its expenditure was met by its income earned through conducting training programmes and export market surveys. Out of its total expenditure of Rs 31.4 lakhs, Rs 12.3 lakhs were financed by government grants.

During the last seven years, the Institute has organised 58 training programmes, ranging in duration from one week to 10 months, and trained 1,900 executives belonging to trade and industry as well as central and state governments. On the research side, the Institute undertakes research both in general fields relating to problems of foreign trade and also in specific areas like overseas market surveys, commodity studies, country surveys and export potential surveys. During the last year a project report on export potential of coir and coir-based products was completed. The Institute is exploring possibilities of securing assignments to conduct market surveys for commodities like shrimps in the US and woollen products in Europe. An important project for exploring export potential in different states is in progress, and studies on Andhra Pradesh, Mysore, Tamil Nadu, Maharashtra, Orissa, Bihar and Haryana have been completed. The Institute's country studies are essentially desk-based and they are designed primarily to examine export prospects in selected markets, to suggest suitable export strategy for selected African and Latin American countries.

However, in view of the limitations of time and resources, IIFT may be spreading its net too wide and as a result the quality of its studies may well suffer. It is difficult to understand, for instance, why the Institute should venture into general research at the present stage of its development. The country's needs of personnel trained in export management are immense and it would be well worth the Institute's while to concentrate on improving the quality of its various short and long duration courses and exploring whether new courses need to be devised. It would also be fruitful to open 'chapters' of the Institutes at important trading centres such as Bombay and Calcutta for courses at more frequent intervals. Some of the projects of general research — like improvement in administrative and procedural matters of the Foreign Trade Ministry, export prospects under GSP, or survey of the traffic potential of Dahej port — might be better assigned to some other agency more suited to undertaking them. The two major fields, of providing training to personnel in the exports field and of market research and consultation, are so vast that they should absorb all of the IIFT's energies.

LETTER TO EDITOR

Bangla Desh and India

YOUR Special Correspondent ("Bangla Desh and India", September 4, p 1907) and I share the same views as far as the role of the Indian Press and its correspondents in the Bangla Desh crisis is concerned — a role both inept and unprofessional. However, an analysis of such a scandalous performance had better be left to the self-appointed guardians of the morality of the Fourth Estate who will no doubt come out with suitably convincing explanations of how and why

(a) Correspondents sitting in Calcutta and Agartala datelined their despatches "Somewhere in Bangla Desh" and
(b) the Mukti Bahini's future battle-plans were disclosed in the Indian papers to pander to the readers' day-dreams and to titillate the egos of the editors.

The point under discussion here is Bangla Desh and the appropriate response to the last few months' developments. It is at this stage that I have to unfortunately part company with your Correspondent when he makes his seemingly confident forays into political sociology without waiting to find out whether his supply lines are extended.

Your Correspondent asserts that "in bourgeois states, classes exist and the Governments of such states represent the overall interests of the upper, ruling classes". Contrary to what many people think, this is not even an exclusively Marxian position. Other sociologists, including Pareto, Mosca and Michels, have studied the phenomenon of the ruling class and the governing elite (Vilfredo Pareto: "Mind and Society"; Gaetano Mosca: "The Ruling Class": Roberto Michels: "Political Parties".)

However, when any theoretical framework is sought to be applied to current problems, it is essential that there be an empirical element in the analysis. Your Correspondent's entire effort rests on the central thesis that the nature of the Indian ruling class and its "extreme dependence" on its international creditors "substantially circumscribes its freedom of action". Yet nowhere in the article does one find the remotest attempt at actually identifying the Indian ruling class. Since your Correspondent accuses me of taking cover behind the notion of a blanket "national interest", it is surprising that his "ruling class" should remain such a faceless, amorphous spectre. Others, including Ashok Mitra and B V Krishna Moorthy have, however, attempted to do what your Correspondent fights shy of (see J Bhattacharjee: "Mass Participation in Politics", Annual Number, January 1968).

However, this is only an incidental criticism of your Correspondent's approach. The main objection to his analysis is his inadequate appreciation of Marxian political sociology on whch he bases his whole attack. What I am referring to is of course the distinction between antagonistic contradictions and non-antagonistic contradictions. At present the primary antagonistic contradiction is between the urge for physical survival of the 75 million people of Bangla Desh and the determination of a ruthless Pakistani military clique to subdue them at all costs. All other contradictions, like class differences within Bangla Desh, are non-antagonistic and secondary to this main issue. It is at this stage that

one can legitimately use the concept of "national interests". As far as India is concerned, the spill-over effects of the Bangla Desh crisis, namely, the presence of 10 million people and the staggering economic costs to the *whole* Indian nation, ensure that the antagonistic contradictions at this stage are between West Pakistani colonialism and the *entire* Indian people. Given the existing resource-scarcity within the country, it is futile to pretend that an additional burden of Rs 500 crores per year will not adversely affect the landless peasant of Midnapore, to use your Correspondent's example. One can go even further and speculate what would happen if the Bangla Desh refugees were to enter the job market, a possibility which cannot be ruled out if the Bangla Desh movement is allowed to be throttled by Pakistan and there is no possibility of the return of the refugees. Which section of the population would then be affected? Surely, not the jute magnates of Calcutta.

I am afraid that your Correspondent will have to admit that in this case there is a clearly definable national interest involved, overriding class differences which undoubtedly assume importance in different spheres. My intention was not one of "masking and obfuscating the underlying reality of the class-struggle" but of placing the Bangla Desh issue and the desirable Indian response in their proper context, which is that of a national liberation struggle of the people of Bangla Desh also involving the people of India. There have been instances in history where foreigners have helped to liberate a country resisting alien invaders. These foreigners then left the people of the newly liberated country to sort out their own affairs — a course of action which I have advocated. The best example is that of France in 1944 when the Allies, with the help of the Maquis, the French underground, and the Free French forces of De Gaulle, pushed the Nazis out of France and then left the French to sort out their own political problems (Robert Aron: *"Historie de la Liberation de la France"*).

Your Correspondent also makes a number of asides which need not be taken up at length. One case where he completely misfires is when he accuses me of advocating a friendly Bangla Desh which would be a "happy hunting ground for Indian capitalists". If economic complementarity and comparative costs make the entry of Indian goods, specially those from West Bengal, into Bangla Desh easy, this surely does not make Bangla Desh a captive market, which is what it was for West Pakistan.

Finally, your Correspondent's habit of labelling! Is his revolutionary conscience all that clear that he can afford to point accusing fingers at others? The first duty of a revolutionary is to make revolution; or is this part of Marx unfamiliar to your Correspondent? It is getting a trifle boring to hear Indian *"revolutionaries"* sitting on their high horses and preaching to all and sundry. As Lenin once remarked to some pretty passive revolutionaries, *"On s'engage puis on voit"*.

J BHATTACHARJEE

Bombay

Our Special Correspondent writes:

THERE are two separate issues involved here. One, what the Indian Government *can* do in the Bangla Desh crisis and, the other, what the Indian Government *should* do. J Bhattacharjee's *original piece* was addressed to the latter proposition, while my comment was devoted to the former. I merely pointed out that considering the international constraints, the latest being the Indo-Soviet Treaty which had not been announced when I wrote the piece, *under* which the Indian Government operates it was not in a position to follow Bhattacharjee's advice.

As for the Indian ruling classes, I did not go into details for the simple reason that my article was about Bangla Desh not the Indian ruling class. But for Bhattacharjee's benefit, I shall append the following elementary facts: The Indian ruling class consists of the semi-feudal landlords and their allies, the rich peasants in the rural areas, the capitalists and bureaucrats of all varieties in the urban areas and the retainers (including politicians), hangers-on, families, etc, of these groups. The composition and distribution of these elements among the population varies from region to region. Their precise enumeration is only a question of measurement; it does not affect the qualitative picture. It is surprising that Bhattacharjee describes this as a "faceless, amorphous spectre". One would have thought, on the contrary, that the visibility of this class is such as to make its presence felt to even casual observers of the Indian scene. I reiterate that the Indian Government represents the overall interest of the groups described above which constitute the Indian ruling class.

Coming to Marxian political sociology, the question of antagonistic and non-antagonistic contradictions refers to conflicts between classes, not to conflicts between nation-states. Bhattacharjee is, of course, free to extend this notion as he likes but he should then acknowledge the originality of his contribution. (Incidentally, this particular classification of contradictions is due not to Marx but to Mao Tse-tung.) It is quite correct to say that the principal antagonistic contradiction at this stage of the Bangla Desh crisis is between the entire people of Bangla Desh, except for a handful of quislings, and the military rulers of Pakistan. Class differences in Bangla Desh are secondary and the liberation struggle there is "a war of national liberation" — for the people of Bangla Desh. To go on to say, however, that because of the spill-over of refugees, "the antagonistic contradictions at this stage are between West Pakistani colonialism and the entire Indian people" is too much of an oversimplification. The initial acceptance of refugees was clearly a diplomatic manoeuvre of our Government to embarrass the Pakistan regime in the eyes of world opinion. What if our Government had refused to accept the refugees? Then this contradiction would cease to exist. The backfiring of particular diplomatic moves should not be elevated to the level of genuine contradictions.

Finally, to come to what the attitude of revolutionaries (passive or otherwise) should be. "The first duty of a revolutionary is to make the revolution." (Hardly to go around offering advice to bourgeois governments on how to conduct their foreign policy, one might add.) Will Indian military intervention in Bangla Desh help to make the Indian revolution? To pose the question is enough. Moreover, the beneficial effects of Indian intervention in Bangla Desh itself is a matter of opinion. The example of France proves nothing. One can counterpose to it the examples of Philippines and Greece where the Allied "liberation forces" did not exactly leave the people "to sort out their own political problems".

Although he deigns to quote from Lenin (and in French, at that), one does not get the impression that Bhattacharjee is too engagé himself; merely enragé.

Relevant Radicalism

Romesh Thapar

THESE days, with all and sundry claiming to "have the ear of Indira Gandhi" — or her big toe! — a great deal of confusion is sought to be created on most matters, some vital and some trivial. However, the realisation that the Indo-Soviet treaty is not what the CPI is trying to make it out to be has now dawned. The Moscow parleys and the so-called "joint statement" have helped to shed light on Soviet commitments and underlined the urgent need for independent assessments by India.

Of course, this is easier said than done. To make such assessments and to act on them sparks the search for a *functioning* Foreign Office and *functioning* economic ministries. The GOI cannot hope to survive in a power entrusted world with the kind of naive attitudes which pervade these critical areas of its policy-making. The experts are few and far between. And when they do exist in strength, their expertise is weighed down by bureaucratic consideration.

In the Capital, the thought is often expressed that the men who hold the future of the nation literally in the palms of their hands are very ordinary creatures without even the "chemicals" required for a thrust into the future. This is equally true of other nations at this sad moment of international bankruptcy in human imagination, concept and perspective. But others of comparable status to India are building expertise behind the ordinary men who rule. Here, in the Capital of 550 million, the quest has yet to be launched with vigour.

We seem to be content with legalistic "noughts-and-crosses" (a game which must have originated in Bharat!) designed to puncture the possibility of any movement in any direction or with high-sounding theory which elevates certain principles which it is not anyone's intention to follow. These exercises were harmless until they entered the area of economic policy. A major research project awaiting attention is our special ability to clothe all manner of contrary ideas in the most radical phrases and offer them as policy.

May be, this game could have gone on for a long time had it not been for the sudden crisis around Bangla Desh. In a flash, we stand exposed to all manner of dangers. We are at last compelled to think of action, action which will ride roughshod over fancy theories, ideological cliches and revivalist euphoria. Clutching the *Gita*, playing legalistic noughts-and-crosses, composing mantrams of various description, we will have to act.

The stir in economic thinking has begun. Easy formulas have become suspect. Greater attention is being paid to the specific characteristics of the Indian class structure and its relationship to a range of developmental challenges. The problems of the transition to a socialist society rooted in Indian reality are sought to be singled out for discussion and study. This kind of economic inquiry might help us to build a relevant radicalism for this country. It is good to see the discussion spilling over on to the pages of rather orthodox leftist journals.

At last, dull economics is becoming an obsession. And about time. If a relevant radicalism emerges, it must have its impact on the key ministries. The GOI can no longer afford to drift. There are five months to the elections to the State assemblies. By then, it should become clear what is being planned for India's 550 millions.

As for those who want to keep the ruling Congress party paralysed on slogans which cannot be implemented politically, the sooner they are neutralised, or axed the better.

October 4



"The British, for instance, weren't forthcoming even with a Master's degree—"

Aggressive Rayon

Hansavivek

GWALIOR RAYON has applied for an industrial licence for setting up a paper plant in Mysore state with a capacity of 150 tonnes a day. It is also seeking a licence for establishing another caustic soda project with an installed capacity of 33,000 tonnes per annum in that state. A major portion of the production would be diverted to the company's own rayon grade pulp and staple fibre plants in Kerala and Mysore. Government has been requested that decision on the company's application for an industrial licence which was made three years ago should be expedited. The application was for production of 36,5000 tonnes of staple fibre per annum at Harihar, in Mysore state, where its pulp plant is under construction. The engineering division is looking into the possibility of manufacturing some more sophisticated industrial equipment, at present imported by the man-made fibre industry, by entering into collaboration with foreign firms, if necessary. The company is also awaiting the 'carry-on-business' licence for the rayon grade pulp project, for which it had applied in March 1970. Meanwhile, the caustic soda factory under construction is expected to be ready for production by September 1972. The rayon grade pulp project at Harihar is expected to be ready for trial runs by the end of 1971 or beginning of 1972. During its 24th year ended March last, production of staple fibre amounted to only 58,456 tonnes owing to serious labour trouble at Nagda, arising from "rivalries among the various labour unions". Rayon grade pulp output was better at 64,120 tonnes (60,940 tonnes) because of the use of various species of available woods in view of the shortage of bamboo and eucalyptus. By an Ordinance issued in May last, the Kerala government nationalised all private forests in the state. The private forest owners and the company moved the Supreme/High Court and, in pursuance of the stay order, granted by the court, the removal of woods from forests, which met about 60 per cent of the raw material requirements of the company's plant, came to a standstill. Representations have been made to the state and central governments to ensure supply of required quantities of raw material. The 30,000 acres of land at Nilambur, purchased by the company for eucalyptus plantations under an agreement with the state government in 1965, whereby it was guaranteed that the land would not be nationalised for 60 years, have also been brought within the purview of the Ordinance. The company moved the High Court in the matter. The state government has since decided not to give effect to the Ordinance, but has introduced the Kerala Private Forest (Vesting and Assignment) Bill 1971. The company has in hand a modernisation scheme of its weaving, processing and finishing departments with fully automatic, specialised and versatile machines, to maintain its leadership in the man-made textile field. New machinery incorporating the latest techniques has been installed, and more is in the process of acquisition. The engineering division continues to meet the needs of the staple fibre, viscose rayon, other synthetic fibres, and pulp and paper industries for various equipment. Fibreglass reinforced plastic for anti-corrosive lining and other industrial uses have been further perfected to meet the specific requirements of various chemical industries. Researches have been carried out for developing a new and more useful process for the manufacture of dicalcium phosphate and other alternative uses of chlorine and hydrogen which are by-products of caustic soda. The company has contributed Rs 20 lakhs to Birla Institute of Technology and Science, Pilani, Rs 8 lakhs to the Research Centre of Bombay Hospital Trust, and Rs 2.21 lakhs to Birla Research Institute for Applied Sciences, Nagda.

INDIAN IRON AND STEEL COMPANY's Burnpur works suffered further deterioration in production during the year ended March 1971 owing to go-slow tactics and other restrictive practices adopted by labour despite new concessions given under the wage settlement for the industry which were to cost the company more than Rs 5 crores per annum. Production of pig iron declined from 1,100,174 to 930,337 tonnes, coke from 1,203,180 to 1,162,608 tonnes, steel ingots from 699,768 to 626,965 tonnes and saleable steel from 567,784 to 508,475 tonnes. Similarly, despatches of pig iron, coke and steel showed all-round fall. Both production and despatches at the Kulti works increased — the former from 120,702 to 140,713 tonnes and the latter from 121,247 to 142,575 tonnes. Despite a revival of demand and a full order book, continuous labour trouble prevents further rise in output. Also, frequent labour trouble, particularly at the East Mine at Chasnalla, caused by temporary labour engaged on construction work, created a difficult situation at the mines and the East Mine was completely flooded because there was a total strike, paralysing operations for several weeks from the end of March last. The coal washery at Chasnalla handled about 3.3 lakh tonnes of raw coal. The main ropeway from Chasnalla to Burnpur transported 2.86 lakh tonnes of washed coal. Occasional sabotage of the ropeway in certain sections is still continuing. In spite of these difficulties, supply of coal by the ropeway helped to maintain a reasonable stock of coking coal at Burnpur even when all other steel plants in the country had difficulty obtaining supplies of coking coal owing to acute wagon shortage. The loan obtained by the company from the World Bank in connection with the phase one balancing of plant project, which was suspended pending reappraisal, has since been cancelled. In regard to the shares held in trust under a Trust Deed dated December 18, 1957, as modified by a supplementary deed dated June 25, 1963, the directors say that the suit filed by certain shareholders in 1969 was dismissed on December last. But a fresh suit has been filed by another shareholder substantially for the same reliefs; the suit is still pending. With increase in turnover, the company earned a higher profit. The directors complain that, while prices of most inputs continue to rise, the industry has had a price freeze imposed on it. Representations are therefore being made to Government.

tonnes in the preceding 18 months. Production might have been higher still, but for a 'go-slow' by some operators which affected output for a few months. It is stated that, in spite of an award on wages given by the Industrial Tribunal in August 1969, further demands for revision of wages and scales were put forward. With the intervention of the labour authorities, some of the demands were referred to arbitration and some to adjudication. With an improvement in labour discipline, production has increased since March last. Higher production contributed to good results and so did the higher selling prices of certain varieties of paper. Royalty rates on Bhabar grass were increased by about 20 per cent in 1970 — for three years as from July 1968 — and were further stepped up by about 27 per cent for three years from last July. Since a major portion of the earnings have been utilised for depreciation and development rebate, no dividends have been recommended. The interim payment on all classes of preference shares for 6 months ended March 1970, already declared, will be paid out of the profits. Arrears of cumulative dividends on preference shares exceeded Rs 14 lakhs. Moreover, development rebate reserve, to be created out of future profits, was about Rs 10 lakhs. Equity shareholders have had to go without any return for the fourth year in succession. With a view to creating capital redemption reserve of Rs 30 lakhs for the 6.5 per cent second preference shares, which were to be redeemed last month, a sum of over Rs 19 lakhs was withdrawn from general reserve.

KHATAU MAKANJI has received further 169 automatic looms, making a total of 281 automatic looms, 12 super-spinners ring frames, etc, for replacement, rehabilitation and modernisation of plant and equipment. Orders worth Rs 1.80 crores have been placed for the modernisation programme. But the directors complain that efforts for economy and efficiency are being neutralised to a great extent by continuous cost escalation arising out of government levies, increased costs of services and materials. During the year ended March 1971, net sales were Rs 80 lakhs higher, but gross profit turned out to be Rs 5 lakhs lower. Even considering that Rs 5 lakhs provided in the accounts for gratuity has lowered the profit, the contraction of margins is conspicuous. This is attributed to shortage of cotton which lifted prices to an 'all-time high'. Further, there was delay on the part of government in arranging additional imports of cotton and in taking decision as to the manner in which additional imports should be distributed. In order to discourage mills from carrying cotton, the rate of interest was enhanced and the margin limit raised. These measures not only made the cost of the raw material 'prohibitive', but also resulted in a credit squeeze at a time when prices were so high. Excise duty in this year's budget was increased from 84.4 paise to 93.9 paise per square metre on printed mercerised superfine fabrics. The company finds it difficult to recover all cost increases in prices. No provision has been made in respect of present liability for future payments of gratuity upto June 30, 1970. As per the practice in the past, it will be charged as and when paid.

The Week's Companies

(Rs in Lakhs)

	Gwalior Rayon		Indian Iron		Star Paper		Khatau Makanji	
	Latest Year 31-3-71	Last Year 31-3-70	Latest Year 31-3-71	Last Year 31-3-70	Latest Year 31-3-71	Last Year* 31-3-70	Latest Year 30-6-71	Last Year 30-6-70
Paid-up capital	1011	901	2758	2758	260	260	180	180
Reserves	1637	1460	4245	4088	122	74	209	182
Borrowings	353	411	2902	3231	208	216	501	389
of which Term borrowings	306	300	702	891	107	122	185	157
Gross fixed assets	3209	3011	12166	11801	765	745	809	739
Net fixed assets	1199	1197	6567	6774	351	376	240	208
Investments	76	65	366	372	3	3	33	33
Current liabilities	640	666	2418	2736	93	127	230	196
Current assets	2365	2176	5390	5667	327	297	846	705
Stocks	1103	958	2556	2630	259	220	582	471
Book debts	394	330	2611	2892	62	71	252	218
Net sales	5931	5365	9235	8263	668	911	1172	1092
Other income	71	67	77	93	11	12	29	32
Raw material costs	4338	3815	2958	2635	149	213	456	440
Wages	521	454	2235	1907	72	93	314	292
Interest	36	35	231	226	21	30	48	42
Gross profit(+)/loss(—)	1092	1012	930	774	103	106	131	136
Depreciation provision	201	241	561	514	46	69	47	37
Tax provision	484	367	46	4	—	—	38	53
Net profit(+)/loss(—)	407	404	323	256	57	37	46	46
Development rebate provision	15	43	175	162	47	24	13	2
Transfer to reserves	241	241	—19	—73	10	13	13	24
Dividend								
Amount	E 119	E 99	P 18	P 18	—	—	P 2	P 2
	P 32	P 21	E 149	E 149			E 18	E 18
Rate (per cent)	E 18	E 18	P 5	P 5	—	—	P5.20	P5.20
	P 8.57&9.3	E 8.57&9.3	E 6	E 6	—	—	E 12	E 12
Cover (times)	3.02	3.44	0.89	0.50	—	—	1.72	2.33
Ratios (per cent)								
Gross profit/sales	18.41	18.87	10.07	9.36	15.42	11.63	11.18	12.45
Net profit/capital employed	13.56	14.57	3.26	2.54	9.66	6.72	5.17	6.12
Inventories/sales	18.59	17.85	27.67	31.82	38.77	24.15	49.66	43.13
Wages/sales	8.78	8.46	24.20	23.08	10.77	10.21	26.75	26.74

* 18 months.

FROM OUR CORRESPONDENTS

NEW DELHI

The Heaven-Born Fight to Keep Their Place

THE move to take disciplinary action against a senior officer of the Central Information Services working in the All-India Radio has created a flutter among non-IAS, professional personnel in the government. The charge against the officer is that he wrote a letter to newspapers which was published early in April last year. The issue has been raised forcefully by the Association of CIS Officers and its stand has been backed by the Confederation of Central Government Officers' Associations which was formed two years ago with the ostensible purpose of promoting administrative reforms but really to win recognition for the professionals in the services and to weaken the tight grip of the ICS-IAS cadres on the administration.

A Confrontation

Since its formation the Confederation has been quietly canvassing support for its ideas. Now the issues raised by it have been brought to a head by the move to take disciplinary action against one of its leading office-holders. The letter to the newspapers was written at the instance of the CIS Association and had criticised the proposal to appoint an IAS officer to the post of Director of the Indian Institute of Public Administration. It will be remembered that the proposal was resented within the Institute and had to be dropped after it was strongly criticised in Parliament. The stand of the Information and Broadcasting Ministry in initiating the disciplinary proceedings against the CIS officer is that no government servant can criticise in public any government policy or action and that by writing the letter the officer in question had violated the conduct rules. The case is growing into a confrontation between the professional-technical personnel and the IAS officers. In any case, relations between the two parties have been far from cordial for quite some time.

As the activities of the government have expanded and diversified over the years, there has been a considerable influx of professional and technical personnel into the government. These professional and technical personnel perform complex and skilled jobs and for some time they have been seeking a measure of authority commensurate with their responsibilities. But the Ministries, tightly in the grip of the ICS-IAS cadres, have seen to it that the professionals are kept in their place in the official hierarchy and so far as decision-making in the government is concerned. Towards this end, in addition to making full use of the procedures and rules inherited from the colonial era, the ICS-IAS administrators have devised additional procedures of functioning which effectively maintain intact their supremacy.

Exercising Options

The presence of administrative cadres in public sector industrial enterprises has been a matter of public discussion for some time. After protracted rearguard action to prevent erosion of their position in these enterprises, where they had invariably proved themselves to be flops, the generalist administrators, on deputation from the Ministries, have had to give way slightly. This happened when they were confronted with the choice of either retaining their position in the enterprises or reverting to their parent administrative departments. But even in this matter it has not been easy; it would be wrong to imagine that the administrative cadres have finally reconciled to themselves to staying out of the public sector industrial enterprises. In the first instance, they successfully stalled for two years the government's decision to force them to choose between staying on in the enterprises and reverting to their parent departments. Only now has the option had to be exercised in the case of the top-most posts in the enterprises; for the rest of the posts the deputationists have been given time till early next year to exercise their option.

But even as the elaborate procedure of exercising options and settling down to the positions of their choice is being completed, moves are afoot already for a new influx of administrative personnel into public sector enterprises in the name of preventing management gaps from arising in these enterprises in the absence of suitable alternative arrangements. The argument is being advanced with much sophistication that a cadre of professionally competent officers has not been developed for the public sector and that, therefore, it would be wrong to bar competent officers already in the government from running these enterprises. When it is suggested that gaps, if any, in the public sector could be filled by competitive recruitment from among all those, from within as well as outside government, who may offer themselves for the purpose, the objection is raised that persons employed in the government cannot be treated on the same footing as candidates from outside since they cannot be expected to give up the security they enjoy in their present posts. They, therefore, have to be treated differently from other candidates, it is argued.

Only Unifying Force!

The question of special privileges of the administrative officers is not confined to public sector enterprises alone. These privileges have been carefully cultivated by the ICS-IAS cadres as part of the effort to protect their positions in the face of the swelling ranks of professional and technical personnel in government services. This effort has been under way for long, but lately the ICS-IAS group appears to have become quite brazen about it, particularly since the Administrative Reforms Commission's report on reforms in the government's administrative structure and practices. In a circular sent out in confidence to its Members last year the IAS Association took the stand that the administrative cadres alone were "an integrating force and a unifying factor" in the prevailing conditions in the country; it had, therefore, to try to establish control over as many public institutions as possible. The leaders of the Confederation of Central Government Officers' Associations claim that the attempt to foist an IAS officer on the Instiute of Public Administration had to be seen in this light. The IAS cadre had meanwhile successfully established its position in the technical departments of the government and even in the Planning Commission. The posts of chief administrative officers in the various technical departments, such as the Bureau of Mines and the Geological Survey of India, were quietly occupied by IAS officers. In certain cases, the position of heads of these organisations too were sought to be held by IAS officers.

Besides its desire to protect its position in the face of a possible challenge from professional and technical personnel, another reason for the hasty manner in which the IAS cadre sought to spread itself was that in the period of slow down of developmental activity after the close of the Third Plan, when there was also a drive for economy in government expenditure, there appeared a glut of IAS officers. The problem had become acute for the IAS in 1968 and 1969 and this was one reason why the Cabinet decision on deputationists with public sector enterprises was kept in abeyance for two years. Apprehensive of their career interests in these conditions, the ICS-IAS officers also took great pains to protect themselves more fully than ever before, in total disregard of all other considerations. New posts of additional chief secretaries were created, the selection grade quota for the IAS was increased from 5 per cent to 15 per cent and a provision for special allowances for IAS officers in state government establishments was sought. The IAS being a state-based cadre, IAS officers get deputation allowance when they go to the centre. It is now proposed that when they return to their own states from the coveted posts at the centre, they should not lose the special allowance. Hence the special posts of additional chief secretaries, the special allowance for district collectors and the increase in the quota of selection grade posts.

Career Management: The Contrast

Career management of IAS officers has been given such meticulous care that it is now recognised as government policy that an IAS officer must get into the selection grade of Rs 1800-2200 in the 14th year of his service and that he must enjoy the status and salary of a joint secretary in the 19th year of his service. Contrast this care for the elite service with the plight of other government employees who remain in casual employment for long years without being confirmed or are put in *ad hoc* positions with the threat of reversion constantly hanging on their heads. Then there is the infamous practice of the so-called 'confidential reports' on the conduct and performance of government employees which govern their promotion and which are dexterously managed and manipulated not only for reasons of favouritism and nepotism but also for the larger purpose of maintaining the supremacy of the IAS bureaucracy. The practice of CRs has become a scandal and needs to be changed immediately.

It is revealing of the anxious state of mind of the ICS-IAS that, side by side with all this, the rod of discipline is sought to be wielded with greater energy than ever before. One of the circulars issued recently lays down that unlike other citizens no government servant can ventilate grievances in respect of the working of public utility services even when they directly effect their and their families' daily lives. According to this circular, a government servant is liable to disciplinary action if he criticises in public the working of, for instance, the government health scheme or the city transport system. There is also a move to place curbs on government servants going to court to secure redress of their grievances and to protect themselves against gross injustices. It has been noted that in many cases of this kind the judgment goes against the government. But surely that is no reason why redress in courts should be denied to government servants; on the contrary, what seems to be called for is the framing of rules which will provide for penalties for arbitrary treatment of government servants when it is established in the courts that such treatment was unlawful and wrong. Indeed, one of the problems of government administration at present is that the entrenched bureaucracy gets away with almost anything without attracting punishment for default or high-handedness. If there were penalties for wrong doing, the higher-ups in the administrative structure might conceivably exercise greater care and show greater regard for fairplay and justice.

Communism and Nationalism in India

M. N. Roy and Comintern Policy 1920-1939

JOHN P. HAITHCOX

This book on the career of Roy, the founder of the Communist Party of India, traces the development of communism and nationalism in India from the Second Comintern Congress in 1920 to the defeat of the left wing of the Indian National Congress in 1939. Professor Haithcox challenges previous interpretations of Roy's role in the development of the Indian Communist movement, and provides new material on many subjects. *Princeton Rs 85*

The United Nations in International Politics

Edited by LEON GORDENKER

Six authors, all of whom have been associated with the Centre of International Studies at Princeton University, take the occasion of the twenty-fifth anniversary of the United Nations to re-examine the UN's role and work in the world today and to anticipate its future. *Princeton $7.50*

The Future of Law in a Multicultural World

ADDA B. BOZEMAN

In a provocative discussion, Adda Bozeman attacks the supposition that world unity can be achieved through the application of Western ideals of international law and organization. *Princeton Paperback $2.45*

Oxford University Press

Bombay Calcutta Delhi Madras

BHUBANESWAR

Patnaik in the Arena

THE sweeping victory of the ruling United Front in the four by-elections to the State Assembly last month has come as a morale booster for the three-party coalition government. But in a slightly longer-term perspective, the election results may not be without some adverse consequences for the stability of the government.

Three of the four by-elections had been caused because the candidates elected from these constituencies in the last election had also won elsewhere and so had to vacate these seats. In addition, one other candidate elected last time preferred to continue in the Rajya Sabha of which he was already a member. In the by-elections, the United Front routed the Congress by retaining its two seats (Rajnagar and Koksara) and wresting the other two (Rourkela and Bhadrak) which the Congress had won by thumping margins barely six months ago.

The Swatantra party retained the Koksara seat largely due to the efforts and influence of P K Deo, the Maharaja of Kalahandi. Thus the party has established that it continues to hold sway over Western Orissa as it has done for the past two decades. The erstwhile Ganatantra Parishad, which merged with the Swatantra party on the eve of the 1962 General Elections, had till then won most of the Assembly seats from the mineral-rich western districts. These districts had been a part of princely India until their merger with Orissa in January 1948. The Utkal Congress, a state-based party founded by Former Chief Minister Biju Patnaik, retained the Rajnagar seat which had been won by party leader, Prallahad Mallik, in the last election.

Opportunistic Alliance

The ruling United Front consists of the Swatantra party, the Utkal Congress and the Jharkhand party. The Chief Minister, Biswanath Das, is a non-party man. It will be recalled that after the last elections to the state Assembly the Utkal Congress had tried unsuccessfully to form a coalition with the Congress, with the Congress leader Harekrushna Mahtab as the Chief Minister and Nilamoni Routray of Utkal Congress as the next in command. The move was nipped in the bud by the Prime Minister. Biju Patnaik's personal stock was then rather low since he had been defeated from as many as four Assembly constituencies and one Lok Sabha constituency. Eager to install his party in office, Patnaik then struck an alliance with the Swatantra party. This was unmistakably a marriage of convenience, given the differences between the left-oriented Utkal Congress and the Swatantra party.

In the elections the Swatantra party had captured 36 seats and the Utkal Congress 32. The Congress had won 51. One of the newly-elected Swatantra members opted to continue in the Rajya Sabha, thereby reducing the strength of the party to 35. Similarly, the Utkal Congress leader, Prallahad Mallik, had won from two constituencies and so resigned from one, reducing the strength of his party in the Assembly to 31. The two parties thus had a combined strength of 66 in a House of 140, which was still five short of an absolute majority. The Jharkhand party, which stands for a separate state for Adivasis comprising the contiguous tribal areas of West Bengal, Bihar, Orissa and Madhya Pradesh, was therefore roped in, but only after one of its four MLAs broke off to be an 'associate member' of the Congress and sit in the Opposition. And so, with the support of three Independents, the three-party United Legislature Party was formed in late March with a combined strength of 72 members.

There still remained the problem of agreeing upon a leader. With Biju Patnaik outside the legislature, the Utkal Congress could not project anyone whom the Swatantra party would accept as leader of the alliance. Similarly, the Utkal Congress would not agree to R N Singh Deo lest that should tarnish its left image. Eventually the choice fell on Biswanath Das, the 82-year old former Governor of Uttar Pradesh, who had been Orissa's first Prime Minister (as they were then called) in 1937. Das was not, however, a member of the Assembly and so had to be elected to the Assembly within six months. It is against this background that last month's by-elections in which two of the seats were contested by the Chief Minister (Rourkela) and Biju Patnaik (Rajnagar) assumed special significance.

The Congress had nursed hopes of defeating the Chief Minister and bringing down the six-month-old ministry. Perhaps to suit these designs, a new Governor, Sardar Jogendra Singh, had assumed office in succession to S S Ansari. Ansari, it will be recalled, had refused to yield to the pressure from the Congress leader, Harekrushna Mahtab, that he be invited to form the ministry after the last election. The Union Government had been equally unhappy about the way Ansari had earlier handled the resignation of the Singh Deo Ministry which had led to the imposition of President's rule. But wranglings within the state unit of the Congress, want of proper leadership, the poor shape of the party's election machinery and, finally, the faction-fight between rival groups in the Rourkela unit of the INTUC prevented the Congress from winning this crucial seat. The Congress candidate was the Convenor of the party's state unit, Binayak Acharya, who is also the Leader of the Opposition in the state Assembly. The Congress High Command itself had chosen him to stand against the Chief Minister. In the last elections, the Rourkela seat had been won by the Young Turk leader, Shyam Sunder Mohapatra, by a flattering margin of nearly 13,000 votes. This time Binayak Acharya polled 19,456 against 21,308 polled by the Chief Minister.

Unsettling Factor

At Rajnagar, Biju Patnaik romped home with a record-breaking tally of 54,689 votes against his only rival, Dhruba Charan Routray of Congress who polled only 19,942 votes. In the last election the Utkal Congress had won this seat by a margin of only 5,000 votes. The massive Congress defeat was all the more unexpected because the party had the support of both CPI and the PSP. To add to the party's disgrace, the Bhadrak seat, which had been won by Mahtab only six months back, was wrested by the Utkal Congress. The Utkal Congress once again put up Balaram Sahu who had been defeated by nearly 11,000 votes last time. Sahu, however, avenged his defeat by polling 21,491 votes against 15,504 polled by the Congress candidate, Prafulla Kumar Samal, a student leader.

With the results of the by-elections, the United Front now has a strength of 77 against 63 of the combined Opposition. The break-up of the Treasury benches is Swatantra 37, Utkal Congress 35, Jharkhand 3 and Independents 2, including the Chief Minister. The Opposition line-up is Congress 51, PSP 4, CPI 4, CPM 2, Jan Congress 1 and rebel Jharkhand 1. So on the face of it, it might appear that the position of the coalition Government has been significantly strengthened. In fact, however, the election results might have quite the contrary impact.

Paradoxically enough, the major unsettling factor is the entry into the Assembly of Biju Patnaik, the architect of the coalition. Out of office since he resigned under the so-called 'Kamaraj Plan' in October 1963, Patnaik has been nursing his ambitions of returning to Chief Ministership. Now, armed with the massive mandate of the people and with the support of the 34 other members of the Utkal Congress and the three members of the Jharkhand party, who are nearer to him than to the Swatantra party, it would be very unlike Patnaik not to make a bid for power.

Observers have noted Patnaik's recent statements that there were no ideological differences between him and Indira Gandhi nor between his party and the Congress. He has made no secret of his desire to return to the Congress if only "obstacles like Nandini Sathpathy and Harekrushna Mahtab were removed" — to use his own words. As an alternative, he is also toying with the idea of bringing together the Utkal Congress and the Orissa unit of the Swatantra party (which in any case was a state party known as Ganatantra Parishad until 1962) to form a state party on the lines of the DMK in Tamil Nadu. However, so as not to cause too much alarm Patnaik has proclaimed that he was in no hurry to hold high office and that he is satisfied with the chairmanship of the reconstituted State Planning Board. But not even Biju Patnaik's most ardent admirer would believe that Patnaik has so completely lost his appetite for power.

KERALA

Congress Takes Over

M S

THE leaders of the CPI-led Front and those of the Congress have, after several weeks of tortuous negotiations, agreed upon the terms of the latter's induction into the Achutha Menon Ministry and the new ministers have been sworn in. The state CPI's last-minute and somewhat sudden decision to climb down on the issue of the size of the Cabinet and to accept the Congress's demand for a compact ministry of 13, ended the stalemate. The common fear that if things were allowed to drift the CPM might take advantage of the situation certainly helped to induce the CPI and others concerned to realise the need for a quick settlement. In return for the good sense shown by the CPI, the Congress agreed not to press for the Deputy Chief Ministership and also to give up its demand for the Industries portfolio in addition to Home already conceded by the Muslim League. Thus an altogether new phase in the politics of Kerala begins with the Congress overtly participating in a Ministry formally led by the CPI, a pattern not seen elsewhere in the country. Does this new development improve the prospects of survival of the Achutha Menon Ministry? Or does it portend problems and difficulties for the Ministry which has thus far been able to function with a measure of cohesion and mutual understanding among its partners, rather unusual in the volatile politics of the state?

On the face of it, it would appear that the prospects of stability of the Ministry have brightened. The leaders of the CPI-led Front, who had reason to be unsure of the Congress's continuing support so long as it kept out of the ruling coalition, have at last the satisfaction of seeing that party lined up beside them. Yet, despite the superficially reassuring signs, it would perhaps be not correct to say that all is going to be smooth sailing for the Achutha Menon Ministry.

Fight for Ministerial Stakes

The prestige of the Congress on the one hand and of the CPI-led Front on the other has tended to suffer somewhat on account of the zest with which both of them fought for ministerial stakes during the several weeks of hectic negotiations. While the Congress with its numerical preponderance tried to establish its supremacy in the expanded ministry, the partners of the CPI-led Front fought every inch of the ground in an attempt to retain their hold on important portfolios even while admitting the Congress into the ministry. The CPI in particular, which had been privately hoping all along that the powerful and vocal youth wing in the Congress would eventually succeed in preventing that party from joining the ministry, showed the most determination in the attempt to prevent the Congress from seeking to undermine its leading position in the Cabinet. This was evident not only in its stubborn opposition to the creation of the post of Deputy Chief Minister for the Congress, which it thought would dilute the role of the CPI Chief Minister and create a dual centre of power within the Ministry, but also in its dogged reluctance to hand over the lucrative Industries portfolio. Obviously, with the ninth congress of the party less than a few weeks away the CPI did not wish to surrender this crucial portfolio and to suffer the implied loss of stature. The Achutha Menon Ministry is as much a feather in the cap of the CPI on the eve of its ninth party congress as the then Namboodiripad Ministry was at the time of the extraordinary congress of the party in 1958. Similarly, though the Muslim League quickly agreed to give up the Home portfolio to the Congress, the remaining partners of the Front, the RSP and the PSP, were determined to hold on to the crumbs of office in their possession.

Thus it is in an atmosphere suffused with politicking of a fairly malodorous sort that the Congress has joined the Achutha Menon Ministry. The important question now would be whether the partners of the expanded Cabinet would be able to function with the necessary cohesion once the dust of controversy settles down. However, from the look of things this is perhaps too much to expect. Sooner or later, the Congress's dominating strength with 32 MLAs as against the 37 of the CPI-led Front as a whole, is likely to give rise to the same charge of 'big brother attitude' against it as was levelled against the CPM in the former Namboodiripad Ministry and, on occasions, even against the CPI itself in the present Achutha Menon Ministry. Already once during the painfully long negotiations the CPI demanded in frustration that the Congress should form a ministry on its own, with the CPI-led Front supporting it from outside. If differences arise in the ruling alliance, which prospect is made likelier by the bitterness and hostility generated over weeks of discussions, the Front might again threaten to quit. Charges of corruption, an issue of baleful potentialities for any ministry in Kerala, may also raise their ugly head and cause mutual discord among the partners of the alliance. In all this, the Congress's handling of the crucial Home portfolio, particularly its attitude to questions of law and order in CPM-sponsored agitational campaigns, coupled with other controversial issues such as the implementation of the Maintenance of Internal Security Act, handl-

ing of the Naxalites, etc, would play their part. The attitude of the Youth Congress, which despite its formal acquiescence at the behest of the all-India leaders of the party is still not too enthusiastic about the party joining the ministry, would also matter a great deal. It is likely to show its impatience for change even more sharply, now that the Congress is part of the ministry and would demand that the party steal the radical thunder of the CPI. The practical difficulties of doing so, coupled with the question of mutual relationships within the Cabinet would subject the Congress ministers to difficulties which the Youth Congress, in its happy divorce from the realities of power, is unlikely to appreciate fully.

The attitude of the CPI to the whole issue of Congress participation in the ministry eloquently demonstrates the dilemma facing it. With the ministry surviving at the mercy of the Congress, the unexpected legacy of CPI's decision to forsake the CPM and join hands with the Congress in the mid-term poll of September 1970, the question of its actual participation in the ministry had to arise sooner or later. However, the need to retain what little political credibility that it has does not permit the CPI to move too close to the Congress. Hence, the humming and hawing by the party. Available evidence suggests that the party is not wholly reconciled to Congress participation in the Government even now. It sought to justify the move by pointing to the progressive character of the Youth Congress in Kerala, in marked contrast to the Congress in the rest of the country. As though this was not enough, the party also sought to demonstrate its *bona fides* to the public and to a section within itself which has always been critical of hobnobbing with the Congress, by adopting a resolution calling for the formulation of a time-bound programme for implementation by the expanded ministry. However, by further adding that it was never the intention of the party to form an anti-CPM front in Kerala, the CPI made an ill-concealed bid to make its peace with the CPM, in the event of the Congress deciding to dispense with it. Thus, the CPI is compelled, by its own policies and postures, to mediate uneasily between the 'sectarianism' and 'adventurism' of the CPM and the still incomplete 'revolutionary character' of Congress.

As far as the Muslim League is concerned, ever since it was rebuffed by the Congress at the ministry-making stage following the 1960 mid-term poll for the state assembly, its attitude towards that party has been tinged with suspicion. Yet, except in 1967, when E M S Namboodiripad successfully roped it into his anti-Congress united front, it has generally been more favourably disposed to the Congress than to any other party. With the Congress firmly in saddle at the Centre, and showing unexpected chances of recovery in Kerala, there is all the more reason for the Muslim League to move closer to it. As the party of a minority community, the Muslim League can best expect justice from the Congress, the ruling party at the Centre and virtually the ruling party in Kerala. Hence, its consistently correct attitude on the Bangla Desh issue and its fairly quick decision to surrender the Home portfolio to the Congress in the event of its joining the ministry.

CPM Strategy

The RSP has travelled a long way since its equivocation towards the ministry over the issue of the support of the Congress which it did not then consider to be progressive enough. It has not only joined the Ministry knowing fully that it survived at the sufferance of the Congress, but has now made every attempt to stick to its ministerial position even in the event of that party actually joining the ministry. The PSP, a party of only 3 MLAs, but of crucial significance to the Achutha Menon Ministry in view of its razor-thin majority in the Assembly, also showed an awareness of its importance during the negotiations and may be expected to continue to do so in the future.

The CPM, still the largest single party in Kerala, despite the Congress's impressive showing in the last mid-term poll for the Assembly and the more recent Lok Sabha poll, has been declaring that the only correct course open for the CPI would be to repudiate its line of collaboration with the Congress and take its place among the democratic left opposition forces in order to participate in joint struggles. The CPM is convinced that the CPI's continued association with the Congress, which is being compelled by the pressure of events to display its reactionary character more and more openly, cannot but lead to its own isolation and still further expose its pretensions of being a Marxist-Leninist party. Ever since its ouster from the government in October 1969 and its defeat in the mid-term poll of September 1970, the CPM has shown less anxiety to prop up an alternative ministry than to unleash agitational campaigns calculated to embarrass the ministry led by its erstwhile revisionist partner and to maintain its party organisation in readiness to face the next poll when it comes. Its recent campaigns over the tax burdens, price rise, 'black laws', etc, while not oversuccessful, have nevertheless provided fresh evidence of its considerable mass base and organisational capacity. Thus the party would surely take a hand in shaping the agitational campaign now in the making among sections of students, teachers, government servants and industrial and toddy workers. With the Congress holding the Home portfolio, the CPM should not find it too difficult to precipitate a major law and order situation and to seek to accentuate the contradictions among the partners of the ruling alliance, particularly the Congress and the CPI.

Thus the balance of political forces in the state continues to be delicate, appearances to the contrary notwithstanding. A look at the disposition of political parties in the state assembly would bear this out. The ruling alliance, with the 32 MLAs of the Congress as its pivot, has a strength of 72 in an Assembly of 134. This includes the two MLAs of the recently formed Congress Socialist Party which consists of politically unstable elements. The opposition, with the 32 MLAs of the CPM as its pivot, has a strength of 62 including 13 of the Kerala Congress and 3 of the Congress(O). In order to place the majority of the Achutha Menon ministry in doubt the CPM needs only to win over some 6 MLAs—not an impossible proposition considering the fickleness of political loyalties among socialists of various hues in the state and the rapidity with which alignments could change in the face of a crisis over some important issue or other inside the state Assembly or outside it.

What has now come into existence in Kerala is virtually a Congress ministry, despite the CPI's success in temporarily retaining its formal leadership. Thus, ironically, the wheel has come a full circle on the CPM's attempt, during the fourth general election, to organise a broad based anti-Congress united front and the Congress party finds itself once again in virtual control of political power, with the CPI for an embarrassed partner, capable of being thown out of the ministry and left to the tender mercies of the CPM at any time of the Congress's choosing. This is perhaps not an enviable lot for the CPI but it is no more than the logical consequence of its desperately unsuccessful and rather make-shift efforts to find for itself an independent political identity in Kerala following the split in the united communist party in 1964.

DROUGHT RELIEF

A First-Hand Account

Balmohan V Limaye

Madhav D Rahalkar

PAITHAN taluka, which lies on the left bank of the river Godavari in the Aurangabad district of Maharashtra, comprises 184 villages. Of these, an overwhelming majority, *viz*, 172, are rabi crop villages. Situated on the leeward side of the Western Ghats, the region is frequently subjected to drought. This has been one such year. When, in May, the 'Anewari' went below the prescribed lower limit, these villages were declared 'scarcity areas', and when till August 12 only 43 mm of rain had been received, hopes of natural reprieve faded. There was only a little rain in the last week of August and almost no rain thereafter. Even such kharif crop as there was, was thus lost and both landless labourers as well as most small farmers were driven to the only other means of making a living: employment in government relief works. Paithan is thus part of the drought relief programme instituted by the State Government. In fact, it has become a political tradition for Government to respond to drought conditions by starting some kind of relief works. To call it a programme would imply planning of the sort of projects most required in the area as well as a systematic way of distributing work and payment. Our observations, alas, suggested that such project planning and thoughtful execution simply do not exist.

We went to Paithan out of curiosity. What did a drought mean in terms of everyday living conditions? During our visit, which lasted from September 20 to 24, we were able to see 'relief operations' as well as some of the regular PWD work at close quarters. The following is an impressionistic account of this trip. We merely list some of the feautres that were obvious to the eye and which didn't always 'fit'.

The Collector of the district co-ordinates the various segments of work manned by the Zilla Parishad through the Panchayat Samitis in the talukas, by the Irrigation and Power Department, and by the Building and Communications Department. In Paithan taluka, the relief work consisted of bunding, road building and creating a catchment of water (Pazar *tâlao* or tank) to increase the flow of water to nearby wells. Besides, work on the right-bank canal of the huge Jayakwadi dam was undertaken in the middle of August. Since the only work that we could see in progress was road and canal building, we shall restrict ourselves to these. As of September 10, earth work on roads of a total length of 88 km had been completed, at a cost of Rs 2.39 lakhs. As against this, the sanctioned road length had been 188 km expected initially to cost Rs 13.30 lakhs. Why this disproportionately low expenditure on the constructed length of road? We were told that rural estimates of distances between any two given villages vary and that cost estimates were not be taken seriously. We also found that quite a few of these relief roads converged on one village, Balanagar, which happens to be the village of the chairman of the Paithan Panchayat Samiti.

Gentlemen's Agreement!

How do the authorities set about organising the work? When it is decided as to which two villages a road is to link, the next task is to acquire the land for this purpose since the road usually cuts through several farms. If the land revenue is one rupee per acre, the compensation for this acquisition is about Rs 1,000 per acre. But as the land is generally saleable at Rs 5,000 per acre, farmers are reluctant to let a road pass through their fields. It must then depend simply on who has more weight and prestige. Obviously the authorities do win out. But in Katpur village, we saw the road painfully winding its way around particular fields (the local word for such detours is *golai*). On investigation, we found these belonged to members of the family of a state minister. When we talked to an official in Paithan about the existence of a conflict of interests, he merely maintained that it did not really exist; in fact, the magnanimity they portrayed was incredible: people, they said, would willingly let a road pass through even standing crops.

Building a road involves digging up earth on both sides, dumping it on the proposed road, and flattening it down to make a hard surface. Usually a man digs and his wife dumps the earth. The scheduled rate for both operations combined is Rs 1.35 per cubic metre which is equivalent to Rs 3.80 per brass (100 cubic feet). A part of road construction has been assigned to a private contractor (thekedar or guttedar) who has been asked to pay labourers at this rate or at a minimum of Rs 3 per brass. What if some contractor didn't pay a labourer his due share? Was there an assured legal or other remedy? The answer was no. It was "a gentlemen's agreement". We saw this gentlemen's agreement at work. In Katpur village, in the week we were there, the labourers were paid Rs 2.50 per brass, and the rate in a previous week, we were told, had been lower at Rs 2.00 per brass. It is not that people are paid at a formally lower rate. Where they lose out is on the measurement or assessment of work done.

Starvation and Suicide

We found that the villagers, including their mukadams, know absolutely nothing about the metric system of measurement or about proportionate calculation. They only know what a brass is. Some of them even believed that there must be a different metric brass, and the announced rate which seemed unjust must refer to that as at the end of the week they got paid less. They look with awe at the binoculars used by an overseer to look at a pole held in the bed of the canal and measure depth. They have, we found, little clue as to how much they have worked in a week and how much they should expect at the end of it. Some of them said that at times they had worked more but were paid less and at other times been paid rather more after having worked less. It was appalling to see the official indifference to this. Nobody had tried to explain to the labourers what length a metre is, or how to gauge the volume of a trapezoidal solid (which is what the canal is). Nobody seemed to see the point of doing so either.

Nor is it simply in terms of due rates that relief is failing to reach the people. When we were there, very little work was actually available. On the average, a couple could secure work for only 3 days in a week — and that too for not more than one brass per day. If you take into consideration the young children and the old members of a family and the current rate of jowar (Rs 6 per *payali*), it becomes obvious that the people are half-starved. They

talked about hunger deaths or suicides if this situation continues. Villagers also complained about uneven distribution of the available work and, of course, of favouritism. On the day we were there, a contractor distributed the available work, worth Rs 100, among eight couples, leaving the other five score people who had arrived from surrounding villages to roam about with nothing to do. And that must be a usual feature. Most people walk to the site of work from their own villages, thus walking anything between two to four hours a day in addition to their hours of work.

Chasing the Tikli

Work and payment practices are by no means standardised, but people seemed used to this as even in the routine projects in the area unaccountable variations and exploitation of labour are endemic. The enormous Jayakwadi dam project across the river Godavari, which is going to be the biggest irrigation dam in Maharashtra with a capacity of 3,600 cubic feet of water flowing in the canals per second, offered some interesting examples. The left-bank canal — i e, the one on the same side of the Godavari as Paithan — has been under construction now for a few years. Structurally, a canal should run perpendicular to the dam, flowing along the slope determined by the river itself. But the left-bank canal doesn't quite do that. Also, just near the gates of the canal it passes through a siphon and an aqueduct in order to cross two natural streams. But these two streams meet a little distance further, so that if the canal were to be made slightly closer to the river it could have crossed just the joint stream needing only one structure worth about Rs 13 lakhs in place of the two structures (a siphon and an aqueduct) that have had to be built costing Rs 22 lakhs. Was this lack of planning or a deliberate attempt to avoid crossing a certain large piece of land belonging to the family of a political VIP with statewide stakes?

The left-bank canal work has been distributed among private construction companies, each getting about a mile or so of it. These companies in turn have assigned the work to smaller contractors (thekedars) who directly employ labour. Among the labourers, there are mukadams who normally do no physical work but get the work done. We found that a male labourer here was paid Rs 3 a day (8 hours). Till some months ago, even a woman labourer used to get similar daily wages; but now a curious system called *"tiklya"* prevails for them. The customary work for women is carrying and dumping of earth from one place to another. We saw women carrying metal trays full of heavy earth from one bank of the canal to the other, running down one slope and then climbing up the other bank—a distance of about 100 feet. As they dumped the earth on that side, a small metal token (*tikli*) was thrown in their tray. Then they wuold run back to make the second trip. At the end of the day these tokens are counted. Each token, we found, was worth one paisa! One hundred such trips, with this long lead, to earn one rupee. We were aghast. Women with babies only 6 months old were working thus in the scorching heat of the Marathwada sun.

Was the rate completely unrelated to the distance to be covered? The thekedar explained that if the distance was too much, the women were given two tokens per trip. When we probed further, the labourers told us that it was only in the last hour of the day, when the women were exhausted and were ready to go home that the contractor used this two-tokens-a-trip 'incentive' to induce them to stay. We also discovered how arbitrarily changes in the wage rates are made. While we were there, the rate of one rupee for 100 tokens was reduced to 75 paise for 100 tokens. The labour was simply told that if they were willing to work at the new rate they could do so or please themselves and leave. Needless to say, with the abundant supply of labour, the famine conditions and the absence of other work meant that nobody left. Similarly, lack of organised labour means that different people get different rates for the same work. On the same site of work on a canal, two women making these trips side by side are not necessarily paid the same amount. If they 'belong' to different thekedars, one gets 88 paise for 100 tokens, whereas the other 100 paise.

The right-bank canal work was started in the middle of August as part of the relief work programme. There are no private thekedars here. The length of the canal is divided into 20-metre sections and one section is assigned to a gang of about 50 people belonging to a single village. One of them who has had primary education is made their chief (mukadam) and he supervises the work. A number of overseers measure the work done. Above them are two deputy engineers and one executive engineer. The work consists of digging up the trapezoidal canal and throwing the clay and the hard murum at a distance of about 50 feet on either side of the canal. The rates for this work are good on paper. They are Rs 1.80 per cubic metre for clay and 'Rs 2.30 per cubic metre for murum, as against Rs 1.35 per cubic metre in road construction. The work done by a gang in a week is measured at the end of the week and the total money earned given to the mukadam. He is to distribute it equally among the members of the gang (including himself). For the week, September 13 to 18, the earnings of a few gangs were as follows:

Mukadam	Village	Rupees per Day	
		Men	Women
Mohammad Pathan	Tandulwadi	1.65	1.25
Laxman Rambhan	Kavsan	1.40	1.10
Prabhakar Bheemrao	Sonewadi	1.85	1.35
Ravsaheb Dagadu Girji	Tandulwadi	2.60	1.85

We found that the maximum a man earned was Rs 2.75 per day whereas the minimum was Re 0.55. Allowing for differences of capacity to work and organise among the various gangs, it is still surprising that the average rate per day per man was nowhere near the Rs 3-4 claimed by the officials in Paithan. The reason given for this low rate was the standard one: they don't work hard. Well, we saw them work. And they do work hard. It is impossible not to. At the going price of jowar—and they subsist on jowar *bhakris* and chutney—and given the dependents at home, they cannot but work hard.

As we were about to leave Paithan taluka, the rains came. The villagers were overjoyed. "This is no rain, this is *amrut* (nectar)." Yet, even if there is some rainfall now, they would need the employment for three more months. The crop cannot have been unaffected by the drought and besides there can be no real work in the fields until the crop is a foot tall. If the rains are nominal for the crop output, relief work will have to be extended for many more months. Has the Government the vision, or even the commitment to start with, to plan and execute such a programme? These areas have been chronically affected by drought and yet the choice of projects for relief work lacks responsible planning. When there are no rains for 2 to 3 months, a survey is hurriedly made for roads to be built. In most cases the villagers claimed they did not need the roads. They needed wells. For villagers it is hard to decide where the wells should be dug as that requires some knowledge of soil structures and water tables. This the State could well undertake through consultants. True location would still pose a problem of intra-village feuds, but these surely can be thrashed out with the co-operation of the villagers. After all, even today solutions are imposed on the villagers on the excuse of the dire famine and scarcity conditions. The wells would at least increase agricultural productivity.

We were struck by the lack of organisation among the labourers themselves, despite the appalling terms and conditions of work. At many places they asked us whether we belonged to some union. They seemed eager to contact trade union people. They have no political organisation and, in the prevailing labour 'surplus', there is no minimum value their labour can fetch. As we were bicycling from Paithan to Katpur, we met a regular PWD road maintenance worker. He told us that till that day the rate was Rs 4.21 per man and Rs 3.35 per woman per day, and that from the following day it was going to be Rs 2.50 per man and Rs 2.00 per woman. No reasons had been given. He seemed at a loss as to how to cope with the changing situation.

COLLIERIES

Alternative to Nationalisation

D C Kale

THE scare regarding nationalisation of coal mines has not yet died down, in spite of almost eight weeks having passed since it first took root. The travelling symposium on the coal industry held its last meeting in New Delhi in late August, and everybody attending it seems to have gathered the impression that Government was bent on taking over coking-coal mines immediately. The effects were immediate, but not profound. In mid-September, the Minister for mines said in Bokaro that government was not likely to nationalise coal mines immediately, but his remarks lacked credibility and were only politely accepted at face value. The uncertainty can only make the situation worse and can bring about very undesirable effects. The Minister went on to threaten that Government would not stand idly by if colliery owners were to let their collieries got flooded (this is the worst time for flooding) or started taking out mining equipment or laying off workers. Once again, these threats could only have been received with sardonic disbelief by the hard-headed colliery owners. The plain fact is that as things stand today, government lacks the power to do anything in the matter or even to get reliable information. It would be no exaggeration to say that collieries in the Jharia and Raniganj fields could get away with practically anything before government even comes to know of what is afoot.

To start with, virtually every government official is in the pay of, or substantially obliged to, persons in and around the coal industry. This is true of both Bengal and Bihar. This includes inspectors of all kinds — safety, provident fund, labour relations — as well as police, revenue, railway and sales tax staff. This may sound a broad and sweeping statement but one has to accept it as a fact of life in the coalfields. (It may surprise readers to know that even forms for renewal of the road permit for vehicles, or for submission of income-tax returns, are *sold* by the 'concerned clerk' for as much as Rs 2 in Bihar.) There are famous collieries which have mostly second-grade coal seams, yet which have been selling 'first-grade' coal for years, complete with independent test/analysis certificates of wagon-loadings. In short, unless a complete purge of hundreds of minor and major officials can be put into effect, government may as well forget about making empty threats. Even then, there is always the possibility that the collieries will corrupt newcomers in a short time.

To look at the genuine difficulties of colliery owners, they are faced with three major obstacles to planned progress, even if they wish to achieve it. Firstly, the lack of an assured market over the long term. This aspect has been aired thoroughly in recent months, and unless a firm policy decision is taken in favour of utilisation of coal in selected industries over the next, say, 25 years, this will remain the root cause of the industry's ills. Secondly, the labour situation in the coalfields is about as bad as it can be. Wage Boards and liberal awards notwithstanding, labour is irresponsible in the extreme, insatiable in its demands, and poorly led. It does not help matters that employers adopt underhand methods to pay a man less than his due, nor that union leaders are ever ready to accept gratifications from employers. Barring a few honourable exceptions, one can say that morality in the matter of labour relations is unheard of in the area. Thirdly, the industry has suffered for want of wagons for years and years. Even when it produces enough coal, the industry cannot despatch it; like the quality of mercy, coal can bless him that gives, and him that receives. Today both sides are suffering because railways have failed to measure up to the demands made on them. They have failed to make wagons available; they have failed to control their staff, which resorts to strikes and go-slow tactics at the slightest excuse in this area: and they have failed to check corruption and thefts. Railways have lost valuable freight, and an artificial shortage of coal has led to profiteering by opportunists.

It is doubtful if nationalisation of coal mines can do anything about coal demand or the railways' ineptitude, and hence it is doubtful if it will achieve anything except increasing the labour bill and thereafter the price of coal. The principal justification for nationalising would be the preservation of limited reserves of coking coal. This can be achieved by adopting an open strategy on the following lines:

(1) Setting a realistically high target for coal over the next twenty years. This should cover non-coking as well as coking coals with a slight edge provided for non-coking coal in order to encourage its use.

(2) Amalgamation of small and contiguous areas, which will allow coal seams to be worked in a more scientific way should be encouraged or enforced. It will then be possible to reduce the coal left as pillars, and larger outputs from single collieries will reduce costs of production. This measure has been under "active consideration" for a long time and action is overdue.

(3) Gradual mechanisation, using not necessarily the most advanced automated equipment but more reliable, sturdy and locally made coal-cutters and conveyors. This will have the additional benefit of boosting manufacturing units in the area, including the ailing MAMC at Durgapur.

(4) A firm commitment from the government that it will *not* nationalise any of the mines adopting (2) and (3) for another

25 years, and then only after giving ample warning. As a corollary, collieries which do not act purposefully can be merged or taken over, without further warning.

(5) Public financial institutions should help collieries liberally, but they must retain voting rights and demand follow-up of the steps promised at the time of taking loans.

It is hardly necessary to state that this strategy will not work in patches. Nor will it work if government is suspected of going back on its words, particularly regarding nationalisation. This is the crux of the matter.

There is ample money in the coalfields. Unfortunately, much of it is unaccounted money: it has to be, since it is used largely for bribing various parties. Two communities are particularly to blame for the spread of corrupt practices in the area. This has the effect of widening the gulf between rich and poor in the coalfields to unbelievable proportions, and gives rise to great bitterness. Bigger and better organised units, with professional managers, can do much to curb this evil and to bring some semblance of business ethics into this troubled area.

Government can certainly enforce amalgamation of suitable areas, and set up companies to start practically *de novo*. However, a single corporation will have the same fate as NCDC, with every good intention lost in the tabernacles of so-called decentralised working. There are not sufficient men of calibre for another giant corporation. Anyway another giant corporation is strictly unnecessary in the present circumstances. Let the industry reorganise itself at its own cost, but with a fair chance of making profits. It has the ability to do so but not the will. Surely, a strong government can provide that?

The Drugs Muddle

M D Nalapat

THE control on drug profit ratios has had predictable effects: (a) flight of capital from drug manufacture; and (b) increasing management attention paid to non-drug (and inessential) lines. Both these effects are manifesting themselves.

The alien companies are removing hefty chunks of capital from the industry. On average over 25 per cent of the invested capital was removed in 1970-71. Pfizer, for example, *raised* its dividend (to Rs 100 lakhs) even while its net profits *fell* by Rs 38 lakhs (to Rs 150 lakhs) in 1970-71.

As for the shift of attention to inessential lines, companies like Warner Hindustan and Richardson Hindustan are rapidly developing into Hindustan Lever-type consumer goods marketeers. There is thus a very strong case for discontinuing the benefits enjoyed by them for being in a priority industry.

Apart from distributing excessive dividends, the drug companies made no effort at broadening their ownership base in India. The present (overwhelmingly foreign) shareholders are however frequently rewarded with, besides dividends, bonus issues. Richardson Hindustan, for example, issued bonus shares last December on a two-for-five basis. The company then declared the same *rate* of dividend, thus paying out 40 per cent *more* dividend income to each shareholder.

These problems could be mitigated by

(a) *Dropping the limit on profitability ratios* and bothering about prices instead. We could fix sensible prices for the drugs and let the efficiency of company executives determine the profit ratios of their companies. Simultaneously, to prevent lowering of production volume as a response to lower prices, we could :

(b) Curb production of inessential items by the drug companies, asking them to spend their money on improving the range and quality of their drugs.

(c) Levy a penal, progressive surcharge on *dividends* in excess of (say) 15 per cent on capital, even while:

(d) Blocking the issue of bonus shares or resort to rights issues (although this is preferable to the first alternative). The companies would thus be forced into a horizontal expansion of shareholding if they want to raise dividend quanta without being bit by the surcharge.

There is one loophole leading to excessive profits that has been fully exploited by the companies. This is their overcharging on branded ethical products. It is to perpetuate this that the companies hire and send out hundreds of medical representatives to tout their particular brands. The profits made are of course well worth this expense. Tetracycline, for example, was offered for sale to the US Army by Bristol Co for 17 cents a capsule, while its production costs were under 2 cents per capsule. For most companies, the bill for advertising and sale comes to many times that for production — an expense that has to be needlessly footed by the consumer.

To remedy the situation, it may be suggested that:

(i) We ban the sale of all branded ethical products by the companies, forcing them to market each item under its generic name.

(ii) We set up a standards institute for drugs that would examine the products of companies and permit them to market their products provided specific quality levels were maintained.

(iii) Companies be barred from selling or otherwise distributing those items in their range that are judged substandard by the Institute proposed above.

(iv) Wherever possible an ABC system could be adopted by the Institute, to mark off drugs of a given type (but produced by different companies) that are (C) just up to standard; (B) above standard; (A) much above standard. These and similar ratings of the Institute could be used by the companies to justify prices that are higher than the general level towards which competition makes them tend.

(v) In drug manufacture the main determinants of quality are the bulk materials from which the drugs are processed out. As far as is feasible, the import, home production and distribution of these materials should be in the public sector. When individual brands vanish the price of these bulk materials will be the major cost component and the largest determinant of final product prices. At this stage the prices of these bulk items could be greatly reduced. To ask the STC, for example, to reduce its bulk prices *now* would mean denying the STC its pound of flesh from the drug trade; for there will be no incentive for the companies to lower their product prices as a *quid pro quo*.

(vi) We could also utilise a successful technique of the European countries, who have refused to award patents on *products*, awarding them instead on *processes*. If a company discovers a new drug, it should not have the monopoly of production of that drug under the Patents Act. If another company is able to develop a new (and perhaps better and cheaper) process for producing that drug, it should be allowed to manufacture it. This would aid the drug companies in developing better processes and in keeping a wary eye out for competition.

DAR-ES-SALAAM

The Struggle in Mozambique

A K Essack

IT was on September 25, 1964, that FRELIMO (Mozambique Liberation Front) militants launched their armed struggle by simultaneously attacking Portuguese strongholds all over Mozambique, and guerilla warfare took root. Samora Machel, President of FRELIMO, in his commemorative message celebrating the seventh year of the struggle has said, "A year is ending when our struggle has been consolidated and expanded. With the seventh year our certainty of victory grew and with it the confidence of our political line". And revealing the successes, as well as the tasks and problems ahead he continued, "Three provinces are at war but six others are not. More than a million Mozambicans are living in freedom but another seven million are enslaved. About a quarter of the territory is free but three-quarters has still to be liberated. The schools, the cooperatives, the hospitals, everything which has been created and growing in our country was because of the 25th September .... but there are many unresolved problems in the liberated area. The medical care is not sufficient; the number of schools is far from meeting our needs and production still falls short. We feel that there are shortcomings in our political work".

FRELIMO had originally launched its armed struggle without a vanguard party and without a clear-cut ideology. All that the militants were united in was that the armed struggle should be launched and the Portuguese oppressor should be dislodged. What society was to arise from the ashes of the old was not clearly thought out. However after seven years of armed struggle there has been increased recognition that in such a protracted war the people must be revolutionised. Machel is convinced of this, for he says, "The seventh year started with the transformation of our armed struggle into a revolution with intense battle to create a new mentality. The seventh year was the point of departure of conscious development of the nature of our organisation; of its development into a vanguard party with a vanguard ideology."

The first phase of the struggle was characterised by the liberation of the provinces of Niassa and Cabo Delgado and the consolidation of base areas. It also witnessed the phenomenal growth of the people's armed forces from a mere 250 combatants to a guerilla army of over 10,000 which tied down a force over six times its own strength. But precisely because of this growth, a fierce class struggle broke out within FRELIMO between those who only wanted to replace the Portuguese and those who wanted to end all exploitation. It ended with the rout of the Simango-Kavanfame faction and the victory of the forces of revolution. As a result of this struggle the Mozambican Revolution was able to vitalise itself and forge ahead.

The decision by FRELIMO to transform itself into a vanguard party with a vanguard ideology has come not only from its own practical experience, but also from the experience of countries like China and North Vietnam, where protracted people's wars resulted in a victory of the revolution because the national fronts were led by vanguard parties with a revolutionary ideology.

The move towards an ideologically-based struggle is usually the result of the recognition of the grim reality that in the early phases of the struggle it is the people who are outnumbered; it is they who have insufficient experience. It is the rulers who have superiority in arms, firepower and intelligence systems. They also have greater international support. All the guerillas have are the people, who have to be philosophically and militarily made conscious. What this means has been put very aptly by Machel when he comments that, "We are in a position increasingly to transform our growing political consciousness into a material force which will crush the enemy no matter how powerful he may be". It is this growing consciousness which has heightened the peoples vigilance, exposed subversive infiltrated agents and defeated the enemy's offensive.

One of the three tasks which Machel lists as vital in the coming period is to enhance the political consciousness of the cadres. He says, "Cadres are decisive in the implementation of our political line, our ideology. Those who have waged an internal battle against the vices and shortcomings of the past, those cadres who have already assumed our new mentality, those who hold the revolution close to their hearts, who create new ideas and fresh initiatives amongst the masses and fighters are the most vital representatives of FRELIMO. Intensifying work amongst the cadres means in fact creating conditions for stepping up ideological work among the masses ... this can only be achieved through the method of combining the practice of combat and production with study, ensuring regular discussion, criticism and self-criticism, not falling into routine, combining study with practice".

And warning against the growth of a bureaucracy, which has become a major problem in many African states, he says "We must use the democratic method of leadership, so as to reach decisions collectively and always avoid the use of administrative methods to solve political problems. By doing this work we shall create favourable conditions for the expansion of combat zones.

A recent Portuguese communique, however, claims, "As a result of massive operations, bombing of targets, assaults by commandos and paratroopers we completely annihilated the key bases known as 'Beira' and another base named 'Limpopo'. We captured 11 tons of ammunition". But these claims can hardly be believed, as the Portuguese regime, just like the Johnson and Nixon administrations, has got used to employing the 'big lie' technique. The Portuguese think that control of the press, the radio, the pulpit, etc, gives them the opportunity to broadcast one lie after another and so convince people in Portugual and the colonies that they are winning the war. Like Johnson and Nixon, they will soon learn that defeats cannot be turned into victories by issuing self-deluding communiques. According to these communiques, the liberation forces have been completely annihilated several times over.

But now it seems that even Portugal's close allies are having doubts. Commenting on two landmine incidents early this month, the *Rhodesian Herald* commented, "It has become apparent that terrorist activity in the Tete and Caborra Bassa region represents a greater danger than official communiques have disclosed. The published records have been of Portuguese success and it was stated that subversive activity in the Tete district had been on the decline ... In the continuing absence of the Portuguese to disclose the real situation, the Rhodesian authorities have publicly announced that the Tete road is unsafe".

In fact, the liberation forces are mounting offensives all along the line and the occupying forces are being forced onto the defensive. The biggest setback for the 70,000 Portuguese army has been its inability to prevent the liberation forces from crossing the Zambesi river. The Portuguese did everything possible to prevent the crossing. They deported people *en masse* to 'strategic hamlets', a euphemism for *concentration camps; they shot* and murdered peaceful peasants; their aircraft maintained constant aerial surveillance. But all these measures failed. FRELIMO commandos have crossed the river and have begun military operations in the southern half of *Mozambique.*

THE FOURTH ESTATE

Reflecting Disenchantment

Nireekshak

WHEN U Thant said, in his annual report to the UN General Assembly, that the crisis in East Pakistan was one of the important problems facing the world, *Hindustan Times* promptly concluded that Bangla Desh had indeed now become "an international issue". Another weighty reason for believing so, the Delhi daily implied, was the holding of the 'international conference' on Bangla Desh in New Delhi.

Most newspapers have all along echoed the official line that Bangla Desh is indeed an issue for the "international community"; and, like the Government of India again, they have held nevertheless that it is an internal issue of Pakistan and a matter for settlement between the Government of Pakistan and the people of Bangla Desh. This confusion of thought persists in most comments even now. What leader writers and others probably mean when they describe Bangla Desh as an 'international issue' is that they would very much like this 'internal issue' of Pakistan to become an international issue, though not an Indo-Pakistan issue at the same time! Which only shows how complicated the motives involved are.

However, in spite of having helped at last to put Bangla Desh on the world map as *Hindustan Times* noted, U Thant who has generally been a popular figure with the Indian press has been severely criticised for his report. The New Delhi conference, too, and to some extent Jayaprakash Narayan personally, have attracted unfavourable criticism for not doing enough or not doing the right thing by Bangla Desh. U Thant's approach, *Amrita Bazar Patrika* said, was "clever... credulous" and could bring "solace" only to Yahya Khan. "In view of the power politics of the Big Powers, the Secretary-General has to do a bit of tight rope walking", the paper wrote, "but he is doing incalculable damage to the world body by his evasion of the grim realities in this case". He had expressed anxiety about the financial bankruptcy of the UN but "what should worry him most is the political bankruptcy of the organisation which has made itself too weak to play the role of an independent world body".

Tribune gave marginally more credit to U Thant. "Bangla Desh has now gripped the world's attention", it wrote, "and even U Thant has adopted a more realistic stand". There was realisation at the Delhi conference, *Tribune* noted, that "the time had come for 'univeral action' to alleviate human suffering caused by Pakistan's military junta". However, it went on to say, it was "futile to sustain the illusion of success in effectively mobilising world opinion" on the issue of a "political solution" of the Bangla Desh problem.

And Jayaprakash Narayan, observed *Deccan Herald,* has to realise, "regrettable" as this may be, that "moral pressure has ceased to be a force in international relations". It was "difficult to believe", it said, that the international conference "has materially advanced the cause of the suffering people of Bangla Desh.... The hope that a Government, like the one over which General Yahya Khan presides, is amenable to moral pressure is quixotic." As *Hitavada* noted, "if a firm believer in *shanti* (peace) like J P has to think in terms of an armed international brigade for upholding human rights and democratic values in Bangla Desh, lesser idealists would cease to believe that human problems can be solved through peaceful methods. Would it be wrong to say that evasiveness shown by the nations of the world in the case of Bangla Desh is only the opening chapter of greater tragedy and chaos that are in store for the world?" Frankly speaking, added the *Indian Nation,* "the unfortunate people of Bangla Desh have been let down by the world as a whole".

From the world stage to the infinitely narrower stage of the politics of Orissa is perhaps a climb-down, but things have been happening in Orissa which have shocked some and gladdened others. "The reverses suffered by the ruling Congress party in (the) Orissa" by-elections, asserted *Free Press Journal,* "amount to an incredible rout". The party had regarded the by-elections "not only as prestigious, but also as a hopeful means of installing its own Government in the state. It has received a rude shock." A thorough probe was necessary and it should be ascertained "whether the reverses are due to initial overconfidence or inherent weaknesses in the organisation". Perhaps it was "more prudent and profitable" for the party, *FPJ* thought, to try to "tone up the organisation from the grass-roots level."

Searchlight argued, on the other hand, that the results of the by-elections "clearly show that there has been a marked shift in public opinion in that state during the last six months". The defeat of the leader of the Orissa Congress (R) Legislature Party was a "particularly heavy blow" to the party's prestige. "It is not quite correct", *Searchlight* added, "to say that what has happened in Orissa will necessarily happen in all states. The political situation in all the states is not the same. But the Orissa verdict is a clear warning which the Prime Minister cannot ignore.... If undeserved and corrupt people are placed in positions of authority and power whether in the Government or in the organisation, Mrs Gandhi should be prepared for electoral reverses."

As *Indian Express* saw it, "the new Congress will take time to recover from the shock" of its defeat in Orissa. "But what should worry the New Congress leadership is that the party's debacle in Orissa has perhaps more than purely local significance. Does it mark the beginning of popular disenchantment with the New Congress, whose *Garibi Hatao* programme has so far made no difference to the life of the common man? After the Orissa by-election, one cannot be certain how the New Congress will fare in the Assembly elections to be held in several states early next year."

Black Power *vs* Power to the People

M S Prabhakar

The American Negro Revolution: From Non-Violence to Black Power, 1963-1967 by Benjamin Muse; Lalvani Publishing House, Bombay, 1970; pp xii + 345; Rs 7.

Post Prison Writings and Speeches by Eldridge Cleaver; Random House, New York, 1969; pp xxxiii + 211; $ 1.95.

Soledad Brother: The Prison Letters of George Jackson; Jonathan Cape and Penguin Books, 1971; pp 290; 35 p.

ONE of the most important problems faced by the black citizens of the United States from the time they became conscious of their political and civil rights has been (one cannot avoid using the cant phrase here) the problem of 'identity'. Take, for instance, the very nomenclature identifying black Americans as a group. Till very recently, the black citizens of the USA resented any reference to them which explicitly identified them by their colour. The proper way to identify them was as 'negroes' (only the black muslims spoke of 'so-called negroes'), a term which is now considered by most militants among them as even more insulting than 'nigger'. The word 'negro' does not even occur in the letters of George Jackson, except in a couple of places, and that too, in a pejorative sense. Cleaver too writes of 'black people', not about 'negroes'.

The origin of this identity problem can be traced to the very beginning of the struggle of the black people in the USA. From the beginning, there were, broadly speaking, two main trends in the movement of the black people, apparently mutually exclusive, but actually sharing a common ideological basis. One tended to romanticise the black man's African roots and, in some extreme instances, seriously proposed a 'back to Africa' move (a move, incidentally, which has always been supported by white racists in the US and was even at one time officially encouraged by the US government).[1] The other trend completely accepted the American ideal, and wanted nothing less than total absorption into the American mainstream, demanding the black man's legitimate share of the American pie (which George Jackson repeatedly characterises as 'putrescent' and would have no piece of it).

Both these trends had their moderate as well as their militant spokesmen: Garvey and Du Bois; Booker T Washington and Frederick Douglas. But moderate or militant, romantic Africanist or diligent American bent on self-improvement and thrift, they all thought of the black man's position in the USA and his problems within a political and ideological framework (convention politics, the two-party system, the immortality of American corporations, etc), that did not question any of the basic assumptions of the American way of life. Du Bois might seem an exception, since he joined the Communist Party of the USA towards the end of his life and since he was actually hounded out of the USA by the American ruling classes. But even Du Bois was not being very heretical, for by the 1960s the CPUSA had come to accept the American Ideal.[2] In fact, even in the bad old days when the party was actively persecuted, it had never seriously questioned the American Ideal. As far as the party was concerned, the foundations of the American nation were healthy; only the superstructure had become corrupt. Washington and Jefferson were cited in the party polemics almost as frequently (and reverentially) as Marx and Lenin, and for the CPUSA, the Declaration of Independance was almost as revolutionary a document as the Communist Manifesto. So, even Du Bois, heroic as he was in his life and achievements, handcuffed, fingerprinted and tried as the agent of a foreign power, did not question the foundations of America.

Loyal to the Ideal

Slavery was seen by all these as an aberration, a departure from the American Ideal. Of course, they were all aware of the fact that the founding fathers of the Republic were in many instances themselves slave-owners; that indeed, the Constitution of the USA (which the CPUSA repeatedly pledged allegiance to)[3] clearly gave official recognition to the institution of slavery and actually designated the negro slave as only three-fifths of a person (US Constitution, Article 1, Section 2, subsection 3). And yet, almost all the Negro leaders, including those who called themselves Communists, repeatedly pledged their loyalty to the ideal, demanding to be accepted fully as Americans. By implication, this meant that they not merely accepted the historical origins of the USA, not merely accepted its history as it was made by the majority of the white people, but further, demanded to play an active part in the furtherance of America's historical goals. It is significant that the black people have always volunteered to serve in the American fighting forces; in Vietnam, not merely is the black man 'over-represented', but he has been 'distinguished' for his fighting qualities against the Vietnamese. Such a heroic resister of white racism as James Meredith has also gone on record as saying that he considered the war in Vietnam as one of the best things that could have happened to the black man in the USA.

The problem, of course, (to go back to the beginning) lies in the ambivalence of the black man, *vis-a-vis* his remote and immediate past, his present status within the US, and his future, especially in the light of the continuing struggle in the poorer regions of the world, which, broadly speaking, have been and will continue to be 'anti-American'. There is an instinctive pull towards identifying oneself with the forces of future, but immediate self-interest demands that one should seek accommodation with the present, with the white majority. Like any other 'pragmatic' American, the black man has been trying to have the best of both worlds. The nomenclature 'Afro-American' is only one of the many examples of this ambivalence. But unfortunately for the black man, he cannot remain both an African and an American, for in the final analysis, the interests of the African and the American just cannot be reconciled. It is the unwillingness of the majority of the black people to really confront *themselves,* to accept what they are, that has caused much confusion and frustration among them in their search for freedom. The near-total surrender to a cultural ethos which had evolved under white domination has been only one of the many instances of the continuing slavery which the black people have been under in the USA.

Then, of course, there has been 'civil rights', the struggle for 'equality'. But equality with whom? Equality to continue the exploitation and suppression of the poorer people of other, distant lands? Is the 'nigger' only demanding the right to torture the 'gook', *along with his white comrade-in-arms? Unfortunately, many of the* demands put out by respectable civil rights organisations seem to amount to not much more than such rights, such *demands for 'equality'*. There was, of course, along with this dominant trend in the respectable civil rights movement, a heretical trend; but black nationalism, without a correct analysis of black society, invariably led to false romanticism, a dead-end which ultimately glorified even the most oppressive of black societies, even those black oligarchies which worked parallelly and in active co-operation with the American government. But at least in one important respect, both the respectable civil rights organisations and black nationalists agreed; they both eloquently articulated the rhetoric of the cold war; both were virulently anti-communist. Partly due to the compulsions of cold war, but even more so, due to the nature and objectives of the respectable black leadership (like that of the NAACP and the Urban League), the civil rights movement in the USA was often *more* American than the white power structure. The black leadership was loyal, self-consciously and aggressively loyal (though this did not spare the NAACP from being attacked as a 'communist outfit' by such defenders of the American values as *the HUAC).*[4] The leadership was always zealous in weeding out 'communists' and leftist dissenters of all hues, and Philip Randolph and Roy Wilkins were always quicker to see the red peril than even some white sympathisers. The ultimate gesture of repudiation of all signs of red contamination was of course the expulsion of Du Bois by the NAACP.

It was a perfectly natural and predictable act, for apart from an instinctive affinity to the rhetoric of cold war, the respectable negro leadership had developed its own stakes in the survival and prosperity of the American system. Like the large majority of the American working class which accepted (and stoutly defended) the benefits it derived from the exploitation of the 'underdeveloped' regions by the USA, the negro leadership too found that working within the system had its advantages. Their whole demand was for *civil* rights, manifest most vividly in the opposition to jim crow laws. The right to sit at the same counter with a redneck, and to have one's hair cut by a white barber, to be completely absorbed by the American mainstream — these were the revolutionary demands of the civil rights movement. And it was for the realisation of these American dreams that countless courageous and idealistic young men and women were marshalled in the years following the US Supreme Court judgment of 1954, which had declared the 'separate but equal' status (in public utilities) unconstitutional.

Radicalisation

But mass movements attain a momentum and a direction of their own, under the impact of dynamic forces released by the involvement of a large mass of people. It can certainly be said that the direction the civil rights movement has taken in the 1960s has been something that the leaders had not quite bargained for; certainly, the leadership had not been ready for the explosiveness of the movement, the seemingly sudden transformation of the meek negro archetype into a proud, scornful malcontent, ready to fight in self-defence. "Blood may flow in the streets of Montgomery before we receive our freedom, but it must be our blood that flows and not that of the white man. We must not harm a single hair on the head of our white brothers." Thus spake Martin Luther *King Jr.*[5] *But Robert Williams* was more in touch with his constituency when he organised his Deacons for Defence. In fact, Robert Williams can legitimately be considered the spiritual forerunner of the Panthers.[6] Above all, there was Malcom, who overcame the acquired criminality of his ghetto environment, but who was able to articulate the rage and aches of his people, even the lowest of them, far more eloquently than any respectable negro leader. *In a sense, Malcom and Robert* Williams have provided respectively the theoretical and practical background to the radical elements of the struggle in the USA. An increasingly large number of the ghetto youth now respond to ideas and programmes of action which a decade ago could never have been considered feasible.

But the radicals are themselves not without problems and schisms, and the recent splits among the Panthers, as well as the earlier break between sections of the SDS and the Panthers, are certainly not going to be the last. But these differences are only tactical, not fundamental like those between, say, the leaders of the Urban League and proud 'black communist guerillas' like Jonathan Jackson. Part of the reason for the dissensions among radicals in the USA lies in the very conditions under which they have to work. Being a radical in the US is a bit of a tough job, for after overcoming such problems as are presented by The Man, one has to come to terms with one's comrades as well, overcome the novelly of being hip. American society itself seems so strong, so resilient, so 'accommodating', i e, possessing the capacity to incorporate the most revolutionary kind of radical rhetoric — even radical action, within limits — within a broad liberal consensus; the system is ever ready to crush you by embracing you; it seems to have all the answers to all the questions. For the black radical, The Man and the world he has created present problems enough; but there is still another problem in the person and ideas of the white radical. During the initial stages of the movement, there was a clear coalition of the whites and the blacks, both mostly young. But since at least 1967, the black and the white, even among the radicals, have tended to work separately, though parallelly. 'Separate but equal' status continues to survive, in odd ways. The history of the SNCC and SDS, during the past decade, presents the kind of changes, the tensions and suspicions, that have characterised the relationship between the blacks and the whites in the American radical movements.[7]

If SNCC tended increasingly to get obsessed by whitey, nobody could blame them; but there was still hope for united action by both white and black radicals. The Panthers provided both an organisation as well as an ideology which envisaged such a joint attack on the enemy. And it was precisely because of this potentiality of the Panthers that they often drew upon them the mighty wrath of the American police forces, often resulting in the murder of individual Panthers. Cleaver's book helps in destroying two chief myths about the Panthers; one, that it is a party of 'reverse racists', and too, that it is only another black nationalist group. Cleaver's writings in this collection, as well as the Open Letter he wrote to Stokely Carmichael since the publication of this volume (published towards the end of 1969 in *Ramparts* repeatedly make it clear that joint action with the whites is possible, provided the comradeship is based on class. This does not of course mean that there is going to be an immediate alliance of the poor black and the poor white against the black and white exploiters. For one thing, as things stand, the 'poor white' are often among the most racist sections of American society, and the leading role in any anti-black riot in the suburbs is taken by these. But such an alliance is one of the strategic goals of the Panthers. Nor are the Panthers just another black nationalist group. No black nationalist would speak of Whitney Young in the way in which Cleaver and George Jackson do. Their distinctiveness is not merely in their contempt for 'self-improvement', but in their rejection of any possibility of coalition with the Enemy. One of the tragedies of the 'old left' in the US has been that its reformist programme has absolutely no relevance in a society which is committed to a kind of welfare capitalism. But the Panthers have revitalised the concept of class struggle, first, by refusing to enter into any coalition with the Enemy, and second, by internationalising the struggle and emphasising the identity of the struggle of the black people with the struggle waged against US imperialism in other parts of the world.

That real liberation of the black people would never come about till America itself was changed is accepted by both Cleaver and Jackson. The realisation, now taken for granted by most radicals, was slow in coming. Of the 'Big Five' civil rights organisations (NAACP, UL, CORE, SCLC, SNCC) listed by Muse in his useful survey of trends in the movement during the years between 1963 and 1967, clearly it was the SNCC which showed an awareness of the necessity for radical change in the whole system. The differences between SNCC and NAACP were not merely one of age, style, rhetoric and sexual habits, as Muse would have one believe; they were working towards quite different goals. Bob Parris, the SNCC activist in Mississippi spoke about SNCC goals thus: "The Negro seeks his own place within the existing institutional framework, but to accommodate him, society will *have to modify its institutions and in* many cases to make far-reaching, fundamental changes... The function of the white American is not so much to prepare the Negro for entrance into the larger society... but to prepare society for the change that it *must* make to include Negroes..."[8]. Muse is clearly disturbed by the radical implications of the SNCC philosophy, and he makes no effort to conceal his distaste for the style as well as the substance of the SNCC demands. His work, while useful in providing factual information about the movement during a brief period, has to be used with care; for underlying the factual survey are *certain clear prejudices*, particularly against those elements of the movement which threatened to challenge the whole system. He clearly approves of the 1963 March on Washington, the rank after rank of calm, happy, optimistic negroes, with a large sprinkling of whites, and the Graceful Presence in the White House that received them. He has nothing but a deep and abiding faith in the American Ideal, in the essential fair-play that is a feature of American character. Muse's whole account is designed to show how progress *is being made (albeit without 'all deliberate speed'), and he exhorts that* the move towards 'equality' should be speeded up. The fact that the black man has reached a stage beyond civil rights is not recognised by him. Rather, he sees the evolving political consciousness as a result of 'radical extremists' taking over the movement. He is unhappy the white establishment is not doing enough to wean the ghetto youth away from extremist mischief.

A Dead End

But the dichotomy implied in the title of Muse's book is not actually there. *From* Non-violence *to* Black Power: the sub-title implies a movement, a journey. Clear alternatives are implied, while they actually present not alternatives, but means and an end postulated by the same ideology. The people who shouted for 'Black Power' soon realised that the correct slogan was 'Power to the People', white and black. Unless such a transfer took place, mere creation of a black power structure would again lead the black man to a dead end. Carmichael was right when he said that LBJ killed the civil rights movement the moment he stood before nationwide TV and said, "We shall overcome". But he was certainly wrong when he said that "he [LBJ] will never stand before the nation and say, 'We want Black Power'."[9] For, everybody is for Black Power, and that includes Nixon, who has been striving to broaden the base *of black capitalism. So, there was* no need for Muse to feel any alarm at the increasingly loud demands for Black Power. But to be fair to Muse, the slogan did sound tremendously revolutionary, when it was first uttered. And it was uttered so menacingly, clenched fists and all, not to speak of Stokely's leather jacket and dark glasses.

Muse's distaste for SNCC did not come about after the Black Power slogan was raised; the distaste is evident from the very first chapter. This dislike is quite consistent with the cold war rhetoric that he liberally employs throughout the book (Big Four, Big Five, Infiltration of Communists and criminals, etc). It is also evident in his boundless faith in the American system, when he speaks of 'the liberal tidal wave of the Negroes' Great Day, ten days after which, the sixteenth street Baptist church in Birmingham, Alabama, was to be dynamited, causing the death of four children; two more were to die in the aftermath.

The black man's disillusionment with the procedures and established political processes in the USA has been a long, slow process. Like Eldridge Cleaver's father, most black men "woke up on *the white man late in their lives and* are very bitter to learn that they have been tricked". The near-impossibility of organising politically outside the two recognised political parties is only one of the many frustrations that any radical has to face. Traditionally, the 'Democratic' party was supposed to champion the cause of labour and ethnic groups. But it was the same 'Democratic' party which also firmly held the loyalties of outspoken racists *in the South. That great liberal* democrat Adlai Stevenson carried only nine states against Eisenhower in 1952, of which at least seven were such citadels of democracy like Arkansas, Louisiana, Mississippi, Alabama, Georgia, South and North Carolina. The black man was caught up in a situation from which there seemed no legitimate escape. You *had* to work within the established political structure, and the established political structure had *no* place for you.

In retrospect, one can say that at least the SNCC did make an attempt to work within the system; it did try to take conventional electoral politics (i e, the principle of sending up delegates to national conventions of parties, which in theory nominated the party

candidates for president of the USA) *seriously*, and working at the grassroots level, it organised the Mississippi Freedom Democratic Party (MFDP) and sent a multi-racial delegation to represent the people of Mississippi to the national convention of the Democratic party in Atlantic City in 1964. Of course, the MFDP delegation was thrown out, and constitutionalism and order were established. The temper and tone of Muse's book can be seen in his account of the events at Atlantic City. For him, the whole thing was only an 'embarrassing hassle'; "Their [i e, the regular Mississippi delegation's] status was technically more nearly legal than that of the MFDP delegation, and to allow an improvisation like the latter to participate in national convention decisions might have set a dangerous precedent."

Pure, Liberated Hatred

Well, the kind of 'dangers' that Muse saw in the MFDP challenge have themselves been overtaken by events. Both Eldridge Cleaver and George Jackson, in their own ways, are outside 'technical legalities'; they cheerfully improvise; they would never, never participate in a 'national political convention'. And, of course, they are dangerous; *so dangerous, that one has been* put away in jail for life (and now faces a death sentence)* on a charge of driving a getaway car in a $ 70 holdup; and the other had to flee the country to escape almost certain assassination by the police. Both the books present careers which one, who has no experience with the police, would consider just incredible. The accounts are also very instructive, in that they reveal how a liberal state system can practice repression in quite an efficient and ruthless manner, how practically every branch of the liberal state system is loaded against the rebel. Challenge is permitted, but only within limits. Thus, the SNCC volunteers are applauded as idealistic young men and women, and the liberal speaks of "Robert Moses's heroic summer project in the state of Mississippi". But if the same workers presented a real challenge, then they pose a threat to the "most delicate conjunction of the American political process"[10] (which is how those who are sold on American mythology view the stage-managed buffoonery, gaiety as well as the pre-arranged 'deals' and 'tensions' of the political convention), and the volunteers are expelled. It is the refusal of people like Malcom and Cleaver and George Jackson to accept the American mythology that has caused them to be outcasts. In a sense, they *are* un-American, and are quite clearly and explicitly committed to overthrowing the American political and social system. They neither ask for, nor give any quarter; it is hate that motivates them. Liberals are horrified that anyone could be motivated by *hatred;* but it has taken a long time for the black man to finally accept himself, to be possessed by some pure, liberating kind of hatred towards his oppressors.

The black man in the USA has passed through many phases: the picturesque negro, singing hymns and idiotic songs about his massa to whom he was pathetically loyal; the happy, grinning negro, lazy and licentious, the happy coloured people. As John O Killens mockingly reminds, "Harlem was the Cotton Club, fish fries, Saturday Night Functions, rent parties, after-hour joints and jam sessions. It was the land of the exotic where wealthy white folk went slumming to get their everlasting kicks. White men wrote songs about this fabulous era, this picturesque place, where 'nobody worked and everybody played'."[11] Oh, how happy everybody was, in those days! How ungrateful of the negro community to have produced *criminals* like Malcom and Cleaver and George Jackson! If only they directed their energies upon self-improvement, join the system and become better Americans! Join the Union, join the democratic party, practice coalition politics. But the rebels and the outcasts have done none of these.

The awakening has been slow in coming, and though the generation of Cleaver's father woke up too late on the white man, the generation of his children has been forced to face itself and its environment right from the beginning. Jackson and Cleaver, condemned as criminals and put away for long periods, were deliberately dehumanised and were even encouraged to cultivate criminal tendencies. But they became threats only when they became 'political', when they started relating their 'criminality' not to any subjective criminal tendencies in them, but to their objective status as an oppressed and exploited minority. There is not a trace of self-pity in either of these accounts; nor do they make any attempt to cover up the past, or be apologetic or shamefaced about it. These writings show how one can present a threat to the American establishment, and resist co-optation; how one can remain ever watchful of white gestures, and yet maintain warm personal relations with the whites, and more importantly, how while making a revolution, one also transforms one's own personal being. The words used by George Jackson to describe his dead brother may as well be applied to him; and it is clear that he too, along with many other people, is going to follow Jonathan before real freedom for the black people is going to be achieved. All Power To The People.

* This review was written before George Jackson was shot dead in Soledad prison last month.

Notes

1 See "Black Nationalism: A Search for an Identity in America," by E U Essien-Udom, University of Chicago Press, 1962; especially Chapter 2.

2 The polemical writings of Herbert Apthekar contain repeated affirmations of loyalty to the American Ideal. See especially the essays in "The Era of McCarthyism", Prometheus Books, 1962.

3 For the odd consequence of this pledge, see "The Yahoos" by Mike Newberry, Marzani and Munsell, New York, 1964, p 195.

4 See "House Un-American Activities Committee: Bulwark of Segregation", by Anne Braden, National Committee to abolish HUAC, Los Angeles, n d.

5 "What Manner of Man: A Biography of Martin Luther King Jr", by Lerone Bennet Jr, Pyramid Books, New York, 1965, p 93.

6 See "Negroes with Guns", by Robert F Williams, Marzani and Munsell, New York, 1962.

7 For non-partisan report and analysis of US radical movements, *Guardian* (formerly *National Guardian*) of New York is invaluable. *The Black Panther* (San Francisco) is the official organ of the Black Panther Party. *Movement* (San Francisco) too provides much information, especially about the SDS.

8 Cited by Anne Braden, *op cit*, p 33.

9 Cleaver, "Post-Prison Writings and Speeches", p 56.

10 See "The Making of the President 1964", by Theodore H White, Signet Books, New York, 1965, pp 331-5, for a truly liberal account of the incident.

11 From Prologue to "Harlem Stirs", Marzani and Munsell, New York, 1966.

Diversion of Long-Term Agricultural Finance

A Study of Past Trends and Future Strategy

M L Bhat

Lack of adequate long-term developmental finance has been an important factor slowing down the rate of agricultural growth. Though co-operative land development banks have partially met this need, their impact on the farm economy has been far below expectations. This has happened mainly because their credit has not been entirely used for the agreed purposes but has been partially diverted.

This paper studies the extent and nature of the diversion in some selected districts, the factors responsible for the diversion, and the policy implications of this analysis.

I

ONE of the important reasons for stagnancy in Indian Agriculture has been the lack of long-term developmental finance. This has depressed farm productivity and retarded sectoral growth. For some time now, Co-operative Land Development/Mortgage Banks (LDB) (hereafter referred to as 'Banks') have to some extent filled in the void, but their impact on the farm economy has been much less than was expected. This is mainly because their credit was not entirely used for the agreed purposes but was partially diverted.*

This article studies (a) the extent and nature of diversion of the long-term agricultural finance, advanced by Co-operative Land Development Banks, in 10 selected districts of five states—Andhra, Assam, Gujarat, Orissa and Madhya Pradesh; (b) the factors which have induced or compelled farmers to divert these funds; and (c) the policy implications emerging out of (a) and (b).

The discussion is based mainly on the data collected by Agro-Economic Research Centres working in these five states. These centres were required to follow similar methodology, sampling design, and manner of analysis. Two district banks with the highest loan advances were to be selected in each of these states, and from each district two clusters of villages with the highest concentration of borrowers were to be demarcated. From each of these clusters, 30 borrowers were to be selected by stratified random sampling. The reference years suggested for the study were 1966-67 and 1967-68, but wherever data for 1968-69 were available, the latest two years could be adopted.

Not all the centres adhered strictly to the specified design. Deviations were made in respect of the reference year as well as the number of borrowers. Similarly, while in four states, data for each selected district bank were presented separately, the fifth report pertaining to Assam, has combined the details of the selected districts. To ensure comparability, we have combined the data for two years in each Bank area, and used the averages for purposes of illustration.

Diversion of Funds

Land Development Banks advanced large amounts of credit in Madhya Pradesh for sinking and repairs of wells followed up by land improvement and redemption of debt, in Assam and Orissa for land improvements, and in Andhra Pradesh and Gujarat for creation and stabilisation of irrigation facilities (Table 1).

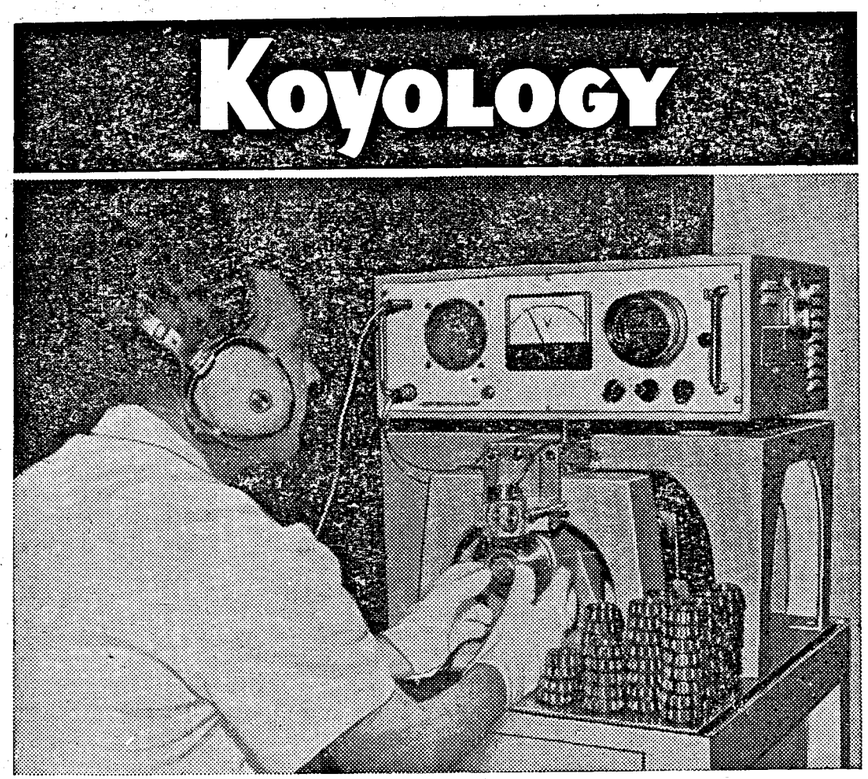
Even within the same state, there was considerable diversity in priorities accorded to the different loan purposes in selected districts. A large percentage of funds (51 per cent) were given for land improvement in Bilaspur district (MP), whereas sinking and repairing of wells and redemption of debt received highest priority in Ratlam district of the same state. In Ganjam district of Orrisa, 50 per cent of the total loan was advanced for developing irrigation facilities and 47 per cent for land improvement. But in Koraput district, land improvement alone claimed 69 per cent of the total loans. In Krishna district of Andhra, bore wells received top priority whereas sinking of wells and purchase of draught cattle received priority in Krishna district.

Extent of Diversion

The diversion of funds was highest in Madhya Pradesh, and 37 per cent of the total amount of loan obtained by selected borrowers was diverted. The proportion was much higher (41 per cent) in Bilaspur district of the same state. The corresponding percentages in Assam and Orissa were 21 and 23, respectively. In Gujarat, which is supposed to have the most efficient and progressive Land Development Bank in the country, nearly 11 per cent of the total amount was not used for the prescribed purpose. In Junagadh district, the percentage of diversion was as high as 25. Diversion of funds was the least (9 per cent) in Andhra Pradesh. But, in selected Bank areas of this state, the amount diverted varied between 12 and 32 per cent of their total advances (Table 2). The proportion of loan misutilised ranged between 20 and 25 per cent in Akola district (Maharashtra). It may be noted, however, that the estimates on utilisation of loans are based on the verbal statements of the borrowers themselves, and the amount of diversion would, in reality, have been much higher than what has been stated.

Taking together all the loan cases for particular states, and the total amount of loan diverted, diversion per borrower was Rs 1340, Rs 1043, Rs 467, Rs 289, and Rs 870 in Assam, Madhya Pradesh, Gujarat, Andhra, and Orissa, respectively. If only such borrowers who actually diverted the loan are taken into consideration the extent of diversion in each bank would be much higher.

* The term 'diversion' in this paper, connotes the use of funds (in part or full) for purposes (desirable or undesirable) other than for which the loan was originally sanctioned. This is in actually the difference between the total amount borrowed from the bank and the total amount utilised for the approved agricultural purposes. The diversions for long-term loan were observed to be of three types (a) when LDB deducts a certain amount (between 5 to 15 per cent) out of the sanctioned loan by way of share capital, compulsory purchase of rural debentures etc; (b) when it takes place at the cost of intended purpose (on investment); and, (c) when loans made available are in excess or short of actual requirements.



Bearing precision without precedence

KOYOLOGY is the science of bearing precision. It is unique and exclusive to KOYO SEIKO of Japan who invented it in their ¥1,000,000 Research centre.

Koyology utilises the norms of tomorrow to produce bearings today. Its tolerances are in terms of micro-millimetres, not in 'thous'. In raw materials, nothing but the best will do for Koyology. It will go to the end of the world to obtain them. The testing methods are the last word in sophistication. They reveal faults not only on the surface, but right down to the core. The oscillograph illustrated here, for instance, reveals noises which will escape the sharpest ear.

KOYOLOGY has come to India to produce KOYO-INDIA precision bearings. Drop a line if you want the world's finest precision bearings. Or if you want to know a little more about Koyology.

Koyo-India

BALL & ROLLER BEARINGS

INDO-NIPPON PRECISION BEARINGS LIMITED

Moula Ali, Hyderabad 40.

Sobhagya INPB

TABLE 1 : PURPOSEWISE DISTRIBUTION OF LONG TERM CREDIT IN SELECTED DISTRICTS OF FIVE STATES (in percentages)

Purpose of Loan	Madhya Pradesh			Assam	Orissa			Andhra			Gujarat		
	Bilaspur	Ratlam	Total		Koraput	Ganjam	Total	Nalgonda	Krishna	Total	Baroda	Junagadh	Total
1 Sinking of wells	88.62	58.61	50.32	—	—	—	—	42.77	—	14.16	45.70	37.29	42.35
2 Repair of wells	1.08	12.27	8.57	—	—	—	—	—	—	—	—	—	—
3 Bore wells	—	—	—	—	—	—	—	—	64.32	43.02	—	—	—
4 Oil engines	—	11.42	7.64	—	—	—	—	4.68	—	1.55	38.50	53.95	44.65
5 Electric motors	—	—	—	—	—	—	—	2.97	17.29	12.55	7.27	3.69	5.85
6 Tractor	—	—	—	—	—	—	—	—	6.53	4.37	—	—	—
7 Land development	51.13	4.34	19.35	58.74	—	—	—	29.60	0.97	10.45	—	—	—
8 Irrigation channels	—	0.45	0.30	—	—	—	—	—	—	—	—	—	—
9 Irrigation sources	—	—	—	—	—	—	—	—	—	—	—	—	—
10 Draught cattle	—	—	—	—	—	—	—	—	—	—	—	—	—
11 Initial manuring	—	—	—	—	—	—	—	13.53	—	4.48	—	—	—
12 Patti earth	—	—	—	—	—	—	—	6.43	2.13	—	—	—	—
13 Fencing	—	1.26	0.84	—	—	—	—	—	8.23	5.51	—	—	—
14 Sheds	—	—	—	—	—	—	—	—	—	—	—	—	—
15 Redemption of co-op loans	14.17	11.65	12.48	—	—	—	—	—	2.66	1.78	—	—	—
16 Fishery	—	—	—	—	—	—	—	—	—	—	—	—	—
17 Horticulture	—	—	—	9.62	—	—	—	—	—	—	—	—	—
18 Joint purposes	—	—	—	12.27	—	—	—	—	—	—	—	—	—
19 Others	—	—	—	19.37	—	—	—	—	—	—	8.53	5.07	7.15
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
No of Selected Borrowers	60	60	120	90	60	64	124	72	72	144	72	72	144

TABLE 2 : DIVERSION OF LONG TERM CO-OPERATIVE CREDIT FROM THE SET PURPOSE BY SELECTED BORROWERS IN SELECTED DISTRICTS OF FIVE STATES (in percentages)

Purpose of Loan	Madhya Pradesh			Assam	Orissa			Andhra			Gujarat		
	Bilaspur	Ratlam	Total		Koraput	Ganjam	Total	Nalgonda	Krishna	Total	Baroda	Junagadh	Total
1 Sinking of wells	55.46	55.56	55.54	—	—	—	—	73.72	—	7.37	24.34	15.77	10.52
2 Repair of wells	30.58	—	30.58	—	—	—	—	—	—	—	—	—	—
3 Oil engines	—	—	—	—	—	4.45	4.45	—	—	—	15.29	28.95	12.20
4 Electric motors	—	8.55	8.55	—	—	—	—	—	—	—	9.80	15.22	11.18
5 Tractor	—	—	—	—	—	—	—	—	—	—	—	—	—
6 Fishery	—	—	—	—	—	—	—	—	—	—	—	—	—
7 Horticulture gardens	—	—	—	28.11	—	—	—	—	—	—	—	—	—
8 Irrigation channels	—	100.00	100.00	—	—	—	—	—	—	—	—	—	—
9 Joint Purpose	—	—	—	28.10	—	22.96	23.85	—	—	—	—	—	—
10 Irrigation sources	—	—	—	—	—	—	—	14.11	—	14.11	—	—	—
11 Draught cattle	—	—	—	—	—	—	—	91.44	—	91.44	—	—	—
12 Initial manuring	—	—	—	—	—	—	—	—	4.21	4.21	—	—	—
13 Bore wells	—	—	—	—	—	—	—	—	11.50	11.50	—	—	—
14 Patti earth	—	—	—	—	—	—	—	—	3.68	3.68	—	—	—
15 Sheds	—	—	—	—	—	—	—	—	62.84	27.71	—	—	—
16 Land development	42.22	13.51	38.45	21.60	34.00	31.34	32.94	25.40	—	—	—	—	—
17 Redemption of co-op loans	—	—	—	—	—	25.00	25.00	—	—	—	—	—	—
18 Fencing	—	100.00	100.00	—	—	—	—	—	—	—	—	—	—
19 Others	—	—	—	—	—	—	—	—	—	—	12.90	6.42	7.33
Average diversion as percentage to total loan distributed	40.82	35.83	37.48	21.58	23.50	21.64	22.62	18.47	4.36	9.03	19.89	25.16	11.26
Amount diverted per selected borrower	753	1338	1043	1240	7060	786	870	289	186	283	281	212	467



As many as 41 per cent of the selected borrowers in Assam admitted to having diverted a part or all of the sanctioned loan. All the selected borrowers in one selected bank of Andhra, and 39 per cent and 11 per cent of borrowers in two other banks, respectively, had misused the funds. In Gujarat too, 14 per cent of the total borrowers had diverted the loan. This was the situation in other states also.

Analysis of the diversion of credit indicated no correlation between size of land holding or size of borrowing (partially indicating the asset position of the borrowers) and the extent of diversion. Instead, it was the nature of the purpose for which the loan was taken, which explained the extent of diversion.

Manner of Diversion

The scope for and the extent of diversion was substantial where borrowers were free to spend the money on their own or where physical verification of assets was not easy.

Taking all the five Banks together, one-half of the total amount of loans provided for sinking or repairing wells, the entire amount of loan for construction of irrigation channels, and more than one-third of loan for land improvements, were not utilised properly. The position varied considerably in each state. The utilisation of loans provided for bore wells, electric motors, oil engines, tractors, and sheds, was satisfactory in selected bank areas in Andhra. On the other hand, the misutilisation of loans for levelling and bunding, initial manuring, purchase of draught cattle, and redemption of old debts, which claimed a substantial amount of total loans, was quite high. Diversion was highest in case of initial manuring (to the extent of 91 per cent), sinking of wells (74 per cent), land development (25 per cent), and draught cattle (14 per cent) in Nalgonda district. On the other hand, as much as 63 per cent of total credit for land improvement was diverted in Krishna district of the same state. In Assam, the borrowers utilised, properly, the entire amount for purposes of pesticulture, but a considerable amount of loan obtained for purposes of land development (22 per cent), horticulture (28 per cent) and what is known as 'joint purposes' (28 per cent), was not used for the purpose stipulated. In Orissa, 55 per cent of the total loans advanced for land development, and one-fourth of the loan for digging of irrigation channels got diverted. In Koraput district, in particular, the entire amount advanced for development of irrigation channels was diverted. In Madhya Pradesh, also, 55 per cent of loan advanced for sinking of wells and 39 per cent of that advanced for land development was not used for specified purposes. The diversion in respect of repairs of wells might be much higher if we recognise the fact that many of the wells repaired were used entirely for domestic purposes and not for irrigation (Bilaspur). Hardly any amount was spent on fencing and construction of irrigation channels in Bilaspur district (Madhya Pradesh). Nearly, 29 per cent, each, of the total credit advances for wells and oil engines was diverted in Junagadh and Baroda district of Gujarat state.

II

Reasons for Diversions

A study of the diversions shows that there were generally four important factors to which such diversions may be attributed: (i) Absence of effective supervision, (ii) Inability of Banks to make reliable estimates of the cost of a project which gave scope for lending more or less than what was required, (iii) Restrictive lending policies which led to granting loans without fully taking into account the cost of the purpose; and, (iv) the long time-gap in disbursement of loans.

The Banks have no machinery to supervise the utilisation of loaned funds. This is left to the good sense of the borrowers. Banks pretend to act on the maxim of integrity and honesty of the borrower rather than on imposed supervision. An idea of the inadequacy of the staff can be had from the fact that the Land Development Bank in Gujarat has two supervisors for as many as 2,200 accounts or more. Even this prescribed norm is not uniformly adhered to in all cases. In Assam, supervision of utilisation of loan is the primary function of the Co-operative Inspector-cum-Secretary of the Primary Bank. In addition, the Apex Bank has provided the services of one supervisor each to Primary Banks to assist in supervising the loans. A heterogeneous group of officials, such as valuers, co-operative extension officers, and bank supervisors, is required to verify the utilisation of loans in Madhya Pradesh. But these arrangements are alleged to have remained unimplemented due to the lack of proper co-ordination. The strength of supervisory staff in Andhra is determined by the size of the loan operations of a Primary Bank. On an average, there is provision for one supervisor each for a loan outstanding of about Rs 12 lakhs, involving 495 accounts. Existing supervisory staff in all concerned banks bears no relation to the terrain, number of villages and, above all, the number of total land holders who after all are the prospective customers.

The arrangement is unsatisfactory because, even an experienced whole-time supervisor cannot attend to more than 150 to 200 cases since he is expected to look after other important activities. They have definite responsibility in canvassing of loans, achieving their allocated targets within a time limit, canvassing contribution to Rural Debentures, collecting and processing the loan applications, and also recovery of the instalments. If they complete their job, it is naturally at the expense of reliability and efficiency.

Even if, the Banks do have adequate staff, they are not in a position to supervise certain types of loans which they advance. These include purchase of cattle, repairs of wells, loans for initial manuring, land reclamation, Pati-earth, buildings etc. Verification of these components is extremely difficult. Banks do not insist on detailed estimates of cost at the time of sanction or verification.

Lack of Technical Personnel

While the Banks have developed necessary legal and administrative expertise, there is complete absence of technical personnel like engineers, agronomists, soil chemists, or economists, who could examine the technical feasibility of investment or at least lay down a broad framework for loan operations for each geographical tract to serve as a guideline for the entire field staff.

In the absence of technical guidance, an investment proposal is entertained, once it fulfils the legal and security requirements prescribed by the Banks, irrespective of its operational feasibility and the physical constraints in the area. The inadequate appraisal of investment proposals has led to over capitalisation in certain areas while in some other areas, the sanctioned amount does not fully meet the needs of the farmers. For the same reasons, loans are given to those areas where there is little justification on technical grounds.

In some cases, the state governments have provided the services of experts to the Banks. But such departmental advice, apart from being of a temporary nature, is time-consuming. Since these experts have no direct stake in the projects referred to them by the Banks, and since the Banks have no administrative control over them, their technical advice lacks necessary depth. This is borne out

y the fact that various special schemes, ormulated by the Banks with the tech-ical help of these experts, are reported o be shuttled between the Agricultural tefinance Corporation and the Banks ecause of technical flaws. Wherever, ne technical advice was sound, the lanks could not actually follow it in he field for lack of junior technical taff. Consequently, a good number of uch schemes in each state could not ake headway, and often the funds got ither blocked or diverted.

Fake Utilisation Certificates

The long-term loan, for purposes other than pumpsets and machinery, is given in two instalments. The last instalment of the loan is advanced on the basis of a certificate from village officials (such as presidents of village panchayats, village-level workers, and patwaries in Gujarat, sub-assistant registrars in Orissa*, secretaries of primary banks in Assam and Madhya Pradesh). These are individuals whose certificates are considered sufficient evidence of proper utilisation of funds by the borrower. This arrangement is, no doubt, administratively convenient and cost-reducing but, in reality, it is ineffective for preventing diversion of funds. Those who know something about village life may appreciate that, issue of such certificates is normally a matter of mutual accommodation. The borrowers as well as those who issue these certificates look upon them as mere formalities.

It is alleged that local officials issue prescribed certificates indiscriminately, quite often without ascertaining the facts, because, they cannot risk unpopularity among the villagers. Being defaulters, then, they would not offer themselves to public exposure. Quite often, the supervisor of the Bank, the village level worker, or the co-operative extension officer, having recommended an unsound case for various reasons, find it difficult to comment upon their own doing.

Yet another important reason for diversion of funds is possibility of over-financing or under-financing by the Banks. Neither the inspection reports of the officials of the Bank, nor certificates issued by local authorities and others, mention anything about the cost components or probable cost of items financed by the Banks. The borrowers, therefore, make alterations in allocating the loan funds among the different purposes depending on their needs and preference.

Closely related to the cost factor is the indifference of banks to geo-physical features. The Banks have been advancing loans for purpose of digging of wells, regardless of the type of soil. This policy is highly unrealistic—particularly for those areas where the subsoil is hard and full of rocks and the water level is low (e g, Gujarat, Madhya Pradesh, and Orissa). Because of underground rocks, the deepening of wells by means of blasting and boring becomes essential in these states. Blasting is costly and boring is risky. Neither government nor Banks have provided these facilities. Private agencies charge exorbitantly for these operations. The amount sanctioned by the Banks thus generally falls short of actual requirements.

This is seen in the fact that, 105 out of 144 borrowers in selected areas in Gujarat state had to borrow, on an average, Rs 741 per borrower in addition to what they had received from the Land Development Bank in order to complete the project. This supplementary finance accounted for 23 per cent of the total cost of the assets created. Even in Andhra Pradesh, between 85 to 78 per cent of total borrowers could not complete the proposed projects with the Bank funds. They borrowed an additional Rs 953 each, from sources other than LDB which accounted for 18 to 35 per cent of the total cost of asset. The inadequacy of the LDB funds in relation to the cost of the project was particularly high in Nalgonda district (Andhra Pradesh), where borrowers had to supplement the LDB loan by 40 per cent.

Two Alternatives

Whenever the funds were inadequate, the borrowers had two alternatives (a) to obtain additional credit which is difficult to get once all the land of borrowers has already been mortgaged to the bank; (b) to invest the available funds without completing the project and thereby block the funds; and, (c) to invest only a small amount in order to obtain the final instalment of the loan from the Banks and to divert the rest of the funds. The latter rather than former was quite common.

The diversion in the case of oil engines and electric motors, where Banks pay directly to the dealers, takes place in a peculiar manner. Dealers in pumpsets and machinery are alleged to charge borrowers between Rs 400-600 more than the market price by over-invoicing, if the payment is to be made out of LDB loans.

Overpayment of this sort may not indicate diversion in the accounting sense; nor does it signify diversion from the point of view of individual farmer. But if we take into account the spirit of the transaction, it is clear that only a part of the credit goes into capital formation while the rest goes to other agencies. Whatever is paid over and above the actual cost of the equipment is a concealed diversion.

Defective Loaning Policy

Most of the Banks (Andhra, Orissa, Madhya Pradesh) advance loans for levelling of land, raising of seed beds, bunding, and drains, without any proper examination. Similarly, loans were advanced for 'protection of land from floods' (Assam) to individual borrowers. It is not clear how an individual borrower can construct flood protection bunds without pooling with farmers in the neighbourhood. Given the local prejudices of villagers, these bunds never come up.

Moreover, loans for sinking of wells have been advanced in areas where well irrigation is either impracticable (hilly areas of Gujarat) or unsuitable (Madhya Pradesh). One can hardly expect these borrowers to invest in the projects. Banks follow this policy, for want of technical personnel, for lack of adequate and realistic regional data, and by following a hit and miss policy.

It has been found too that, when the loans are granted for joint projects, such as machines and machine-rooms or the well and the machine simultaneously, a part of the fund is paid directly to the borrowers. In such cases, the actual investment is much less than the amount disbursed.

In Andhra, long-term finance for reclamation of land is given at fixed rates. But the cattle component of the loan has flexibility. This often leads either to the diversion of the cattle component or to additional borrowings from non-institutional sources.

Bulk of the loan for wells is advanced in June, presumably in order to include them in the year's 'progress' made by the bank. But farmers are unable to use the loans because of the inopportune timing from the point of view of their operations.

Even the size of the instalments failed to conform to the actual needs. The first part of the well construction required between 60 to 70 per cent of the loan being advanced by the Banks for this purpose. But the Banks released only 50 per cent of the loan. In addition, some deductions amounting to nearly 15 per cent by way of share capital, compulsory purchase, of rural debentures were officially effected from even the 50 per cent of the loan released.

Hush and Reception Expenditure

The procedure of loan disbursement is quite lengthy. Except in Gujarat where between 47 and 77 per cent of the loan applications were processed in the relatively short period of three months, the time lag in disposal of loan cases was quite long in four other states. In Assam, only 3 per cent of the applications were processed within six months. Even in Bilaspur (Madhya Pradesh), only one fourth of the total applications were finalised during the corresponding period. The number of applications which were not finalised even for two years was quite substantial in Madhya Pradesh, Orissa, and Assam (Table 3). It is obvious that, once the funds are not made available at the proper time, the farmers cannot resist the use of the money in the alternative way he prefers most.

To expedite the loan cases at different stages, the farmers had to make frequent visits (between 5 to 30) to headquarters of the Banks and other offices. To meet, what may be called 'hush expenditure' and 'reception expenditure', an average borrower was found to have spent Rs 189, Rs 42, Rs 53 and Rs 30 per loan, in Gujarat, Orissa, Assam and Andhra, respectively. In Assam and Orissa, each borrower had to spend Rs 61 and Rs 19, respectively, in order to get a loan of Rs 1000. Nearly 45 per cent of borrowers in Madhya Pradesh, and between 55 to 78 per cent of borrowers in Andhra Pradesh had to incur such costs. In other states, too, this practice was quite common.

Farmers, particularly with small holdings, obtained fresh loans from money-lenders at an exorbitant rate of interest, of 3 per cent a month, to meet such unscheduled costs. The longer the delay in disbursement of the loan, the greater is the amount of interest to be paid to the money-lenders, and such money is inevitably paid out of the money advanced by Land Development Banks. Thus a good part of the loan is diverted for the purposes of repayment of loan incurred for the purpose of securing the loan from Banks.

The scope for misutilisation of loans is quite high because the practice of Banks of taking land as security is quite illusory in the rural context. For reasons of existing land laws, Banks are generally unable to auction the land mortgaged with them, because there are no buyers of such 'disputed' lands at the village level. Even when the Banks finally decide to acquire the mortgaged land, there is a provision (as in Gujarat) that, after acquisition of land, it should be handed over for cultivation to the owner and the recovery of outstanding loan realised from the proceeds of the farm. But this creates problems of supervision for the Banks. Therefore, Banks generally refrain from taking this step. Knowing well the helplessness of the Banks, and being sure that land will ultimately be handed over to them again, the farmers feel free to use the funds as occasion demands.

III

Strategy for Future

The preceding discussion highlights the fact that LDBs will have to take various corrective measures, both on organisation as well as at procedural levels to improve their operations and to put a stop to the present misutilisation.

The immediate need is to employ additional supervisory staff wherever the existing staff is found inadequate for processing of the loan cases and supervision of credit. There should be one supervisor per 150 to 200 accounts. Besides, wherever possible, their functions should be allocated such that a supervisor has to look after only one aspect of the loan operation. The sooner the multipurpose character of the supervisors is ended, the better it will be for both the LDBs as well as the borrowers. Till this is done, a cadre of roving supervisors could be created at the apex banks, and their services made available to those primaries/branches where workload is higher.

The responsibility of enforcing proper utilisation of credit should be entrusted, as a matter of policy, to a single agency of the Banks instead of the heterogeneous group of state officials, as happens at present in some Banks.

To lend some genuineness to the 'utilisation certificates' as proofs of the borrower having utilised the loan, the by-laws of the Banks need be amended so as to enable the Banks to recover the entire amount of loan from certifying authority in case the misutilisation of such loans (in part or full) is exposed and proved at any stage. This should apply equally to Bank personnel and to those outside its administrative control.

The Banks should, as a matter of policy, advance adequate credit to cover a particular project, keeping in

* There is only one sub-Assistant Registrar for each Primary Bank who is solely in charge of issuing utilisation certificates to the borrowers. It is physically impossible for one officer to verify a large number of cases spread over a number of villages.

Table 3 : Time Taken between Date of Application and Date of Receipt of Loan

(Percentage)

Disposed between Months	Assam	Orissa			Madhya Pradesh			Gujarat		
		Total	Koraput	Ganjam	Total	Bilaspur	Ratlam	Total	Baroda	Junagadh
Upto 3 months	1.70	14.36	16.33	13.75	—	—	—	67.60	53.05	72.30
3 - 6	1.70	17.15	14.29	17.98	46.24	21.66	70.84	21.28	33.80	17.20
6 - 12	11.70	40.62	30.05	43.72	30.44	41.66	19.16	11.12	13.15	10.50
12 - 24	38.30	21.02	29.14	18.65	23.32	36.68	10.00	—	—	—
24 - 36	15.00	5.93	9.32	4.95	—	—	—	—	—	—
36 - 48	8.30	0.92	0.87	0.95	—	—	—	—	—	—
48 and above	23.30	—	—	—	—	—	—	—	—	—
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

view the natural and geographical variations. A rigid and uniform policy is neither a virtue nor a necessity. Banks can do it if they have the benefit of advice of an expert body consisting of agricultural experts, engineers, hydrologists, geologists, etc, who can prepare a blue-print of credit operations indicating (a) areas of development in different areas (b) priorities of development and scale of finance in each area and (c) technical advice.

In each Bank the expert body should be supported by a strong and active research and planning unit which should carry out area studies to collect the basic data, regarding cropping pattern, prices, income and expenditure, soil types, irrigation potential etc. Decisions based on reliable regional data, are then likely to be objective and realistic.

To introduce dynamism in the operation of the Banks, a research organisation on the lines of the Plan Evaluation Organisation of the Planning Commission, Government of India, should be set up under the All India Co-operative Land Development Banks Union, which should apprise at regular intervals the loaning policies of the Banks and its impact on agricultural development. This will, at one end, bring together the lender and the borrower, and, at the other, keep the Banks on guard.

The disbursement of loan for construction of wells in two instalments should be continued. But a revision of the cost estimates should be undertaken before the disbursement of the second instalment of the loan. If at that time, the cost is found to be higher than the sanctioned loan, an additional amount may be sanctioned without stipulating any conditions or without asking for additional security. Conversely, if the loaned funds exceed the actual cost, the second instalment may be scaled down proportionately.

Change in Valuation of Land

The rationalisation of the method of valuation of land is necessary. The present method of land valuation by banks, based on the land revenue rates, is not unscientific and unfavourable to the farmers. Worse still, farmers get just 27 to 50 per cent of the already underestimated value of land from the LDBs.

A scientific method of land valuation has to take into account different factors affecting farm income, including soil type and its input absorption capacity, cropping pattern, crop yields, and the price trends, which fall in the field of farm management. True, consideration of these factors for each farm may prove quite difficult and highly expensive for the Banks. Therefore, to start with, a compromise solution may be adopted. The Banks may, with the help of technical experts, divide each area (block or district) on the basis of homogeneity of the agricultural situation. For each homogeneous tract, Land appraisers may determine the average value of land separately for dry/irrigated land, which may serve as a standard, and the individual cases in the tract may be decided in the context of the standard. The extent of arbitrariness in determining the value of land, even under this arrangement, can be minimised by fixing the credit limits beyond which the actual value of land should not deviate from the average value of land in the tract.

The situation may improve, if the Banks increase the credit limit of borrowers to at least 80 per cent of the value of hypotheticated land. This is quite consistent with the safety and the interests of the Banks. Adoption of the new technology by a large number of farmers has made the task of Banks much easier.

In combination, loan proposals should be disposed of within 45 days of their submission. Disbursement of loan within a reasonably short period would reduce the cost of loan, increase the scope of its full utilisation, and be helpful to individual borrowers in removing their long felt grievances against the financing of Land Development Banks. For this purpose, Banks may not press for certain documents which are operationally redundant. As far as essential records and certificates are concerned, the Banks may arrange these through their own staff and charge a reasonable amount from the clients.

Reorientation of Loaning Policy

For reducing the possibility of diversion of funds advanced for sinking of new wells, loans should be given in those areas where the chances of striking water are technically assured. Again, to ensure that borrowers are able to dig wells with the sanctioned amount, each Bank may consider purchasing of a few blasting rigs to facilitate the sinking of wells in rocky areas. To finance this new venture, Banks can create a 'special fund' to which a specified amount could be deducted from each loan advanced or from the annual bonus payable to the shareholders. Knowing well the utility of this equipment, farmers may not grudge unorthodox deductions. The Banks, and even the state governments, can contribute to this fund on a matching basis.

It is also worth considering, if Banks can form a 'risk-sharing fund' to which Banks, government, and borrowers, would contribute. Proceeds from this fund could be used to supplement the resources of genuine cases where the initial Bank loans is not sufficient to complete the project on account of unforeseen natural conditions. This will leave the financial interests of Banks intact and, on the other hand, induce the farmers who are otherwise likely to divert the funds, to complete the project.

Loans issued for levelling of land, raising of seed beds, raising of bunds, and construction of drains, without any estimate, are very indefinite and misleading. The Banks should not, as a matter of policy, encourage such loans, except in special circumstances. It is felt, that, farmers can finance some of these items from their own resources.

Regulation of Price

The diversion of loans in the case of oil engines or overfinancing can be curtailed if Banks are authorised to regulate directly or indirectly the price as well as quality of the machinery. This can be done by empowering the Bank (a) to restrict the number of suppliers on area basis; and (b) to grant licences to suppliers against a suitable security, liable to be forfeited in case of contravention of terms and conditions of licence. Alternatively, the Banks may consider making bulk purchases of machines from recognised firms and supplying these to the prospective buyers. This unorthodox step will not only ensure the supply of standard equipment but also make entry of dubious agencies and their substandard products difficult. It is rather ironical that Banks, in spite of being the biggest indirect purchasers of the pumps and engines, have to rest content with the terms dictated by private agencies. The farmers, the financing agency, and the whole economy thus lose.

The ultimate security of the loan is effectively ensured by the flow of income (and, therefore, saving) generated by the use of funds provided by the LDBs. Unless the money is properly used, the flow of fresh income and, therefore, recovery of loans is adversely affected. It is in the interest of the Banks to reduce the extent of diversion of funds by strengthening and activising their own administrative machinery and by adopting realistic, broad-based and sound loaning policies consistent with the regional needs.

Desirable Features in a New International Monetary System

C Rangarajan

The new international monetary system that is being hammered out in Washington now must build on the lessons learnt during the 25 years of experience of the Bretton Woods arrangement.

Beginning early Sixties a major concern with international monetary experts has been the adequacy of international reserves to enable international trade to grow without restrictions. Many steps taken in the past indicate that the shortage of reserves is not a myth. The present dollar crisis more than any other incident that occurred previously has forced attention on the adjustment mechanism that must go along with a system of fixed exchange rate system. Another complication noted in the working of the IMF system arose from the dollar being treated as a reserve currency.

It is suggested here that the new monetary system that emerges must be composed of the following three elements :

(1) The authority to 'create' additional reserves through SDRs, when necessary ;

(2) Introduction of the 'band' proposal so that rates are allowed to fluctuate over a wider margin than is permitted now ; and

(3) A machinery for examining and advising the proper parity among currencies.

The ability to enlarge the reserves coupled with the scope for larger fluctuation in the exchange rate would make the system more viable.

A modified fixed exchange rate system such as the one envisaged alone would require India to decide on the currency to which the rupee should be tied.

THE new international monetary system that is being hammered out in Washington now must build on the lessons learnt during the 25 years of experience of the Bretton Woods Arrangement. The system of fixed exchange rates has run into severe difficulties in the last few years. The periodic crises that developed were solved only by rising huge sums of money to prop up the currencies under attack and the countries involved also sought to introduce more and more controls. The current crisis is however qualitatively different because by unilateral action, the United States has knocked out two of the important features of the present system. The Bretton Woods Conference went in for a system of fixed exchange rate because such a system was considered as most conducive to a rapid growth of international trade. However, unlike gold standard, the system provided that in case of chronic difficulties member countries could readjust the par value of their currencies. That is why the system came to be known as a system of "adjustable peg". To this must be added another feature which was the declaration of the United States that it would be willing to convert dollar obligations held by foreign central banks into gold at a fixed rate of $ 35 per ounce. The Nixon announcement has broken the link between the dollar and gold and it has also let the dollar float moving away from a system of fixed exchange rates. It is not, however, the intention of the United States to take the world to a system of freely fluctuating exchange rates. On the other hand, the whole set of measures is designed to go back to a system of fixed exchange rates with a readjustment of the parities. However, in framing a new scheme of international monetary arrangement, it is not enough to take into account the present crisis. One must look at the history of the last 25 years and find an arrangement that is capable of meeting the various kinds of difficulties that arose at different times.

The literature on the subject of international finance is legion. Experts in the field of international economics, practitioners in the field of foreign exchange business and the officials connected with various governments and international bodies have written extensively on the various problems relating to international monetary arrangements. The purpose of this paper is simply to pin point some of the weakness and difficulties that came to surface in the working of the IMF Agreement and to indicate the directions in which a solution must be sought.

I

Shortcomings of the IMF System

Adequacy of International Reserves

Beginning early sixties a major concern with the international monetary experts has been the adequacy of international reserves. The term international reserves is taken to include the member countries' holdings of gold and foreign exchange assets (primarily dollar) and the gold tranche position in the IMF. The question of adequacy has largely been discussed in terms of the relative growth of these reserves and international trade. It has been pointed out that between 1954 and 1966 international reserves grew at an annual rate of 3 per cent while international trade grew at 8 per cent per annum.

The purpose of holding reserves especially in a system of fixed exchange rate is to enable member countries to tide over temporary difficulties in the balance of payments without having to make drastic changes in the internal policies. Lack of adequate reserves could therefore lead to abrupt changes in the domestic situations of member countries. In the immediate post-war years with the acceptance of dollar as a reserve currency, the deficits of the US provided a means of enlarging reserves. However, with the continuing deficits of US the confidence in the dollar was eroded and therefore US deficits became a less important source of enlarging the reserves. Many economists have drawn attention to the weakness of an international monetary system where a national currency becomes a reserve currency.

It must be obvious to any one that

the question of adequacy is closely tied to the adjustment mechanism. A system in which the adjustment mechanism works poorly would require a larger level of reserves. The freely fluctuating exchange rate system would of course require no reserves even as a fixed exchange rate system which demands a strict adherence to certain disciplinary measures could get along with smaller volume of reserves. Given the present temperament of member countris to regard domestic considerations as paramount, the attention given to the problem of adequacy of international reserves is not unrealistic. It must also be pointed out that the inadequacy of reserves was not felt uniformally. Between 1954 and 1965 the reserves of the Group of Ten as a whole increased around 3 per cent per annum while the reserves of the Group of Ten excluding the USA and UK rose by 9 per cent per annum. It is therefore no surprise that some European countries talk more about the embarrassment of riches rather than of scarcity.

The shortage of reserves however is not a myth as evidenced by a number of steps taken by the IMF to augment international reserves. The General Agreement to Borrow made an addition to the pool reserves. The 'Swap' arrangement between central banks, an increase in the quotas of member countries and last but not the least, the creation of Special Drawing Rights were all steps taken into the direction of increasing the reserves. The SDRs or paper gold as it is popularly called is a bold innovation since this was the first attempt in the world history to generate international reserves by 'created money'. Many European countries blessed with increasing reserves were not very enthusiastic about creation of SDRs even though they finally came round to accept the proposal. The working of IMF in the last 25 years does indicate that a system of fixed exchange rates can run into the problem of inadequate international reserves and any new arrangement must contain a facility which can take care of such situations.

Adjustment Mechanism

As already mentioned the IMF Agreement provides that in the case of 'fundamental' disequilibrium, member countries can alter the par value of their currencies. Except for this there is no adjustment mechanism specified in the Agreement. It has not laid down any rules to be followed by surplus and deficit countries to correct imbalances. The present dollar crisis more than any other incident that occured previously has forced attention on the adjustment mechanism that must go along with a system of fixed exchange rate system.

A system of fixed exchange rate can function smoothly only if the parities are properly set. In the present situation, the US feels that Japan and West Germany and to some extent other West European countries must revalue their currencies upward consistent with their balance of payments surplus in relation to US. The European countries on the other hand, contend that the US Government has not done enough to put its economy in order, consistent with the deficits in the balance of payments. It is further contended that if the US is unwilling to apply any restrictive measures on the internal economy, it should be willing like other deficit countries to devalue its currency.

The gold standard was a typical example of a fixed exchange rate system. But theoretically at least the system had an adjustment mechanism built into it. As the text books used to say: The golden rule of the gold standard is "Expand credit when gold is coming in and contract credit when gold is going out". Many writers have argued that this rule was not in fact practised faithfully even during the hey days of the gold standard mechanism. However, it goes without saying that the fixed exchange rate system can function only if corrective measures internally are undertaken whenever imbalance makes its appearance. The time for introducing corrective measures can be postponed to the extent that a country has a large volume of gold reserves or foreign exchange holdings. Alternatively as it happened for almost 15 years after the establishment of IMF, the deficits of USA did not cause much concern as surplus countries were willing to hold dollar as a reserve currency. When there are no automatic rules to follow under conditions of surplus and deficits, a system of fixed exchange rate can function effectively only if there is a certain amount of understanding and mutual co-operation among the countries participating in the system. In the current crisis, the US believes that in view of the past contribution it has made to the recovery of the European countries and Japan, it is entitled to a considerate treatment. It also feels that Japan has built up its massive surplus in balance of payments without liberalising import restrictions. The 10 per cent surcharge on imports which the American administration has imposed is specifically intended to bring home this point. Thus while the US is asking the surplus countries to revalue their currencies upwards the European countries and Japan want a devaluation of the dollar.

The crucial question that has come up therefore is the proportion of responsibility to be borne by the surplus and deficit countries for the imbalances that may arise. Also if the adjustment of parities is considered the most important means of bringing about a balance, what role does IMF itself play in the setting up of parities? In the past the IMF (and much more so that World Bank) has taken the initiative in advising a number of developing countries to devalue their currencies to correct their imbalances. It looks as if the IMF will have to play a much more direct role in relation to all countries with respect to the fixing up of parities. However, too frequent adjustments of parities would take away all the advantages of a fixed exchange rate system. Thus the new system must be more explicit than the current system on the adjustment mechanism.

Dollar as a Reserve Currency

Another difficulty noted in the current working of the IMF system is the role of the dollar as a reserve currency. In the immediate post-war years, when the gold holdings of USA amounted to $26 billion, the deficits of the US did not cause much concern and many surplus countries preferred to hold dollar obligations than gold. However, the emergence of a national currency as a reserve currency is rooted in a contradiction. While deficits create such reserves, the continuance of deficits beyond a point undermines the confidence of the currency also. This is what has happened to the dollar. The official dollar holdings of foreign central banks which showed a steady increase upto 1964 increased only very little between 1964 and 1968. Since 1968, there has been a further increase in official dollar holdings, prompted more by political rather than economic considerations.

One of the complaints of European countries, particularly France is that the use of dollar as a reserve currency has enabled the US to incur deficits without being compelled to take any corrective measures.[1] There are also other complications. With large dollar holdings held by a number of central banks, a decision for example to devalue the dollar in terms of gold, would mean a depreciation of the value of these assets. People in this country can recall that the British decision to devalue the pound by a substantial margin in 1949 meant a large reduction in the value of our sterling balances in terms of dollar.

The development of dollar as a reserve currency was a 'natural' phenomenon. It was not imposed on any central banks. Perhaps given the present position of dollar, there would be a definite discouragement to the growth of dollar as a reserve currency. Faced with inadequate growth in reserves, there was a suggestion in the early sixties, that many strong currencies could also develop as reserve currencies. The experience of the last two decades points to the desirability of preventing the emergence of national currencies as reserve currencies than encouraging such a practice.

II

The New System

In working out a new arrangement, there are two questions to be answered. One is whether the new system should be based on fluctuating exchange rate, or a fixed exchange rate as it is now operating or a modified fixed exchange rate which allows a greater degree of fluctuation than is permitted under the present system. The second question is regarding how the parities of various currencies should be fixed. The second question does not arise if the answer to first question is fluctuating exchange rates system. But if the answer is any of the other two choices, the second question becomes extremely relevant and important.

Fixed or Fluctuating Exchange Rate

Many influential economists in the US feel that the way out of the difficulties of the IMF system is to go for a system of fluctuating exchange rates. Such a system will do away with the need for holding any sizeable amount of reserves. Depending on supply and demand for currencies, the rates will fluctuate.

The experience of the world in fluctuating exchange rates system is limited. The experience of inter-war period in this regard is not a fair analogy. The contention of economists who do not favour such a system is that speculation in foreign exchange market can be destabilising. The supply and demand curves need not be as 'well behaved' as we normally visualise them to be so, that deviations could be cumulative. More than the academic economists, the professionals in foreign exchange business fear the consequences of a fully fluctuating exchange rate system.

It may be pointed out as an aside that this question of fluctuating versus fixed exchange rates system is not relevant to countries like India. We have no free foreign exchange market wherein we allow the unrestricted supply and demand conditions to be reflected.

The adoption of a fluctuating exchange rates system even by advanced countries appears to be remote. But there may be a move towards a modified fixed exchange rates system.

We have already noted the difficulties of operating a fixed exchange rates system which demands no immediate action on the part of surplus and deficit countries. It has therefore been suggested that a widening of the limits within which the rates can be allowed to fluctuate can be a good compromise between rigidity and flexibility. This is known as the 'band proposal'. Under this system exchange rates are allowed to fluctuate within a wider range or 'band' than the very narrow margins that are now permitted. This proposal, like the gold points under gold standard establishes two support points. Fluctuations within the band can indicate the basic strength or weakness of any currency. There is of course the theoretical possibility that the rates can get stuck at the support points. However, if the parities are set up properly and if the right width is chosen for the band, this need not happen.

The 'band proposal' is worth a trial. However, if the band spread is fixed too wide it almost becomes a fluctuating exchange rates system. The present temporary phase of floating of currencies could give a clue as to how wide the band should be. Perhaps five per cent on either side could be the maximum one could think of. The introduction of such a proposal would call for a more active forward exchange market. The cost of hedging would become high only if the experience turns out to be one of a high degree of fluctuations in rates.

Realignment of Parities

Any type of fixed exchange rates system including the 'band' proposal would require immediate attention to be paid to the question of realignment of parities. This is what has precipitated the present crisis. Here again we need to distinguish two issues. One is to fix right now the 'correct' parities and the other is to evolve a method or mechanism for solving such questions on a periodic basis.

It is rumoured that the IMF Staff has examined the balance of payments situation of the leading industrial countries and has arrived at the extent of revaluation or devaluation for each currency. The claim of the US that the surplus countries should revalue their currencies while the dollar in terms of gold will remain where it is now cannot be accepted. Whatever may be the reasons, the deficit of US has become chronic. Hence some extent of devaluation of the dollar becomes inescapable. Since the US has imposed an import surcharge of ten per cent, that can be taken as the level of devaluation that it called for. Since most of the countries having dollar holdings have themselves suggested a dollar devaluation, it means they would not mind the depreciation in the value of their dollar holdings in terms of gold. It must be clearly understood that the suggestion for increasing the price of gold is not motivated from the angle of increasing the availability of international reserves. The problem of adequacy of international reserves should continue to be handled by the regulation of the issue of SDRs. It goes without saying that the US must withdraw the surcharge on imports.

As part of burden sharing, the surplus countries on the other hand should agree to a revaluation of their currencies.

If crises like the one that we are witnessing today are to be avoided, the IMF must play a more active role in prodding and getting countries agree to reasonable parities. There have been even suggestions that the 'band' proposal should be combined with 'crawling' parities so that when rates get stuck at any one of the extreme points the parities must automatically be changed. Even if such changes are not made automatic, they would atleast provide a cue for further action.

A revision of rates will come only after hard bargaining. No country is going to be quite willing to revise its par value upwards. The ten per cent import surcharge imposed by the US administration is presumably a tool for extracting concessions from other countries. Many decisions connected with IMF have been political starting with

quota allocation. But if all countries are to gain from a system of a fixed exchange rates, some give and take is necessary. The adoption of a 'band' proposal will to some extent minimise the need for international reserves. But this should not preclude the creation of SDRs as and when necessary.

It is suggested that the new monetary system must contain the following three elements:

(1) The authority to 'create' additional reserves through SDRs, when necessary;

(2) An exchange rate system where rates are allowed to fluctuate over a wider margin than is permitted now; and,

(3) A machinery for examining and advising the proper parity among currencies.

While the immediate attention of the experts is going to centre around the second and the third elements, the importance of SDRs as part of the long term arrangement should not be lost sight of. The quantum of SDRs to be created in any given period can be determined only by mutual consent among all members. In fact there is urgent need to re-examine the basis on which the SDRs are distributed. The IMF quotas are an inappropriate basis for the distribution of 'created' reserves. Under the original arrangement since the quotas determined the composition of the pool of currency available with IMF, there was a justification for allocating larger quotas to industrially advanced countries with convertible currencies. But this basis has no validity when reserves are created to be distributed to meet 'liquidity' needs. That more careful attention was not given to the basis for distribution may be deemed an unfortunate necessity to gain acceptance of the Scheme initially. This need not be the case, however, for future distribution.[2]

Mutual Settlement

It was suggested earlier that in rearranging the parities it may become necessary to devalue the dollar in terms of gold. But the devaluation of the dollar can however raise an important issue as to how to handle the existing dollar holdings of foreign central banks. With the devaluation, the US may not be willing to restore the convertibility obligation between dollar obligations and gold. The problem can be solved only by mutual settlement between those countries and the US as was done in relation to sterling balance between the UK and other Commonwealth countries. Some estimates put the dollar obligations held by the other countries at $ 50 billion. A settlement of this huge amount is not going to be an easy matter.

It must also be noted that the 'band' proposal is not a 'fool proof' arrangement for correcting disparities in exchange rates that may arise. It does two things which the fixed exchange rate mechanism does not do. First, this allows for some adjustment in the exchange rate without a 'stigma' being attached to a fall in the value of the currency. It becomes part of the system. Questions of prestige are not entirely outside the realm of international finance! Second, it provides a clue to further action, as pointed out earlier, when the rate falls or rises to the support points. In this sense it performs the same function as the inflow or outflow of gold. If the 'band' proposal had been in force for the last ten years, the dollar in relation to yen would have fallen to the lower supporting point and would have stayed there. In that situation it becomes easier even for an international organisation to ask for a change in the parity. Thus the 'band' proposal reduces but does not eliminate all the problems that arise in readjusting parities. If countries consider their parities with other currencies as 'sacrosanct' there is no escape from trimming the internal economy according to fluctuations in the balance of payments.

Implications for Developing Economies

On the question of determining the appropriate parities between the dollar and the currencies of Europe and Japan, India and other developing countries could exert very little influence. But on the general pattern of the system to emerge they must put forward their views.

The problem of inadequacy of international reserves is not confined to the industrially advanced countries. Developing countries face a purely 'liquidity' problem apart from their developmental needs. The introduction of SDRs was a bold innovation and the developing countries must see to it that no damage is done to this scheme.

As mentioned earlier, the facility to allow exchange rate to fluctuate within a band will have no particular significance to currencies like rupee because there is no free foreign exchange market. However, the introduction of such a proposal will raise some other problems for countries like India. India must, for example, decide the currency to which it should be tied. If it is tied to dollar at a fixed rate, then the rupee would fluctuate in relation to sterling, say, according to the fluctuation in dollar-sterling rate. We face right now a problem and we have decided to stay with dollar. This is easy enough to decide since the dollar is losing in relation to other major currencies. This implies a *de facto* devaluation in relation to other countries. However, things could change and dollar can firm up against other currencies. Thus logically a decision should be made on our expectations of the behaviour of the currency with which we decide to link the rupee. Besides this, there are three other factors which are relevant the direction of our exports and the elasticities of demand for our exports in different regions, the composition of our international reserves and the burden of repayment in different currencies. But the issue of which major currency to which the rupee should be linked must be taken up for periodic examination if any modified system of fixed exchange rate is introduced as part of the new international monetary settlement.

Notes

1 Writing in 1967, Otmar Emminger, one of Europe's best known central bankers pointed out that between 1964 and 1966, the official dollar holdings of foreign central banks decreased by about $ 1 billion. He adds: "This means of course that since 1964 the United States has no longer had any help from the gold exchange standard which for all practical purposes has been dead since 1964...Nevertheless—and this is most significant—the fact that the United States has been since the end of 1964, in effect, no longer on a gold-exchange standard but on a pure gold standard has not had any perceptible impact on the balance-of-payments adjustment policies of that country. This must give us some food for thought regarding the alleged balance-of-payments discipline entailed by being on a pure gold standard." See Otmar Emminger, 'The Gold Exchange Standard and the Price of Gold' in Randall Hinshaw (ed), "Monetary Reform and The Price of Gold", p 100.

2 For an elaboration of this point see, R G Hawkins and C Rangarajan, 'On the Distribution of New Internal Reserves', *Journal of Finance*, September 1970.

Provisional Population Totals of the 1971 Census

Comment—I

S Raghavachari

WHEN the first results of the census are out after a long wait it is a natural temptation to look for the extent of the coverage error by comparing the census totals with similar data drawn from other available sources like the Houselist and Population Projections. Such external comparisons are always fraught with the danger of leading to untenable conclusions unless the relative merits of the different sources are kept note of and the analysis is built on valid foundations. Pravin Visaria in his article "Provisional Population Totals of the 1971 Census: Some Questions and Research Issues" (July 17, pp 1459-65) recognises these dangers and puts in a word of caution here and there but still the comparisons he has made tend to give a stilted picture of the accuracy of the provisional census results. The purpose of this rejoinder is, therefore, to put the census in proper perspective *vis-a-vis* the other sources of data with which Visaria has compared it.*

No doubt the census has in the nature of things a certain unavoidable net under-count built into it. Public awareness of this fact is amply revealed by the numerous letters and news items in the papers during and soon after the census enumeration. It is to evaluate the extent of this undercount that a Post Enumeration Check has been conducted on a sample basis immediately after the census date.

Basic Premise

Even so, compared to the houselist and the projections the provisional census data provide the most reliable snap-shot of the population to-date. An analysis of the census results at present should, therefore, start with this basic premise and discuss the question why the population figures from other sources like the houselist and the official projections differ from the census figure.

Generally in any statistical comparison of similar data from two sources, the scientific approach should be to designate the series which has been assembled with greater care and attention as the "truth" and then to pit the other series against it. While doing so a word of caution is, of course, necessary that the comparison is conditional on the relative accuracy of the series which is designated as the "truth". With this basic rule in mind let us now discuss how justifiable is the claim of the census provisional total to this position relative to the houselist and the projections.

Only those who have participated in the census-taking could really appreciate the superhuman efforts made to obtain a complete coverage of all the normal residents of a household. It is not true to say, therefore, that nuances in instructions regarding enumeration of persons has had a limited influence on the enumerators, as has been implied by Visaria in his paper. A casual omnibus question on how many males and females are living in the household as was put during the houselisting operations, has a large error content of unknown magnitude. In fact, if the houselist was expected to give an accurate count of the population, the cent per cent count embarked upon subsequently could have conveniently been replaced by an effective sample survey for the tabulation of the other characteristics of the population! To get an accurate account of the population is *not* the aim of the houselisting operation at all. The complex system of enumeration is split up into two distinct stages each aiming at one aspect only of the census at a time, *viz*, complete listing of the houses and households at the time of houselisting to serve as a frame for the second stage, namely, achieving a complete enumeration of persons at the time of actual census taking. It is pertinent to mention here that in order to ensure as complete a coverage as possible at the 1971 census systematic efforts were made in all the States to prepare notional maps of every village/town identifying the location of every house therein. The population data collected in the houselist, therefore, are intended only to give a rough estimate of the spatial distribution of the population necessary for carving out enumeration blocks of roughly equal size, to aid in planning the printing of forms and to get an idea of the room/population ratio which is an indicator of the acuteness of housing conditions.

Crude Estimate

The houselisting was done in most of the States during 2-3 consecutive months spread over a long period of three quarters of a year from March to November 1970. The population according to the houselist presented by the Registrar General in his paper on 'Provisional Population Totals' is rather a crude estimate built-up by averaging the population over the period of houselisting in a rough and ready manner. In fact the foot-note to the relevant table explains the way the houselist population shown therein had been estimated. Visaria recognises these limitations, as he himself states that "the results of an attempt to record only the total male and female may not elicit as complete information as enumeration in which the names and characteristics of each member of the household are recorded". The Registrar General had presented the population estimates according to the Houselist only to show how well the houselist had brought out the order of magnitude of the population despite the casual way the question on population was asked therein. This indirectly reflects also on the conscientiousness with which the houselist enumerators had discharged their functions in spite of their newness to the task. However, this fact alone cannot lend respectability to the houselist population to be considered on par with the census count in terms of its accuracy.

In such a situation it appears to be a rather futile area for research to inquire even into the reasons for the deviation of the houselist population from the census figure, not to speak of the reasons why the census has differed from the houselist. Table 1 of Visaria which labours hard to lift the accuracy of the houselisting population up to that of the census count is, therefore, entirely misleading. The fantastic positive and negative annual growth rates that Visaria has given in the last column of this Table prove only too tellingly how stastistics could give rise to absurd conclusions as a result of shift of emphasis in the reading of the basic records.

Table 2 of Visaria presents the dif-

* The author alone is responsible for the statements made or views expressed here.

ference between the census population and the projections State-wise. Reading through his discussion of this Table one again gets the impression that he *is actually comparing the census with the projection instead of doing the converse.* Constrained by lack of reliable data, the Expert Committee had to rationalise on 'expert opinion' and stipulate certain plausible though arbitrary assumptions on the future trends in the components of population growth. In fact it had assumed no migration in any of the States for want of adequate data, hoping that the net balance between the assumptions on fertility and mortality could account at least partly for migration also. Hence in the absence of census age distribution and migration data it is not appropriate to read too much into the differences between the State level projections and census figures. The reasonable approach at the present moment could only be to analyse the assumptions on which the projections were based to see how they should be modified, if possible, to reproduce the observed census population. Some work in this direction has already been initiated in the Office of the Registrar General with a view to revising the existing official series of projections for all-India and States in the light of the Census Provisional Totals but pending the release of the census age distributions.

In his enthusiasm to advance a research programme on the compatibility of census and Houselist totals Visaria doubts the efficacy of the Post Enumeration Check. He has questioned the usefulness of the Post Enumeration Check on the ground that (i) it is subject to more or less the same set of limitations as the initial census and (ii) the field worker seldom appreciates the objective and usefulness of checks which are feared as likely to reflect adversely on their colleagues. As an alternative he advocates an internal consistency check on different characteristics of the population and their plausibility in the light of other known facts or alternative sets of statistics.

Actually, besides having been evolved scientifically, the Post Enumeration Check had also been conducted in the field by a better set of enumerators drawn almost entirely from the Headquarters staff of the census organisation who had not participated directly in the census field-work earlier. A series of intensive training programmes and discussions were held impressing upon the entire hierarchy of officers connected with the Post Enumeration Check that it is an objective survey which tries to bring out how well the census has been conducted and not how badly. To reduce any possible conditioning effect, steps had also been taken to change the jurisdiction of the enumerators at the different stages of the Post Enumeration Check field-work from primary re-listing and re-enumeration to field reconciliation. It is indeed surprising that Visaria has greater confidence in the Houselist rather than in the Post Enumeration Check to provide a valid comparison with the census to bring out the coverage error.

The internal consistency check as has been advocated by Visaria may not be an effective alternative. For one thing the internal consistency of estimates regarding various characteristics in different tables in the census will in no way reflect the overall deficiency in coverage. The houselist and the census records are, however, two independent sources relating to different points of time. A comparison between the two is in fact an external check rather than an internal check. Some limitations of a comparison of the census with the houselist data based on their reliability have already been mentioned in the earlier paragraphs.

In the same connection Visaria has suggested that the Post Enumeration Check should be supplemented by a comparison of the houselist population data with the Census Population Record at least in a few villages so as to find out whether the number of normal residents was overstated during the houselisting or there was an undercount of population during the actual census. This comparison, apart from being invalid due to differential accuracy of the two records, will not be fruitful because the time-lag between the houselist and the census, which is nearly one year, makes it next to impossible to collect accurate details about individuals retrospectively. This problem is made more complex and formidable by the fact that the houselist contains only aggregates and not particulars of each individual. Further, correspondence or otherwise of the total number of individuals in the aggregate between the two records means little because of movement of population and natural changes, unless the individuals are matched unitarily. Incidentally it may be mentioned that the Post Enumeration Check emphasises a unitary check, namely, matching of individuals, with the help of census records and field reconciliations. That is why it is conducted immediately after the census, say, within a month or so, so that the people will largely be able to recall details about the composition of their household during the census enumeration period. In the latest Post Enumeration Check, recognising the difficulties of matching even immediately after the census, we have introduced a modest programme of tracing into the census records those persons who are absent normal residents or visitors.

While discussing the possible reasons for the differences between the 1971 census population and the projected population Visaria has surmised at the beginning of his article that "a third possible explanation of a difference between the census count and the projection can be a somewhat greater undercount than in the 1961-census". As stated earlier, this type of comparison is untenable. Under the present conditions when reliable information on natural increase and migration during the past and present decades are not available, only the Post Enumeration Check could bring out valid estimates of the coverage error. However, the generally increasing trend in the growth rates of most of the states from one decade to another, presented in the Table do not suggest *prima facie* greater under-count particularly in the 1971-census compared to the 1961 census. Even in the four states of Assam, Haryana, Punjab and West Bengal the decrease (this is only slight in Assam and Punjab) in the growth rate for 1961-71 compared to that of 1951-61 may be attributed in all probability to (a) decreasing tempo of movement and resettlement of displaced persons in the succeeding decade as compared to the earlier one and/or (b) possible reduction in natural increase due to impact of Family Planning, rather than differential coverage error in the 1971 census.

TABLE: ANNUAL GEOMETRIC GROWTH RATE OF THE MAJOR STATES OF INDIA DURING THE DECADES 1951-61 AND 1961-71

S No	State	Annual Geometric Growth Rate	
		1951-61	1961-71
1	2	3	4
	INDIA	1.98	2.21
1	Andhra Pradesh	1.14	1.87
2	Assam	3.05	2.97
3	Bihar	1.82	1.93
4	Gujarat	2.41	2.58
5	Haryana	2.95	2.74
6	Jammu and Kashmir	0.90	2.60
7	Kerala	2.24	2.31
8	Madhya Pradesh	2.19	2.48
9	Maharashtra	2.14	2.42
10	Mysore	1.98	2.16
11	Orissa	1.83	2.24
12	Punjab	1.97	1.91
13	Rajasthan	2.35	2.45
14	Tamil Nadu	1.12	1.99
15	Uttar Pradesh	1.55	1.81
16	West Bengal	2.88	2.42

A word more about the percentage difference between the census and projections state by state given by Visaria in Table 2 and discussed elaborately by him in the latter part of the article, though he has admitted that "the usefulness of such effort is limited by the fact that the empirical basis of population projections for states and union territories was weak". The assumptions on fertility and mortality trends over time were chosen, in the official projections, to be more or less uniform for all the states or a group of states. This expediency was unavoidable since even the base line data on fertility, mortality and migration were very meagre. The utility of such expediency could be appreciated if it is understood that the purpose of the projections was to provide a magnitude of the population for Plan purposes rather than to predict the actual population at a specified point of time in future. In view of this, the projections do not reflect accurately the relative intensity of the family planning programmes in the states with the result that at the state level it is frustrating to compare the projection figures with the census figures state by state so as to impute reasons for the differences specifically to one or more of the components of growth. Therefore, whether the census count is below the projections as in the case of Punjab or above in Tamil Nadu may be totally fortuitous. In the circumstances it seems more fruitful to inquire into the patterns of growth of population in the last two decades namely 1951-61 and 1961-71, on the basis of the actual figures of the population available from the 1951, 1961 and 1971 census counts rather than to string up conjectures on the differences between the census figures and the projections state-wise.

Comment—II

K N Shrinivasan

I WISH to offer a few comments on one of the many issues raised by Pravin Visaria in his thought-provoking article "Provisional Population Totals of the 1971 Census : Some Questions and Research Issues" (July 17; pp 1459-65).* The issue pertains to the validity of a comparison of the growth rates of population, estimated on the basis of the 'houselist estimate' of the population and the final census count.

As Visaria no doubt knows, recording of the number of males and females done during house-listing is meant primarily to give a very broad order of the count that could be expected at the census so that the census commissioner could finalise suitable administrative measures including the printing-order for census schedules. As such, the "estimate of house-list population" would not be precise enough for anybody to read too much in it. It would not, therefore, be right to use those 'estimates' either to infer any large undercount in the 1971 census or to confirm "the picture revealed by the final census count of 1971".

The point may be elaborated as follows.

Let P_1 and P_2 be the true populations of an area at two points of time separated by n years, leading to the true annual rate of growth, r, given by $P_2 = P_1 \exp(n.r)$. Let the actually counted populations at those two points be P_1' and P_2' giving the apparent annual rate of growth, r', by $P_2' = P_1' \exp(n.r')$. Again, let e_1 and e_2 be the errors in the two counts, given by (i) $P_1 = P_1'(1 + e_1)$ and (ii) $P_2 = P_2'(1 + e_2)$. It can easily be seen that

$$r - r' = \frac{1}{n}\left[\log(1+e_2) - \log(1+e_1)\right] \quad .. \quad (1)$$

$$= \frac{1}{2n}(e_2 - e_1)(2 - e_1 - e_2)\dagger \quad .. \quad (2)$$

if e_1 and e_2 be small positive fractions so that their cubes and higher powers could be neglected, as would be the case in most population counts including the Indian counts. If it is assumed that the value of r remained constant through the entire period between March 1, 1961 and April 1, 1971, we have to compare r against three values for r' given by three pairs of counts and estimate:

(a) the 1961 census count and the March 1, 1970 Houselist estimate
(b) The 1961 census count and the 1971 census count;
(c) the March 1, 1970 Houselist estimate and the 1971 census count.

One could reasonably say that $(r - r')$ varied directly as $(e_2 - e_1)$ and inversely as n. As n would be much larger than either e_1 or e_2 (usually small positive fractions less than 0.05), we can conclude that the value of r' derived from the pair (c) would be much more erroneous than those derived from the other two pairs. This is why it is not very proper to use the Houselist estimates either to infer an undercount in, or to confirm the count of, the 1971 census, especially when we have no knowledge of either r, or e_1, or e_2.

If a comparison is at all to be made between the houselisting and the census succeeding it, the following would be a valid way of doing it: Let e(H) and e(C) be the counting errors in the house-listing and the census respectively; r' (H) and r' (C) be the apparent annual rates of growth derived by the house-list and by the census, respectively, *vis-a-vis* the preceding census held n_1 years and n_2 years before the house-listing and the census respectively. If e_0 be the counting error in the preceding census, we would have

$$r'(C) - r'(H) \doteq \frac{e(H)}{n_1} - \frac{e(C)}{n_2} - e_0\frac{(n_2 - n_1)}{n_1 n_2} \quad .. \quad (3)$$

In the case of 1971-census and its house-listing, $n_1 = 9$, $n_2 = 10$, we would have

$$r'(C) - r'(H) \doteq \frac{e(H) - e(C)}{10} \quad .. \quad (4)$$

if we neglect the small value of the term $\frac{e(H) - e_0}{90}$. If equality (4) is to be of any use, r'(c) — r' (H) must be significant, and then, again, we could only say something about the relative efficiency of the house-listing *vis-a-vis* the census and *not* their individual efficiencies. As to when r'(C) — r'(H) becomes significant (and when not) is only to be left to the judgment of users. I, for one, would not consider r'(C) —

* The views expressed or statements made here do not necessarily reflect the views of the organisation with which the author is associated.

† By Taylor's theorem $\log(1+x) = x - \frac{x^2}{2} + \frac{x^3}{3} \ldots$ for $-1 < x \leqslant 1$.

r'(H) significant at all, unless it exceeds a third of r'(H), given the ways the house-listing and censuses are conducted in India.

Visaria's proposal to undertake a sample match of the house-list estimates of population and the 1971 census count bristles with difficulties. If a household returned, say, four males and four females both on the day of house-listing and on the day of census enumeration, would one say that the counts matched? It may be that between the two days, a female may have died and another married into the household. How to account for such cases? In case the two counts differed, how is one to reconcile the difference, without more details than are available in the house-list? No matching such as Visaria proposed could, therefore, be conclusive as to whether the house-listers counted one too many or the census enumerators counted less than they should have or both, even if we discount recall-lapses involved in the matching.

An attempt to secure local assistance of village officials might help in reconciling some of the discrepancies. However, the task would prove extremely difficult particularly because of the long time-interval between the house-listing, the census and the proposed check.

Reply

Pravin Visaria

I AM grateful to S Raghavachari and K N Shrinivasan for their comments on my paper and welcome this opportunity to clarify or elaborate some points.

I am sorry that Raghavachari could find words of caution in the original article only "here and there". One's vantage point tends to influence the evaluation of such matters. However, I hope he would extend to a few non-participants in the census undertaking the privilege of being able to appreciate the "super-human efforts made to obtain a complete coverage" of population. I did mention in the article the difficulties of a census conducted under severe financial constraints. And I fully agree with the observation made three decades ago by M M Yeats, the Commissioner for the 1941 Census, that "no census... can rise above the level of the people... In any census, anywhere, the citizen's part is the more important and fundamental, for our enumerators are primarily scribes and it is the citizen's collaboration which produces the valid record".[1] The census office cannot, therefore, be blamed for less than complete coverage, if it occurs. In any case, my main objective in this reply is to help avoid any misunderstanding of my article.

First, I am unable to find in my article any suggestion that the comparison of the provisional figures of the 1971 census with the projections would provide a clue to the extent of undercount or coverage error in the census. The use of the census count as the numerator and projected figure as the denominator for calculating the percentage differences shown in Table 2 certainly did not imply a greater faith on my part in the projections. (I had an alternative Table showing the difference between the projection and the census count — instead of that between the census and the projection — and it was a sheer accident that the Table actually published was preferred to the alternative). The exercise did help to point toward the need for first priority attention to the data for Punjab and Tamil Nadu. My discussion of the data for Tamil Nadu considers at the district level the consistency of intercensal growth rates during 1951-61 and 1961-71, such as has been discussed by Raghavachari with the help of a Table in the latter half of his comment on my article. Similarly, my discussion of the 1971 census figure for Punjab does not imply that the almost 11 per cent difference between the projection and the census is due to undercount in the census. I have only discussed this observation against the background of data on the proportion of eligible couples reported to be practising contraception. I have seen comments in the press interpreting the census data for Punjab as showing that "as in the case of the green revolution, Punjab now seems to have shown the way in population control".[2] I was mildly cautioning against too ready an acceptance of such a conclusion without ruling out the possibility that fertility in Punjab might actually be declining. Indeed, according to the NSS data, the birth rate in rural areas of Punjab (including Haryana), Delhi and Himachal Pradesh (all together) had declined from about 41.2 in 1958-59 and 1959-60 to 37-38 (per 1,000) in 1963-64 and 1964-65. (The NSS estimates of birth rates suggest even sharper declines in the case of Kerala.) The registered birth rates of Punjab (excluding Haryana) also suggest some decline in the birth rate. However, in view of the well known limitations of the NSS estimates of vital rates, as well as the registered vital statistics one hesitates to accept such suggestions of a decline in birth rates without finding further confirmation.

Further, I would indeed reiterate the caveat permeating my article that even the consistency of or trend in intercensal growth rates for successive decades should be examined with due regard to *possible* biases (in different directions) in various censuses. Without any offence to any of the dedicated census officials and workers, most analysts would consider such a caveat not unwarranted. As Raghavachari rightly points out, reliable information on natural increase and migration is certainly lacking in India. However, in comparing the "annual geometric growth rates of the major states", during various intercensal decades, one needs to examine not only the direction of change but also the magnitude of change. The 1971 census results have caused a surprise not only because the projections overshot the 1971 count or the 1971 count is short of the projection. The surprise arises partly because for India as a whole, the intercensal annual (geometric) growth rate increased sharply (by more than 50 per cent) from 1941-51 (1.25 per cent) to 1951-61 (1.92 per cent, after making allowance for the migration of refugees from East Pakistan during 1951-61 and also their progeny born in India), and then, instead of a smooth progression of the trend (such as was envisaged in the projections), we observe a sudden flattening out or deceleration of the rate of increase of the growth rate. Admittedly, the latter is not impossible but it naturally raises some questions. Therefore, it is not quite adequate or convincing to argue, as Raghavachari does, that "the generally increasing growth rates of most of the states from one decade to another do not suggest, *prima facie*, greater undercount particularly in the 1971 census compared to the 1961". Of course, the possible explanations for the observed phenomena include a relatively higher undercount not necessarily in the 1971 census but also in the 1961 census (perhaps in Tamil Nadu) or the 1951 census (perhaps in Punjab, Haryana and West Bengal?). It would not be easy, or perhaps even possible, to find satisfactory evidence to prove or disprove any of these alternative hypotheses. However, it should be the objective of the analyst to weigh carefully the various alternatives without any extraneous considerations. Some consensus might emerge if all the relevant data are pooled together for dispassionate scientific discussion and evaluation.

I agree that the identification of the reasons for differences between the projections and the census figures is a difficult task but it is unlikely to be more frustrating than an effort to find out what modifications of the initial assumptions of projections would reproduce the population reported by the 1961 census. (As Raghavachari certainly knows, it is very difficult to choose from the several combinations of modifications in the assumptions that would reproduce the census population.)

TABLE A: DIFFERENCES BETWEEN THE HOUSELIST POPULATION AND THE PROVISIONAL POPULATION FIGURE FOR SOME STATES OR UNION TERRITORIES, CENSUSES OF 1951 AND 1961

(*All figures in thousands unless otherwise stated*)

Census Year/ State or Union Territory	Period of Houselisting	Houselist Population	Provisional Population Total	Final Population Total	Percentage Difference between the Houselist and the Provisional Population Total*
1961 Census					
Assam	Sept/Nov 1960	11,770	11,860	11,873	— 0.76
Gujarat	Oct/Nov 1960	20,765	20,621**	20,633	+ 0.70
Himachal Pradesh	May/June 1960	1,368	1,349	1,351	+ 1.41
Tamil Nadu	Oct/Nov 1960	32,848	33,651	33,687	— 2.39
Maharashtra	Sept/Oct 1960†	38,987†	39,504	39,554	— 1.31
Punjab	May/Oct 1960	20,261	20,298	20,307	— 0.18
Rajasthan	November 1960	20,109	20,146	20,156	— 0.18
Uttar Pradesh	November 1960	73,899	73,753**	73,746	+ 0.20
Manipur	Sept/Oct 1960	776††	778	780	— 0.26
Tripura	Sept/Oct 1960	1,120	1,142	1,142	— 1.93
1951 Census					
West Bengal	October 1950	25,512	24,787	24,810	+ 2.92

* The signs preceding the percentage figures in the last column of the above Table are the opposite of those in Table 1 of the article under the heading "Difference between March 1, 1970 and April 1, 1971". A negative sign shows that the houselist estimate was smaller, as would be expected, than the provisional census figure; a positive sign shows the contrary.

** The figures are those published in the brochure on Provisional Population Totals released after the 1961 Census in March 1961. They differ somewhat from the figures printed in the Administration Reports as provisional population figures.

† In Greater Bombay, the houselist was prepared during April-September 1960.

†† The figure differs from the sum of figures shown for various subdivisions of Manipur. The latter add up to 766,000.

Sources: (A) Census of India, 1961, Administration Report, (Enumeration) (all labelled as Part VIII A), Assam, pp 24, 196; Gujarat, pp 39, 84; Tamil Nadu, pp 182, 46-48; Maharashtra, pp 23-29; Punjab, pp 27-28, 154-55; Rajasthan, pp 72, 24; Uttar Pradesh, pp 172-173, 38, 57-60; Himachal Pradesh, pp 55-57; Manipur, pp 19, 46, 62; Tripura, pp 46-49, 148.

(B) Census of India, 1951, West Bengal, Sikkim and Calcutta, Administrative Report, pp 96, 24.

(C) Office of the Registrar General, India, 1961 Census, Provisional Population Totals, March 1961, p 8.

POST ENUMERATION CHECK

Secondly, I have certainly not questioned the usefulness of the Post Enumeration Check; nor do I consider or advocate internal consistency checks as an alternative. In the jargon of economics, the two are complements rather than substitutes. The evaluation of data in a country like India requires one to explore all possible avenues and choice is relatively limited. I have used the results of both the 1951 and the 1961 checks in my studies, despite their limitations. Further, I am happy to learn that the 1971 Post Enumeration Check has been conducted by a "better" set of enumerators from the Headquarters of census organisation, after intensive training. I also trust that in the statement that "the check is an objective survey which tries to bring out how well the census has been conducted and not how badly", the concerned officers paid more attention to the words "objective survey" than to the qualifying clause. I am sure the users of the 1971 census data will eagerly look forward to the report on the Post Enumeration Check. However, the reservations regarding the results of the Post Enumeration Checks are not based only on the one or two points noted in my article; and they are unlikely to disappear altogether. However, Raghavachari's efforts to design a scientific check and ensure its proper conduct will certainly earn him the grateful thanks of census analysts.

I turn finally to the major issue regarding the efficacy and propriety or advisability of comparing the houselist estimates of population and the final count. I agree with both Raghavachari and Shrinivasan that the estimates of population based on the houselist would not be as precise as the final count and recognise the limited objective(s) of the houselists count of population. However, I wonder why even a broad consistency between these figures at the level of our large states should be considered an unreasonable expectation. Shrinivasan holds that the 'estimates' can be used neither to infer any large undercount in the census nor to confirm the picture revealed by the final census count. In regard to the latter, Raghavachari reports that the presentation of the population estimates according to the Houselist in Paper 1 of 1971 on the

Provisional Population Totals of the 1971 Census was "only to show how well the houselist had brought out the order of magnitude of the population despite the casual way the question on population was asked therein". This is an interesting clarification. However, I plead guilty to the charge that I did not think that the question was asked in a "casual way". Yet, the sentence from my article quoted by Raghavachari makes it evident that I did not equate the accuracy of the houselist estimate with that of the census count. My reference to the limited effect of nuances in instructions on enumerators pertained to the extent to which the enumerators actually do include or exclude a person from either the houselist or the final census count on the basis of the criteria laid down to define normal or usual residents. It is not an uncharitable view of the realities of the situation that only a few enumerators worry about the marginal cases.

Houselist Estimate

Turning now to Raghavachari's attack on the last column of my Table 1, I accept Shrinivasan's convincing logical deduction that the growth rate during the period between March 1, 1970 (the reference date of the houselist estimate) and April 1, 1971 (the reference date of the 1971 census) is subject to greater error than either the intercensal growth rate or the growth rate between March 1, 1961 and March 1, 1970. The influence of errors or biases is indeed evened out over a longer time interval and the average annual growth rate over the 13 months preceding the 1971 census (the last column of Table 1 of my article) may not be of much significance.

Shrinivasan further argues that if a comparison is at all to be made between the houselist and the census data, it should be for the longer time intervals (of 9 and 10 years) and proposes a value of one-third of r'(H) as the criterion to judge the significance of the difference between r'(C) and r'(H). It might perhaps be worthwhile to record here the fact that the difference between r'(C) and r'(H) does just exceed one-third of r'(H) for Uttar Pradesh and West Bengal and may be significant. (The difference is even greater in the case of Jammu and Kashmir but the latter is not really significant for reasons noted in my article.) However, one might perhaps question the basis of the criterion of one-third the value of r'(H) to evaluate the significance of the difference between r'(C) and r'(H). I should, therefore, leave this point for the statisticians to examine.

It needs to be emphasised that I never ruled out the possibility that the houselist estimates of population might involve an overcount although I could not find any basis to expect such a bias. Even now, I cannot help the feeling that the houselist figures are being dismissed too lightly. However, in continuation of my earlier analysis, I have collected and present here in Table A some not readily available data on the houselist estimates of population compiled before the 1961 census. The Table also shows the figures of population collected during the housenumbering operation in West Bengal, undertaken prior to the 1951 census.

It is evident from the Table that population figures collected during houselisting have exceeded the census count in the past also. The 1951 census activities in West Bengal were carried out under a constant threat of "communal disturbances, strikes or agitation". Asok Mitra has explained the difference between the housenumbering and census figures of population on the ground that "(a) at the housenumbering stage many householders gave the approximate number of the inmates of their households; (b) the food crisis being at its worst about this time and modified rationing prevailing in most rural areas, people mistakenly linked up rationing with the preliminary count and were inclined to give fictitious figures".[3] It is also possible that the difference was partly because of the return to East Bengal of Hindus who had moved to India in the first few months of 1950 in the wake of communal disturbances. (According to the 1950-51 Report of the Ministry of Rehabilitation, the Nehru-Liaquat Ali Khan Pact in April 1950 did stimulate some return migration to East Pakistan.)[4]

In appraising the population figures based on the 1960 houselisting operation, one must note that the time interval between the houselist figures and the provisional population totals was shorter than that of the 1970-1971 data under discussion. If the figures given in the Table were used to estimate the population on March 1, 1960, the figures for Uttar Pradesh and Gujarat would have shown positive growth of population during 1960-61. In the case of Himachal Pradesh, also, the absolute difference would have shrunk.

It seems possible that there perhaps exists a tendency to overstate the number of usual residents in a household during a quick inquiry such as is undertaken during the houselisting. The extent of such overstatement seems to vary in different parts of the country, even within the states. Perhaps, the out-migrants from the household are included among the usual residents. If so, since males seem to migrate more often than females, an examination of the houselist estimates of population by sex should prove useful. In any case, an exploration of reasons underlying the differences between the responses about residents during a quick inquiry and a detailed enumeration seems to be a promising area of methodological research. Admittedly, my article understated the difficulties of a sample match of houselist data with those reported during the final census. Even in the 1961 post-enumeration check, the number of persons whose omission from or double count during the census could not be confirmed was quite high. Such 'not known' persons formed about 25 per cent of the total including them and the missed or overcounted persons in the re-enumerated houses, both in rural and urban India.[5] However, some alternative studies might be possible particularly because the Office of the Registrar General also administers the sample registration scheme in a fairly large number of villages in different parts of the country. Such methodological studies deserve a higher priority in the allocation of resources of census organisation than surveys of villages, towns or crafts, which are certainly very interesting but could also be undertaken under other auspices.

Notes

1 Census of India, 1941, Vol I, India, Administration Report, p 15.
2 *The Statesman*, April 14, 1971, p 9.
3 Census of India, 1951, West Bengal, Sikkim and Calcutta, Administrative Report: Enumeration, 1952, p 24.
4 Government of India, Report on the Working of the Ministry of Rehabilitation, 1950-51, p 1; Keesing's Contemporary Archives, Vol VIII, July 1, 1950-June 30, 1952, pp 10923 A, 11146 A.
5 This information is based on unpublished data kindly made available to the author by the Office of the Registrar General for the monograph on "The Sex Ratio of the Population of India", Census Monograph No 10, 1971.

The India Cements Limited

Speech of the Chairman, Rao Bahadur Ramjeedass Iyer

THE following is the Speech of the Chairman, Rao Bahadur Ramjeedass Iyer, at the Twenty-fifth Annual General Meeting of The India Cements Limited, held at Madras on September 27, 1971:

FRIENDS:

On behalf of the Board of Directors and on my own behalf, I extend a cordial welcome to all of you to the TWENTY - FIFTH Annual General Meeting of your Company.

Before proceeding to the main business of the day, I have to perform a melancholy duty. One of the founder-directors of the Company, Sri C S Loganathan passed away on the 11th of May this year. His demise leaves a great void in our midst which cannot be easily filled. He was associated with the Company right from its inception and was all along a tower of strength and support to the management. He was a self-made man and built up a reputation for keen entrepreneurship which has left its mark on many industries in this country. This meeting should have been presided over by Sri P Suryanarayana. For the last few years he has been presiding over the Annual General Body meetings and has been conducting the proceedings with great ability and tact. We were shocked to hear that he suddenly passed away on the night of 22nd of this month, that is, just a few days ago. Sri P Suryanarayana, like Sri C S Loganathan, has been associated with the Company from its inception. With his passing away another vital link with the past has been snapped. His loss is well-nigh impossible to replace. It would have been in the fitness of things for them to have been present to usher in the Silver Jubilee year of the India Cements. I request your permission to convey our condolences to the members of the families of late Sri C S Loganathan and Sri P Suryanarayana.

I am glad to inform you that M/s S L N Simha and J H Tarapore have been appointed as Directors of your Company in the place of Messrs. C S Loganathan and P Suryanarayana.

Silver Jubilee Year

The year under review marks the Silver Jubilee of the Company. We are Twenty-five years old and I may be permitted to digress a little on a brief history of the Company's growth during the last 25 years. The Company was incorporated on the 21st February 1946. The first cement plant of 1 lakh tonnes capacity was commissioned at Talaiyuthu, Tirunelveli District in August 1949, and thereafter within a short span of ten years, the capacity was progressively increased to approximately half-a-million tonnes. In view of the continued scarcity of cement, a crash programme of expansion to augment cement production under the Five-Year Plans by a further one million tonnes was launched in 1965-66. Two additional units of two lakh tonnes capacity each were commissioned between 1969 and 1970, thereby raising the total capacity at the Talaiyuthu plant to nearly one million tonnes per annum. A second factory was set up at Sankaridrug, Salem District with an initial capacity of two lakh tonnes in 1963 which again, within a short span of 7 years, was increased to six lakh tonnes per annum with the commissioning of one kiln under the one-million tonne expansion scheme on 21st June 1971. The rated capacity as on date is 1.5 million tonnes per annum.

Besides the two cement factories, a Foundry Unit at Nandambakkam at Madras was acquired in 1965 primarily to cater to the needs of the cement units in respect of grinding media and other spares. Besides meeting such requirements in full, the Foundry is in a position to supply quality castings to various customers in the automobile, insulator and other industries. The capacity of the Foundry presently stands at 5280 tonnes of castings per annum.

The progress achieved during the last 25 years has been exclusively due to the progressive policies of the management and the full co-operation of the staff and labour at all levels. It is a happy story of industrial enterprise on the one hand and administrative and labour execution on the other. In this connection it is but fitting that I should pay a tribute to the two architects of the Company namely Sri S N N Sankaralinga Iyer and Sri T S Narayanaswami. Sri Iyer is happily with us and we wish him many years of life. Mr Narayanaswami is no longer with us but his name will be remembered as long as this institution exists. In 1946, just after the war the country was awakening into a dawn of political freedom. But the entire economy was at a low and halting level and required the vision and energy of industrialists and the help of the Government to achieve a break-through in industry. The cement industry especially was practically unknown to Southern industrialists and Sri Iyer was in every sense of the word a pioneer in the field. His practical experience was combined with robust optimism and to him we owe the birth of this Company. In subsequent years, however, and especially during the days of its expansion, Sri T S Narayanaswami guided its destinies and brought it to the eminence of a leading industrial unit in South India. On this occasion, it is appropriate that we remember both of them, one to whom we shall personally convey our tribute and the other whose memory we will cherish.

Financial Results

The financial results of the Company for the year 1970-71 have been generally satisfactory although there is a fall in the net profits from Rs 88.02 lakhs to Rs 53.24 lakhs. This has occurred in spite of increased production and despatches. The Sankarnagar factory produced at 91 per cent of rated capacity, while the Sankaridrug factory produced 101 per cent of rated capacity. Though the production at Sankarnagar factory shows an improvement over the previous year, the failure to achieve full rated capacity has been due to delay in the delivery and consequent commissioning of the cement grinding mills and the clinker conveyers for the new kiln commissioned in April 1970. In spite, however, of increased production from 9,90,704 tonnes during last year to 11,78,293 tonnes, the rising cost of materials and other charges have swallowed up a considerable proportion of the income that has accrued from the extra production. It is needless for me to go into the details of the increases that have taken place in the price of furnace oil, grinding media, firebricks etc, or to further expatiate on the larger sums that we have been compelled to pay as bank interests on hypothecation loan and interest towards capital borrowed for financing the expansion

schemes which have been completed. I would, however, like to make special mention that the latest Railway budget has envisaged a steep increase in the freight on coal which itself accounts for an increase of Rs 1-23 in the cost of production per tonne. I have taken special pains to acquaint you with these financial details because they conclusively establish that the reduced profits of this year are not due to falling off in production or efficiency of economy in administration and management but are due exclusively to extraneous causes over which the industry has no control.

As a result of these increases in cost, the industry has been urging on the Government the imperative need to sanction an increase in the price of cement. Industrial investment has to compete with other forms of investment and, *ceteris paribus*, has certainly to be a little above the deposit rates which the banks are offering. This is a salvation minimum below which no industry can maintain itself in the financial market. Otherwise the result will be an unhealthy unloading of industrial scrips in the market and their conversion into other methods of saving and investment which offer not merely comparable interest rates, but also more readily acceptable securities for borrowings. This is one side of the picture. On the other side, the industry itself is entitled to a reasonable remuneration on the capital employed and in the context of the general rise in the price level it is not fair that the cement industry alone should ask to bear an unequal burden.

So far, the Government have not taken into account these escalations in costs in order to arrive at a suitable retention price. However, based on the representations made by your Company and the Cement Manufacturers' Association, the Government of India in the Ministry of Industrial Development have now referred the issue to the Cost Accounts Branch of the Ministry of Finance. It is hoped that Government will take a decision on this issue as early as possible.

Sales

Sales of cement showed appreciable increase being Rs 16.05 crores as against Rs 12.76 crores during the previous year. The increase in sales is on account of two factors. The first is that the higher installed capacity as well as fuller production in the two factories resulted in greater production of cement. The second is that on the side of demand although the full anticipated increase did not materialise there was yet a definite sign of an upward revival which is promising. If this trend continues, we hope to achieve a higher volume of sales during the current year. The sales include 54,826 tonnes of cement and clinker on account of exports to Ceylon and the Middle-East. The production and despatches during the current year, i e, from 1-4-71 to 31-8-71 were 356,477 tonnes and 360,915 tonnes at the Sankarnagar factory and 190,021 tonnes and 181,513 tonnes at the Sankaridrug factory. The working of the Foundry during the same period has also been very satisfactory.

The Industry and Government Policy

In the speech last year, the Chairman referred to the policy of the Government towards the cement industry. I drew your attention to the order of the Government in April, 1969 announcing the de-control of cement as from the 1st January 1970. The cement producers, helped by numerous political and other leaders, and also consumer interests made strong representations to the Government that such a policy would adversely affect both producers and consumers of cement in the country, and more especially the producers in the South and consumers in the North and North-East of India. It was specially pointed out to the Government that the temporary surpluses prevailing just prior to time of the Government Order were not an indication that supply had become equal to demand but were due almost exclusively to the aftermath of the industrial recession and poor harvests. The Government then stayed the order of de-control, and as a result the even distribution of cement all over the country continues as before, with benefit to agriculture and industry alike.

Trends in Demand and Supply

As far as one can see, the demand for cement will outstrip the supply during the next few years. Cement production and despatches in the country during 1970 totalled 13.876 million tonnes and 13.58 million tonnes respectively. During the year under review serious scarcity of cement has been reported from many parts of the Northern and Eastern regions. The best possible estimates of projected capacity at the end of 1972 and 1975 put the figures respectively at 19.7 million tonnes and 23.4 million tonnes. Committed schemes extend only upto 1972. If one takes realistic despatches at 85 per cent of rated capacity, taking into account inevitable transport difficulties and internal production problems arising from short supply of raw materials, machinery and labour problems, one may say the total quantity of cement available by 1972 will be a little more than 16 million tonnes and by 1975 a little less than 20 million tonnes.

While this is the picture on the side of supply on the side of demand, one has to take numerous factors into account. The first is the definite stabilisation of agricultural production at a high level and the scientific promise of further increases in agricultural production. The second is an upward trend in industrial production which in the coming years will be visibly supported by increasing consumer demand from the rural sector which constitute 70 per cent of the population. The third is the national awakening in regard to better roads and the plans for improvement and extension of Highways and feeder roads. Neither the public nor the Government seem to be fully aware that the prosperity of the farmer, the evening out of the prices of agricultural produce all through the year, the ready and timely supply of raw materials to the factories and of the means of production to the fields depend to a large extent on good feeder roads which connect the villages to the Highways. Similarly, there is a real awakening among the masses in regard to better housing. Several State Governments have taken up massive housing schemes in the cities, partly as development and partly as slum clearance. But the real revolution in housing is yet to come about and will consist of modernising rural homes. When this is taken up as it is bound to be, the demand for cement will be much greater than even what the present projections envisage. In addition, there are subsidiary demands like concrete flooring for irrigated agriculture and the lining of canals so as to effect economies in water distribution.

Thus, as far as one can see, both as a result of general economic revival and as a result of the special demand that are likely to be created for cement, the demand for the product in the next five years will certainly be very much more than the arrangements for supply which have been made so far.

Policy for Price-Control and Location of Factories

This in turn raises the question of the general policy that is suitable for the

producers and the public in the circumstances and projections made above. In the first place there is the imbalance between the supply and demand for cement. The imbalance is total for the country and also acute in certain regions like the North and North-East. There are several problems which arise as a result of the supply being unable to meet the full demand. The first is that as long as such a situation continues Government will be ill-advised to de-control such a vital commodity as cement which enters into every aspect of the economy, agriculture, industry, transport, electrification, housing and the like. Secondly it underlines the need for continuing the present arrangement for freight pooling which is the only method by which the consumer in the country can obtain cement at a uniform price although the cost to the individual producers may vary. To interfere with freight pooling at this stage will be to invite undesirable interference with the selling price in the scarcity pockets and to put the Southern producers who have surplus of production into a difficult position from which they cannot extricate themselves. Thirdly it raises the major question of the location of cement factories. The Government of India are applying their mind seriously to starting new cement factories in the deficit areas of the North and North-East. Basic industries are located by reference to the availability of raw material in adequate quantity and of proper quality. It is on these considerations that many of the cement units in this country are located in the Southern and the Western regions. Just as the jute industry is based in Bengal and the iron industry in Bihar and Bengal and textiles in the South and the West, so also the principle of regionalisation can be applied rationally only by locating suitable industries in suitable areas. It is for the Government to consider whether the location of the cement industry in the North and the North-East is the proper application of the principle of regionalisation and whether it will not involve the introduction of a permanent subsidy in the selling price from those units. The problem has to be examined from the point of view of the consumer and the producer alike, and in this context the starting of Government units for cement production in the South is a pointer.

Taxation and Industry

There is one other point to which I would like to make a reference. The latest budget of the Government has created new problems for industry. Apart from the high individual assessment on income and wealth which have a deleterious effect on saving and investment, I particularly refer to the imposts on corporations. The increase in the rate of surtax on company profits from 25 to 30 per cent (where chargeable profits exceed 15 per cent), the withdrawal of the development rebate from 1974, the deletion of the cement industry from the list of priority industries, the scaling down of the special tax exemption limit from 8 to 5 per cent of the profits of priority industries, the removal of debentures and long-term borrowings in the computation of the limit of 6 per cent of capital for purposes of tax exemption of new industrial undertakings, the negation of the facility to enjoy tax free income upto Rs 3,000 a year from investments in specified financial assets by Companies, and the denial of concessional tax in dividends received by foreign companies will cumulatively lead to a reduction in the flow of funds for new ventures or any type of expansion by existing ventures. Further, the raising of surtax from 25 to 30 per cent will certainly penalise further the more efficient industrial units. I would like to recall that the companies (Profits) Surtax Act which came into force in 1965 took the place of the Super Profits Tax Act 1963. Both these measures increased the tax burden of the more efficient companies and it was the harsh impact of the surtax on the working operations of the corporate sector which induced the Government to reduce its incidence in two stages from 40 to 25 per cent. While making the second reduction the then Finance Minister said in 1969-70 that it was intended as a spur to efficiency. It is strange that almost within a year such a spur is no longer considered to be necessary.

I have mentioned these problems to you frankly so that it may be realised that the cement industry is working under difficult conditions arising out of Government policies both industrial and fiscal.

Labour

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

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

Nuclear Energy and Pollution

THE Director-General of the International Atomic Energy Authority, Sigvard Eklund, in his annual address to the Economic and Social Council of the United Nations in Geneva, recently stated: "Every person who feels a sense of responsibility for the future must welcome the world-wide debate that is going on about the environment. I am sure that most of us have been shocked by some of the things we have learned about the impact that our modern society is having on the environment. Nuclear energy is a growing part of this modern society. To judge its impact in true perspective, however, it must be seen from several points of view.

"Firstly, compared with the radiation does that every man receives from nature itself, the dose to which he is exposed from manmade sources of radiation is minute. In turn, the use of nuclear energy to produce electricity contributes only a small part of this fraction. Greater exposures result from nuclear weapons testing and far greater from medical X-rays . . .

"Secondly, nuclear energy presents very minor environmental problems compared with other technologies and industries. However, the real question we must face is: what is the best way — what is the least damaging to the environment way — of meeting the rapidly growing need for energy, and especially for electricity, of developing and industrial countries alike?

"Since the natural resources of hydro-electric power are limited, we must either burn a fossil fuel — coal, oil or gas — or use nuclear energy to meet our needs. By providing an alternative to fossil fuels, whose eye-catching impact on the landscape is there for all to see, nuclear energy will diminish pollution and contribute to a cleaner environment."

Unit Trust of India

Statement by the Chairman, Shri R S Bhatt

THE following are extracts from the Statement by Shri R S Bhatt, Chairman, Unit Trust of India:

The Unit Trust of India completed, as of June 30, 1971, its seventh year of operations and its accounts have been audited and published.

The Trust has declared an income distribution to unit holders, at the rate of 80 paise per unit i e 8 per cent. This dividend is the highest so far declared by the Trust and compares with 7.2 per cent paid in the preceding year. The income distribution to the initial capital contributors is 5.25 per cent.

During the year under review, the income of the Trust amounted to Rs 8.41 crores (inclusive of profit from sale of securities of Rs 27.89 lakhs) as against Rs 6.28 crores in the preceding year. Total expenses, including expenses on administration, provision for sundry liabilities etc, also rate to Rs 80.00 lakhs from Rs 67.31 lakhs in the preceding year. In terms of Sections 24 and 25 of the Unit Trust of India Act, 1963 (as amended), the net income allocated to unit holders amounted to Rs 758.17 lakhs. This, together with the balance of Rs 19.24 lakhs in the Unit Capital Appropriation Account—in all Rs 777.41 lakhs—is available for distribution to the unit holders whose names were on the Register of the Trust as on June 30, 1971. The income distribution to unit holders will absorb Rs 738.01 lakhs leaving a balance of Rs 39.40 lakhs. The income distribution to the initial capital contributors will absorb Rs 26.25 lakhs leaving a balance of Rs 10.58 lakhs. The aggregate transfer to General Reserve amounts to Rs 27.89 lakhs. This will leave Rs 12.94 lakhs and Rs 9.15 lakhs to be carried forward in the respective Appropriation Accounts.

Fall in Sales

Sale of units during the year at Rs 1,799.67 lakhs was lower than the record level of Rs 2,283.40 lakhs in the previous year. The sales were, however, higher than those in any of the earlier years, 1965-66 upto 1968-69. The fall in sales during the year may be attributed to the general hardening of interest rates, increase in interest rates in rival channels of investment and also, to the change in the scheme of tax concessions introduced last year. Almost, the whole of the investments in units made during the year was by individuals who accounted for Rs 1,736.17 lakhs. Institutions invested only Rs 63.50 lakhs.

During the year, sale of units to non-residents amounted to Rs 42.93 lakhs as against Rs 48.36 lakhs in 1969-70; the number of applications received was also lower at 440 as against 603. As of June 30, 1971, units sold to and outstanding with non-residents amounted to Rs 161.50 lakhs under 2,205 applications.

Larger Repurchases

Repurchases by the Trust during the year were larger, viz, Rs 3.19 crores under 12,698 applications as against Rs 2.03 crores under 9,480 applications in the previous year. Repurchases this year worked out to 3.3 per cent of the aggregate funds invested by unit holders.

Total investments of the Trust as on June 30, 1971 amounted to Rs 105.14 crores as compared with Rs 88.18 crores at the end of the previous year.

The Trust participated in the underwriting of 16 issues to the extent of Rs 3.05 crores during 1970-71 as compared with 21 issues totalling Rs 9.69 crores in the preceding year. By far, the bulk of the underwriting was claimed by debentures (Rs 138 lakhs). The balance comprised ordinary shares (Rs 94 lakhs) and preference shares (Rs 73 lakhs).

The capital market remained sluggish during the year under review, and the total capital issues (July-June) amounted to about Rs 50 crores (including initial issues of equity and preference shares, right issues and debentures) as compared to about Rs 80 crores during the previous year. In the stock market also, after an initial firmness till about September 1970, share prices started sliding down, the pace gathering momentum as the year wore out.

The slump in the stock market prices towards the close of the accounting year had its impact on the market value of the Trust's investments, which in relation to their book value, as on June 30, 1971 showed a smaller appreciation of 7.5 per cent as against 9.6 per cent at the end of the previous year. The appreciation in the portfolio was accounted for by ordinary shares. Taking into account the appreciation in the Trust's investments, the net value of the assets of the Trust as on June 30, 1971 amounted to Rs 106,12,46,387. During the year under review, 24 companies whose securities are in the Trust's portfolio, issued bonus shares. The ratio of bonus shares to existing shares ranged from 1 for 10 shares to as high as 4 for 5.

The Trust continued its efforts to popularise units as a medium of investment in the countryside. The Trust's agency force was further expanded; the number of approved agents at the end of the year stood at 2,756 as against 2,303 in the previous year. The number of approved brokers on the recognised Stock Exchanges was 320 as against 315 a year gao. Besides the Trust's various offices, units continued to be on sale at over 10,000 branches of the leading banks throughout the country and at about 18,000 post offices. The Government of India's grant towards the Trust's publicity expenses was scaled down further. For the financial year 1970-71, the grant sanctioned was Rs 5 lakhs as against Rs 7.5 lakhs for the previous year. The Trust's outlay on publicity from its own revenue was Rs 1.08 lakhs during the year.

Further Progress in Reinvestment

The Trust's Reinvestment Plan 1966 recorded further progress during the year. The total amount reinvested during the year with respect to income distribution relating to the year ended June 1970 was over Rs 50.44 lakhs, the number of applications being 15,660. With respect to income distribution for the year ended June 30, 1971, the number of new applications for reinvestment received by the Trust totalled 4,193 involving 20,33,750 units.

Sale of units under the Voluntary Savings Plan 1969 during the year amounted to Rs 1.58 lakhs. The number of savers participating in the Plan at the end of the year was 682.

The Children's Gift Plan launched by the Trust on July 1, 1970 has made a promising beginning. During the year, units worth Rs 56.32 lakhs were sold, the number of applications being 2,388.

The Unit-linked Insurance Plan, reference to which was also made in my previous statement has been finalised. The basic objective of his plan is to offer to investors, especially from the relatively small and medium income groups of the community, a facility for regular savings and investment of such savings in the units of the Trust, combined with the advantage of life cover during the period of the plan.

ECONOMIC AND POLITICAL WEEKLY

Founder-Editor: Sachin Chaudhuri

Vol V No 44 October 30, 1971

Escalation with Purpose—Farcical Irrelevance—No Takers?—Logical Sequence 2218
Business 2219
Perspectives 2222
Companies 2223
From Our Correspondents
New Delhi: To Impress Aid Consortium? 2225
Intellectuals Who Deceive 2227
South: Kerala's Features —Mohit Sen 2229
Gujarat: Kadana Project—Exercise in Area Development —Pushpa Sundar 2231
Tito and Brezhnev: Outward Cementing? —K Krishna Moorthy 2233
Peking and Indian Maoists —Mohan Ram 2234
The Fourth Estate 2235
Reviews
Lay Information on Aluminum —D C Kale 2237
Financing Growth —Apararka 2238
Special Articles
Content Analysis of India's Image among US Foreign Policy Decision-Makers —Joanne F Loomba 2239
Consumer Prices and Per Capita Household Consumption in Rural India: Variation between States —N Bhattacharya G S Chatterjee 2249
Training Methods for Social Research —Brij Raj Chauhan 2253

ECONOMIC AND POLITICAL WEEKLY
Skylark 284 Frere Road Bombay 1
Phones 266072, 260566, 260192
Editor
KRISHNA RAJ
Assistant Editors
Rajani X Desai, Jawid Laiq
Business Manager: A Fernandes
Circulation Manager: Shiv Patil
Editorial Staff
Colin de Souza, Haresh M Advani
Shireen Heerjee, Ashok Rao

China in the UN

THE Kuomintang, the Nationalist Party now ruling Taiwan as the Government of the 'Republic of China', had lost the battle for the right to represent China as long ago as in 1945. The communists had to be recognised in constituting the delegation to the San Francisco Conference that year. The delegation which went to San Francisco was not an exclusively Kuomintang one. There was a lone communist member in it. This was Ting Fi-wu, today the acting Chairman of the People's Republic of China. It has taken 26 long years for the Kuomintang to be finally told the very obvious reality that it does not rule China, that what obtained on mainland China was not, as it claimed, a continuing rebellion but a very organised and responsible government. The Chinese people had made their choice in 1949 and their choice was *not* the Kuomintang.

But then it would be only a half-truth to say that the defeat is that of the Kuomintang. It is, in simple terms, a defeat for American foreign policy. It is true that the Americans were reconciled to it. It is also likely that Kissinger, during his first trip to Peking and more recently when he was there last week, must have made it clear to the Chinese that the Americans did not mind a few people in Mao jackets arriving in New York. But that they had reconciled themselves to the inevitable does not detract from the defeat the Americans have suffered.

In other words, President Nixon in spite of himself has begun to preside over the liquidation of the American empire. China's entry into the United Nations signifies, above all, that this process of liquidation has begun. When Nixon goes to China next year he may well find the Chinese extremely cooperative in hastening the process. For the Chinese, one obvious lesson of the UN voting has been that if they stuck to their guns, the 'imperialists' would bend. The Chinese had maintained all along that there would be no 'two Chinas', nor 'one China, one Taiwan', nor 'any other similar solution'. There was only one China, and Taiwan was an integral part of it. The reluctant West and the recalcitrant Americans had to accept these terms. At any rate, the General Assembly has accepted them. Presumably the same realism, however belated, would inform the positions of the West and the Americans in the Security Council.

There is yet another important aspect to this development. All through the fifties, the number of States voting for China's entry had always exceeded that of those voting against it. (China, nevertheless, could not come in because of the US resolution making its admission an 'important question' necessitated a two-thirds majority.) However, during the sixties, beginning literally with 1961 (the voting figures for 1961 were 37 for, 48 against and 19 abstentions) the number of States voting against the Chinese delegation occupying the China seat always exceeded that of those who voted for it (with the very understandable exception of 1970). This change between the fifties and the sixties is significant, for it was precisely during the sixties that the much-talked-of decolonisation took place in Africa. While the 'third world' was being more and more talked about, it seems to have behaved in a peculiar way on the question of China's representation in the UN. Obviously, quite a few of these 'independent' States were amenable to pressure from the United States. Political independence in many of these countries is still no more than a mirage.

For the Chinese, again, the point must be obvious. The United Nations reflects the present world order, dominated by the US and the USSR. What happened on Tuesday, October 26, in the General Assembly showed that quite a few of these not-so-independent States were able to enjoy the liberty that they did mainly because the US policy of 'containment of China' had come to naught. Americans could no longer pretend to be unaware of the phenomenon of China. Kissinger was flown to Peking—to prepare the way for a visit by the US President himself. And then suddenly many States became brave. Their patron was helpless; so they could have a little elbow-room.

But no more than elbow-room. The voting in the General Assembly has changed the representatives of China. It has not substantially changed the international order. Or not just yet. It is, therefore, necessary not to read too much into the euphoria evidenced in the General Assembly on Tuesday. Presumably, the euphoria had more to do with America's defeat than with China's success. If so, nothing could have been more premature. The decision of the General Assembly demonstrated that if a nation were to persevere in its opposition to the world power system, it would certainly make a dent in it, eventually to weaken it. China's entry into the UN is one such dent. China might try and make further dents. But for the present while China's entry has been a blow to the world power system, it would be unrealistic to exaggerate its importance.

Bangla Desh

Escalation with Purpose

APPREHENSIONS that the end of the monsoon would be marked by a sharp build up of tension between India and Pakistan have come all too true, unfortunately. Pakistan has been trying from the beginning to conceal the true character of the freedom struggle in East Bengal by making it appear as an India-Pakistan affair. In the last few weeks India too has begun to give wide publicity to its own defence preparations. And to show that the Indo-Soviet treaty is no paper tiger we have promptly invoked article IX of the treaty which provides for mutual consultations to 'remove' any threat of attack facing either of the signatories. This brought the Soviet Deputy Foreign Minister to Delhi — with what results it is not immediately clear.

In terms of the freedom struggle in East Bengal the two armies have tactical objectives only on the eastern border. Preparatory to an all-out offensive against the freedom fighters, the Pakistani army has been straining to close the East Bengal border so as to cut the movement of help from India. India, on the other hand, has an interest in keeping a strip of territory along the border relatively free from Pakistani army operations, as has been the case so far.

These limited tactical objectives apart, there are weighty political considerations in favour of escalating tension. Pakistan hopes that the major powers will be so convinced of the imminence of a war that they would pressurise India into accepting a mutual withdrawal of troops from the border — which would check the flow of help to the freedom fighters. The same threat, India hopes, will persuade the big powers to put pressure on Pakistan to the point of finally compelling President Yahya Khan to start negotiating with the Awami League for a political solution.

While in military terms India's position is vastly superior, its attitude to the freedom struggle in East Bengal remains ambivalent. Ideally, it would perhaps like the Awami League to be installed in power within a framework of autonomy. Very likely this is what the 'provisional government of Bangla Desh' is also playing for, despite its affirmations of commitment to total independence. Yahya Khan may not be prepared to accept this yet, but it is perhaps only a matter of time before he, or whoever replaces him, is forced to accept this as the best bargain in the circumstances. The elements who may spoil this eventual consensus may be the freedom fighters themselves. After all the promises of a free Bangla Desh will they be fobbed of with autonomy and an Awami League government? Fissures between the 'provisional government' and the freedom fighters are already beginning to surface. Only this week the 'provisional government' has had to 'dismiss' another sector commander of the freedom fighters. No one has suggested that these dismissals have been on account of inefficiency.

Levies by Ordinance

Farcical Irrelevance

THE recent tax measures by three Ordinances to yield Rs 30 crores in the current year would not be worth a comment—except for the fact that they, and the official statements that have followed them, signify government's reluctance to seriously grapple with the total economic situation.

It has been made out time and again that the burden of Bangla Desh refugees is at the bottom of the present 'financial crisis'. But the crisis is more than merely 'financial' and the Bangla Desh refugees are a convenient cover for it. If the refugees are costing us anywhere near what government has made out, then the yield from the latest levies can hardly make a dent on the problem. But if the fact is that the refugees by no means account for the major part of the Government deficit (Rs 350 crores in the first six months against Rs 220 crores planned for the whole year) what is the relevance of the levies which, apart from being trivial in their yield, have been repeatedly described as 'purely temporary'. Even last year, the deficit at Rs 408 crores had well exceeded the planned level of Rs 225 crores.

At Thursday's luncheon meeting at the Press Club in Delhi the Finance Minister repeated that the levies would not cause inflationary pressures, that prices had gone up because of shortages and increase in money supply, and that they would have to be checked by measures to increase production ('especially industrial production') and curb expansion of money supply. Yet how is all this to be achieved? The growth rate of industrial production sagged miserably to around one per cent in the first half of the current year. And though agricultural production—foodgrains production, mainly—has given rise to such euphoria as to lead to considerable dismantling of the official distribution system, there may be cause for regret if, as the Agricultural Prices Commission has pointed out, next year's monsoon is not as favourable. Besides, adequate supply of foodgrains can at best lend stability to a growth effort, not by itself trigger off growth. The growth effort has to be in the industrial sector. Industrial production has lagged largely because public investment has not picked up. Shortages of industrial raw materials, especially steel, have been felt acutely. And industry in West Bengal has yet to be 'reconstructed'. To these problems the Finance Minister's solutions may be less than adequate. Ad hoc measures, of which the latest levies are a particularly farcical instance, cannot lead to sustained growth. And so the government is driven to search for alibis.

What gives equal cause for concern, however, is the opposition parties' approach to the present situation. At its conference at Valwan in Maharashtra, the Socialist Party attacked the recent tax measures not for their gross inadequacy and irrelevance but on the ground of their having been introduced via ordinances in trespass of 'democratic' ways!

Science Policy Planning

No Takers?

FOLLOWING what seems to have become common practice in such matters, the Government has begun appointing the National Committee on Science and Technology (NCST) on instalment plan basis. The names of 10 members were announced on Monday last; the appointment of the chairman as well as five other members is to follow. However, it is not necessary to wait for the constitution of the Committee to be completed to make some general comments.

The NCST, which replaces the infructuous Committee on Science and Technology (COST), will be the top policy-making body in science and technology, and is charged with the preparation of a national plan for science and technology to be dovetailed with the socio-economic development plans. In addition, the Committee will have the following specific functions: to decide on the pattern of development of scientific and technological research, including inter-sectoral resource allocation and measures needed for correcting imbalances that may arise; co-operation and communication between government, semi-government and non-government scientific and technological institutions and professional bodies in the country; taking decisions on international scientific and technological matters including import of knowhow; and negotiating bilateral agreements with foreign governments.

The Sarkar Committee of Enquiry into the CSIR, as well as the conference of scientists, technologists and educationists which met in Delhi in November last year, had indicated some guidelines to the Government in regard to the setting up of the NCST. It had been recommended that the NCST should be a compact body of full-time members with an adequately staffed secretariat. But the NCST now in the process of being formed is neither a compact body—it is to have 16 members—nor is it to consist of full-time members. And without full-time members one might as well give up any hopes of the NCST acquiring an effective secretariat. Who would direct the work of the secretariat? Clearly, the constitution of NCST does not appear to have been in the least influenced by the lessons of the failure of COST.

This must have been obvious to the government. The significant question to ask then is why the government has constituted the NCST in the manner in which it has. Reports suggest that the government had to fall back on part-time members because few, if any, of the scientists considered for membership were prepared to give up their present assignments and join the NCST full-time. This is interesting, indeed. One has heard our scientists ever so often bemoan the lack of an overall national plan for science and technology and complain how vital decisions in such areas as import of foreign technology are taken without a long-term scientific and technological perspective. And yet when presented with the opportunity to play a role in national policy-making, they seem to prefer their present (mostly executive) specialist assignments.

Having said this, it has to be added that the portents have never been particularly auspicious for any group of scientists and technologists to commit themselves to the task of national policy-framing in science and technology. Inter-agency rivalries and the absence of a shared perspective on the approach to science policy among top scientists have always been discouraging factors to reckon with. At the present moment an even more important dampening factor is the virtual collapse of such socio-economic planning as we ever had in the past. The NCST is expected to frame a science and technology plan to be dovetailed with the plan for national development. But where is this development plan?

Perhaps the scientists who politely but firmly declined to be full-time members of the NCST have a point, after all.

Nobel Prize

Logical Sequence

A Correspondent writes:

THE third Nobel Prize for economics has been very deservedly awarded to Simon Kuznets. In the typical Wesley Mitchell tradition, Kuznets has worked all his life for the development of quantitative economics. He made national income analysis of operational significance by putting the economic data for the United States in meaningful form. In fact, Keynesian analysis would not have been carried forward in empirical terms but for the work done by Kuznets. More than this, Kuznets has done monumental empirical work by organising available data for analytic purposes with regard to the characteristics of economic growth in the developed as well as the developing countries. In fact, this work would be the basis for considerable analytical work on economic development.

In its choice of economists for award of the Nobel Prize, the selection committee seems to have proceeded in a very systematic manner so far. The first award for Tinbergen and Frisch was for contributions to the development of econometrics — a breakthrough in techniques of analysis without which economics could never have become an empirical science. The second award went to Samuelson for his profound contributions to economic theory. And now the third time the award has gone to Kuznets, without whose work it would have been difficult to carry forward the tradition of economic analysis either in the field of econometrics or in that of operational theory.

Just as Kuznets has made the Keynesian system workable, similarly Wassily Leontief has made the Walrasian system of operational significance. These are the two fields — national income analysis and input-output analysis — which have formed the basis for much of the progress in economic science in recent years. It would indeed be logical, therefore, if the next Nobel Prize in economics is awarded to Leontief.

BUSINESS

Gamble in Coking Coal

Magnus writes:

GOVERNMENT has taken the first step in control of the country's coking coal mines by taking over the management of 214 mines in Bihar and Bengal. The Press Note issued on October 16 is phrased felicitously, if rather pompously, and conveys to the uninitiated an impression that the industry's troubles will soon be over. While not wishing the Government ill, one can nevertheless only keep one's fingers crossed about the future of the coal industry.

Writing in this journal, a contributor had recently maintained that "collieries in the Jharia and Raniganj fields could get away with practically anything before Government even comes to know of what is afoot" (D C Kale: "Alternative to Nationalisation", October 9, pp 2143-4). The truth of this statement about the Government's total lack of control in the coalfields has been amply borne out by the rather peevish complaint of the new Custodian-General for the coking coal mines that when his underlings took over control of management, they found little cash in the tills, hardly any stores or spare parts in stock, and no surplus machinery anywhere. Nothing better could have been expected considering that rumours of nationalisation had been in the air for weeks in advance. Matters have been further complicated by the fact that most mine-owners have non-coking as well as coking coal mines and the former provided a ready refuge for surplus assets. It was naive of the Ministry of Mines to expect that colliery owners would behave like good boy scouts to the last, when their earlier performance had been so manifestly different; indeed, the whole exercise of nationalisation had become necessary allegedly because of the mine-owners' reluctance to co-operate with the Government in improving the working of the mines.

Some of the leading colliery companies had got into financial difficulties quite some time back. For example, it is widely believed that when Mundhra acquired control of Turner Morrison, he promptly drained the cash reserves of their Lodna group of collieries and thwarted their modernisation. There are other similar cases. It is also true, as the Press Note points out, that efforts made by the Government to secure voluntary amalgamation of small mining units into larger units have failed. There are two courses open to the Government at this stage when it has taken over management

but not yet ownership. It can amalgamate the collieries rationally and hand back the mines to the previous owners or it can pay compensation and take over ownership. On the face of it, the latter course would seem preferable.

The Press Note says somewhat pontifically: "Full economies of scale can be achieved only if the units produce a minimum of 3,000 to 4,000 tonnes per day. Capital formation and reinvestment are also inadequate to meet the needs of this industry." This would appear to suggest, first, that smaller collieries can never be efficient or profitable and, second, that collieries producing over 4,000 tonnes per day (the magical figure) are necessarily profitable. The Press Note is wrong on both counts, particularly the second — and that is where the danger lies. The NCDC has an installed capacity of 18.2 mn tonnes and it produced 13.8 mn tonnes last year. In due course, it is expected to produce 30 mn tonnes per year, of which 9.5 mn tonnes will be coking coal. In spite of these large capacities, NCDC has consistently run at a huge loss.

Finally, is it desired to conserve coal resources at any cost as a matter of principle? If, as the Press Note would have it, the long-term interests of the steel industry are at the heart of the matter, the question of costs arises at once. The need is for regular supplies at steady prices over a long period. Any solution which meets these objectives best should be adopted. Unfortunately, one cannot avoid the feeling that coal prices will go up in the very near future.

Shipping

Teja's Treasure

THE vigorous efforts that were being made behind the scenes by some of the leading Indian shipping companies to acquire the shares of the erstwhile Chairman of Jayanti Shipping Company have become a matter of historical interest now. The Government has, by an ordinance issued on October 17, acquired all the shares of the company. For the 2,88,128 shares of a face value of Rs 100 each, the compensation has been fixed at Rs 4.5 crores. As against this, the private sector bidders for control of Jayanti were reportedly prepared to pay up to Rs 5 crores for the 2,12,472 shares of a face value of Rs 2,12,47,200 owned by Dharma Teja which the Bombay High Court had ordered to be auctioned. And this in spite of the fact that the Shipping Corporation has claimed before the Delhi court trying Teja that Teja had still to pay about Rs 95 lakhs in respect of the shares standing in his name. Then there was the prospect of the buyer having to take on other liabilities as yet uncovered. That all this notwithstanding there should have been such keenness on the part of established private sector shipping companies to get hold of Jayanti was surely an unintended tribute to the essential judgment and enterprise of the founder of Jayanti which, at that time, these very companies had decried and sought to run down. Jayanti's fleet constitutes about 12 per cent of the country's total shipping tonnage even today.

According to the ordinance, the Government proposes to transfer all but 100 of Jayanti's shares to the Shipping Corporation of India which has managed Jayanti since June 1966. Whether SCI will continue to manage Jayanti as in the past or whether Jayanti will be merged with it or, again, whether Jayanti will operate as a separate shipping company has not been evidently decided yet. Whatever the form ultimately decided upon, the nationalisation of Jayanti has sharply raised the public sector's share of national shipping tonnage. Till now the public sector in shipping comprised the *Shipping Corporation of India* and the Mogul Lines which together accounted for about 38 per cent (904,690 grt) of the country's gross registered tonnage. With the nationalisation of Jayanti (295,298 grt), the State's share in the country's shipping tonnage has jumped to 50 per cent. The share will go up further if we consider the total tonnage on order at present. Of the 62 vessels of 11.51 lakh grt on order, SCI's share is 32 ships of 6.72 lakh grt or about 58.4 per cent. The Government's declared policy in the matter has been that the public sector should eventually own 50 per cent of the national tonnage. This objective appears to have been secured painlessly — thanks to the misfortunes of Dharma Teja. The ball is now squarely in the court of the private sector companies who will have to show greater dynamism if they are not to collectively trail behind the public sector.

Export Promotion

Zeal without Co-ordination

THE Indian Institute of Foreign Trade presented its report on the export potential of Bihar, comprising six bulky tomes, to a gathering of VIPs the other day in Patna. In addition to providing broad guidelines for generating export surpluses in selected industries and for finding markets for them, the report suggests, *inter alia*, the constitution of a State Export Promotion Board. An attempt is also made to outline a pattern of development for establishing new export-oriented industries, especially those based on the mineral resources of the state. This is probably the sixth in the IIFT's series of reports on the export potential of the different states; Andhra, Mysore, Maharashtra, Tamil Nadu and Haryana have already been covered and two more surveys, of Madhya Pradesh and Kerala, are reportedly in the offing.

The logic of the IIFT's surveys is that state governments have an important role to play in developing the export base of their states and in taking steps for expanding exports within the framework of the Union Government's national export policy. In addition, such efforts may also aid the states in generating new economic activities. The surveys are expected to provide the necessary information and guidelines to the states in this endeavour.

Almost all the surveys that have been completed by the Institute so far follow a uniform pattern in their approach. The Institute, in consultation with the concerned state governments, selects a few score of commodities and compiles, by the survey method, information on them relating to production, raw material availability, export marketing, etc. In preparing the compendium, generally a few suggestions are thrown in for commodity export development and institutional effort. Finally, voluminous statistical appendages appear to be a must.

Unfortunately, multiplication of export organisations, whether for sales or service, is hardly the answer to our export problems. Already too many organisations are engaged in parallel functions without any co-ordination whatsoever among them at any level. Creation of more organisations will only add to this avoidable wastage. Similarly, efforts to develop new industries in the zeal for export promotion must also be examined in the all-India context and from the standpoint of costs and benefits to the nation. Otherwise, every state would be going ahead with the setting of industries on the basis of half-baked ideas about their export potential — a luxury which a country with an already high-cost industrial structure can ill-afford.

US-Japan Textile Pact

Holding Them in Check

AFTER initial resistance, Japan signed a textile pact with the US on October 15—the deadline set by the US, after which it was to impose mandatory textile import quotas. The pact does not demand a reduction in the existing volume of textile exports but restricts the future growth of exports of synthetic and woollen textiles to an annual growth rate of 5 to 7.5 per cent. During 1965 to 1970, exports from Japan of non-cotton textiles increased at an average annual rate of nearly 13 per cent and of clothing at 10 per cent. Similar pacts were signed also with other major textile exporters to the US, *viz*, South Korea, Taiwan and Hong Kong. The Japanese 'gain', *viz*, the abolition of the 10 per cent surcharge by the US, was no real gain as the duty had been imposed only as a temporary measure by the US.

The pact has been resented by Japan's enterprising textile industry. Total Japanese exports increased over eight-fold, from $ 2 billion in 1955 to $ 19.3 billion in 1970. During this period, though the share of textiles and clothing in total exports declined, from 35 per cent to 11 per cent, the absolute value of textile and clothing exports increased over threefold, from $ 692 million to $ 2,207 million. Synthetic and woollen textiles and clothing were responsible for this. While exports of cotton fabrics declined from $ 230 million in 1955 to $ 188 million in 1970, exports of synthetic and woollen textiles and clothing increased nearly fourfold during this period. The recent pact between the US and Japan does not cover cotton textiles—exports of which are governed by an international trade agreement. The pact thus implies that the Japanese industry will have to adjust itself to a much smaller growth rate of exports since the US has been Japan's most important export market. It was during the 1960s that the US emerged as an expanding market for Japanese textiles. In 1969, it absorbed over one-fourth of Japan's total exports of textiles and clothing. And, while between 1962 and 1969, the share of all developed countries in Japanese textile exports remained stagnant at 46 per cent with Western Europe's share actually declining from 8 per cent to 7 per cent, the share of the US increased from 24 per cent to 26 per cent.

Although the Japanese textile industry's overall dependence on export markets declined over the last 15 years, the textile and clothing industry is still the most export-intensive in Japan, with exports constituting 26 per cent of total production. Between 1955 and 1969, exports as percentage of production declined for cotton fabrics, spun rayon fabrics, and rayon filament fabrics. As against this, between 1961 and 1969, exports as percentage of total production, increased for wool fabrics and synthetic fibres. The increase in exports of synthetic fibres and woollen textiles was partly a response to the limitations on the exports of cotton textiles, imposed from 1962 by the multinational framework. Growth of labour productivity in the textile industry lagged behind in the 1960s—being almost one-half the rate of growth of productivity in the other major industries like engineering and chemicals. With rising wages then, unit labour costs in weaving and finishing were rising fast, but the synthetic textile industry could cope with these rising costs because of the continuous fall in fibre prices resulting from an extremely rapid growth of productivity in the chemicals industry. The new pact, therefore, comes as a setback to the growth sector within Japan's textiles exports.

STC

The Nazrana Helps

A Correspondent writes :

IN your editorial note on the STC ('Limited Accountability', October 16, pp 2176-7) you ask the very pertinent question whether the STC does not have goals beyond creating a streamlined structure of management accountability and keeping down costs of operation. However, I would go further and examine rather more critically than you have done the STC's claims that it has cut operating costs and improved its cash management to the point where it was able, in 1970-71, to run "a Rs 217 crores business on a self-sustained cash basis".

I shall refer only to STC's import business of which I have some first-hand knowledge as I am connected with one of the associations of established importers dealing in an item import of which has been 'canalised' through the STC. What canalisation amounts to in our case is that the import licences for the item in question are issued in the name of the STC, which endorses them in favour of our association. This having been done, the STC takes no further part in the import or marketing of the item. Our association negotiates the purchases abroad, makes the necessary financial arrangements with commercial banks, attends to the customs formalities, including payment of customs duty, looks after warehousing, etc, and then distributes the imported item among its members who, in turn, sell it to industrial users of the item. And yet the association is required to pay the STC 'service charges', which are calculated as a proportion of the net value of the import licences endorsed in favour of the association by the STC. In 1970, our association paid to the STC 'service charges' amounting to a good deal more than Rs 10 lakhs. I must add that import of the item dealt in by our association is relatively small—rather less than Rs 3 crores last year.

The imports, though effected by the association, are deemed to be on behalf of the STC and are, therefore, added to the STC's business turnover. Yet the STC incurs absolutely no expense. So its aggregate costs-to-turnover ratio stands automatically reduced. So also, it would appear at the end of the year that the STC has handled a larger volume of business with no increase in cash requirements—naturally, since it is our association (which, incidentally, paid out Rs 3 lakhs or so by way of interest and bank commission in 1970) that has to make the arrangements with banks. It would be interesting to know how much of STC's imports of Rs 142 crores in 1970-71 were effected in the manner described above.

When import of an item is canalised, the importers have no alternative but to pay the stipulated *nazrana* to the STC. But compulsion apart, the importers do not fare badly at all under the arrangement. Considering the large profit margins on most imported items, payment of STC's 'service charges' is no skin off the importers' backs. Besides, the importers often find the STC a persuasive pleader on their behalf in New Delhi. It is, therefore, a satisfactory arrangement for all concerned. The Government gets credit for advancing the cause of socialism by canalising imports; the STC gets its cut and is even able to show expanded turnover without effort or cost or financial outlay; the importers get their imports and, once they pay STC's 'service charges', are left free to squeeze all they can out of the market.

Towards a Tripolar Game

Dhananjoy

THE announcement that a Soviet-American summit will take place in May will cause little surprise in the world. Both the Super Powers had been maintaining mutual contacts at various levels for over a decade and meetings at the highest level have also taken place in the past. Nixon himself will be no stranger in Moscow though he may not conduct a kitchen debate this time. There is more important business to be negotiated: it will be appropriate for a Soviet-American summit to announce some progress in the Salt Talks just as it might declare the intention of both Governments to seriously consider schemes of balanced troops reduction in Europe. The number of agreements that have already been negotiated between the United States and the Soviet Union is by no means insignificant. Ever since the non-proliferation treaty, the two Powers have found it possible to agree on a number of subjects like prohibition of biological warfare, non-use of sea-beds for military purposes and providing safeguards against accidental nuclear war. Of still greater significance is the recent agreement on Berlin which clears the way for a new approach to European security.

The real meaning of the Nixon visit to Moscow may, however, have to be found in wider terms than bilateral Soviet-American relations alone. The rules of the game of a tripolar balance are now being evolved and a new world political system is in the offing. The essence of this system would be the existence of three different limited adversary relationships — the Soviet-American, the Soviet-Chinese and the Sino-American. Each of these relationships will be based on the principle of controlled competition and a minimal accord. Subject to the existence of these three relationships, it will be the effort of each of these Powers to promote its own interests by making it hard for the other two to agree. Since the United States is playing a leading role in the enunciation of the rules of this game, it is worthwhile to watch American policies carefully.

Evidently, what would suit the Americans most is a situation in which Washington not only maintains good relations with both Moscow and Peking but makes it impossible for Moscow and Peking to evolve equally good relations. Simliarly, from the Soviet point of view, the ideal situation would be one in which its own relations with both China and America are stable and friendly while Sino-American relations become strained. In a less obvious manner, Peking also has been trying to achieve the same objective of exacerbating the Soviet-American conflict to a point where both would consider good relations with China to be an important national objective.

What shape the world will ultimately take is still uncertain. What is less uncertain is that the present moves are meant to create a world of three Powers. There will be too many detractors in the world to permit such a near triangular balance to emerge. Neither the West Europeans nor the Japanese are likely to remain idle while others try to build such relationships. Few of the second-rate powers can be expected to take a posture of open challenge to this evolving system. In all probability, they will try to modify it to their advantage by offering limited support to these trends. But these nations could derive considerable sustenance from unexpected sources if they attempted to obstruct the implementation of the Nixon model. Is it entirely without meaning that North Korea's Kim-Il-Sung has just made a new gesture towards Japan and offered to rebuild Japanese-Korean relations?

The more important snag, however, is that one of the three Great Powers, namely China, may find it too status quo oriented a model to suit its interests and objectives. China is very much the weaker party in the triangular game. Recent American statements have sought to attribute to China a degree of progress which would appear somewhat exaggerated. For example, the American contention that in the field of nuclear research, China is now as good as the other two Super Powers, is obviously an attempt to convey to Peking the message that the Americans think that it has already arrived. The Chinese themselves do not share this view and over and over again the leaders of China had made it quite clear that their country is still underdeveloped in many ways. The attempt to create a stable triangular balance at this time with its unmistakable emphasis on global status quo could, therefore, fail to receive China's enthusiastic support. Could it be that by announcing his visit to Moscow, President Nixon is trying to tell Peking that should it fail to respond to his gestures and to agree to participate in the making of a tripolar world, the United States can fall back on the old model of a Soviet-American system in which China is the world's odd-man-out?



Going Strong

Hansavivek

ALUMINIUM INDUSTRIES completed the switchgear project and began commercial production last year. The company supplied the first 66 kV and 33 kV oil circuit breakers and current transformers to various electricity boards in India during the first quarter of 1971. Diversification of production in switchgear and other lines of activity is being considered by the management. During the 25th year ended March last, production of bare conductors increased from 6,682 tonnes to 10,070 tonnes, and sales increased from Rs 6.69 crores to Rs 9.62 crores—even though the company continued to face difficulties in procurement of aluminium and steel. The position in aluminium eased slightly towards the close of the year. The year's profit as well as the writeback of about Rs 5 lakhs from development rebate reserve have been utilised to reduce the accumulated deficit to Rs 1.01 crores. There is also a contingent liability on cumulative preference shares for dividend exceeding Rs 21 lakhs. Other liabilities include Rs 3 lakhs due to the Trustees of the Employees Provident Fund and about Rs 2 lakhs on account of income-tax deducted at source.

The directors visualise "much better" prospects for the current year. The order book for bare conductors, switchgear and wire working machinery is satisfactory. The switchgear and machinery manufacturing facilities are expected to be fully in operation during the current year. Total orders outstanding for exports are worth over Rs 47 lakhs, including one from the USSR for bare conductors. Alind has also been able to secure business for the newly-formed consultancy and engineering services division involving the supply of machinery and the imparting of technical knowhow.

INDIA CEMENTS completed the first phase of its one-million-tonne expansion with the commissioning of the third kiln at its Sankaridrug factory last June. The rated capacity after the expansion is 1.5 million tonnes per annum. The second stage of the one-million-tonne expansion scheme envisages two more kilns at the Sankaridrug factory. Since Government's policy is based on locating new cement factories with a view to correcting regional imbalances and since there is already surplus of cement in the southern region, the question of taking up further expansion will be decided shortly in consultation with financial institutions. The company has also been registered under the MRTP Act. During the 25th year ended March 1971, production of both clinker and cement at the Sankaridrug factory continued, as in the preceding year, to be above rated capacity. Though production at the Sankarnagar factory improved over the previous year, it failed to reach full-rated capacity due to delays in the delivery and consequent commissioning of cement grinding mills and clinker conveyors for the new kiln commissioned in April 1970. The rated capacity of this unit is now 8.63 lakh tonnes of portland cement. The foundry division made a small loss due to steep increases in the cost of production, accompanied by a prolonged stay-in-strike and go-slow by workers. The expansion work undertaken at the foundry in 1969 has been completed, and the unit can now cater to larger demands of castings. Cost of production of cement increased during the year on account of revision in pit-head price of coal, increase in railway freight on coal and gypsum, rise in prices of various items of stores, and rise in labour cost due to variable dearness allowance. The increase on account of railway freight has been further enhanced by the last budget. The validity of the Amendment Order introducing uniform retention price of cement was challenged by the company as well as by some other producers in different high courts. The Madras High Court originally upheld the company's contention that the Order was *ultra vires*, but this judgment was reversed in appeal. The question of taking up the matter further is being examined.

RAMON AND DEMM continues to have on hand orders in excess of its production capacity and, therefore, proposes to undertake expansion. Meanwhile, the installed capacity of various types of gears is to be increased from 600 tonnes to 650 tonnes, by addition of certain balancing plant and equipment. As the proposed expansion will involve additional long-term borrowing, the Board's borrowing limit has been increased from Rs two crores to Rs four crores. With better utilisation of plant capacity, the company had good results for the seventh year ended March 1971. Not only has it wiped off the entire debit balance of about Rs 18 lakhs, but has also paid a maiden dividend of eight per cent all of which is exempt from tax.

SHRIRAM BEARINGS has received a 'letter of intent' for manufacturing cylindrical and tapered roller bearings upto nine lakh numbers per annum. For this purpose, the company is establishing a new unit at Aurangabad in Maharashtra. Steps have been initiated for early implementation of the project. Meanwhile, the company's existing factory at Ranchi is working satisfactorily. With the installation of some balancing equipment, the operations are likely to show further improvement. During its 11th year ended June 1971, there was a strike by workmen on two occasions and about seven weeks' production was lost. Even so, sales looked up by Rs 10 lakhs to Rs 2.60 crores but, with contraction of margins, gross profit was Rs 5 lakhs lower at Rs 63 lakhs. Dividend stepped up 2.5 points to 12.5 per cent was still covered 2.29 times.

UNIT TRUST OF INDIA's sale of units during the year ended June 1971 was lower at Rs 18 crores in the preceding year (record level of Rs 22.83 crores). The fall in sales was due to the general hardening of interest rates, increase in interest rates in rival channels of investment, and change in the scheme of tax concessions introduced last year. Almost the whole of investment in units was by individuals, who accounted for Rs 17.36 crores. Repurchases by the Trust were larger at Rs 3.19 crores under 12,698 applications, as against Rs 2.03 crores under 9,480 applications the year before. Total investments increased from Rs 88.18 crores to Rs 105.14 crores over the year. The Trust participated in the underwriting of 16 issues to the extent of Rs 3.05 crores, as compared with 21 issues totalling Rs 9.69 crores. Underwriting comprised debentures (Rs 138 lakhs), equity shares (Rs 94 lakhs), and preference shares (Rs 73 lakhs). During 1970-71, the Trust's income increased from Rs 6.28 crores to Rs 8.41 crores, and total expenses were also up from Rs 67 lakhs to Rs 80 lakhs. Net income allocated to unit holders amounted to Rs 7.58 crores. This, together with the balance of Rs 19 lakhs in the Unit Capital Appropriation Account meant

that, in all, Rs 7.77 crores were available for distribution to the unit holders. The income distribution to unit holders, stepped up from 7.2 per cent to 8 per cent, would absorb Rs 7.38 crores and to the initial capital contributors Rs 26 lakhs. As at the year-end, the Trust's investments showed appreciation of 7.5 per cent in relation to their book-value compared to 9.6 per cent a year ago. R S Bhatt, chairman, commenting on the smaller appreciation in the value of investments, says that slump in the stock market prices towards the close of the accounting year had its impact on the Trust's investments.

INDIAN IRON AND STEEL's chairman, Biren Mookerjee, told shareholders at their annual meeting that a revised scheme to increase ingot capacity by some 300,000 tonnes per annum was under discussion with Government. It would require over Rs 60 crores, as against only Rs 11 crores that the scheme would have required had it been implemented in 1962. Loans would have to be obtained from official lending agencies for implementing the scheme. That would entail incorporation of a conversion clause in the agreement, which would reduce the share of the existing shareholders in profits and assets of the company by two-thirds. Even if the loan was not converted into equity, interest payments would reduce the company's profits. Justifying the board's decision on the payment of a dividend of six per cent for last year, Mookerjee pointed to the need to conserve resources for rehabilitating the plant. He stated that, even maintaining dividends at that rate might be impossible unless there was a relaxation in the official pricing policy. With the cost of raw materials, freight, consumable stores, and labour continuing to rise, he felt that available profits would shrink.

KAMANI ENGINEERING CORPORATION embarked on their export drive at the beginning of the sixties amidst much scepticism about whether India possessed the knowhow for designing and manufacturing such a specialised product as transmission line towers. Yet, within a little over a decade, the company's exports have reached Rs 42 crores and its towers have reached countries like New Zealand, Philippines, Taiwan, Thailand, Malaysia, Iran, Kuwait, Sudan, Tanzania, Nigeria, West Indies, Canada and even the US. The company has just completed a turnkey project valued at over Rs 6 crores in Sudan. The Rs 20-crore Indo-Iranian Power Development Package Deal, signed with the Government of Iran, is progressing according to schedule and is more than half way through. Further orders for turnkey and supply projects, collectively valued at over Rs 16 crores, have been received by the company. The orders are from Iran (Rs 6.1 crores), Libya (Rs 6.6 crores), United States (2,000 tonnes of high-tension transmission line towers) and Thailand (Rs 3 crores). Kamanis acknowledge the support they have got in the form of export finance from the commercial banks and the Industrial Development Bank of India. With a decade of experience in international marketing, Kamanis have now set up a full-fledged Export House, recognised by the Government, with a network of offices, agents and business associates in all parts of the world.

The Week's Companies

(Rs in Lakhs)

	Aluminium Industries		India Cements		Ramon and Demm		Shriram Bearings	
	Latest Year 31-3-71	Last Year 31-3-70	Latest Year 31-3-71	Last Year 31-3-70	Latest Year 31-3-71	Last Year 31-3-70	Latest Year 30-6-71	Last Year 30-6-70
Paid-up capital	354	354	523	523	94	94	75	75
Reserves	34	39	357	354	62	—	68	55
Borrowings	575	531	1175	1098	134	156	52	63
of which Term borrowings	88	79	517	575	99	112	46	45
Gross fixed assets	627	604	2382	2274	210	201	178	165
Net fixed assets	398	401	1565	1614	171	187	85	84
Investments	6	9	37	32	—	—	—	—
Current liabilities	182	172	452	480	40	37	67	36
Current assets	1044	977	904	810	156	79	176	144
Stocks	388	336	474	453	125	55	87	81
Book debts	230	225	373	325	37	24	51	47
Net sales	962	669	1605	1276	239	116	260	250
Other income	10	15	46	47	2	1	12	7
Raw material costs	673	424	298	251	66	63	42	40
Wages	89	71	123	109	19	11	38	34
Interest	64	58	95	64	15	15	4	7
Gross profit(+)/loss(—)	40	—55	213	209	105	17	63	68
Depreciation provision	27	23	158	121	25	10	15	16
Tax provision	—	—	2	—	—	—	28	—
Net profit(+)/loss(—)	13	—78	53	88	80	7	20	52
Development rebate provision	—	—	30	34	45	—	2	16
Transfer to reserves	—	—	—21	10	26	—	9	28
Dividend								
Amount	—	—	E44 P3	E44 P3	8	—	E 7 P 2	E 6 P 2
Rate (per cent)	—	—	E9 P7.50	E9 P7.50	8	—	E12.50 P 9.3	E 10 P 9.3
Cover (times)	—	—	0.30	1.23	4.25	—	2.29	5.66
Ratios (per cent)								
Gross profit/sales	4.16	—	13.27	16.39	43.93	10.47	24.23	27.20
Net profit/capital employed	1.35	—	2.57	4.45	27.48	2.80	10.26	26.94
Inventories/sales	40.33	50.22	29.53	35.44	52.30	47.41	33.46	32.40
Wages/sales	9.25	10.61	7.66	8.54	7.95	9.48	14.61	13.60

NEW DELHI

To Impress Aid Consortium?

THE official announcement of the promulgation of the three ordinances imposing fresh levies on railway passenger fares, postal articles and on certain kinds of financial transactions makes it pointedly clear that they are a temporary measure "to meet the financial burden caused by the influx of refugees from Bangla Desh". They will come into force on November 15 — more than three weeks after the promulgation of the ordinances.

The official announcement also explains that the additional levies are in pursuance of discussions with the state Chief Ministers at their conference held ten days earlier at which it was agreed that revenues from these levies which accrue to the states would be made available to the centre for refugee relief. In addition, the state governments are expected to levy a surcharge for refugee relief on items within their legislative competence. The items suggested for such surcharge are understood to include power rates, sales tax, betterment levies, etc. The total yield of the measures introduced by the centre and those expected to be introduced by the states (and not from the central levies alone as press reports have suggested) is estimated at Rs 70 crores in a full year and Rs 25 crores in the current year.

It is not clear why the government's ordinance-making powers had to be invoked when the levies in question are to come into force only in the middle of next month when the Parliament is scheduled to begin its autumn session. If the levies were not to become effective at once, legislative procedures might have served to obtain similar results which, in any case, are not very impressive considering the magnitude of the financial burden imposed by the influx of refugees from Bangla Desh. Could it be that the government rushed through with the ordinances mainly to impress the Aid India Consortium which is shortly meeting in a special session to consider aid specifically for refugee relief? Also revealing of the state of mind in the government is the apologetic manner with which the new levies were justified. Planning Minister C Subramaniam went out of his way to hold out the assurance that this was not part of any resource raising effort and that the government had no intention of levying additional taxation.

The issue of finding resources to look after the refugees and to finance economic development — which is the promise repeatedly made by government leaders, very much like the slogan of achieving both national defence and national development in the early sixties after the border clash with China — thus remains to be resolved. The puny effort implied in the latest levies clearly bears no relationship to the task involved. An idea of the magnitude of the task may be had from the tentative study of the resources position for the Fourth Plan carried out in the Planning Commission. The study does not take account of the extended commitments assumed by the government since the Plan was formulated in respect of reducing inequalities, removing poverty and promoting employment nor of the new burden of Bangla Desh refugees. The results of this study were before the last full meeting of the Planning Commission but a discussion on the subject was put off with the suggestion that a more thorough study of the resources problem might be made in the coming weeks.

The Planning Commission's study is based on certain assumptions. Some of these are that national income in real terms will continue to increase at the compound rate of 5.5 per cent in the remaining period of the Fourth Plan; that prices will remain stable; and that money supply will grow at the compound rate of 7 per cent per annum which is set down as the safe limit for money creation. The study does not make any provision for extra DA or pay increases for government employees beyond the present levels nor for a larger subsidy on foodgrains released through the public distribution system. It assumes that expenditure on refugee relief would be pegged at the original budget provision of Rs 60 crores plus the supplementary demand of Rs 200 crores later passed by Parliament. All these assumptions are obviously unrealistic and as a result the resources gap is shown to be far smaller than it actually is.

On the basis of the above assumptions, the study found a shortfall of Rs 1,550 crores, or about 10 per cent, at the price levels in the first two years of the Fourth Plan and at 1971-72 prices for the remaining two years compared to the resources taken credit for in the Fourth Plan as originally formulated on the basis of 1968-69 prices.

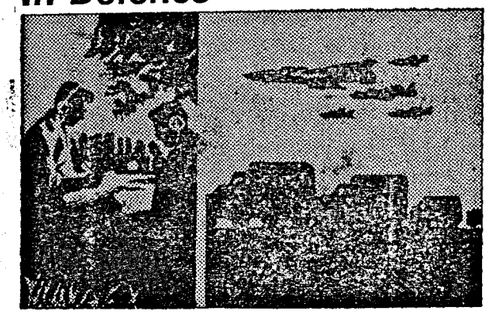
The shortfall is not so much on account of slackness in resource-raising in the first three years of the Plan. As in the previous plans, and in the Third Plan in particular, the additional resources raised have been quite impressive. The problem arises from the erosion of Plan resources and the diversion of a large proportion of resources to meeting current expenditures unconnected with the development effort postulated in the Plan. Measures already undertaken by the centre are estimated to raise additional resources of the order of Rs 1,986 crores as against the target of Rs 2,100 crores set for the entire Plan period. The states have taken steps to raise Rs 814 crores against the target of Rs 1,098 crores. And yet the estimates of the centre's balances from current revenues have shrunk from Rs 1,625 crores to Rs 706 crores. Taking into account the position of the states, there is estimated to be a net shortfall of Rs 861 crores in balances from current revenues.

Another major factor responsible for the erosion of Plan resources is the failure of public sector enterprises to yield the anticipated surpluses. As against a total of Rs 2,029 crores estimated to be available from public sector enterprises at the centre and the states, the amount likely to be available is now assessed at only Rs 1,192 crores. A shortfall of about Rs 70 crores in external assistance is also anticipated. Small improvements on account of market borrowings and small savings are indicated. Deficit financing during the Plan period is also taken at Rs 1,203 crores instead of Rs 850 crores assumed in the Plan. Even so, a considerable shortfall in resources clearly emerges.

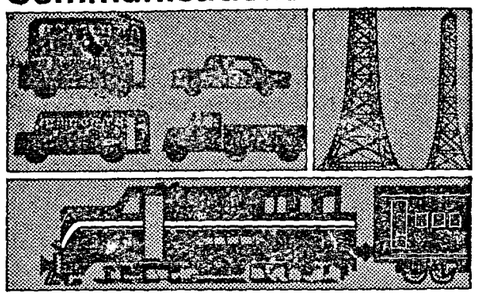
To meet the gap, the centre is expected to go in for additional resource-raising to the extent of nearly Rs 300 crores in the remaining Plan period. The states are similarly expected to raise additional resource of the order of Rs 550 crores. Some improvement in the surpluses from public sector undertakings is also assumed. Even after all these revisions, the rate of investment and the rate of savings in the economy —which were proposed in the Fourth Plan to be stepped up to 14.5 per cent and 13.2 per cent, respectively—will go up to only 14 per cent and 13 per cent,

ABMEL's role in the nation's economy

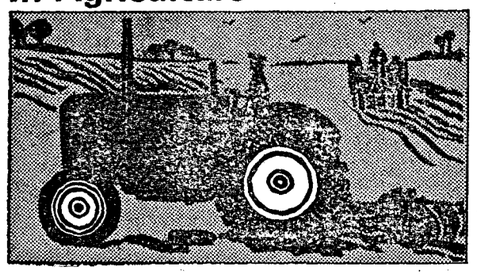
In Defence



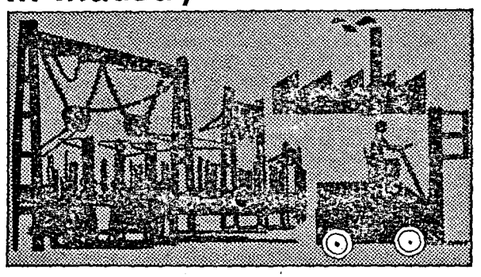
In Transport and Communications



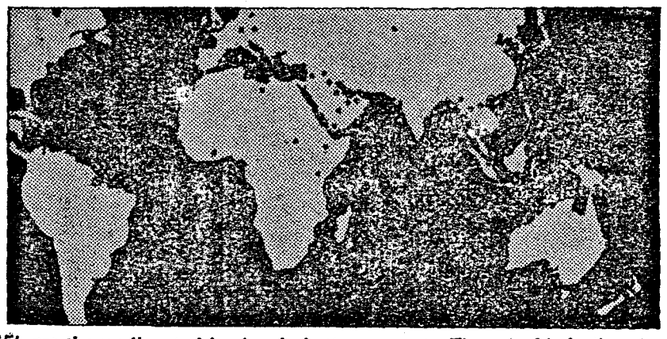
In Agriculture



In Industry



And above all, in EXPORTS



ABMEL are the undisputed leaders in battery exports. The proof is in the consistent repeat orders from more and more countries all over the world. Twenty-four countries now insist on the unbeatable quality of batteries and components from ABMEL—and the list is multiplying.

ABMEL makers of Exide

ASSOCIATED BATTERY MAKERS (EASTERN) LIMITED

EBSC-115R

respectively. But what is more significant is that these projections are based on assumptions which are unlikely to materialise.

The whole exercise does, however, give an idea of the magnitude of the resource-raising effort called for. At the recent conference of state Chief Ministers, the idea of an integrated income-tax on all incomes, whatever the source, was reported to have been canvassed by the Union Finance Minister and the Planning Minister. What is more, the central government ministers have claimed that the idea met with much less resistance than they had apprehended.

The only specific outcome of the Chief Ministers' conference was the appointment of a committee to go into the question of an integrated income-tax and to propose an acceptable machinery for collection of the tax. The Chief Ministers, it would appear, regarded the committee as yet another device to put off decision and action, but the central government has claimed that the appointment of the committee signifies acceptance in principle by the states of an integrated income-tax and that what the committee would do was to work out the precise manner in which the tax is to be levied and collected. The state Chief Ministers evidently had the coming Assembly elections uppermost in their minds. Once it was decided that the committee would have six months to submit its report—as against the suggestion first made that it get its report ready in time for the meeting of the National Development Council next month—the state Chief Ministers were satisfied that the proposed tax would not become a problem for them in the management of the elections.

Opposition to the very principles of a tax on agricultural incomes came, it is understood, from only three states—Haryana, Madhya Pradesh and Maharashtra. The opposition from Kerala and Tamil Nadu was not to taxing agricultural incomes but to the idea of an integrated income-tax to be levied and administered by the Central Government. They were only jealous of the states' autonomy and authority. To this the Planning Minister is reported to have argued that the Centre had to undertake the job if tax evasion was to be avoided.

An important point made in favour of an agricultural income-tax as well as of enhancing irrigation rates was the analysis of the cost to farmers of using different forms of irrigation. In the case of small farmers using bullock power for irrigation, the cost of irrigation per acre worked out to about Rs 250 crores. It was less in the case of tube wells run by electricity and still lower for those benefiting from canal irrigation. Thus the better-off farmers who used canal and tube well irrigation spent less than those depending on bullock power. Yet there is a hue and cry whenever marginal increases in irrigation rates are proposed!

Intellectuals Who Deceive

(From a Special Correspondent)

RECENTLY the Indian School of Social Sciences held a conference of Marxist scholars at Madras. As reported by Radhika Ramasubban ("Character of State Power and Strategy for Revolution", October 16, pp 2188-9) there was a preponderance of scholars sympathetic to the CPI (M). Going through the papers one is sorely tempted to attempt a thorough-going review of the positions held (which are, of course, remarkably consistent). That task, however, will have to wait a while. It seems more urgent to expose the pretensions of at least some of our 'Marxist' leaders and scholars—for which we shall consider some points raised by E M S Namboodiripad and Prakash Karat.

To quote from the report by Radhika Ramasubban: "Making a distinction between progressive and proletarian literature, he [E M S] warned that in this phase of the struggle the working-class movement cannot afford to alienate those progressives who 'do not have the working-class view but are ready to fight the domination of the foreign, feudal, monopoly capital to a limited extent'." "This phase of the struggle" is the democratic revolution; the aim of which is to crush by force the anti-democratic forces—foreign capital, monopoly capital and landlords (accepting for the moment that analysis of Indian society). The working-class is not alone in this struggle. Its allies, notably the peasantry and the petty-bourgeoisie, will also conduct revolutionary struggles against the established order. The literature of these classes while not embodying the working-class point of view would nevertheless be revolutionary. On the other hand, besides the main forces in society there are also the middle-forces—whose ideological representatives generally would be the liberal bourgeoisie. The liberal bourgeoisie would be willing to "fight against the domination of the foreign, feudal, monopoly capital to a *limited* extent" (emphasis added). Since limited struggles (i e, struggles whose objective is not to smash the existing order) have a role to play, we cannot afford to ignore all those persons who will come in for these limited struggles. At the same time we must realise that the class nature of these persons (or ideologies) is such that they will not carry the struggle through, i e, they will not be consistent. What then can it mean to say that we must not alienate those progressives who are willing to "conduct *limited* struggles"? So long as the struggle is limited they will not be alienated; but once it goes beyond to question or shake the roots of the existing system they will be alienated. Must the working class then limit its struggles?

To put E M S's position plainly: The working-class movement must not alienate the progressive writers who only conduct limited struggles against reactionaries. Revolutionary struggles will alienate them. So, the working-class (and its allies in the democratic revolution) must not conduct revolutionary struggles.

There are undoubtedly many writers, painters, etc, who are willing to conduct limited struggles against religious obscurantism, feudal ideas of privilege, imperialism in education, etc. The working-class must *utilise* the efforts of all such persons. But "... while in a certain measure affecting an alliance with the progressive section of the bourgeoisie, Communists and all consistent materialists should *unflinchingly expose that section when it is guilty of reaction*". (Lenin: "On the Significance of Militant Materialism"; emphasis added.)

The difference between these two approaches is as follows: E M S would like to subordinate the working-class movement to the interests of the liberals. Some other persons would like to subordinate the "liberal" and "progressive" writers to the interests of the working-class movement.

The armed forces are the principal component of state power and a study of the specific characteristics of this in-

stitution of coercive power can help us to understand the connections between the armed forces and the state. This, Prakash Karat's paper does to some extent. He also sets himself the task of arriving at "conclusions regarding the revolutionary party's approach to the question of the armed forces in India". Before commenting on them we shall reproduce those conclusions, leaving out his third conclusion which is entirely unintelligible.

Conclusion 1: "The mercenary/colonial origins of the army have yet to be erased. To do this some form of universal armed training is essential. Such training should be imparted to all able-bodied men and women of India. The people should be equipped for defence and only this will reduce the evils and importance of a professional army. More reliance should be placed on people's defence."

Conclusion 2: "The Arms Act 1959 and the Arms Rules 1962 are based on the colonial Indian Arms Act 1878, which restricts small-arms to the armed forces and a privileged few by licence. This should be scrapped. Every citizen should be given the right to bear small-arms. This is not necessarily a revolutionary demand, but very much a bourgeois-democratic step."

Not Clear Enough

Karat's own analysis of the bourgeois-landlord state should lead him to expect a professional army or a professional/mercenary army. His paper, in fact, shows very well that there has been *no significant change* in the structure of the armed forces from its colonial days. And yet he says that the armed forces' mercenary/colonial origins "have yet to be erased". This is not clear enough. Does he mean that the basic tasks have not yet been fulfilled; or, that it is a matter of completing a task which has in the main been accomplished? The attitude of the revolutionary party will differ substantially as between these two formulations.

Transforming the defence forces into a people's army is something that is only possible when the state power has been captured by the democratic forces. It is only then that there could possibly be military training for all able-bodied persons. A party that calls itself revolutionary and a person that seeks to arrive at "conclusions regarding the revolutionary party's approach to the question of the armed forces" must necessarily analyse the process whereby one form of army is substituted for another. They would then realise that this is part of the process whereby one form of society is substituted for another, *viz,* class struggle which overthrows one system and establishes another. They would then realise that the revolutionary party's approach to the question of the armed forces is not one of raising meaningless slogans like "[Military] training should be imparted to all the able-bodied men and women of India". Perhaps Karat would like to go to Birbhum (or, Calcutta where policemen now chain their rifles to themselves) and raise the slogan: "Every citizen should be given the right to bear arms". And, of course, he could always justify this to Indira Gandhi saying: "After all, this is not a revolutionary demand, only a bourgeois-democratic step."

Since it is too much to expect of our 'Marxist' scholars to ask the right questions, we would like to suggest that the following questions need to be asked: how are the people's armed forces to be built up and how are the ruling classes' armed forces to be countered? What will be the internal organisation of the people's army? What will be the relation of the army to the party and of the army to the people? What is the relation of the ruling classes' armed forces to the people? What will be the attitude to the enemy troops? etc.

Cultural Attitude

What is this 'Marxist' party's attitude on the cultural front? E M S says, "The central task is to carry on a simultaneous, determined struggle against all the legacies of the caste, communal and tribal institutions which have existed for centuries and which have left their imprint on the cultural make-up of our people, even while directing well-aimed blows on the various manifestations of the decaying imperialist and Indian monopoly culture." This is quite an impressive list. But in the next paragraph we read: "It [i e, this task] should place before itself the objective of wresting from the ruling classes all the media of mass communication, such as the newspapers, the radio, the television and so on." Strange isn't it? The objective of all that struggle is not to increase the political consciousness and raise the cultural level of the people but to wrest from the ruling classes all the media of mass communication!

We wonder how this objective will be achieved. The newspapers are owned by the ruling classes and their agents, and radio and television are controlled by the same ruling classes through the ruling regime and the bureaucracy. Will the 'revolutionary' party wrest the newspapers, etc, by buying out their owners? And will they raise the money for this venture by levying a special tax on the people? Or, will they use force — occupy with militant cadres all the newspaper buildings and radio and television stations? And, when the ruling classes send their police and army, does it matter if a few cadres (not intellectuals or leaders) get clubbed or shot? The next day there will be mass meetings in Kerala and West Bengal, where E M S and Jyoti Basu will denounce the "anti-people policies" of the government. And *People's Democracy* will conclude (as it does ever so often) "Yet another step towards the police state!"

And what about the *"objective" of the "central task" (!)* of wresting all the mass media? Class forces, unfortunately, are very stubborn, and the ruling classes (backed by their army and police) continue to maintain control.

Strategy for Revolution

From the above papers [and CPI (M) documents] we have pieced together the following strategy for revolution in India. Since it is not yet election time, conduct limited struggles which will not alienate the liberals. For the next election have the following slogans: "Military training should be imparted to all able-bodied men and women." "Every citizen should be given the right to bear arms." Let "the Party organisation outside ... supplement this fight inside Parliament and State legislatures, by a powerful mass movement outside." [CPI (M) Election Manifesto, 1971.] When the slogans have been turned into laws, military training imparted and arms distributed to the people, then will be the time to surprise the ruling classes and launch armed struggle. This will, of course, be entirely peaceful and entirely successful. The people led by the 'revolutionary' party can then wrest all the mass media.

It seems unlikely that our 'Marxist' leaders who have been in the working-class movement all these years (and the intellectuals who advise them) could be such simpletons. That leaves only one possibility — that they are consciously deceiving the people. As Marx put it, "To delude others and by deluding them to delude yourself — this is: *Parliamentary wisdom* in a nutshell."

SOUTH

Kerala's Features

Mohit Sen

ON several accounts Kerala is considered a test case. It is so above all for the CPI. Consequently, as has been noted by many commentators, it was no accident that the ninth congress of the party was to be held in Cochin. If the success of the congress and the public mobilisation for it are any indication, Kerala may be claimed to be a successful test case.

Sceptics had stated that, while the CPI could mobilise fraternal delegates and put up arches and buntings, the masses would stay away from the spectacle to demonstrate their anger at the 'betrayal' of the communist cause by the CPI. Not only they but even the supporters of the CPI were dumbfounded by the massive public response on the concluding day of the CPI congress. Correspondents from Calcutta, who had also covered the Ernakulam congress of the CPI(M) and who had believed the gossip about the decline and disappearance of the CPI in Kerala, admitted that the CPI concourse was several times larger than that of the CPI(M) three years ago when the latter had been at the peak of its popularity. It was a thrilling sight on any account when, through the persistent rain, some 40,000 redshirt volunteers with gigantic red flags quickly stepped through the beseiged streets. The vitality of a party is demonstrated by its demonstrators in this still emerging land of ours!

Change in Mood

Going through some parts of Kerala after a lapse of some years and talking at random to the people, especially the young, one was struck by the change in mood. It is not despair here nor desperation but a sense of achievement leading to the expectation of bigger advance. It is something qualitatively different from what one encounters in many other parts of the country.

What, of course, was not new was the level of political intelligence. There is tremendous awareness of the issues and the controversies among a wide variety of persons. And the dominant theme is that the 'Indicate' (this term is most widely used precisely by the young supporters of the ruling Congress) has done well in not only accepting the full consequence of its support to the coalition but agreeing to accept a Communist as Chief Minister. This breaking down of the barriers between the Left nationalists and the Communists is one of the most important gains of the new constellation of forces that has come into being since the last quarter of 1969. There was the feeling that this coalition ministry would be able to push through more structural reforms and, at the same time, be able to secure more from the powers-that-be at New Delhi.

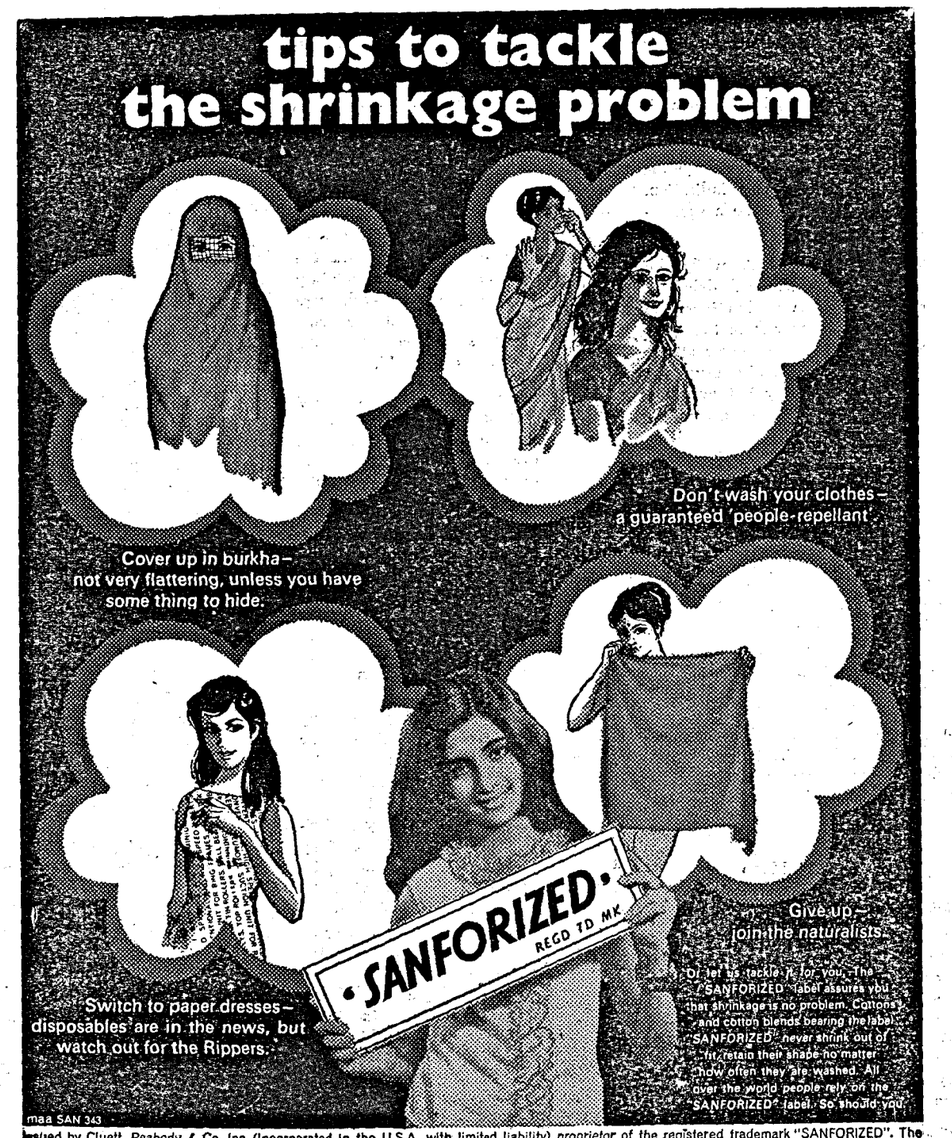
It is not the difficulties of the new coalition that are uppermost in these young minds but the new prospects. There is even a pride that Kerala could possibly set the pace for the rest of India. Not that the coalition is free from complications: it is the product of a complex situation and it is riddled with complexities. But what new experiment is not? And what is the alternative to going ahead with this experiment?

Centre-Left Coalitions

The coalition will certainly come up against the problem of attempts by sections of the Congress to establish their leadership over the coalition and to use their present position to secure for the Congress a single-party majority in future elections. It is precisely at this conjuncture that skill would be required to constantly keep in view the reality of the features of Kerala, as well as of India. The considerable degree of political articulation as well as the even more considerable amount of uneven political development dictates Centre-Left coalitions as the inevitable transitional political, even historical, bloc that can shape India. And the very recent past has demonstrated that the Congress cannot — in most areas of the country as well as taking the country as a whole — any longer itself fulfil this role. The very recent past has also demonstrated, however, that the new post-Independence forces with their thrusting aspirations have further expressed themselves by inducing changes in the Congress. A definite, stable trend has emerged in the Congress, reminiscent of the late 1930s, at a time when the most powerful Left party in the country has a proper appreciation of the limitations and the potentialities of this trend. Therefore, the complications inherent in the new coalition need not lead to confusion but can provide fresh foot-holds for the advance of the working people.

Different Predicament

The predicament of the CPI(M) in Kerala is different. Not one of its numerous mass agitations has really got off the ground, including the latest one against the increase of bus fares. It is not able to evolve any kind of political perspective or slogans for the state — it is even less able to do so than its West Bengal counterpart which, at least, can campaign for early elections. Many of its more intelligent and active cadres are quite perturbed by the manner in which China has taken new positions *vis-a-vis* the *status quo* in country after country, including the disgraceful support of the genocide in Bangla Desh. At the same time, these persons feel that the traditional forms of mass action and protest are no longer fetching the dividends they used to. Their thoughts are turning to more militant forms of struggle; but here, too, the debacle of Naxalism knocks their hopes. Some, therefore, are beginning to rethink their anti-CPI prejudices, and some of these pitch their hopes on A K Gopalan, who has already proclaimed his party's support for the Government of India in the eventuality of an armed conflict with Pakistan. These sections of the CPI(M) also realise that 1964 when the split took place is seven years in the past. And, in these fast-moving days, seven years has erased many memories as well as brought into the arena of active politics many who do not have these memories. And this multitude wonders as to why a Ministry should be so vehemently opposed which is only implementing a programme that the CPI(M) itself sponsored in 1967. Thus, pressures mount on the leadership of the CPI(M) in Kerala from both sides and lead to a kind of political paralysis. If the present coalition Ministry registers even a modicum of progress then the CPI(M) would split in Kerala as much as, if not more than, it has done in Andhra. And this would help to round off the Centre-Left unity not in Kerala only, and to the immense benefit of the working people of the entire country.



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

GUJARAT

Kadana Project: Exercise in Area Development

Pushpa Sundar

WHAT makes the Kadana Project on the Mahi river in Gujarat noteworthy is that it represents a macro approach to the development of an area, viewing provision of irrigation, supply of fertilisers, road building, setting up of agro industries, etc, as part of an integrated and concurrent development plan. To quote a government report on Kadana: "By the time Kadana water becomes available to the Mahi Canal system, all the arrangements should be made so as to transmit water down to the farthest field and agriculturist prepared to receive water and make its optimum use by resorting to more remunerative cropping patterns subject to the limitations of land and water. It has also to be ensured that the agriculturists get credit facilities for applying the optimum dosage of the right type of manures and that they put in necessary efforts for improvements and preparation of lands and that they resort to mechanised agriculture to the extent possible. Also feeder roads would need to be provided and marketing facilities improved."

Second Phase

The construction of a dam and storage reservoir at Kadana in the Lunawada taluka of Panchmahals district, with a direct channel on the left bank, is the second phase of the project. The first stage, which is over, began in 1954 and was completed in 1959 but progress on the distribution system was slow due to lack of funds, delay in construction of water courses and channels and lack of assured water uspply.

The command area of the Kadana project comprises of seven talukas of Kaira district and portions of Santrampur and Lunawada talukas of Panchmahals district. The reservoir will have a gross storage capacity of 46,000 cu ft. With the completion of the reservoir in 1973 some 669,000 acres of Kaira district and 40,000 acres of Panchmahals district would get the benefit of canal irrigation. Out of 629 villages in Kaira district 512 villages would be covered by canal irrigation and so would be 87 villages in Panchmahals district. Besides, the subsoil water resources would be increased due to seepage and this will make possible digging of additional wells in the unirrigable areas of the region.

From its inception in 1954 to its expected completion by 1975 the project is estimated to cost Rs 73.5 crores of which Rs 23.5 crores, or 32 per cent, had been spent by the end of 1969. For the remaining Rs 50 crores an agreement has been signed with the IDA for a loan of $ 35 mn or Rs 26.25 crores which will be re-lent by the government of India to the Gujarat government. The rest of the cost will be borne by the Gujarat government.

Though the dam is expected to be completed by 1973, it will probably be commissioned in 1974. The construction of the right bank distribution system is about 60 per cent complete, but the left bank system has not yet been taken in hand. In both the right and left bank areas, the irrigation distribution systems and outlets are scheduled to be finished by 1974. Water courses, field channels, and land levelling is expected to be completed by 1975. Normally it takes upto 10-15 years for the full agricultural development of an area after introduction of irrigation, but in this case the Gujarat government has optimistically set 1975 as the deadline. But the IDA, which sent a team to report on the feasibility of the project, feels that at least seven years will be required for full agricultural development.

Planning for Change

The Gujarat government asked the State Fertiliser Corporation to study and quantify the likely changes as a result of the Kadana project so that they could be planned and provided for. The GSFC study found that there would be a larger shift of area from paddy and tobacco to hybrid cotton, sugarcane, soyabean, banana and other fruit crops. The study further indicated that the intensity of cultivation in the rabi season would go up and cultivation of wheat would get a momentum. Similarly, there would be a threefold increase in the area cultivated in the summer season and cultivation of summer bajri would be taken up on a large scale. Old crop rotations would decline and new ones would be adopted.

Chemical fertilisers are at present not used in the desired quantities in the command area. But after the adoption of new crops and techniques, the annual investment in fertiliser would be between Rs 14.41-16.01 crores, supplemented by investment in organic manure of about Rs 5.75-7.16 crores. Also an estimated Rs 2.53-3.77 crores worth of seeds (improved and hybrid) would be needed. At present there is one tractor for every 300 acres in the command area. But after irrigation there would be at least a threefold increase in the demand for tractors and other implements like threshers, cultivators, etc. Intensification of agriculture would need additional labour input and the cost of labour would range from Rs 25.22-27 crores per annum.

Productivity to be Doubled

The intensification of agriculture is expected to double productivity per unit of land as well as labour. The GSFC study estimated that with full agricultural development, total agricultural production would range from 14.62 lakh tons to 17.49 lakh tons per annum. The additional agricultural production would be of the value of Rs 82.39 crores. On account of Kadana water alone (quite apart from the impact of other improved practices) the net incremental value of production was estimated to be Rs 20 crores by the IDA team. The team also estimated that because of import substitution of cotton and cereals, foreign exchange would be saved to the extent of $ 30 mn annually.

The GSFC study emphasises that there should be close co-ordination between credit supply agencies, input supply agencies and marketing organisations. The increased agricultural production will also require better storing facilities and generate opportunities for creation of different types of processing industries like sugar factories, fruit canning units, rice mills, etc. In addition, the huge increase in production of straw and fodder is bound to give an impetus to the dairying industry, already well established due to a good transport system and a developed infrastructure of milk collection, thanks to the efforts of Amul Dairy.

Simultaneous planning for all the parameters of growth requires an

agency to co-ordinate the various programmes. So a separate organisation has been created for the Kadana project. At the very top is the state co-ordination committee consisting of heads of concerned Departments and Secretaries to Government. The day-to-day co-ordination is done by a project co-ordination committee headed by a senior officer designated Project Co-ordinator.

Field Channels

The area development programme which this organisation is charged with implementing will involve construction of field channels and land levelling and preparing Kyari land for paddy cultivation. It was realised that construction of field channels by individual farmers could be the weakest link in the chain of integrated development. While there would be many farmers who would be prepared to construct their own channels many others would not be. Besides they may not construct the channels according to the proper specifications. So it was decided to permit the farmers who were willing to construct their own field channels provided the work was carried out under the technical advice and supervision of the Agricultural Department and provided they covered the entire block of land to be served by a permanent outlet from the minor system. About one third of the total area, i e, about 1.6 lakh acres is expected to be taken up by private farmers. The Agricultural Department will directly undertake the construction of field channels in the remaining 3.4 lakh acres. It will also carry out the remodelling of the existing channels which are faulty. The cost of construction of field channels would be borne by the Government which would later transfer the farmers' liability to the Gujarat State Co-operative Land Development Bank, which would reimburse the Government and collect the cash directly from the farmers in about 10 years on its regular terms for such work. Land levelling too would be done at the farmers' request by the Department of Agriculture for which the farmer could obtain credit from the Land Development Bank.

A second aspect of the agricultural support programme is the establishment of a centre at Thasra for training in the use and management of irrigation water and other improved agricultural practices. The trial-cum-demonstration farm at Thasra, started a few years ago, will organise training programmes for the farmers of the command area.

The agricultural support programme involves, thirdly, the establishment of new irrigation trial-cum-demonstration farms, one at Jinej in Cambay taluka on the Mahi right bank and two in Santrampur and Lunawada talukas on the Mahi left bank, as well as strengthening the facilities at the trial-cum-demonstration farm at Thasra. The idea is to undertake research on various aspects of irrigated farming so as to guide the farmers in different systems of irrigation and to work out the irrigation water requirements of crops. The research programme will be oriented to solving local problems.

To strengthen extension services, specialist water management extension officers will be appointed to act as advisers to the extension staff of the panchayats and to cultivators on irrigation utilisation, field layouts, irrigation intervals for new crops, etc. They would also train extension staff on water management. At present Village Level Workers are non-graduates. It is planned to replace them with agricultural graduates in the command area. All extension staff is to be given training in irrigated farming in specialised courses at Thasra.

The Kadana project has also planned for expansion of all types of roads. The emphasis will be on the construction and improvement of district and village roads, farm roads and village to mill roads in sugarcane producing areas.

Co-operative Ventures

To take advantage of the greatly increased production of crops and of by-products like straw and husk, it is proposed to set up a number of ancillary industries and agro-industries, both as co-operative ventures and by encouraging private entrepreneurs. Out of 25 rice mills planned, 6 rice mills on co-operative lines have already been organised and one sugar mill will start functioning soon. Six co-operative cotton ginning and pressing units have also been commissioned. Of the 475 co-operative societies in the command area, 383 are crop finance societies only and nearly half the societies need revitalisation. It is planned to make them into viable units by amalgamating weak societies, by giving subsidies to improve their financial viability and by liquidating the non-viable societies and forming new ones in their place.

The optimistic expectations of the state government of full agricultural development by 1975 are likely be realised only if all the parameters behave in the way the government envisages. In practice there are likely to be a number of bottlenecks and weak links which will retard full development both in terms of the time taken and in quantitative terms. For example the programme does not envisage lined channels, but these are essential because earthen field channels mean loss of about 30-35 per cent water. The lined channels will cost more but the cost differential will be made up by (i) less repair cost; (2) less land on the side of the canal being wasted due to percolation and water logging; and (3) increase of upto 75 per cent in the discharge in lined channels.

Secondly, the road construction programme is not priority-oriented. District and village roads are to be constructed first whereas priority should have been accorded to farm roads and farm approach roads and, in the case of sugarcane, farm to factory roads.

A third lacuna in the programme is that little thought has been given to setting up processing units other than some rice mills, 2-3 sugar mills and some warehouses. But bajri production will increase about three times and no details have been worked out as to how this could be used. For example it could be used to make bajri bread like rye bread. Similarly, there is scope for making more cattle feed, protein food and lemon products (lemon is widely grown in the area). So far progress on this front has been bogged down because of a controversy over the size of the units — whether a few big units should be put up or a number of small units dispersed over the area. With a little imagination a detailed programme can be worked out and the government could spearhead the development by starting such units and auctioning them later to interested entrepreneurs.

The Weakest Link?

But perhaps the weakest link retarding progress will be the co-operative structure. Of the 475 co-operative societies in the command area, only 280 do fertiliser and seed distribution work. Most of the co-operatives handle only sugar, kerosene and household goods. But to be really useful, all primary societies must handle all the inputs needed by the farmer. More than 50 per cent of the societies need revitalisation. Further, except for hybrid cotton and tobacco, the distribution of all other improved seeds is handled by the Gujarat State Marketing Co-operative Society. This society should have centres all over the state, but in fact does not. Ideally there should be a depot within five miles of a farmer's residence. It would be better if private initiative is encouraged in this field, but the government is unfortunately committed to promoting co-operatives.

Inevitably there are also the contrary political pulls exerted by rival regional claimants, arguing for and against so much money and effort being spent in an area already as well developed as the Kaira district.

Finally, it must be ensured that a part of the increment in income that comes about comes back to the government as a return on its investment. The IDA team estimated that the tax income could be expected to go up by Rs 2 mn per annum through the imposition of water charges, betterment levy and increased yields from the agricultural property tax as a result of increase in the value of land.

The Kadana project area development programme is an experiment that is worth watching. Its success could lead the way for similar planning in other parts of the country and in other areas of activity.

Tito and Brezhnev: Outward Cementing?

K Krishna Moorthy

THERE are several curious aspects to the visit of Soviet Communist Party chief Leonid Brezhnev to Yugoslavia between September 22 and 25. The Russians wanted to keep the visit 'unofficial' but Yugoslavia's President and Party chief, Marshal Tito, treated the visit as official —and the end result was an official joint statement. The latest joint statement is the third major declaration by the two countries concerning their tortured relationship during the past two and a half decades.

The June 1955 joint declaration was signed in Belgrade by President Tito and the then Soviet premier Nikolai Bulganin, with the late Nikita Khrushchev, then Party chief, looking on. The decision to try to make up with Marshal Tito was essentially Khrushchev's but the formalities were inter-State. The inter-party declaration was signed in Moscow by Khrushchev and Marshal Tito in June 1956. The latest joint statement has mentioned specifically that Marshal Tito has signed as President of State as well as Party chief while Brezhnev signed the document merely as Party chief.

Public Relations Visit

Brezhnev's visit was mainly a public relations visit, to cap the efforts made by the two countries, at the levels of Prime Ministers and Foreign Ministers, at repairing their relations which were rocked by the Soviet-led invasion of Czechoslovakia three years ago. True, Yugoslav-Soviet relations were at no stage ruptured as a result of the Soviet invasion. But what was lost was the intimacy which had developed during the early sixties, culminating in the total accord during the June 1967 Israeli attack of Arab States.

The Israeli attacks threw the UAR into closer embrace with the Soviet Union. For other reasons India too has entered into firm links with the Soviet Union. But the carrots offered by the Russians have not been juicy enough now for the consumption of the Yugoslavs. Yugoslavia remains the most non-aligned of the pace-setters at the Belgrade non-aligned summit 10 years ago. Marshal Tito's skill has been in cementing ties with the United States as well as with China which for more than a decade was the bitterest ideological critic of Yugoslavia. During his Belgrade visit, the Soviet leader this time attempted in vain to counter the growing influence of China in the Balkans, viz, on Albania, Romania and Yugoslavia.

The main Yugoslav gain was a reiteration of the principles outlined in the 1955 and 1956 declarations on the 'separate roads to socialism', a doctrine sacrosanct for the maverick communists of Yugoslavia. The new formulation reads: "The methods of constructing socialism, which reflect the experience of and specific aspects in the development of individual countries, are a matter for the peoples and the working classes in individual countries and need not contradict each other."

Yugoslav-Soviet differences, however, are too deep-seated to be eradicated by pious declarations, and Yugoslav commentators have frankly given publicity to their continued misgivings. Only time will show whether the Russians and their allies will resume their attacks on the Yugoslavs as 'revisionists'.

Brezhnev's compliments to the Yugoslavs were indeed mostly left-handed, and his right hand took away what was given by his left hand. Thus, while the joint declaration sought to reassure the Yugoslavs of their right to their separate road to socialism, in a major speech to Belgrade factory workers the Soviet leader made some ominous remarks. Brezhnev said: "To us, as Marxist-Leninists, it is a matter of primary interest that our two countries belong to the same socio-economic grouping, and this, in the long run, is the important thing." This certainly is the type of formulation which is resented by the Yugoslavs who maintain they belong to no Soviet-blessed grouping.

Denial and Reaffirmation

During a dinner toast, Brezhnev denied the existence of the "Brezhnev doctrine of limited sovereignty of socialist countries". He repeated the usual Soviet claim that the 'doctrine' theory is an invention of the West. At the same time, the Soviet leader reaffirmed the internationalist responsibility of the Soviet Union in defending socialism and communism. It was on this pretext that Czechoslovakia was invaded, or to put it in the Warsaw Pact phraseology, fraternal military intervention took place.

In his speech to the factory workers, Brezhnev said, "We as Marxists know very well that there are certain general laws of socialist construction and general principles and hallmarks of socialism without which there can be no socialism." What was left unsaid was the continuing Soviet conviction that the Russians alone can be the supreme arbiters on what these 'general laws' are. This is what the Yugoslav-Soviet quarrel has always been about.

A curious sidelight on Brezhnev's visit was the absence of any Croat in the delegation which received the Soviet leader and had talks with him. Croatia is the second constituent republic of Yugoslavia in terms of population and Party membership. Tito himself is a Croat by birth, but he is the only all-national leader amidst the rivalries among the various nationalities in Yugoslavia. The Croat leaders, among others, have not been enthusiastic about moves towards a settlement with Moscow. Their absence might indicate the disagreements within the country over relations with the Soviet Union.

Peking and Indian Maoists

Mohan Ram

PEKING'S year of puzzling silence on the Indian Maoists ended on October 7 when *Hsinhua* approvingly quoted chunks of an article on "armed struggle" in West Bengal from the CPI(M-L)'s clandestine journal *Liberation* (April-June issue). The last reference to the Indian Maoist movement in the Peking mass media was in October 1970. Radio Peking, reviewing the "flames of revolutionary struggle in South-East Asia" mentioned the CPI-(M-L)'s "peasant armed struggle with agrarian revolution as its centre" but maintained a studied silence on the party's one-year-old urban guerilla campaign in the slum jungles of Calcutta after its cadre had abandoned the countryside. The October 1970 reference to the CPI(M-L)'s activity implied disapproval of the "red terror" campaign in the city as also the controversial "annihilation tactic" in the countryside. For, the accent was on mobilisation and organisation of the peasant masses for guerilla warfare and not mere guerilla squad actions to kill landlords.

In May 1971, amidst a serious rift in the CPI(M-L) over its tactical line, Peking chose to ignore India altogether in its review of armed struggle in South-East Asia (two or three such reviews are put out every year) in which it reaffirmed China's open support for insurgent movements in Burma, Thailand, Malaya, the Philippines, Indonesia and North Kalimantan. The review said the people in these countries had "successfully persevered in developing their armed struggle in the past year". But India was a significant omission.

The omission of India was linked by some observers to Peking's desire for normalisation of Sino-Indian diplomatic relations. It was even suggested that Peking would be obliged to ditch the Indian Maoists once Sino-Indian relations at the state level improved. Subsequent developments however established that Peking's reluctance to mention India in its review had more to do with its displeasure with the CPI(M-L)'s tactical line than with any anxiety to convey to New Delhi that it would not back the Maoist movement in India once normal diplomatic relations were restored.

It would be well to record here that Peking, during the last year or so, has combined its new-look diplomacy (part of a peace offensive) with reaffirmation of its long-standing commitment to people's war in the Third World. This posture has been apparent in recent months towards a number of South-East Asian countries. In May, a semi-official trade team from Malaysia had an hour-long interview with Chou En-lai who said that no big power should interfere in the affairs of other countries. The team had barely returned from Peking when *Hsinhua* lauded the ambushes, mine warfare and other guerilla tactics of the Communist Party of Malaya. (Peking does not even accept the term 'Malaysia'.) Similarly, Chinese Foreign Ministry officials told a *Manila Times* correspondent that the Maoist insurgency in Peking was an internal affair of the Philippines. This did not however inhibit *Hsinhua* from praising the armed struggle of the Philippines communist party. Earlier, Peking returned its ambassador to Rangoon in March but in May *Hsinhua* was all praise for the Burmese communist guerilla successes in blowing up trains, intercepting government trucks and ships and "causing the reactionary troops and police to run hither and thither in terrible plight".

Therefore, from the point of view of Sino-Indian state level relations, the latest reference by *Hsinhua* to the CPI(M-L)'s activity is of little significance. But it has immense significance for the party's tactical line.

It would be relevant to remember here that sometime back the CPI(M-L) split vertically into two, Charu Mazumdar heading one faction and Ashim Chatterji heading the other. The latter has been the leader of the West Bengal-Bihar-Orissa Regional Committee of the party which has worked out its own tactical line. The *Hsinhua* report though dated October 7 quotes a *Liberation* article of April-June, i e, written before the split and before Charu Mazumdar disowned the Regional Committee led by Ashim Chatterji. The *Hsinhua* report not only made no attempt to delete the reference in the article to the successes of the Regional Committee but makes it a point to mention it with obvious approval.

The content of the excerpts *Hsinhua* has quoted needs to be examined. The reference is to the armed struggle in "entire West Bengal" being linked with mass movements in the countryside. "By confiscating and distributing the land and crops of the landlords, the revolutionary committees are unleashing powerful mass movements." The accent is on mass movement. The old tactic of "annihilating the class enemy" in the countryside to create a vacuum has been given up by the CPI(M-L). The only annihilations through squad actions referred in the *Hsinhua* report relate, significantly, to attacks on police and para-military personnel and not on landlords. The report also lauds the gun-snatching campaign of the party in several West Bengal districts.

Following serious internal differences (and possibly Peking's displeasure), there has been a gradual shift in the CPI-(M-L)'s tactical line. In the process the party itself has split. Charu Mazumdar's new theory of annihilation of the class enemy as the precondition to any mass action and his dogmatic assertion that guerilla warfare is the only form of revolutionary warfare and that mass participation was not a precondition for such warfare stand debunked. Patently anti-Maoist, Peking could not have approved of the tactic for long.

The contents of the *Liberation* article quoted by *Hsinhua* suggest that at least in theory the CPI(M-L) has reoriented its tactical line and that it is now closer to the line of the Revolutionary Communist Committee of Andhra Pradesh which has all along disapproved the annihilation line. The annihilation line in any case proved disastrous wherever it was tried because it bore no relation to mass movements. It liquidated the powerful mass movement in Srikakulam leadership of which was usurped by the CPI(M-L), in Midnapore district of West Bengal, in areas of Bihar, Orissa and Assam wherever it was tried. In fact it proved counter-productive almost everywhere. The CPI(M-L)'s retreat to Calcutta city in early 1970 was a measure of its failure in the West Bengal countryside.

The reference in the *Hsinhua* report to the CPI(M-L) as well as the dissident regional committee (even after the former had disowned the latter) could mean that Peking is anxious to reunite the two factions on an agreed tactical line, so that the movement could be put back on the rails. Around June, the CPI(M-L)'s cadres were fanning out into the West Bengal countryside following Charu Mazumdar's directive. The urban guerilla phase was as good as over and 'Naxalite' tactics had turned a full circle.

Low Farce

Nireekshak

THE new Congress, it seems, is nothing but the old Congress in thin disguise. At least this is what everyone—well, almost everyone—is saying now after the party has shed its disguise in Simla. "The same mixture as before", was G K Reddy's comment in *Hindu*. "The basic characteristics of the Congress has not changed with the party split", he declared. "The class composition of Mrs Gandhi's massive majority in the present Parliament is in no way fundamentally different from that of the previous Congress Parliamentary Party. It suffers the same kind of dissonance as the undivided party before the split." Reddy, who had been a sympathetic chronicler of the Syndicate's quest for 'stability' in the days when it was still battling for supremacy with the 'dissident socialists', may be thought to be less than wholly impartial in his assessment. Indeed when he says that "the Congress(R) which has inherited the traditions of bossism from the much-maligned Syndicate [a bossism which "remains as rampant as before"] must learn the hard way that conformity is not the same thing as commitment, dissent is different from defiance and those who refuse to submit to regimentation are not necessarily raising the banner of revolt", his sympathies are not in any great doubt.

But the interesting thing is that, in one way or another, much the same view is now shared even by those starry-eyed special correspondents who had appointed themselves as unofficial ideologues of the 'new socialism' during the split. Listen, for instance, to A Raghavan of *Blitz*. After saying that the "Simla AICC session turned out to be an exercise in futility", he went on to explain how the "gap between promise and performance" had become the prinicipal drawback of the new party—presumably leaving it to readers to reflect that this was also the principal malady of the undivided Congress! "Members showed an appaling lack of interest—or intelligence", he wrote, and the debates "degenerated into mere slogan-mongering. The AICC sessions will fast lose their credibility if they are not held in a more businesslike atmosphere, with the Government and the party making precise formulations. These days they are merely political rallies of the party faithfuls."

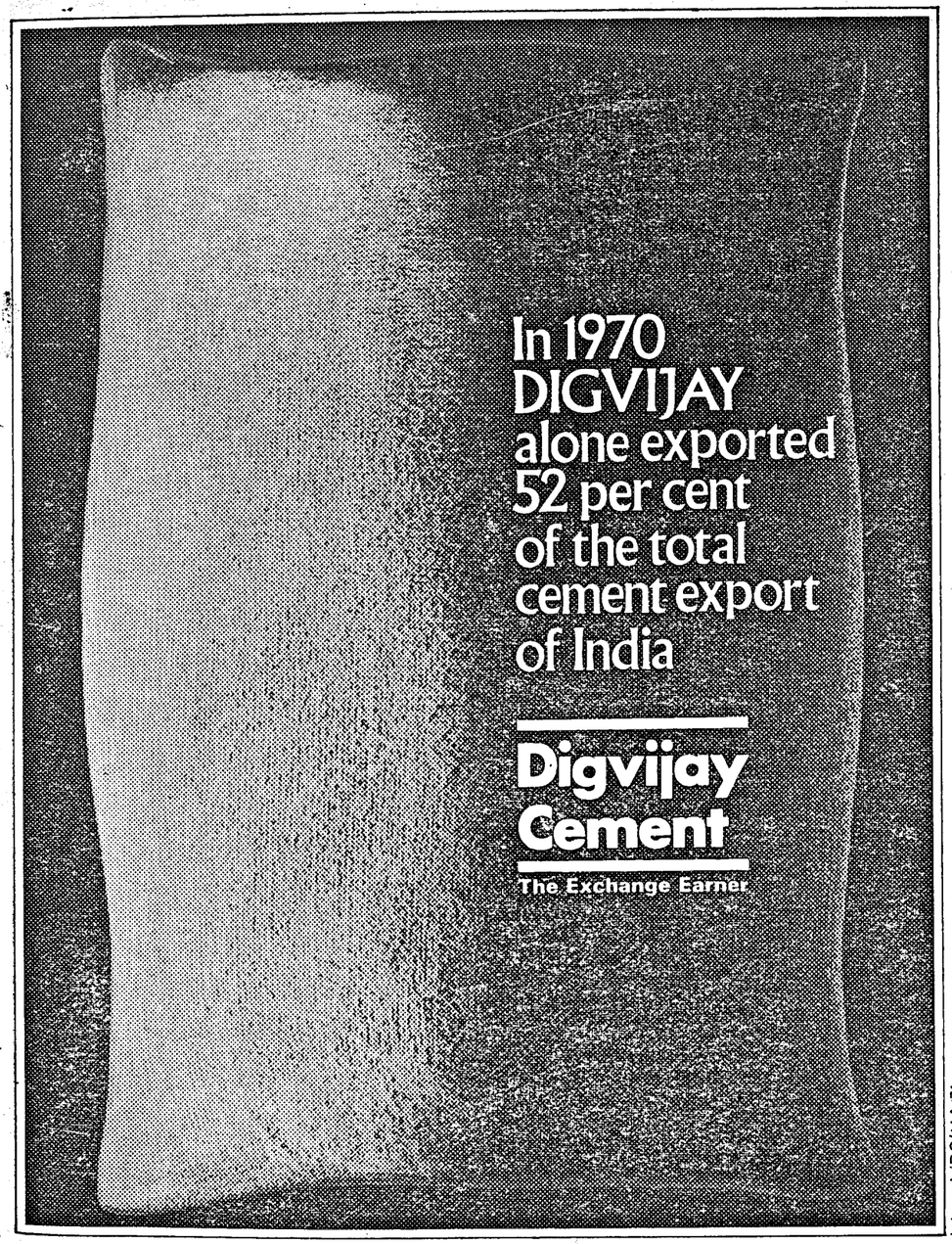
Yet another friend of the 'socialists', Dilip Mukherjee of *Times of India*, had this to say about the Simla conclave. "Apart from the election [of the Central Election Committee] the Simla AICC did not get down to any serious business." Chandrasekhar's election to the committee, "brought to the surface the undercurrents of discontent building up within the party", but it should not be viewed as a "revolt of the left-leaning elements" against the leadership. "Such a crystallisation of attitudes on these lines has not taken place because of the divisions among the radicals fostered by the leadership by handing out rewards to those willing to toe the line." Shades of the Syndicate! About the debates on "burning issues", Mukherjee used such terms as "vague assessment", "flood of platitudes", "exercise in evasion", "confusing" and "disappointing" to describe the impact they made on him. It was a "dull and insipid session", he lamented, and the proceedings were "dreary and tiresome".

Editorial writers were, if anything, even more critical of the AICC proceedings than the correspondents. Most newspapers however singled out for special mention Swaran Singh's remarks on the prospect of a Bangla Desh settlement within the framework of Pakistan. This was a "basic departure from what had been understood to be India's position and something of which Parliament has not yet been informed", said *Statesman*. "Is the Government of India going back on its declared policy of supporting the struggle of the people of Bangla Desh for Independence?" asked *Searchlight*. And, according to *Tribune*: "It is immaterial whether it is for the first time he [Swaran Singh] has projected the idea of a settlement within the framework of Pakistan or the idea of an independent Bangla Desh. What is indisputable is that it is for the first time that he had publicly made any of these formulations and people will draw their own conclusions."

Almost at the same time the AICC was meeting in Simla, the CPI was holding its ninth congress in Cochin. The main resolutions of the congress were widely commented upon. The resolutions show, wrote *Hindustan Times*, that "the party continues to be under pressure to show two faces—one of a responsible democratic opposition and the other of a fierce revolutionary force." And "the result is somewhat comical". The CPI congress, the paper argued, "plumped for the predictable political line of a government of left unity". Logically this implied a "coming period of political polarisation with the radical elements rallying at one point and the reactionaries at the other". But what, it asked, does "polarisation mean for the CPI which, apart from the Congress(N) has for allies the DMK in Tamil Nadu and the Muslim League in Kerala?"

The CPI's dilemma is, observed *National Herald*, that "on the one hand it supports the progressive policies of the Congress; on the other it is keen on establishing its revolutionary credentials . . . The CPI's call for leftist unity can have meaning only if the party is prepared to adjust itself with other leftist parties. It is not in a position to dictate to them. In fact no leftist party should try to dictate to other leftist parties. They have a common cause". The underlying implication of all this presumably is that the Congress is a "leftist" party! "Blowing hot and cold" was how *Amrita Bazar Patrika* described the CPI's approach. Referring specifically to the resolution calling for "mass peasant action" for redistribution of land, *Patrika* noted that the "target of attack obviously is the Congress (R)". And if this was the party's assessment of the "progressive role of the Congress (R) . . . how does it expect to usher in a democratic revolution in partnership with that party? . . . The CPI indeed hopes to thrive on splits; it expects to create dissensions in the ruling Congress and force a further split. It is an excellent prospect indeed for Mrs Gandhi's Congress!"

If all this gives the impression that this was a fortnight of dull reading, let it be noted that much exciting diversion was provided by what has now come to be known as the 'Ganguli affair'. Of course, it was only Ganguli's air-conditioned 'dharna' that imparted a comic touch to the affair, some good photographs of the former Chairman of the Railway Board sitting in isolated splendour in his saloon or looking disconsolately out of it adding to the readers' merriment. On the whole, though, the Press took anything but a light-hearted view of the affair. *Free Press Journal*, for example, saw it as "a sordid melodrama" which has exposed the inefficiency of the Railway administration, while *Indian Express* thought it was "a low farce" which called for a full inquiry including a ministerial reshuffle to set things right.



Interpub/DC/11A/71

Shree Digvijay Cement Co. Ltd., Shreeniwas House, Waudby Rd., Bombay 1.
Sole Selling Agents: **Laxmi Cement Distributors Pvt. Ltd.**, Shreeniwas House, Waudby Rd., Bombay 1.
Hospital Road. Jamnagar. Digvijay Nagar. Ahmedabad. 58, Sundar Nagar, New Delhi 3.

Lay Information on Aluminium

D C Kale

Aluminium Industry in India by A G Majumdar; Economic and Scientific Research Foundation, New Delhi; pp 80+vii; Rs 10.

ALUMINIUM may be described as 'the metal for all seasons'. It can replace steel in structures; it can displace copper in electrical conductors; it can substitute for brass in cooking vessels; and it can do many things all by itself, without imitating others such as foils and paints. Such a versatile metal is bound to be interesting to many people and the Economic and Research Foundation has done well to bring out a study of the aluminium industry in India. The review is brief and to the point — only 80 pages — and is likely to be a standard reference work for some time to come.

It opens with a review of world trends in production and consumption; the uninitiated would wonder how, year after year, consumption can exceed production of a primary metal by substantial margins. The answer is that a good deal of the metal is recirculated. World output has increased spectacularly from 1.5 mn tonnes in 1950 to 4.5 mn tonnes in 1960, and further to 8.3 mn tonnes in 1968 — the last year covered by the survey. The author has estimated that output in 1973 would be 11.9 mn tonnes, which, judging by last year's performance, seems low.

Stable Performance

One reason for this spectacular growth undoubtedly is that aluminium alone among the major metals has maintained stable prices and supplies. In the 18 years prior to 1968, prices in the US fluctuated between 22 and 27 c per lb, while prices in the UK fluctuated within the range of £ 181 to £ 200 per ton. This is a remarkable record by any standards, and one has only to look at price variations for copper (£ 197 to £ 555 per ton) or tin (£ 735 to £ 1413) to appreciate aluminium's stable performance. Actually, aluminium prices have not been too stable after 1968, and today the London quotation is around £ 257 per metric tonne. The book tabulates prices for copper, lead, zinc and tin, giving the co-efficients of variation for no particular reason and without any explanation.

Plunging into the subject matter of the book, chapters 3 and 4 analyse the growth of the Indian aluminium industry, its prices, and costs, its profitability, and its problems. Production patterns are given only for Indian Aluminium and Hindustan Aluminium. Had all the companies been compared, it might have been possible to see a relation between product pattern and profitability. Profitability varies between 9 and 14 per cent, expressed as profits after tax to net sales. While three companies distributed 32 to 43 per cent of their net profit as dividend, Madras Aluminium has distributed Rs 1.21 crores out of Rs 2 crores in four years.

An interesting study is made of the cost of production over three years, under different cost heads. While total cost of production increased from Rs 2,187 per tonne in 1957 to Rs 2,649 in 1963, and to Rs 3,377 in 1967, the depreciation per tonne works out at Rs 197, 746 and 666 per tonne, respectively. This steep rise is sought to be explained by the commissioning of new smelters after 1957. It further transpires that, if no excise duty were levied in 1968, the Indian consumer's price would have been about the same as in America. Excise duty went up from 'nil' in 1957 to Rs 920 per tonne in 1968, forming about 20 per cent of the consumer's price.

Not All That Large

Aluminium is produced from bauxite, and one of the reasons for the success — indeed the conception itself — of the Indian aluminium industry is that we have large reserves of this ore. On re-examining the figures of ore reserves, however, it is seen that they are not all that large. High-grade reserves proved to date are about 67 mn tonnes, while the availability of all grades put together is placed at around 160 mn tonnes. Incidentally, the Indian Bureau of Mines's published estimates are slightly higher, but it is safer to assume the lower figure. Considering that the 1970 consumption of bauxite was 1.2 mn tonnes and that this figure is increasing by about 20 per cent per year, prospecting must be stepped up while at the same time the industry should think in terms of designing future plants to take lower-grade ore.

The State has not done anything to help or encourage bauxite mining, and has on the contrary increased royalty on ore from Re 1 to Rs 2.50 per tonne. By the book's estimate, duties on bauxite, alumina, etc, and other taxes and duties paid on inputs aggregated about Rs 1,734 per tonne of the metal in 1969: this is about one-third of the selling price of *ingots*. Considering that *ingots* are used as raw material for all subsequent processing, this clearly has a spiralling effect.

Going into the problems and prospects of this industry in India, the book makes many practical suggestions, including that the production of aluminium fluoride from fluorospar has to be pushed with vigour. This reviewer would like to suggest that this industry might offer good ground for experimenting with the 'value-added' tax — since relatively few parties are involved in production and processing through to the final product. The book might have used data for 1969 and estimates for 1970, as it was written in November 1970.

Tangential Rather than Direct

The author, acknowledged in small print as A G Majumdar, seems to have concentrated on producing a good source of data on the aluminium industry, and has not addressed the book to anybody in particular. The result is a book that will be most useful to people whose interest in the industry is tangential rather than direct — such as teachers and MPs. There is an excellent appendix. The next edition, when produced, should not only bring the data up-to-date but should also go a little deeper into the structure of the individual companies. Government seems to have a glimmer of policy these days in this respect, since it has reportedly told Indian Aluminium that, when that company goes through with its expansion plans the proportion of equity held by Alcan should be reduced to less than half the total. The other companies' capital structure and collaboration arrangements could do with some airing too.

Financing Growth

Apararka

Studies in Capital Formation, Savings and Investment in a Developing Economy, edited by P C Malhotra and A C Minocha; Somaiya Publications, Bombay, 1971; pp 256+viii; Rs 25.

THIS book is a collection of papers in the subject-matter indicated in the title. The subject-matter leaves scope for an interesting collection of articles dealing with practical aspects of financing growth. But what we have is a hotch-potch of assorted papers that range in quality from fair to poor. The contributors include P R Brahmananda, S G Tiwari, Anand Chandavarkar, D R Khatkate, Nigam and Panchamukhi. In what follows I will briefly analyse their contributions.

Brahmananda in his first paper assumes away all such appendages as a central bank or even a government! In a subject where applied work is important, such omissions leave any paper with little value. Brahmananda believes that modern growth theorists are Pigouvian rather than Keynesian: "The occurrence of unemployment can only be explained by the existence of a real wage higher than that necessary to yield the rate of profit required to obtain the full employment investment". This is exactly the sort of situation which Pigou and not Keynes visualised. The explanation of unemployment is therefore wholly Pigouvian if we drop the wage marginal product hypothesis of Keynes' "Central Theory". Actually the wage marginal product hypothesis is *not* a Keynesian innovation; it figures in the Classical Theories too. Also, Pigou moved very close to Keynes in his last stage (see his "Keynes' General Theory —A Retrospective View") and it is this later, Keynesianised Pigou whose assumptions conform to later growth models.

In his second contribution Brahmananda sets down some 'Classical' propositions on capital, interest and profit. The reader's patience is strained by the fact that a fixed taxonomy is not followed, and technical terms are often switched. This is combined with the fact of some of the 'propositions' being true in reverse! For example, 'Proposition' K VI(D) speaks of the total demand for labour being in equilibrium with the supply of labour at *any* wage rate. The wage rate *is* the equilibrator between the demand for and supply of labour. At a specific level wage rates may be too high or too low for an equilibrium at a given, desired employment level. It is only if we regard any employment level as an equilibrium one that Brahmananda's *'proposition' is true.* Some of Brahmananda's assumptions (as that of workers living on air! [K XI]) should never have been set down. Economics is a practical science and theory is important only insofar as it helps the applied economist to suggest cures for real problems. Theories split from practice are worthless to the science—a fact that is being increasingly recognised, with the corollary of the applied economist, in business and government, being given greater social ranking than the 'pure theorist' of the Universities.

S G Tiwari has written a text-bookish article that will be useful to college students interested in measuring capital growth. K Mukerji has written competently on the same subject, but has not taken cognisance of the efforts of accountants to sharpen their capital concepts—efforts that have led to replacement-cost depreciation and asset revaluation.

A G Chandavarkar posits the inapplicability of the Keynesian liquidity-preference hypothesis to countries with gold hunger, as an explanation of the hunger. However, liquidity-preference has as a determinant not merely the hope of *monetary* asset appreciation (or fear of depreciation), but *real* asset appreciation as well. In this gold hoarding plays a significant role. Also, Chandavarkar snaps the connection between gold and money and considers gold only as a commodity. This, together with his neglect of the fact that the 'esteem' he speaks of as a determinant of gold hunger is itself a direct function of gold price, robs his thesis of plausibility. His conclusion that gold hunger does not absorb real resources is untestable owing to data-scarcity, but a case for the prosecution (of gold) could also be easily made out.

Khatkate and Deshpande's outdated paper on savings and investment in India, by showing the importance of the household sector in saving, refutes Chandavarkar's Innocuity of Gold Hunger thesis indirectly. Of late economists have begun emphasising the importance of channeling household savings into investment outlets like equities and have suggested extension of stock markets to rural centres. This channelisation into productive avenues faces a competitor in gold, and to the extent that the funds of households get deflected from productive investments into gold, that represents a real loss to the economy.

Raj K Nigam takes fourteen pages to make the point that public sector companies should raise their own resources if they are to contribute to corporate savings. K C Gupta's conclusions on capital formation in the private corporate sector get vitiated by his failure to take account of inflation effects on his figures. C H Shah is another writer who has contributed a piece that may seem trite to economists, but will be useful to students. P R Panchamukhi attempts a computation of the losses due to illness. A valuable effort that would be better appreciated had he given us some idea of the price tag on any scheme that would *control* these illnesses.

In today's India, where a new vigorous group of applied economists is coming up, these writings in comparison with those of these modern competitors appear pale. It is time for the old guard to change. Or keep silent.

Books Received

Cohn, Bernard S: India: The Social Anthropology of a Civilisation; Prentice Hall, New Jersey, 1971; pp xv+164; $ 1.50.

Muthayya, B C: Farmers and Their Aspirations—Influence of Socio-Economic Status and Work Orientation; National Institute of Community Development, 1971; pp viii+113; Rs 13.

Nizami, Taufiq Ahmad: The Communist Party and India's Foreign Policy; Associated Publishing House, 1971; pp x+282; Rs 36.

Ridker Ronald G and Harold Lubell (ed): Employment and Unemployment Problems of the Near East and South Asia, Vol II; Vikas Publications, 1971; pp ix+862; Rs 45; set Rs 80.

Rosenthal, Donald B: The Limited Elite—Politics and Government in Two Indian Cities; University of Chicago Press, 1970; pp x+360.

Sinha, R K: Industry; National Publishers; pp 80+8; Rs 7.

Stekler, H O: Economic Forecasting; Praeger Publishers, 1970; pp xii+182; £ 3.50.

Whiteside, Lyon W: Effective Management Techniques for Getting Things Done; Vikas Publications, 1971; pp ix+213; Rs 16.

Wright, George B: New Techniques for Effective Sales Management; Vikas Publications, 1971; pp xii+194; Rs 18.

Content Analysis of India's Image among US Foreign Policy Decision-Makers

Joanne F Loomba

This analysis shows that the overall image of India held by US foreign policy decision-makers has been a positive one. India's foreign policy was found to be the most salient aspect of this image while perceptions of India's population and political leaders were few. Yet, evaluations of the Indian people and leaders were discovered to be far more positive than evaluations of either India's foreign policy or domestic circumstances.

Generally the US Administration expressed more favourable views of India's foreign relations, domestic conditions, leaders and people than the US Congress. The divergence of views between the Congress and the Administration is most pronounced as regards economic and social conditions within India — especially the latter.

Over the time-span, 1951-67, 55 per cent of US decision-makers' statements on India dealt with its international relations. Approximately 42 per cent of the themes were devoted to the domestic situation in India. Only 2.8 per cent of the remarks involved generalised comment about "the people" and mentions of India's political leaders by name.

INDIA began to receive relatively large allocations of US Government loans and grants in 1951. Over the years, the discussions in the US Congress and between the legislative and executive branches of the American Government regarding the allocation of these loans and grants have been occasions for considerable commentary on India's international behaviour and domestic situation.

The public record of these debates on US allocations to India has been utilised here to study the images of India held by American foreign policy decision-makers over the time period 1951-1967. The political leaders whose statements were subjected to analysis were selected on the basis of their close involvement in decisions concerning US aid programmes to India. These persons were: (a) Presidents and Vice-Presidents of the United States; (b) Secretaries of State and other pertinent Department of State officials; (c) US Representatives to the United Nations; (d) members of the Senate Committees on Foreign Relations, on Appropriations, and on Agriculture and Forestry; and (e) members of the House of Representatives Committees on Foreign Affairs, on Appropriations, and on Agriculture.

The documentary sources of the speeches of these key US office-holders were: the *Public Papers of the Presidents,* the Department of State *Bulletin,* the *Congressional Records,* and published *Congressional Hearings* before the six committees previously mentioned. A sample covering five years was examined. The years chosen, spaced four years apart, were: 1951, 1955, 1959, 1963 and 1967. 1951 was selected as the starting point for the study, because this was the first year in which the United States extended large-scale assistance to Independent India. 1967 became the cut-off point in conformity with the public availability of relevant data in the four documentary collections during the period in which the research was conducted.

In order to investigate the perceptions and evaluations of India among the specified members of the US Government in a precise and objective manner, the research method of content analysis was employed.[1] Content analysis refers to any procedure for systematically assessing the extent to which certain words, themes, or values appear in a given communication. The technique involves the use of distinct categories of reference and numerical descriptions of the frequency of occurrence of these specified types of references.

The classification of references into particular categories is on the basis of explicitly formulated rules and criteria, which enable two or more persons to observe the same expressions of images and values in the same documents. This insures against the subjective biases of the individual researcher, who is likely to have a psychological tendency to notice only those comments which he wishes to see in the statement. Moreover, through the necessity of providing a quantitative description of the findings, the researcher is protected against the possibility of placing too much emphasis on a few remarks and, then, inferring that this attitudinal orientation permeates the entire communication.

Content analysis has been employed successfully by numerous scholars to analyse a wide variety of symbolic material ranging from propaganda articles to dramatic literature. In the area of political science, for example, studies have been made of trends in American attitudes toward Japan and China in public statements by national leaders;[2] of biased newspaper reporting in election campaigns;[3] of differences in Indian and German press coverage of the Sino-Indian border conflict and the Cuban missile crisis in October 1962;[4] of the political, economic, and social values of the American Executive as expressed in statements concerning India;[5] and of divergences between Soviet and American foreign policy views appearing in the major journals of the two countries.[6]

An especially significant usage of the content analysis technique in the field of political science has been in connection with research directed toward understanding the psychological dynamics of international crises. This has entailed detailed study of both the public and private communications pro-

duced by the key national decision-makers involved. Some of the international crises toward which content analysis has contributed greater insight are the following: the Far Eastern crisis of 1930-32;[7] the European crisis following the assassination of Archduke Francis Ferdinand of Austria which preceded the outbreak of World War I;[8] the Cuban missile crisis;[9] and the several Arab-Israeli crises leading to fighting in West Asia.[10]

In this investigation, the unit of analysis was the 'theme'. A theme consists of one subject, one verb, and one object. Whenever sentences contained more than one of any of these component parts they were divided into as many themes as was necessary. Within a theme, there were three types of references which were coded into the specified content categories. These coding units consisted of mention of: (a) India's behaviour and attitude toward other countries; (b) India's domestic conditions and policies; (c) Indian leaders by name and the Indian people in general. Each of these broad classification categories comprised of several subcategories, as explained below in the analysis of the data.

The content analysis procedure involved three parts. First, a frequency count was made of the number of references to a given category. Second, the themes were examined to determine whether India was described as positive or negative with respect to the designated coding category. Third, the references (themes) were scrutinised to see whether a favourable, unfavourable, or neutral evaluation of India's relationship *vis-a-vis* that particular category was expressed by the speaker.[11]

For all five years taken together, the author recorded a total of 38,876 references to India. It was discovered that perceptions of India's international behaviour dominate American decision-makers' images of India. Over the entire period, 55 per cent of the statements on India dealt with the country's international relations. Approximately 42 per cent of the themes were devoted to the domestic situation in India. Only 2.8 per cent of the remarks involved generalised comments about "the people" and mentions of India's political leaders by name. In each of the separate yearly time periods, the American legislative body (the Congress) gave a greater degree of attention to India's international interactions than did the executive branch (the Administration) of the American Government.

Under the broad heading of India's international behaviour, Table 1 shows the relative attention given by US decision-makers to India's interactions with various countries. Table 1 reveals that, on the average, approximately 80 per cent of their verbalisations about Indian foreign policy have to do with relations with the United States. The remainder of the themes are divided almost equally among interactions with communist countries, with other Western nations, and with Pakistan. Although it is not indicated in the Table, it was apparent in the author's examination of the data that legislators are rather more preoccupied with Indian-American contacts than are executive officials.

TABLE 1: RELATIVE ATTENTION TO INDIA'S INTERACTIONS WITH VARIOUS COUNTRIES BY AMERICAN DECISION-MAKERS, 1951-1967

(In percentage of references)

	All Years	1951	1955	1959	1963	1967
Soviet Union	3.9	2.3	12.4	2.3	3.9	1.8
Communist China	3.4	1.3	4.1	9.7	5.2	0.8
United States	79.7	88.8	73.5	71.1	71.8	83.6
Other West	6.0	3.6	4.5	6.6	8.9	7.1
Pakistan	5.6	3.4	2.5	8.0	8.7	6.0
Others*	1.4	0.6	3.0	2.3	1.5	0 7

* Includes mentions of communist countries other than the Soviet Union and China and mentions of non-aligned countries.

TABLE 2: NET DESCRIPTIVE IMAGE OF INDIA'S INTERACTIONS WITH VARIOUS COUNTIRES AMONG AMERICAN DECISION-MAKERS, 1951-1967

(In net percentage of positive minus negative descriptive references)*

	All Years	1951	1955	1959	1963	1967
Soviet Union	9.4	17.3	—1.3	14.3	11.9	28.8
Communist China	—53.0	44.6	—17.9	—70.8	—80.4	—86.7
United States	15.5	21.8	11.5	17.4	8.4	13.1
Other West	10.9	13.4	12.0	22.5	2.9	17.4
Pakistan	—19.5	—3.3	—29.7	0.0	—26.0	—34.7

* Net description (percentage) = $\frac{\text{Number of positive references to a category}}{\text{Total number of references to a category}} \times 100$ minus $\frac{\text{Number of negative references to a category}}{\text{Total number of references to a category}} \times 100$

The comparatively small amount of attention given to India's relations with the Soviet Union and Communist China is suprising, since United States foreign policy leaders are generally thought to be preoccupied with assessing the position of other states in relationship to the Cold War struggle. Also interesting is the fact that there is little difference between members of the American Congress and members of the American Administration in this regard. The major difference in focus between the two branches of government is the slightly greater awareness of India's relations with other Western countries and with Pakistan revealed in Executive statements.

Interactions between the United States and India seem to dominate the discussions of foreign policy-makers most during the years in which high priority was given to food aid, 1951 and 1967. The sharp rise in interest in Indian-Soviet exchanges in 1955 relates to the visit of Khrushchev and Bulganin to India at that time. Furthermore, that year saw the initiation of the Soviet Union's foreign aid programme to India. Especially obvious to the American foreign policy elite was the agreement signed in February 1955 for Russian assistance in the construction of a million-ton steel mill at Bhilai.

Table 2 presents the image that US decision-makers have of India's orientation toward these countries. A net descriptive percentage was calculated in the following manner. First, the number of themes describing India as having positive (friendly) relations with the country(ies) designated by the category heading was divided by the total number of references to that category; the resulting ratio was then multiplied by 100 to give the percentage of positive descriptive references. Second, the number of themes describing India as having negative (unfriendly) relations with the country(ies) designated by the category heading was divided by the total number of references to that category; the resulting ratio was then multiplied by 100 to yield the percentage of negative descriptive references. Third, the percentage of negative descriptive references was subtracted from the percentage of positive descriptive references to produce a net descriptive image of India's orientation toward the country(ies).

TABLE 3: NET DESCRIPTIVE IMAGE OF MAJOR DIMENSIONS OF INDIA'S INTERACTIONS WITH THE UNITED STATES AMONG THE AMERICAN EXECUTIVE AND THE AMERICAN CONGRESS, 1951-1967

(In net percentage of positive minus negative descriptive references)*

		All Years	1951	1955	1959	1963	1967
Political	Exec	19.1	20.6	0.4	27.4	22.8	16.7
	Cong	—2.6	7.7	—29.8	13.5	3.1	—29.5
Military	Exec	17.5	0.0	—50.0	30.0	22.5	—4.9
	Cong	—7.9	—4.3	—	—60.0	—2.1	—19.1
Economic and Social	Exec	27.6	35.0	24.5	19.8	18.7	36.9
	Cong	11.6	19.6	5.7	10.6	—1.8	6.9

Note: A dash indicates that no positive or negative descriptive references were recorded during that time period for the specified category.

* Net description (percentage) = $\frac{\text{Number of positive references to a category}}{\text{Total number of references to a category}} \times 100$ minus $\frac{\text{Number of negative references to a category}}{\text{Total number of references to a category}} \times 100$

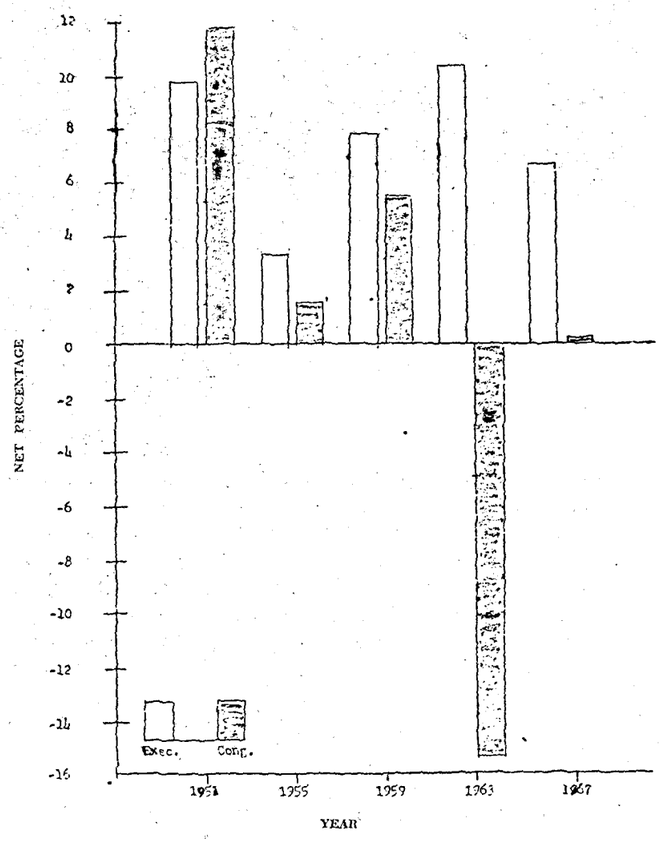
It can be seen from Table 2 that US decision-makers describe India as having overall positive orientations toward the United States, other Western countries, and the Soviet Union. Conversely, India is perceived as having generally unfriendly relations with Communist China and Pakistan. It is interesting to note that India is pictured by American foreign policy leaders as having a net negative orientation toward the Soviet Union in 1955. This is a consequence of a great many pronouncements by US Administration officials to the effect that India's policy orientation was not becoming increasingly pro-Soviet. It reflects executive efforts to convince sceptical legislators that, although India might be receiving economic and technical assistance from the Russians, it was not any closer to the Soviet Union politically and diplomatically than it previously had been.

Further examination of the data revealed that, in all yearly time periods, the executive branch of the American Government perceived India's relations with the Soviet Union to be rather cool and formal. However, members of the US Congress described India as having a warm and friendly pro-Soviet orientation. This was especially true in 1951, 1955, and 1967. In 1951 and 1967, the descriptive themes dealt largely with the likelihood of India receiving military equipment from the USSR. In 1955, the legislators' focus was upon the increase in economic ties and diplomatic contacts between the two countries.

Legislators and US Administration officials share an image of India as being predominantly unfriendly toward both Communist China and Pakistan. The net negative description of Indian-Pakistani relations prevails for all years. The high point in 1955 is associated with Pakistan's acceptance, and India's rejection, of the CENTO alliance sponsored by the United States. US Senators and Representatives were particularly likely to let their dissatisfaction show through the heaping of blame on India for not having amicably settled the Kashmir dispute by this time. The large net negative descriptive percentage in

FIGURE 1: NET EVALUATION OF INDIA'S INTERNATIONAL INTERACTIONS BY THE AMERICAN EXECUTIVE AND THE AMERICAN CONGRESS, 1951-1967

(In net percentage of positive minus negative evaluative references)



Milk co-operatives as an instrument for creating new jobs

Survey of two villages in Kaira* traces half their income to milk



Rearing milk cattle has become as important an occupation as agriculture in many villages in Kaira. In villages with milk co-ops, slightly over half the income is from milk, as against 20% in villages without milk co-ops.

Apart from raising village incomes, milk co-ops have created more jobs in villages, in collection centres, in cattle feed plants and in animal husbandry services.

With mechanisation of farming displacing people from agriculture, it is imperative that villages should offer alternative opportunities for employment. The traditional farmer is under-employed in any case. Dairying offers a part solution to both problems.

*This survey was conducted by the Department of Economics, Sardar Patel University, Vallabh Vidyanagar. The computed income included remittances from relatives in Africa.

Amul has shown the way.

ASP/ABF/SP-11

1967 records references to the 1965 fighting between India and Pakistan. Again the disapproval of the legislature was more pronounced than that of the executive.

American foreign policy-makers initially perceived India as quite positively oriented toward the People's Republic of China. According to the data, members of the US Congress retained this view until 1959—when the border fighting erupted between the two countries; whereas the executive image changed in 1955. By 1955, some members of the US Administration had become impressed with the essentially competitive relationship which existed between the two countries. A better understanding of non-alignment had developed, which permitted a few individuals to notice a political rivalry for leadership of the developing nations between India and China. The Bandung Conference was interpreted as supplying evidence to support this hypothesis. Furthermore, it was observed that both nations were trying to use centralised planning to modernise economically as rapidly as possible. Yet, while China used totalitarian methods, India apparently wished to demonstrate that it could be done under a democratic political system.

India's international transactions with the United States and other Western countries are generally portrayed as friendly by members of the American foreign policy elite. For both categories of interaction, the view of the American Administration is always more positive than that of the US Congress. Indeed, at no time is there a net negative description of either set of interactions by the US President and his appointed advisers.

Detailed analysis of the data indicates that, during the years studied, the legislature twice perceived India's transactions with other Western nations in a negative light. Moreover, two times the legislators expressed an image of India as being negatively oriented toward the United States. With respect to the former type of behaviour, in 1963 and in 1967, some legislators appeared resentful of the fact that aid agreements signed between India and European countries provided for shorter grace periods and higher interest returns than those negotiated between India and the United States.

As regards India's behaviour toward the United States directly, the legislature's net negative descriptive image in 1955 stems from a feeling that the warm welcome accorded Khrushchev and Bulganin, as well as the acceptance of Soviet economic assistance, were anti-American acts. The overall negative impression of Indian-American relations in 1963 reflects two attitudes in the US Congress. First, that India might misuse military equipment provided by the United States against Pakistan. Second, that India was asking too much in expecting large sums of American money for a steel mill at Bokaro, when comprehensive resource surveys had not yet been completed and Indian plans called for government ownership and operation.

Table 3 presents legislative and executive descriptions of India's interactions with the United States along three major dimensions: political, military, and economic and social. Overall, perceptions of military transactions between the two countries appear to be the most negative. Even generally more friendly officials belonging to the administrative arm of the American Government did not fail to take verbal notice of India's refusal to join the CENTO structure and its denunciation of the Pakistani-American arms agreement in 1955. The net negative descriptive percentage in 1967 indicates that they, too, expressed doubts about the correct use of US military assistance, following the 1965 war between India and Pakistan.

With respect to political relations, the American President and his assistants have always viewed India's behaviour toward the United States as more friendly than have US Senators and Representatives. The most positive net descriptive image of Indian-American interactions in this sphere occurs in 1959 for both sets of decision-makers. This, of course, is associated with Eisenhower's goodwill visit to India during the year. Finally, the executive has always depicted a more positive Indian orientation toward the United States concerning economic and social contacts than has the legislature. This is particularly obvious in 1963, when the debate between AID administrators and Congressmen was raging over the financing of the Bokaro steel mill.

As important for analysing the images of India among members of the American foreign policy elite, as their descriptions of Indian behaviour, are the personal evaluations they express of such actions. In order to investigate these verbalisations, a net evaluative percentage was computed. First, the number of references approving of India's relationship to a given category heading was divided by the total number of themes pertaining to that category; the resulting ratio was then multiplied by 100 to give the percentage of positive evaluative references. Second, the number of references disapproving of India's relationship to a given category heading was divided by the total number of themes pertaining to that category; the resulting ratio was then multiplied by 100 to give the percentage of negative evaluative references. Finally, the percentage of negative evaluative references was subtracted from the percentage of positive evaluative references to yield a net evaluative image of India's position *vis-a-vis* the particular category heading.

These data showed that not only do members of the US Administration hold a more positive descriptive image of India's orientation toward the United States than members of the US Congress; in their evaluations they also more warmly endorse interactions between the two states—in the future, as well as the past and present. For example,

TABLE 4 : NET DESCRIPTIVE IMAGE OF ASPECTS OF INDIA'S DOMESTIC SITUATION AMONG THE AMERICAN EXECUTIVE AND THE AMERICAN CONGRESS, 1951-1967

(In net percentage of positive minus negative descriptive references)*

		All Years	1951	1955	1959	1963	1967
Political Conditions	Exec	48.7	15.4	65.8	44.6	53.9	31.3
	Cong	34.0	46.9	59.1	35.5	13.0	19.6
Economic Policies	Exec	30.6	28.6	30.1	40.9	10.4	70.2
	Cong	5.2	33.3	—20.0	14.3	2.4	9.2
Economic Conditions	Exec	25.3	—5.0	35.4	41.1	24.7	38.9
	Cong	—3.9	—7.3	16.4	8.3	—8.6	—0.9
Social Conditions	Exec	8.6	—17.1	30.5	35.4	3.2	16.5
	Cong	—41.4	—3.2	15.0	—22.4	—63.4	—33.8

* Net description (percentage) = $\frac{\text{Number of positive references to a category}}{\text{Total number of references to a category}} \times 100$ minus $\frac{\text{Number of negative references to a category}}{\text{Total number of references to a category}} \times 100$

We keep the nation moving on wheels

The wheel started a lot of things rolling. For example, the railways which connect villages to cities, products to markets and one region to another. Tata Steel rails, wheels and axles help to carry passengers and goods across this vast country.

Providing communications, steel is vital to the nation's progress. Nothing else combines such strength, versatility and value for money.

Which is why we spend a lot of time, effort and money on continuously improving what you get with the Tata stamp on it.

Tata Steel helps to give momentum to the Indian economy.

TATA STEEL

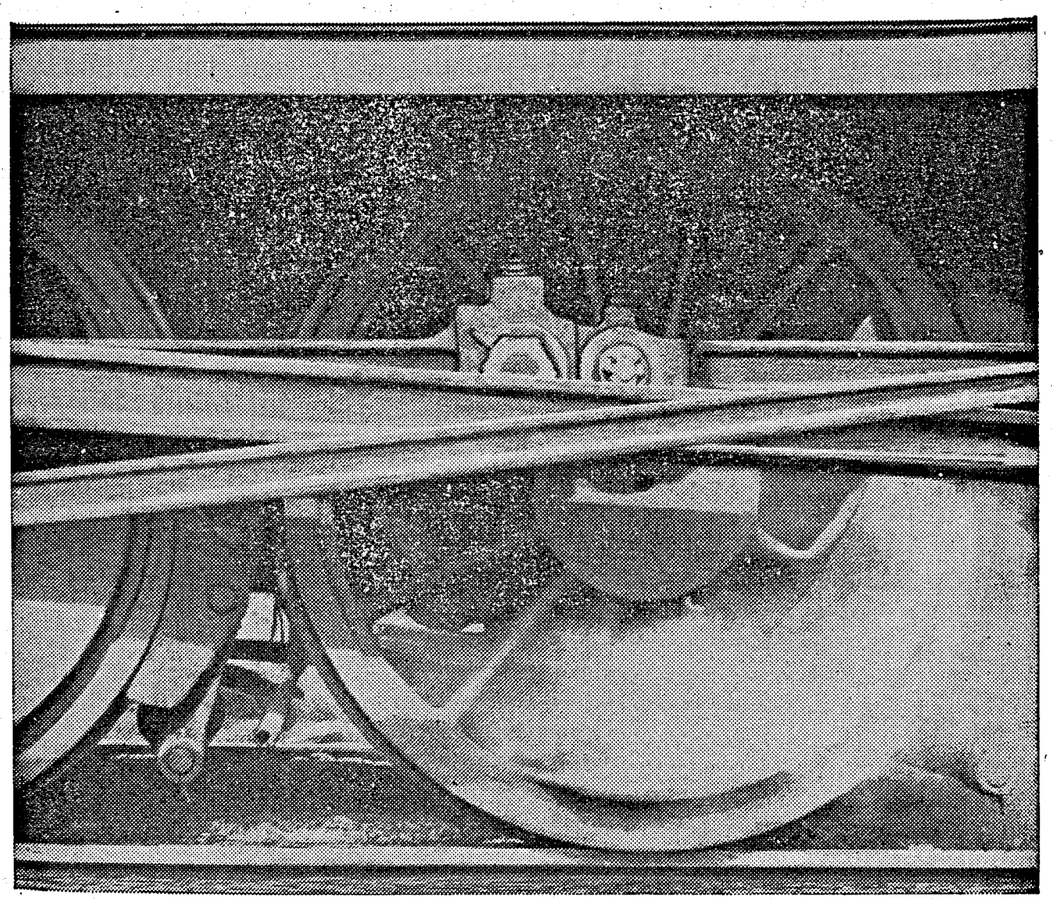
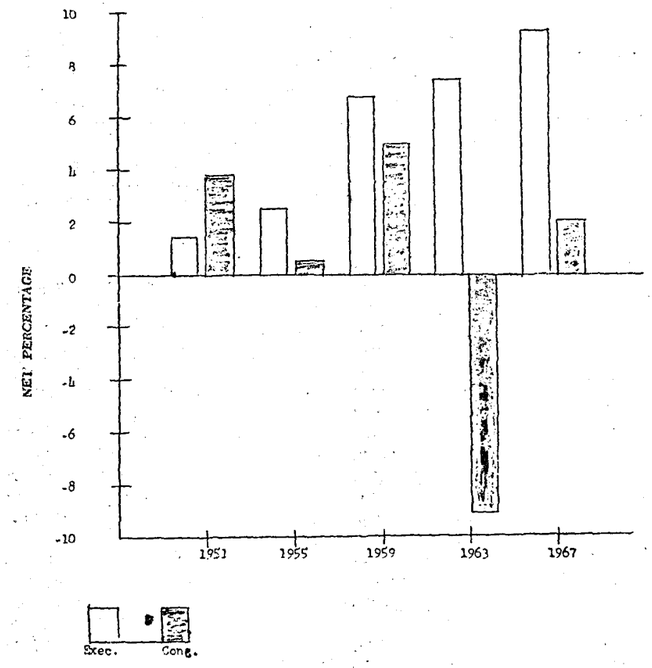


FIGURE 2: NET EVALUATION OF INDIA'S DOMESTIC SITUATION BY THE AMERICAN EXECUTIVE AND THE AMERICAN CONGRESS, 1951-1967

(In net percentage of positive minus negative evaluative references)



a net positive evaluation found along the military dimension in 1955 indicates that, despite acute awareness of India's disapproval of CENTO, the executive still strongly urged joint military co-operation between the two countries. The legislature tends more to associate negative perceptions of Indian behaviour with negative evaluations. The major exception in this regard occurred in 1951. At this time, high legislative praise for the fighting capabilities of the Indian soldier on the American side in World War II was coupled with pointed remarks about the failure of India to support the United States cause in Korea with troops.

American-decision-makers' evaluations of India's interactions with other countries reveal a pattern of cognitive consistency. This means that a perceived positive behaviour by India toward an ally of the United States is given approval; whereas an image of India as positively oriented toward an enemy of the United States elicits disapproval. For example, the content analysis revealed that beginning in 1955, when Indian-Soviet transactions became rather frequent, American foreign policy leaders have a predominantly negative evaluation of India's orientation toward the Soviet Union. Also, the positive description of Indian-Chinese interactions in 1951 is disapproved of; while the negative image of these exchanges thereafter is positively evaluated. Moreover, the consistently positive descriptions of India's international contacts with other Western nations by US policy-makers are associated constantly with net positive evaluations. Legislative and executive attitudes are quite similar in all of these aspects.

The only divergence between the cognitions of the two sets of decision-makers relates to Indian-Pakistani exchanges. Here the author discovered a net negative evaluation on the part of US Administration officials in 1967 alone. Legislators, however, expressed net disapproval of India's foreign policy toward Pakistan in all years except 1959. This is also the year in which they exhibited the least negative descriptive image of this dimension of India's international behaviour.

In order to summarise the total evaluations of members of the American foreign policy elite of India's international behaviour—as derived from the content analysis of statements concerning India's interactions with the Soviet Union, China, Pakistan, the United States, and other Western countries—Figure 1 was constructed. It can be observed that, with the exception of 1951, the executive branch of the American government registers more approval of India's international relations than the legislature. The higher net legislative percentage in 1951 is a consequence of a great many statements endorsing close economic and social exchanges between India and the United States. Indian-Chinese and Indian-Pakistani interactions were evaluated negatively by the US Congress at this time.

The previously noted discrepancy between executive and legislative cognitions in 1963 shows up clearly in Figure 1. The US Administration's most positive net evaluation occurred this year as the President, Secretary of State, AID Administrator and lesser bureaucrats all personally argued that India needed military equipment and the Bokaro steel mill, and was capable of using both wisely from an American point of view. The extremely negative legislative evaluation exhibits the scepticism in the US Congress toward these ideas, as well as its disapproval of Indian behaviour toward the Soviet Union and Pakistan. Moreover, in this discussion, members of the American Administration emphasised their pleasure at the hostile relationship perceived to exist between India and China to a far greater degree than the legislators.

Turning now to comments on India's domestic situation, which comprise just over 42 per cent of the references by American foreign policy-makers to Indian behaviour: for all years combined, approximately 9.3 per cent of these themes deal with political conditions; 7.9 per cent with economic policies; 55.5 per cent with economic conditions; and 27.2 per cent with social conditions. Among the years sampled, there is none in which economic conditions were not the primary focus of attention. Only once is concern with social conditions displaced as the second most interesting aspect of India's domestic behaviour. This was in 1963, when the Indian Government's socialis-

is no exception to this generalisation as regards the attitude of the Administration. However, with respect to the disposition of the Congress, there are deviations from this observation in 1955 and 1967. In these two years, legislative evaluations of both India's foreign and domestic behaviour were more favourable than their view of India's people in general and specifically named leaders.

In 1955, the negative feelings of Senators and Representatives consisted of disapproval of Nehru's visit to the Soviet Union, as well as his warm reception of Khrushchev and Bulganin on their subsequent visit to India, and of dissatisfaction with the words and actions of V K Krishna Menon as India's Representative to the United Nations. In 1967, the Legislators were expressing impatience with the Indian population for not having already achieved economic 'take-off' and a stable population growth rate, and for allowing traditional social and religious practices to interfere with the attainment of both these goals.

Except for the year 1959, which is associated with Eisenhower's goodwill visit to India, the Administration has always held a much higher opinion of specifically designated Indian leaders and of the Indian people than has the legislature. Another pattern in the perceptions recorded on this dimension is that: mentions of the Indian population in general terms appeared to be distributed throughout the five annual time periods studied and to be overwhelmingly favourable (except for 1967 among legislators). By contrast, comments upon Indian leaders by name were concentrated in 1951 and 1955 and were notably less positive.

One final aspect of the attitudes of members of the American foreign policy elite examined in this research was their overall net orientation toward India. This summary index of favourable/unfavourable orientation was computed in the following way. First, for each designated group of decision-makers, the author added: (a) all positive evaluations of India's international interactions; (b) all positive evaluations of India's domestic situation; (c) all positive evaluations of India's leaders and people; and (d) all positive descriptions of India's domestic situation. This sum was then divided by the total frequency of mention of India's behaviour in all contexts to yield a ratio of overall positive orientation.

Descriptions of India's domestic situation were included, because it seemed clear from a reading of the documents that personal evaluation was present in a speaker's choice of what to emphasise in describing domestic conditions within India. Moreover, various perceivers were discovered to exercise considerable latitude in reporting their observations within a neutral, a favourable, or an unfavourable context. Descriptions of India's international interactions were not included, since a positive or negative description has different evaluative meaning for an American decision-maker according to whether the category heading refers to a friend or enemy of India and/or the United States.

A ratio of overall negative orientation was computed in a similar fashion. A sum total was made of: (a) all negative evalutions of India's international interactions; (b) all negative evaluations of India's domestic situation; (c) all negative evaluations of India's leaders and people; and (d) all negative descriptions of India's domestic situation. The sum was then divided by the total frequency of mention of India's behaviour in all contexts. The overall net evaluation index was obtained by subtracting the ratio of overall negative orientation from the ratio of overall positive orientation.

Figure 3 plots the overall net orientation toward India of all US decision-makers studied, of members of the executive, and of members of the Congress. It can be observed that, in 1951 — when India was newly independent and the American foreign aid programme to that nation was small and consisted predominantly of emergency food relief—the two branches of the US Government shared a similar viewpoint on India. Through the years, though, their perspectives diverge increasingly.

Unlike the data on relative attention to various aspects of Indian behaviour, and on net evaluations of that country's international interactions and domestic situation, Figure 3 shows that executive and legislative overall net orientations toward India tend to move in the same directions from year to year. Impressions grow more favourable from 1951, to 1955, to an all-time high for all members of the American foreign policy elite in 1959. Contributing to these extremely positive attitudinal dispositions, in order of importance, were: evaluations of the Indian people in general and political leaders; evaluations of India's transactions with China; evaluations of India's relations with the United States; and executive descriptions of all aspects of India's domestic situation.

The 1963 dip in the upward trend in opinions concerning India, on the part of Administration officials, stems almost exclusively from a decline in the net positive descriptions of Indian economic policies and social and economic conditions. For members of the Congress, the extremely negative orientation exhibited derives from all four sets of cognitions included in the computation of this overall approval/disapproval percentage. Net evaluations of India's interactions with the United States, the Soviet Union, and Pakistan were all unfavourable. Descriptions of Indian economic and social conditions were negative, and those of political conditions and economic policies reached new lows. In addition, the legislature expressed net disapproval of both economic policies and economic conditions in India. Finally, legislative evaluation of the people and leaders plunged from a net positive 100 per cent in 1959 to 11.2 per cent in 1963.

The almost full recovery in 1967 of the Administration's positive attitude toward Indian behaviour is due to increases once again in favourable reports concerning the country's economic policies, economic conditions, and social conditions. The mild upturn in the legislature's outlook is associated with somewhat less negative descriptions of all aspects of India's domestic situation — plus an improvement in the evaluations of the nation's economic policies and conditions. Evaluation of India's international interactions, as well as of the people in general and specifically named political leaders, actually become more negative for legislators between 1963 and 1967.

In conclusion, then, it can be remarked that the overall image of India held by foreign policy decision-makers has, for the most part, been a net positive one. International interactions were found to be the most salient aspects of this image; while perceptions of India's population and political leaders were few. Yet, evaluations of the Indian people and leaders were discovered to be far more positive than evaluations of either India's foreign policies or domestic circumstances. Finally, it was observed that the executive generally expressed more favourable views of India's foreign relations, domestic conditions, leaders and people than the American legislature.

Notes

1 For more detailed explanations of the research method of content analysis, the reader may consult the following sources: Holsti, Ole R, with the collaboration of Loomba, Joanne F, and North, Robert C, "Content Analysis", Chapter 16 in Lindzey, Gardner, and Aronson, Elliot, eds, "The Handbook of Social Psychology", second edition, Addison-Wesley, Cambridge, Mass, 1969; North, Robert C, *et al*, "Content Analysis: Handbook with Applications for the Study of International Crisis", Northwestern University Press, Evanston, Illinois, 1963.

2 Wright, Quincy, and Nelson, C J, "American Attitudes Toward Japan and China", *Public Opinion Quarterly*, Vol 3, 1939, pp 46-62.

3 Klein, M W, and Maccoby, Nathan, "Newspaper Objectivity in the 1952 Campaign", *Journalism Quarterly*, Vol 31, 1954, pp 285-296.

4 Roat, R, "Crisis News in the Press Abroad", *Quill*, June 1963, pp 20-21.

5 Shah, Romesh, "The Values in Statements of American Decision-Makers Concerning India, 1947-1962, as Revealed Through Content Analysis", unpublished Ph D dissertation, New York University, 1967.

6 Angell, Robert C, Dunham, Vera S, and Singer, J David, "Social Values and Foreign Policy Attitudes of Soviet and American Elites", *The Journal of Conflict Resolution*, Vol 8, 1964, pp 330-491.

7 Russell, J T, and Wright, Quincy, "National Attitudes in the Far Eastern Controversy", *American Political Science Review*, Vol 27, 1933, pp 555-576.

8 North, Robert C, "Perception and Action in the 1914 Crisis" in Farrell, John C, and Smith, Asa P, eds, "Image and Reality in World Politics", Columbia University Press, New York, 1967.

9 Holsti, Ole R, Brody, Richard A, and North, Robert C, "The Management of International Crisis: Affect and Action in American-Soviet Relations, October 1962", Studies in International Conflict and Integration, Stanford University, Stanford, California, 1965.

10 Brody, Richard A, Holsti, Ole R, Loomba, Joanne F, *et al*, "International Conflict, Dyadic and Mediated: Case Studies of Egypt, Israel, and the United Nations at Five Points in Time", Studies in International Conflict and Integration, Stanford University, Stanford, California, 1965.

11 The author did all the coding herself. Prior to the content analysis, she tested the reliability of the coding rules by asking three other individuals to code several documents included in the sample. Computing intercoder reliability between the author and each of the other persons on a bilateral basis, by the formula given below, produced an average reliability of .81.

During the content analysis, the author made several reliability checks on herself to ascertain if there was consistency in the application of the coding rules. By the same formula, the author's across-time reliability was .93.

The reliability formula used was:

$$r = \frac{2(A)}{N_1 + N_2}$$

In this formula, A = number of items agreed upon, N_1 = number of items coded by the first person (or the first time), and N_2 = number of items coded by the second person (or the second time).

Consumer Prices and Per Capita Household Consumption in Rural India

Variation between States

N Bhattacharya

G S Chatterjee

Budget data collected in the 18th round of the NSS has been utilised for constructing indices of consumer price variation among the rural areas of the different states of India. Consumer price indices, computed to compare the price level in each state with that in rural India as a whole, are also employed to compare the average per capita total household expenditure in the different states at rural India prices.

A major limitation of the price differential indices is the exclusion of item-groups like education and durables. Besides, there are inherent limitations of NSS household budget data which are not collected specifically for purposes of construction of consumer price indices. The findings may have been partly vitiated, therefore, by the unrecognised factor of quality variation. Finally, there are the intrinsic limitations of interregional comparisons of consumer prices owing to climatic or other environmental differences.

WE present, in this paper, some preliminary results of studies undertaken at the Indian Statistical Institute, Calcutta, based on household budget data collected in the 18th round (February 1963-January 1964) of the National Sample Survey (NSS). We utilise the material for constructing indices of consumer price variation between the rural areas of different states of India. The budget data are used for estimating weights as well as consumer prices of 56 items covering food, pan, tobacco and intoxicants, fuel and light, and clothing groups of the household budget. Consumer price indices are computed for comparing the price level in each state with that in rural India as a whole. These indices are employed for comparing the average per capita total household expenditure in the different states at rural India prices.[1]

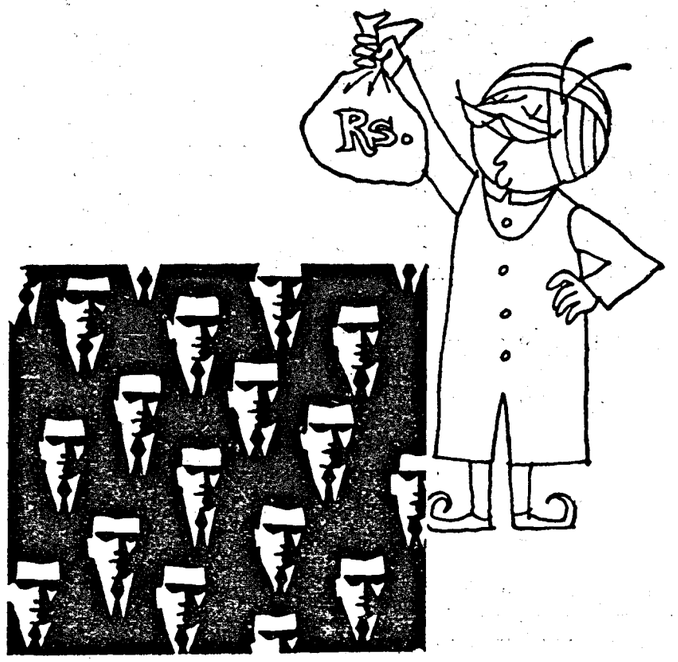
More accurate comparisons of this nature would require indices comparing price levels in each pair of states. Such indices have been computed. Also, the analysis is being done separately for 5 fractile (quintile) groups of the population in each region, these groups being based on a ranking of the households in increasing order of per capita consumer expenditure. These results will be duly reported in a subsequent communication.

II

Construction of Indices

In earlier communications[2] we examined urban-rural differentials in consumer prices and per capita household consumption in India utilising NSS 18th round household budget data. Here we employ the same material in the same manner to investigate interstate differentials in consumer prices

Togetherness pays !



AL3005 A

If you travel in a group, you pay less, much less, under Air-India's Affinity Group Scheme.
Which groups qualify?
Your group must consist of at least 15 members. And you must all belong to the same school/college, institute, firm, club, society, corporation, association or organisation, for at least 6 months.

For what purpose?
Whether you travel to attend a conference or a convention or for pleasure, you can avail of the discount. And Air-India allows you to include your wife/husband and children as part of your group. This way you really save money— over Rs. 2,000 per fare on some sectors.

Ask your Travel Agent about GIT, too
Under the Group Inclusive Tour Scheme a group of 10 people who travel together get a group bargain on air fares, hotel bookings, sight-seeing tours. Yo Travel Agent may be able to arrange a 21-day trip to Europe for as little as Rs. 5,600.

See your local Air-India Office or your Travel Agent for full details. You'll find out that togetherness pays.

AIR-INDIA
the airline that loves you

TABLE 1: INDICES SHOWING CONSUMER PRICE LEVEL IN RURAL AREAS OF DIFFERENT STATES AS PERCENTAGE OF THE ALL-INDIA RURAL PRICE LEVEL, BASED ON NSS 18TH ROUND HOUSEHOLD BUDGET DATA

State (1)		No of Sample House-Holds (2)	Weights of Excluded Items (per cent) (3)	Price Indices (All-India Rural=100) Laspeyres' hs 1 (4)	Laspeyres' hs 2 (5)	Laspeyres' comb (6)	Paasche's hs 1 (7)	Paasche's hs 2 (8)	Paasche's comb (9)	Fisher's hs 1 (10)	Fisher's hs 2 (11)	Fisher's comb (12)
(1)	Rajasthan	1190	11.91	104.75	108.61	106.31	95.76	97.12	96.56	100.15	102.71	101.32
(2)	Punjab	916	14.80	107.96	108.34	107.64	102.82	102.46	102.27	105.36	105.36	104.92
(3)	Jammu and Kashmir	865	9.57	102.89	102.52	102.64	99.10	98.85	99.01	100.98	100.67	100.81
(4)	Uttar Pradesh	2926	12.37	96.13	92.82	94.53	93.73	92.60	93.19	94.92	92.71	93.86
(5)	Madhya Pradesh	1751	14.51	97.24	97.19	97.32	94.48	93.14	93.86	95.85	95.14	95.57
(6)	Bihar	2324	9.03	103.03	104.13	103.24	98.93	102.40	100.69	100.96	103.27	101.96
(7)	Orissa	778	7.59	106.91	103.00	102.91	94.21	92.86	93.62	100.36	97.80	98.15
(8)	West Bangal	1312	10.54	115.84	117.60	116.89	114.48	115.11	114.90	115.16	116.35	115.89
(9)	Assam, Manipur and Tripura	1473	9.29	113.54	116.13	112.26	103.12	103.43	103.22	108.21	109.60	107.64
(10)	Andhra Pradesh	1710	13.41	105.22	103.48	103.77	99.57	100.58	100.10	102.36	102.02	101.92
(11)	Madras	1581	14.39	112.25	111.33	111.88	107.22	103.94	105.65	109.71	107.57	108.72
(12)	Kerala	1052	17.98	118.93	115.09	116.35	100.15	95.47	98.44	109.14	104.82	107.02
(13)	Gujarat	1016	10.34	112.49	114.14	113.37	110.65	110.65	110.71	111.57	112.38	112.03
(14)	Maharashtra	1596	13.37	108.76	107.99	108.32	105.80	105.88	105.91	107.27	106.93	107.11
(15)	Mysore	971	9.78	101.45	101.93	101.60	94.14	99.23	96.71	97.73	100.57	99.12
	All-India	21500*	11.80	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

* This includes Himachal Pradesh — 39 sample households.

and level of household consumption in rural India. The material covers the whole of rural India.

The data were collected from sample households by the interview method. Consumption includes consumption of goods and services (a) out of monetary purchases, (b) out of receipts in exchange of goods and services, (c) out of home-grown stock, and (d) out of gifts, loans, etc. Probability sampling was followed for selecting the households. The sampling design was complicated, but the sample comprising four independent and interpenetrating sub-samples providing independent and equally valid estimates of population characteristics. These sub-samples have been grouped here to get two independent half-samples of the NSS sample. The divergence between half-sample results points to the margin of uncertainty associated with the combined sample results.

The material was thoroughly scrutinised giving particular attention to the prices implicit in the entries for consumption in quantity and value terms. Entries with the implicit price too high or too low were rejected in the estimation of average prices.

The price data obtained from household budget inquiries are based on statistically valid samples of households and transactions covering specified sections of the population. Also, imputed prices of non-monetised consumption are reflected in the household budgets; the usual price inquiries, on the other hand, generally neglect the non-monetised part of consumption.

The state of Himachal Pradesh with only 39 sample households was included in the all-India estimates but left out in the interregional comparisons.

A large number of consumer items representing different areas of the budget was considered, but some of them were dropped in view of the small number of reporting households or the divergence between half-sample prices or other types of evidence on lack of reliability. Finally, 56 items covering food, pan, tobacco and intoxicants, fuel and light, and clothing groups of the household budget were included in the calculations. The weights of these items were the percentages of total household expenditure spent on them *plus* suitable allocations of weights of related items not included in the calculations.

Nothing could be done to cover subgroups like education, medicine, conveyance, services and durables. The total weightage of these excluded items is shown in Table 1 for the combined sample. Our calculations are based on the tacit assumption that the average price differential for these excluded items is the same as the average price differential for the included items.

Laspeyres' (L), Paasche's (P) and Fisher's (F) formulae were used for expressing the price level in each state as percentage of the all-India price level, separately for the two half-samples and the combined sample.

For some items, no average price was available for particular regions simply because no sample household reported the consumption of these items. In such cases, we tried the following approaches, in the order stated, for removing the gap in data:

(i) For items like *muri*, we assumed that the *price relative* of muri was the same as that of a closely related item, *viz*, rice.

(ii) If the price was not available for only one of the half-samples, then this price was taken as equal to the price for the other half-sample for the same region.

(iii) If approaches (i) and (ii) are not helpful, then we took the missing price quotation as equal to the (average) price in one or more neighbouring states for the same half-sample. (Sometimes it was necessary to employ a combination of these approaches.)

III

Price Differential Indices

The indices are presented in Table 1, along with relevant sample sizes and the weightage of excluded items.

Divergence between L and P: This is generally taken as a measure of the formula error. The divergence seems to be wide when the budget patterns of the regions compared are markedly different, e g, when comparing Kerala

TABLE 2: COMPARISON OF AVERAGE PER CAPITA TOTAL CONSUMER EXPENDITURE IN RURAL AREAS OF DIFFERENT STATES BEFORE AND AFTER DEFLATION*, BASED ON NSS 18TH ROUND HOUSEHOLD BUDGETS.

State	Average Per Capita Consumer Expenditure (Rs) Per 30 Days at Current Prices			Indices of Per Capita Expenditure (Base=All-India Rural)					
				At All-India Prices			At Current Prices		
	hs 1	hs 2	comb	hs 1	hs 2	comb	hs 1	hs 2	comb
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) Rajasthan	23.63	22.69	23.13	106.3	98.5	102.3	106.5	101.2	103.7
(2) Punjab	28.59	28.75	28.66	122.3	121.7	122.5	128.8	128.2	128.5
(3) Jammu and Kashmir	27.86	27.90	27.89	124.3	123.5	124.0	125.6	124.4	125.0
(4) Uttar Pradesh	21.44	21.17	21.31	101.8	101.8	101.7	96.6	94.4	95.5
(5) Madhya Pradesh	24.42	22.31	23.37	114.8	104.5	109.6	110.0	99.5	104.8
(6) Bihar	20.96	21.64	21.31	93.6	93.4	93.7	94.5	96.5	95.5
(7) Orissa	19.22	19.48	19.35	86.3	88.8	88.3	86.6	86.8	86.7
(8) West Bengal	22.54	24.84	23.69	88.2	95.2	91.6	101.6	110.7	106.2
(9) Assam, Manipur, Tripura	24.67	27.22	25.98	102.7	110.7	108.2	111.2	121.4	116.4
(10) Andhra Pradesh	20.14	21.37	20.76	88.7	93.4	91.3	90.8	95.3	93.0
(11) Madras	23.96	22.84	23.39	98.4	94.7	96.4	108.0	101.8	104.8
(12) Kerala	20.20	20.49	20.36	83.4	87.2	85.3	91.0	91.4	91.3
(13) Gujarat	23.21	22.13	22.69	93.7	87.8	90.8	104.6	98.7	101.7
(14) Maharashtra	21.05	22.43	21.72	88.4	93.5	90.9	94.9	100.0	97.4
(15) Mysore	20.03	20.83	20.43	92.4	92.3	92.4	90.3	92.9	91.6
All-India	22.19	22.43	22.31	100.0	100.0	100.0	100.0	100.0	100.0

* The Fisher indices in Table 1 were used for the deflation.

with all-India. On the other hand, the divergence is small when the two budget patterns are similar, e g, for the comparison between UP and all-India. This is only to be expected. We may quote the Fisher indices as measures of price differentials, but the measure is imprecise when the state concerned has a budget pattern very different from the all-India one.

Incidentally, we may note that the Paasche index is consistently lower than the Laspeyres' index in Table 1.

Divergence between half-samples: The half-sample indices do not show considerable divergence except in a few cases, e g, for Kerala. On the whole, however, sampling errors of the indices seem to be less important than the formula error.

Inter-state differentials: Judging by the Fisher indices in cols 10 to 12 of Table 1, the states may be grouped as shown below. This grouping is not a rigid one. The indices have some amount of sampling error and the true position of a state may be somewhat different from the position in this grouping. However, the ranking of the states in ascending order of the Fisher indices is nearly the same for the two half-samples and the combined sample. The range of the indices is from 94 to 116. Broadly speaking, the price level was higher in the industrially advanced states.

Range of Index	State (Fisher's index with all-India rural=100)
90— 95	UP (94)
95—100	MP (96), Orissa (98), Mysore (99)
100—105	J and K (101), Rajasthan (101), Andhra Pradesh (102), Bihar (102) Punjab (105)
105—110	Kerala (107), Maharashtra (107), Assam, Manipur, Tripura (108) Madras (109)
above 110	Gujarat (112), West Bengal (116)

We may note here that the substitutions mentioned in paragraph 11 gave a significant upward push to the Laspeyres' index (L) in several cases (e g, for Kerala), while the Paasche's index (P) remained more or less unaffected. One cannot rule out the possibility that these substitutions introduced some bias in the values of L (hence F). This is evident from the fact that most of the statewise indices, L or F, are above 100. In fact, the weighted average of the statewise Fisher indices, with weights equal to the respective percentage shares in aggregate expenditure of rural India, came out as 102.3. The corresponding averages for Laspeyres' and Paasche's indices are 104.5 and 100.2 respectively. It is thus possible that our indices have tended to err on the high side by about 2 percentage points. It is believed that this bias has not varied among states so markedly as to vitiate the analyses made below.

IV

Comparison of Real Per Capita Household Consumption

We shall utilise the indices in cols (10)-(12) of Table 1 for comparing the level of living in different states. Table 2 shows in cols (2)-(4) the estimated average per capita total consumer expenditure per 30 days in rural areas of different states. These estimates are not strictly comparable between states in view of inter-state consumer price differentials demonstrated above. The comparability may be secured by deflating each estimated expenditure by the respective state index with all-India rural as base. These expenditure figures at all-India (rural) prices are omitted for reasons of space; we only present the indices in cols (5)-(7) expressing each state figure as percentage of the all-India average. Comparison may be made with the corresponding indices in cols (8)-(10) based on the undeflated statewise expenditure estimates in cols (2)-(4).

The deflation alters the picture in several cases. Thus, in Table 2, average per capita consumer expenditure at current prices is 28 or 29 per cent higher in Punjab than the corresponding all-India average; but if inter-state

price variation be taken into account, the difference seems to be smaller, about 22 per cent. In contrast, Madhya Pradesh seems to be further above the all-India level after the deflation. Madras and West Bengal are above the all-India level before deflation but are below the same after deflation. In general, the standing of high-price states, like Maharashtra, Gujarat and Assam, is lowered, while those of low-price states like UP improve, as a result of the deflation.

An interesting question arises at this stage. The statewise estimates of average per capita consumer expenditure present a certain picture of between states disparities. To what extent does the process of deflation described above alter this picture by lowering or raising the relative position of the more prosperous states? To answer this, we computed the proportionate shares of different states in the aggregate house hold expenditure in the whole of rural India (excluding Himachal Pradesh), using the statewise per capita expenditure estimates (i) at current prices and (ii) at rural India prices (Table 2). Denoting the share of the ith state by q_i and the share of the same state in the total population of rural India by p_i, we computed Kuznet's measures of disparity $K=\frac{1}{2}\sum_i |p_i - q_i|$, to obtain an overall measure of between states disparity. The value of K came out as 0.0348 for the distribution at current prices and 0.0367 for the distribution at all-India prices. This means that the deflation carried out in Table 2 slightly increased the magnitude of between states disparity.

Closer examination reveals some positive correlation between the average per capita consumer expenditure in a state and the level of consumer prices in the state. The correlation is, however, far from close. Jammu and Kashmir is a conspicuous case. One may also cite the instances of Gujarat, Punjab, Kerala and Madhya Pradesh.

V

Concluding Remarks

We have already noted a major limitation of the price differential indices, namely, the exclusion of item-groups like education and durables from the scope of the index. It is difficult to cover items representing these subgroups (e g, cinema tickets, school fees, domestic service) by collecting prices appropriate for interregional comparisons.

There are, besides, the inherent limitations of NSS household budget data, which were not collected specifically for purposes of construction of consumer price indices. The items in the schedule (e g, rice or milk) represent broad groups of varieties or qualities. To the extent the average quality of any item varies between states, the implicit prices in budget schedules would not be comparable between the states. Our computations tacitly assume that the average quality of each commodity is effectively the same in different states of India. This may not, of course, be perfectly valid. Accordingly our findings may have been partly vitiated by the unrecognised factor of quality variation.

Finally, we must remember the limitations of interregional comparisons of consumer prices (Beckerman, 1966).[3] We have made no attempt to overcome the problems created by climatic or other environmental factors leading to variation in consumer tastes and needs.

Notes

1 The authors are indebted to P Ravindra Kumar for programming the tabulations on the IBM 1401 computer at the ISI. They are also indebted to Somesh Saha, Biman Mukherjee and Bharati Chakrabartty for the statistical computations.

2 (a) "Rural-Urban Differentials in Consumer Prices in India" by G S Chatterjee and N Bhattacharya, *Economic and Political Weekly*, IV, 20, 850-853, 1969.

(b) "On Rural-Urban Differentials in Consumer Prices and Per Capita Household Consumption in India, by Levels of Living" by N Bhattacharya and G S Chatterjee. To be published in *Sankhya*, Series B, 33, Parts 1 and 2.

3 "International Comparisons of Real Incomes" by Wilfred Beckerman, OECD, Paris, 1966.

Training Methods for Social Research

Brij Raj Chauhan

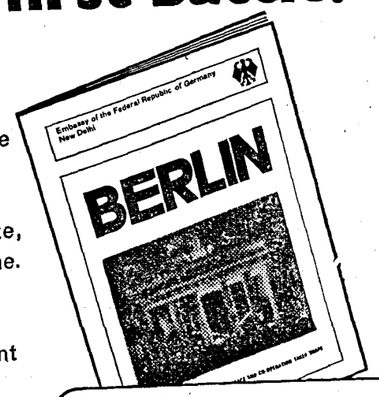
A CONCRETE social reality has several dimensions. Understanding it calls for close looks at it from various angles. The division of labour among our social sciences provides different vantage points for such perceptions. By now, it has become almost proverbial to say that a real problem has an interdisciplinary character as social sciences insist not merely on the conclusions but increasingly on the methods of arriving at them. As all of them are trying to adopt a scientific frame of inquiry, it is possible for practitioners of different social sciences to interact with other fellow social scientists in the fashioning of tools of inquiry and methods of research.

The occasion for writing this paper is the experiences gained in handling a group of about 30 social scientists drawn from five disciplines and fifteen centres of learning, in a training programme in research methodology organised on behalf of the Indian Council of Social Science Research by the University of Meerut in June-July of this year. The organisers had experience of conducting 14 months pre-Ph D training programmes leading to a M Phil degree. This latter programme envisages training in research methods in the division of behavioural sciences and prepares students for taking up research problems in substantive areas spanning the three disciplines of sociology, psychology, and education. Experiences gained there were freely used for the ICSSR training programme. With this background, it is instructive to review the areas where such a group could work with some success. The difficulties in such ventures, such as the heterogeneity of the group, their non-awareness of one another and of the place of work, their problems of adjustment during a short period, etc, are all too obvious to need comment at this stage.

Strange though it may seem, the first lesson one can draw is that shared ignorance unites the workers easily. Persons coming from different places and meeting for the first time have normally to be introduced to one another. In a course on research methodology this was posed as a problem and the programme began with the words: "We have come from different places and would like to get introduced to one another. What questions or points would you like someone else to answer to introduce himself to you? Can you

The Strategy of Peace and Cooperation pursued by Chancellor Willy Brandt has won its first battle.

The successful outcome of the Berlin negotiations of the Four Powers proves that the programme of achieving detente and cooperation in Europe is not an illusion, but is about to materialize, although much remains to be done. This naturally takes time. The first results of this process have been facilitated by the patient and sympathetic attitude of third countries, including, as an important factor, India.



FROM THE CONTENTS

- Berlin — Key to East-West Relations
- Berlin at the End of World War II
- The Troublespot of the Cold War
- The Berlin Settlement in Perspective
- Berlin and the Relationship between the Federal Republic and the GDR
- The Question of International Relations
- East-West Relations after a Berlin Settlement
- The Role of Third Countries
- Historical Background
- Documents

Read "BERLIN", a step by step outline of the post-war political history of Berlin, including the text of the recent BERLIN AGREEMENT and other documents.

(For free copy, please mail coupon below.)

Embassy of the Federal Republic of Germany
6/50-G Shanti Path, Chanakyapuri, New Delhi-11

Please mail me a FREE copy of "BERLIN".

Name.....

Occupation.....

Address.....

.....

.....Code No: EP-V

(BLOCK LETTERS)

FEDERAL REPUBLIC OF GERMANY

FRG-1889

write down the points on a piece of paper beginning for example with name . . . ?" The trainees wrote down the points and each paper was then handed over to a person in the opposite row for the answers. Some of the gaps began to appear, and three drafting committees were set up to consider the list of questions in the light of the answers and the gaps that remained unanswered. Discussions in the groups centred on two major approaches; (i) trying to get the information needed and (2) limiting the questions in number so that they could be answered without inconvenience, particularly on the first day, by a person joining the programme. A joint committee of the leaders of the three groups later drew up the agreed draft, thereby initiating the idea of preparing initial notes, discussing them, redrafting the questions, and giving further shape to them. In the process, they had constructed a selfadministered questionnaire. This was one case of problem-solving, involving all the participants, but without anything like an interdisciplinary effort coming into being.

Knowing about a new city could also be posed as a problem. Only two days before the programme started in MKP College, Dehra Dun, municipal elections had concluded and the results were announced on the second day of the training programme. The new city in the foothills of the Himalayas attracted attention particularly during the summer and the municipal elections were almost omnipresent. The occasion appeared suitable for introducing and practising exploratory research designs, wherein effort is made to use existing resources for obtaining the variety of ways of looking at things. The city has a couple of daily papers in Hindi and English, each, besides a few weekly publications. These and census reports began to be scanned. A senior sociologist and a political scientist talked about the varied facets of the city growing in heterogeneity through migrations.

The members of the training programme, forming teams of two investigators each, were instructed to conduct open-ended interviews of four to six persons drawn from different walks of life to ascertain the divergence of views on the nature of the city, its local government and elections. The accent of the exploratory studies was not on the counting of uniformities but on listing of varieties. The participants were further asked to note the phrases through which the interviews seemed to convey some essential characteristic of the city and answers like the following were recorded: "Dehra Dun is the valley of green bushes and grey hair", "Women may outstep the males", "City of fashions", "Lots of public schools", "Full of refugee population", "Where people talk nicely and are generally helpful". About political behaviour, different views were expressed: "Money is not a significant factor in seeking votes", "in some areas there has been group-voting", "retired military persons and the highly educated take little part in politics", "municipality has no meaning for big persons who can get things done directly from offices", "political realities are not so simple they lie hidden deep".

In the light of the preliminary experiences in interviewing people of different strata, the participants were asked to give their own impressions on the role of various factors likely to have improved the chances of the winning candidate. First, three preferences were scored and the results were analysed. These 'judges' thought that social service and political connections of individual candidates and their personal merits should have counted more than other factors like caste, or education, or formal candidature through a political party. Trade unions, played a significant role in certain areas. The 'judges' had used their own experiences of talking to people and to some of the candidates in different wards of the city. By this time, knowing about the city was a problem apparently solved, and the exploratory design seemed to have succeeded in its purpose of getting the members used to the varieties of city life. Further exercises in observations and interviews, in areas culturally different from one's own, were carried out in the jaunsar region of the district traditionally known for its fraternal polyandry. In the effort to explain these observations, a little anthropological explanation began to reach members. Still, these efforts could be called successful in enlisting the participation of most of the members at the level of getting used to the techniques — perhaps heard by many but left almost unused. Thus the operational part of handling the techniques appeared to bring out active participation; but, still, the unifying factor was not the interdisciplinary approach.

It became evident that further progress in training could flow from a proper selection and delimitation of a problem for inquiry. The recently concluded municipal elections had provided a case of complex social reality; exploratory studies of the town, and of the political behaviour of the people, had been attempted. Preliminary theoretical lessons in experimental methods were undertaken. It was then decided that the group could address itself to a few problems. These included

(i) Distinguishing the voting from the non-voting persons and finding out what factors could be associated more with one rather than the other.

(ii) Distinguishing the winning candidates from the non-winning contestants, and trying to find out the factors associated more with the one rather than with the other. It was further thought that interview-schedules should be prepared for persons having their names in the electoral rolls in the first case, and for the contestants in the second case. It was assumed that the first set of schedules had to be short and simple, and those of the second more elaborate. The exercise went into greater details and the import of every question for explaining the voting turnout had to be discussed thoroughly. It was agreed that no person would be asked whom he had voted for, the main interest of the inquiry having been defined as voting turnout and not voting preference. Three groups were asked to prepare drafts of the schedules, which were later discussed point by point.

The construction of schedules started with listing some introductory questions relating to the informant, then to his socio-economic background, his voting or non-voting, and a few other questions. The nature of the discussion through which each question had to pass was revealed. If the question was on age, the point was immediately raised: "How was age related to the voting or non-voting?". Different views were expressed. "New voters are more likely to vote" was one view, and "voting varies inversely with the age" was another view. Voting was less among retired persons was a third view. Divergence in views regarding the effect of age on voting and non-voting provided the situation in which alternative hypotheses could be tested. Then there was the question on sex, to be entered by the interviewer without asking it of the informants: "Its relevance to voting or non-voting". Participants thought of only one possibility "Men should be voting more than women". Should the findings confirm this, it was agreed that it would not be a major conclusion, but would confirm the earlier ones. Then came the question on educational levels: "How was education related to voting turnout?". A simple linear correlation was suggested by some through the proposition: "the more the education, the higher the percentage of voting"; yet, others responded that low-literacy groups were capable of show-

ing collective behaviour at the time of voting whereas highly educated people might abstain from them. Here again, the divergence of opinion provided an opportunity for testing a hypothesis becoming meaningful. Thus a few more questions were discussed. Eight teams of investigators were sent again to try out the schedules on the field situation. Experiences were discussed again as to the feasibility of the questions. Some divisions were suggested; e g, a column relating to the occupational categories was divided into two, providing the occupation of the respondent in one case and the respondent's guardian's occupation in the other case.

Of course, all questions were prepared in Hindi, so that some of the literate respondents could satisfy themselves, on the content and sponsorship of the programme. Discussions on the schedule were then brought to a different stage. At this point, students from different disciplines were constituted into subcommittees to say what their disciplines had to contribute to an understanding of the phenomena and whether any techniques practised in specific disciplines could be attempted in their studies. The anthropology group suggested that data on migration be collected for respondents from the voters list. Questions on caste and religion had already been included. In case of the winning and losing candidates, they wanted to know whether kinship ties had any role to play in determining political ties. They also suggested the preparation of genealogical charts for recording the kinship ties. Data on occupation and income partly satisfied the economists, and they wanted more data on past elections which found lack of support on grounds of feasibility. Sociologists suggested that whether non-voting had become habitual to a person or not needed examination. In regard to candidates they suggested inquiries into their political socialisation and the role of traditional and modern groups. Political scientists were more interested in candidates, their techniques, and a study of corrupt practices in the elections. Psychologists emphasised the perception of municipality as a problem-solving mechanism and found that this could affect the voting turnout. They discussed the relevance of personality tests, (introvert/extrovert type) for studying candidates. But the feasibility of standardising translations and testing different versions within a short period was ruled out. At this stage, statisticians helped us, explaining the rationale of the samples and the use of random number tables for selecting voters. Questions on alternative samples were discussed. Some exercises were tried out for each of the 13 wards of the city before finalising the schedules. Names from the voters' list, including the age and sex of the voters, the house numbers, and the mohalla, were taken; and then began the exciting task of locating the respondents so selected.

Field workers had lively reports to present on their experiences: the houses did not seem to follow the sequence in numbers and it was very difficult to locate them. Some mohallas bore similar names: some merged into the other; some of the respondents had passed away and others had gone out of town for business or employment while some were temporarily away. Where the respondents could be contacted, the husbands in some instances wanted to answer on behalf of the wives. In a few cases, the respondents thought that they themselves were not qualified to inform on the municipality and directed the investigators to more knowledgeable persons. The initial setback was overcome. One positive consequence was that the investigators became 'social educators', making nearly a thousand people aware of sampling procedures etc.

As the initial data started coming in, a statistician and a behavioural scientist from the staff commenced exercises in coding; and, once again, the relevance of the hypothesis and use of two-by-two tables began to be discussed. Two illustrative discussions will be enlightening at this stage. There was the question relating to caste: How could this be coded and of what use was it in answering the main question? Somebody suggested 'higher', 'medium' and 'lower' caste classification. Immediately the question was raised: Which group will vote more and which less? At this stage, the original designer was brought back into discussion, and the hypothesis suggested that, where persons on the voters list come from the caste of one of the candidates the voting turnout would be more. If the hypothesis could be considered relevant, further coding exercise was easy. Then classifications will lead to a person's caste on one side, and candidate's caste on the other, and the answer would be tabulated, as 'same' or 'different'. Here it is assumed that the caste of the candidate was independently ascertainable. Similar exercise was undertaken on the question of the region from which the voters came. In other exercises, it was found more meaningful to merge four categories into three, particularly on educational levels and income groups. Again, possibilities of inference were illustrated through the use of dummy tables and the entire effort could thereby result in a pilot project with possibilities of either being completed or replicated elsewhere. Only preliminary work was done on schedules for interviewing the winning candidates.

Experiences in the linking of training in research with an on-going project thus proved to be full of exciting possibilities. Training in the rules of research techniques involves selection of appropriate techniques for the purpose at hand. Clear formulation of the problem comes not necessarily at an initial stage of inquiry but along the way by the relevance of every procedure used. This may be true of research training in at least one branch of study. What is significant is the role of research methodology as a unifying channel for operation among people drawn from more than one discipline.

The experiences seem to indicate two paradoxical situations. It is comparatively easier for teams drawn from different sciences to operate together in areas where ignorance is common. Thus, when the philosophical basis of scientific inquiry is discussed, when principles of model building and techniques of sampling are explained, when new persons are to be introduced or a new place understood, common ignorance makes all apply their minds together to situations to which perhaps specific disciplines had not got ready-made questions before. Such collaboration, however, does not come from an 'interdisciplinary' approach — though its value cannot be denied since every educational effort has its task of equipping the mind for handling unfamiliar situations. The point is that, at the level of methodology and technique, different sciences have developed different focii and tools for operating therein; at these levels there is great scope for understanding their different angles as so many vantage points for looking at social reality. The possibilities of transferring skills, developed in one science to others, is now a distinct possibility. While a mastery in the use of such skills may not be attained in a short period, its possibilities and its need can be felt in approaching a common problem from different positions and making such exercises a part of training. The ICSSR is providing such an opportunity through a chain of training programmes in the country. As a first step in this direction such efforts are welcome; they do call for further thinking, however, with regard to greater institutionalisation of training in research methods.

ECONOMIC AND POLITICAL WEEKLY

Founder-Editor: Sachin Chaudhuri

Vol V No 45 November 6, 1971

'Natural' Calamity?—R and D Redundant—More Than Change in Style —A Realistic Agreement 2258

Business 2260

Letters to Editor 2263

Companies 2264

From Our Correspondents

From Independence to Political Settlement —G S Bhargava 2266

West Bengal: Government-Supported Terror 2267

Lucknow: Political Uses of Backwardness 2268

Maharashtra: New Posture on Land Ceilings 2269

Manila: Another Tottering Model 2269

Can Institutional Reforms Do the Trick? —Shivram 2271

The Koreans Begin to Talk —R R Krishnan 2274

The Fourth Estate 2276

Official Paper

Credit Needs of Farmers —A Seshan 2277

Special Articles

Regional Disparity and Economic Development of Pakistan I: The Facts —Arjun Sengupta 2279

The Police in India —David H Bayley 2287

Capitalist Development in Agriculture: Reply —Ashok Rudra 2291

ECONOMIC AND POLITICAL WEEKLY

Skylark 284 Frere Road Bombay 1

Phones 266072, 260566, 260192

Editor

KRISHNA RAJ

Assistant Editors

Rajani X Desai, Jawid Laiq

Business Manager: A Fernandes

Circulation Manager: Shiv Patil

Editorial Staff

Colin de Souza, Haresh M Advani

Shireen Heerjee, Ashok Rao

Forever Amber!

THE reaction in this country to the US Senate's rejection of the foreign aid bill has been confused. The Prime Minister is reported as having said that "we have to accept it" (as if we had a choice); the minister for Foreign Trade is reported to be "perturbed"; other commentators have seen the development as "a spur to self-reliance". The country has been exhorted to put an end to black money, to improve the working of public sector plants, to gear up the whole administrative machinery for new tasks, and to mobilise the nation's physical and manpower resources — in short, to do all that is necessary for the economic development of the country. Prometheus unbound, at long last!

The plain fact is that the potential loss of the few million dollars of annual US aid is a disaster so far as this or next year's investment plans are concerned, and will substantially worsen the resource position of the government. Apart from doing all that the government should be doing any way in order to raise resources and expand exports (and, of course, improve the public sector), *in the short run* the best course for the country is to accept the fact that there is going to be a further cut-back in resources available for investment, and so worry all the more about the 'quality' of investment that does take place. The Planning Commission can do the country an enormous service by coming out with a list of projects or contemplated investments that should be postponed or pruned, rather than continuing to make believe that business is as usual.

And yet by some perverse logic, this is precisely the kind of investment planning which has come to be viewed as a luxury to be indulged in only when all is well with the economy. With every development which makes the economic situation more difficult, whether it be a couple of poor harvests in a row or the influx of refugees from Bangla Desh, the government is less and less inclined to take a total view of the economy and instead turns increasingly to *ad hoc*, partial measures. Naturally, these measures do not work; and even when one does, it turns out to have very limited impact. The outstanding case of the latter type is, of course, the so-called green revolution. After the agricultural failures of the mid-sixties, the government went overboard over the 'new agricultural strategy'. The result is that while some successes have been achieved in foodgrains production, the government has found itself completely incapable of turning them to advantage for overall economic growth. So we now find ourselves confronted with a situation of agricultural growth with industrial stagnation.

The most recent instance of the same kind of partial approach is the Ordinance issued this week to amend the Industries (Development and Regulation) Act to facilitate government take-over of 'sick' industrial units. The Ordinance has been issued in the name of "revival of industrial activity in the country" and already the Maharashtra and Mysore governments have taken advantage of it to take over the management of some more textile mills. But it is well known that textile mills taken over by the government have to be run purely as employment projects incurring continuous losses. This is inevitable since there is simply no room in the industry for all of the 600-odd textile mills and modernisation and expansion of some mills, which has been encouraged and financed by the government, must inevitably see the extinction of some others. The subsidies paid to meet the losses of the mills taken over are thus on par with the subsidies paid to, say, the khadi programme only they are threatening to become much larger. Is this the best use that the central and state governments can find for their admittedly shrinking investible resources? As for sick units in other industries, such as engineering, their state of health more often than not reflects the investment recession in the economy. Yet the government persists in its piecemeal efforts to revive industrial units even as it moves farther and farther away from any systematic planning to raise the level of investment according to some scheme of priorities. In this context, the shutting off of US aid far from persuading the government and the Planning Commission to worry about the quality or direction of investment will almost certainly speed up the drift into laissez-faire and economic chaos.

For the longer term, the US Senate's action has once again demonstrated the futility of a developing country planning on the basis of assumptions regarding continuity of aid — or, for that matter, international co-operation. The action comes close on the heels of the US import surcharge and the British decision to enter the Economic Community — decisions which are not calculated to increase the developing world's trade with the industrialised countries. For India, it raises the question, among others, of the usefulness of that holy of holies, the Aid India Consortium. It is nice to get together with the rich and

agree on India's poverty or India's needs, but beyond that what purpose does it serve to subject the country to this annual free-for-all? After twenty years of being advised and approved of, the time may have come for the developing countries to go home and build what they can with what they have.

This basic reality about the future course for the developing world will not be altered by partial or full restoration of US aid for this year or next, as is not unlikely. Economic co-operation between the rich and the poor — to the latter's unending advantage — has always been a bit of an illusion, but never more so than now.

The Cyclone

'Natural' Calamity?

TIME and time again cyclones have taken a heavy toll of lives in India's north-eastern coastal regions. Governments, both central and state, react like Victorian do-gooders with words of sympathy, aerial viewings and relief supplies doled out like charity — but without any sense of total responsibility. The newspapers dutifully feature the disaster as a 'natural calamity' and reflect the same unconcern despite the 'human interest' slant given to their reports, failing to question whether, with all our resource constraints, some measures cannot be planned and implemented to mitigate the terrible impact of the cyclonic winds and tidal bores.

India may be a poor nation, but it is served by a weather satellite that immediately gives photographic transmissions of weather movements. On last Friday morning (October 29) the weather satellite did give adequate warning of the possible storm in the region of coastal Orissa and West Bengal coming in from the Bay of Bengal. It is well known that lives in cyclonic attacks are lost not so much because of winds — strong though these are, with the latest in Orissa having reached speeds of 150 kmph — but because of the tidal waves that the ordinary village or small-town structures cannot withstand. Yet, adequate warning was not relayed by the authorities, as witness the boats and launches that were caught offshore and lost in what followed. As always, the tidal wave struck in the early hours of the morning, laying waste areas around the Mahanadi and Brahmani rivers along the coast comprising the two most populous districts of Orissa, Cuttack and Balasore. These are also the agricultural areas of the state and the rice harvest, the state's major crop which is grown in the kharif season, has been largely destroyed. Following the tidal ravage, the soil too will have turned saline and will be difficult to cultivate in future seasons. The trunk railway line runs through the coastal area, connecting it to neighbouring states, and this has been damaged as well. For nearly two days the stricken area was isolated. The state government, who estimated that it would take Rs 50 crores for relief-work, asked the local authorities to go ahead and give relief 'without waiting for sanctions'. The centre gave Rs 2 crores together with the Finance Ministry's soothing assurance that the suffering of the people would not be forgotten; and the state allocated Rs 1 crore on its own. The army, which could be most effectively used at such times, came in five days after the calamity had struck.

There are anywhere from one to four million now homeless, cropless, bereaved and without food. Cholera has predictably started to take its toll with nearly a hundred deaths reported already. Many more deaths will no doubt follow from starvation and disease. It is surely not a matter of finance, but of organisation and the will to help the hapless victims. Starvation at least there should be none. The large food stocks with the government must ensure that.

Foreign Collaborations

R and D Redundant

A Correspondent writes:

AFTER the March elections, we have witnessed in India the aggravation of a process of developments with very serious consequences for indigenous R and D. The political stability of the country has apparently reassured foreign vested interests and persuaded them to consider India to be safe for investments and for profitable exploitation of the country's manpower and natural resources in collaboration with the local forces.

There have been reaffirmations of assistance to India in various ways from various quarters, both from the capitalist and Soviet bloc countries. The latest in the process are reported to be offers from the industrially advanced countries (West Germany, UK and Japan to mention three) to shift large industrial plants and set them up in India in collaboration with the local entrepreneurs. The Government is understood to have expressed its willingness to offer prompt facilities for these industries which are labour intensive and whose operations in home countries are becoming very expensive. The plants proposed to be set up are of course second hand, but even so they are very modern compared to those already existing in India. The emphasis will be on exporting the products manufactured at these "transferred" plants.

The latest ventures could be part of a process on behalf of the world monopolies, cartels and corporations (private or social and state), in connivance and collaboration with the new elite of bureaucrats, entrepreneurs and professionals (see UNESCO, CSD report on Social Development in Asia, March 1971), for converting the large masses of India into a cheap labour force for agricultural and also for industrial production. These developments should give rise to serious concern in the scientific community in general and particularly CSIR and other establishments devoted to indigenous R and D for self-reliant industrial and economic development. In campaigns for improvements in economic, social and professional conditions, there has been a growing recognition among the scientific community of the need for positive directional changes in the purpose of indigenous R and D. Among the horde of obstructive factors, attention has been repeatedly drawn in recent times to the continuing obstacles from expanding foreign subsidiaries, investments and technical collaborations. The transfer of whole industrial plants, as part of investment and collaboration in new plans and policies of the world and local social-economic and political forces, would further reduce the need for indigenous R and D.

Steel

More Than Change in Style

WHAT will the latest major reshuffle of Hindustan Steel's management mean for HSL's operations? The new chairman, Hiten Bhaya, has had years of experience in steel and in the HSL. The two new general managers of Bhilai and Rourkela are technical people drafted from within these plants. And Bagaram Tulpule, who is to be general manager of Durgapur, has had long experience in trade union organisation and is distinguished for his comprehension of labour problems.

If HSL's problems so far stemmed from the fact of its top managers and chairmen having affiliations that were departmental or ministerial rather than

plant-level, these may now be on the way to being set right. After all, apparently technical failures are seldom purely technical. Rourkela's roof collapse signified the collapse not simply of plant maintenance but of a whole system of concern and group care. Durgapur's labour problems too are, as Bhaya recently underscored, not merely, or mainly, the result of wage discontent but the consequence of labour's feeling of non-involvement with the plant's management and success. It, therefore, needed a man with sensitivity to labour's aspirations and frustrations. Apart from that, Durgapur's early technical problems have by now been overcome and the Centre's stake in giving West Bengal's economy a chance to revive are high enough for it to want to minimise negative intervention in the plant's operations. From the public sector's point of view, the appointment of Bagaram Tulpule also signifies an important departure from the earlier adherence to strictly administrative or managerial solutions to production problems.

Whereas Bhilai has operated at around 90 per cent of capacity, Durgapur and Rourkela have worked at far lower capacities of anything upto 60 per cent. With the resolution of intra-plant difficulties in the next two to three years, therefore, hopes may be pinned on near capacity operation of these plants. This, in itself, might help infuse dynamism in the working of the plants where morale has been known to have steadily declined over the past decade.

Yet this is the best that may be expected. The constraints on overall steel supplies to industry and construction do not relate only to HSL's existing plants. If Rourkela and Durgapur hope, in the brighter future, to get enthused about expansion plans, it must be remembered that investment in steel in the near to medium future has already been committed elsewhere: at Salem, Hospet and Vizag. On their own, with the existing pricing systems, the plants will not be able to generate funds to expand. Moreover, reports have it that Bokaro will go into production even later than in mid-1972 — which was the latest but one commitment on its completion schedule. The massive investment of over Rs 700 crores locked in this long-gestation project would preclude any thought of further investment in steel.

Transport also will remain an effective bar on easier steel supplies. Even with the present low capacity utilisation, there are over 100,000 tonnes of steel stocks lying at HSL's plants. And railways have yet to commit themselves to a significant expansion programme.

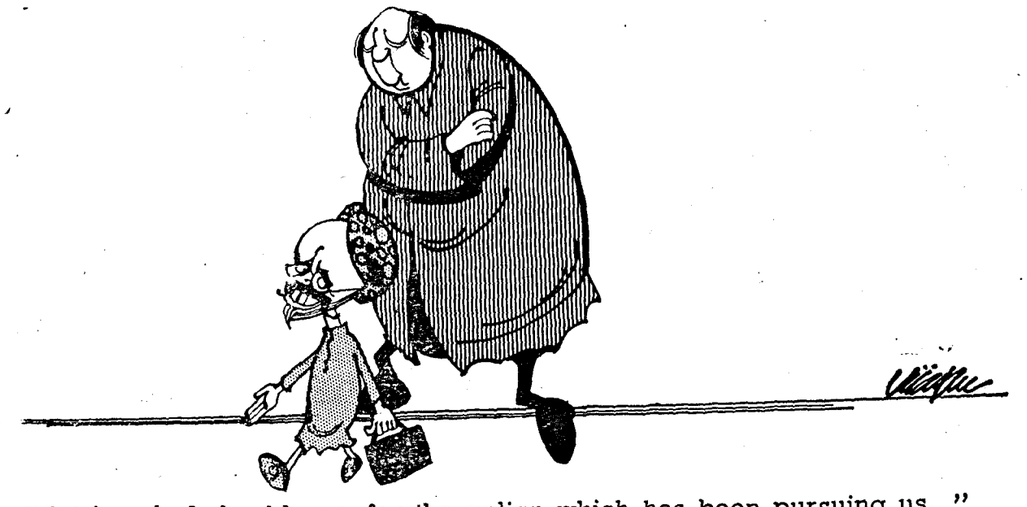
There is also the final stranglehold of the bureaucracy and the ministries on HSL, as on other public sector plants. This cannot be wished away though it may be held in abeyance by the chance Minister or Manager. So long as the production patterns, pricing, and supply lines of public sector plants can be influenced by political or bureaucratic aspirations, HSL will always have to be wary to defend its autonomy. A beginning in this direction may have been made by the recent reshuffle.

Indo-UAR Trade

A Realistic Agreement

THE much awaited Indo-UAR agreement has been signed at last, putting an end to the uncertainty that has been haunting trade and industry circles. Though it has found some sort of a solution to the apparently intractable problem of Egypt's need for credit in trade with India, it is a solution not so favourable to India. It was only over the past two years that India's exports to UAR spurted, from Rs 21.8 crores in 1968-69 to Rs 34.6 crores in 1969-70 and to Rs 55.3 crores in 1970-71. Egypt's inability to export more to India meant that India had to grant unusually high technical credits for enabling the UAR to buy Indian goods. At one time, technical credits stood at Rs 23.0 crores whereas the agreed level was Rs 5.0 crores.

The new agreement, covering a 15-month period from July 1971 to September 1972, provides for trade worth Rs 36.5 crores each way, except for an allocation to cover dues from the UAR on account of deferred payment contract. In other words, the new agreement envisages each-way annual trade of Rs 29.2 crores — a level far below that reached by both countries in the recent past. It is proposed to shift the period of future trade agreements to October 1-September 30, since UAR's



"A triumph, I should say, for the policy which has been pursuing us..."

cotton trade gains momentum only from October. It is hoped that the shift to the new period might lessen UAR's dependence on technical credit. Under the new agreement, India would import cotton worth Rs 35.0 crores and rice, glycerine, and Kaslin worth Rs 1.5 crores. These purchases would be balanced through India's exports of tea worth Rs 6.7 crores, jute goods worth Rs 9.0 crores, and engineering goods and other items worth Rs 7.5 crores. No details were released about the manner in which Egypt's indebtedness to India, estimated at Rs 27.0 crores, is to be settled. As regards past UAR contracts for Indian goods, the two delegations exchanged letters acknowledging, in principle, UAR's responsibility for them and providing a committee to study each contract to work out the modalities of its execution. Meanwhile, it remains a fact that Indian exporters have suffered financially owing to differences of opinion with the UAR on goods worth several lakhs manufactured on contract by Indian exporters according to UAR specifications.

There was no mention of the possibility of export of crude to India, on which India was evidently keen earlier. During the UAR-Israel conflict, two main refineries at Suez were destroyed, leaving the UAR with only one refinery at Alexandria and a crude oil surplus. The impact of this on UAR's foreign trade has been to make it a net exporter of crude and a net importer of petroleum products. In 1966, over 60 per cent of the 130,000 barrels per day of crude petroleum produced in the UAR originated in the Sinai, now under enemy occupation. But successful exploitation especially of the off-shore fields of Morgan helped by mid-1969 to raise production to 250,000 barrels a day. There have also been other minor discoveries which have raised UAR's total production to about 400,000 barreis a day. The UAR has also conceived a highly promising investment plan of about $ 1 billion for further oil exploration. What about raw cotton exports? Possibilities of increased production of raw cotton are very much limited by the relative dearth of additional acreage and the already very high yields per acre. About half of UAR's cotton goes to the centrally planned economies with which it has bilateral trade agreements. In 1967-68, this proportion dropped to 38 per cent —it is said, to enable the UAR to export more cotton to Western countries with whom it faces large balance of payments deficits. Cotton exports to the centrally planned economies increased again to 47.4 per cent of UAR's total exports in 1968-69, after Western markets proved not so open. Availability of credits to finance imports from the centrally planned countries and the flexibility with which these countries conduct their relations with the UAR have encouraged the diversion of UAR's trade to them.

Exporters of engineering goods would be the main sufferers from the reduced volume of trade following the latest agreement. India's exports of engineering goods to the UAR amounted to Rs 15.7 crores in 1969-70 and Rs 16.2 crores in 1970-71. According to the "Action Plan for Export of Engineering Goods during the Fourth Plan", prepared by the Engineering Exports Promotion Council, exports to the UAR were planned to reach Rs 20 crores in 1971-72 and Rs 25 crores in 1973-74. During 1970-71, exports of transport equipment alone to the UAR were nearly Rs 6.8 crores. As against this, the new trade agreement envisages engineering exports of only Rs 7.5 crores for the 15-month period—or Rs 6 crores for the year.

The hurried way in which the problem of trade relations between the two countries was finally settled suggests that India was keen to arrive at some agreement even though it was not altogether satisfactory. It may be that India adopted a realistic approach in view of the changed political climate in the UAR towards India. Bilateral trade agreements have their own virtues but they cannot be nurtured without closer political understanding between the partners. But there is another side to the coin which our recent experience with Yugoslavia has exposed: *viz*, that while closer mutual relations can be helpful in trade relations they cannot fully supplant the need for economic complementarities which alone can stimulate greater trade between two countries. It is this point that needs to have attention focused on it.

BUSINESS

A Necessary Formality?

IT had been assumed when the 14 largest commercial banks were nationalised in July 1969 that this would lead to the formulation and implementation of a rational credit policy. Underlying the assumption was the hope that detailed regulation by the central bank would no longer be necessary—if only because detailed regulation cannot be effective beyond a point. The banks are in the field, in touch with industry, importers, exporters, the trade and so forth and are aware of the varying conditions within each segment of economic activity. Once broad policy indications regarding the volume of credit and its broad allocation were given, the banks, it was thought, could be entrusted with the task of giving detailed operational shape to credit policy.

None of this has happened, however. The Reserve Bank continues to operate its credit authorisation scheme—jute being exempted — for borrowing accounts of Rs 1 crore and over, prescribe minimum lending rates for credit against certain commodities and stipulate margins and credit ceilings. In addition, it operates a complex scheme of refinancing.

That the Reserve Bank has not been unjustified in not relying on the banks is borne out by, for instance, the manner in which export advances have been sanctioned. Manufacturers, caught in the Reserve Bank's credit squeeze of January 1970, were able to get credit on production of cables or letters purporting to be export orders. Similarly, in a bid to improve their statistics, banks have lent to agriculture practically with their eyes shut. No one expects banks to recover more than, say, 65 per cent of what they lent to agriculture in the first year or year and a half after nationalisation—and this has nothing to do with the economic viability of their borrowers so that the overdues cannot be regarded as business losses in any sense of the term. Bank finance has supported the sale of unusable pumpsets and the digging of non-existent wells by borrowers who, in extreme cases, have no land to begin with. Clearly, it is not the low recoveries that are a matter for concern, but the irresponsible manner of making loans and the absence of follow-up of loan sanctions. This is not a new phenomenon, however. Such abdication of responsibility had in the past marked bank support to industry and business, especially big business. What needs to be said is that nationalisation appears to have made little difference.

Default on this account is creating a major policy problem. Should the credit policy continue to be detailed? In that event, fresh details need to be introduced almost every other day. Thus should not the overall level of credit be curbed in an inflationary situation? Then should not exemptions be made in favour of economic sectors which are operating below capacity? But within such sectors there are firms which are operating at full capacity; should they too be covered by the exemption? Should credit to priority sectors be extended irrespective of the fact that such credit makes up for credit deficiency on other counts? In seeking to take care of these considerations, the Reserve Bank issues policy directives from time to time, which are either reinforced or weakened by supplementary letters of advice: a series of exemptions to exemptions have been devised to general and selective credit control regulations. Clearly, their sum can hardly be called a policy.

During the 1970-71 busy season, a credit policy of sorts was announced. It was basically restrictionist. Exemptions were introduced from time to time—with respect to advances against various commodities as well as to industries not faring well and, in the slack season, for food procurement operations. The policy as it has evolved is far from restrictionist today and allows banks sizeable refinance at the Bank rate. This, together with additional deposits between now and April—deposits are booming — would enable the banks to support a credit expansion of Rs 450 to Rs 500 crores during the 1971-72 busy season, which technically opened this week. In the 1970-71 busy season, banks expanded bank credit by Rs 392 crores, including food procurement advances of Rs 70 crores.

In assessing credit trends for the new busy season, the basic question would be by how much should credit be allowed to expand? The answer to the question would be influenced by assessment of the relationship of bank credit to the general price level and equally, if not more importantly, assessment of credit needs. Now, steel-based industries are operating below capacity; sugar output is down; cotton textiles are not selling well; and cotton and oilseed prices are declining.

Unless it is argued that credit demand needs to be induced, credit requirements would not be very much more than in the last busy season. The estimated expansion of banks' loanable resources would then be seen to match the expected seasonal demand and refinance could very well be kept to a minimum. But this broad policy direction cannot be pursued by the Reserve Bank because the banks are just not capable of operating the policy flexibly. They would straightaway deny credit to all and sundry—as the State Bank had done not long ago—and turn borrowers and their pressure groups to the Reserve Bank. As a result, there would follow a series of exemptions in the name of flexibility, undoing the very basis of the original policy. On the whole, it would thus make not much difference whether the current credit policy—expansionary in the prevailing context—is continued (because of the uncertainty in Indo-Pak relations!) or the Reserve Bank goes through with the formality of announcing a credit policy for the busy season.

HMT

Expansion with Diversification

FOLLOWING the lead given by State Trading Corporation, many public sector enterprises now publicise their activities. Hindustan Machine Tools, the biggest among the country's machine tool manufacturers, has always been fairly active in its publicity efforts, though this year it has also published in the Press its Chairman's Statement to Shareholders, for the first time perhaps. The year 1970-71 was a good one for HMT; after being in the red for three successive years, the company showed an operating profit of Rs 31 lakhs. Production and sales rose by nearly 24 per cent, reflecting the recovery made by the machine tools industry in general. (The industry had a record output of Rs 32 crores in 1970-71, 14 per cent higher than in the previous year.) HMT's share of the industry's output as also exports is about 50 per cent.

Unlike in the past S M Patil, HMT's chairman, is optimistic about the company's prospects. The large orders on hand, the growing share of the indigenous manufacturers in the market for machine tools in the country, and the favourable market conditions in the EEC area after the introduction of the Generalised System of Preferences, are among the factors making for this optimism. HMT is well poised to expand its annual output from the present level of Rs 20 crores to a level of Rs 60 crores. It has plans of expansion and diversification during the seventies involving a capital outlay of over Rs 20 crores. These consist of (a) the tractor unit at Pinjore with Czechoslovak collaboration for production of 12,000 tractors per annum; (b) the printing machinery unit at Kalamassery with Italian collaboration; (c) the heavy duty press unit at Hyderabad with American collaboration; (d) the die casting and plastic injection moulding machines project at Bangalore in collaboration with Interfonda of Switzerland; and (e) the new wristwatch unit at Srinagar as well as expansion of the existing unit at Bangalore. Besides, a triangular arrangement with American Tool Works and Yamazaki of Japan would help HMT to prepare new designs to cater to the international market for machine tools. HMT already spends about 4 per cent of its total expenditure on design and development.

In his statement Patil raises the issue of the multiplicity of decision-making centres which hamstrings the chief executive of any public sector project. After dwelling at length on the various agencies which advise and control public sector enterprises on various subjects, he nevertheless thanks the Industry Ministry and other Government agencies for their encouraging support to HMT's schemes of expansion and diversification. Multiple centres for decision-making are not a peculiar problem faced by public sector units only; what is a drag on the public sector is the shifting of responsibility for decisions taken or not taken. However, Patil's remedy of broad-based guidelines or objectives—in respect of, for example, labour policy, investment policy or rate of return—so as to ensure to the managements more operational autonomy may not be as easy to work as it sounds. And if at present there were no such objectives or guidelines, formal or informal, how else could HMT go ahead with half a dozen new projects? Should there really be guidelines on the rate of return for a near monopolist unit like HMT? In any case, it would be interesting to know something about HMT's price policy, be it Government-directed or its own.

Glaxo

How Much Is Enough?

IN their annual statements to shareholders company chairmen must speak their set pieces. Thus statements on behalf of pharmaceutical companies

must perforce create the impression of an industry whose profits, always modest, are now threatened with virtual extinction. Take the recent statement of J S Raj, chairman of Glaxo Laboratories (India), who tells shareholders: "The uncertainties resulting from government pronouncements during the previous year affected not only the business of the industry but succeeded in creating an entirely false impression in the minds of the people that pharmaceutical companies have been making extortionate profits... Far from generating unconscionable profits, the ceilings on selling prices, controlled so vigilantly by government, are required, year after year, to absorb the unchecked increases in the cost of materials and wages." What relationship, if any, does this statement bear to the actual situation in the pharmaceutical industry?

Take the case of Glaxo. The directors of the company have proposed payment of a final dividend of 8 per cent for 1970-71, in addition to the interim payment of 6 per cent already announced, making a total of 14 per cent. On an equity capital of Rs 7.20 crores, this works out to approximately Rs 1 crore. Of the equity, Rs 5.40 crores are held by Glaxo Group (UK) whose share of the dividend would thus be about Rs 76 lakhs. This may not appear too much on an investment of Rs 5.40 crores, but the point is that the figure of Rs 5.40 crores does not by any means represent the Glaxo (UK)'s actual investment in Glaxo (India). The figure is made up of Rs 3.60 crores worth of shares issued to Glaxo (UK) as bonus shares and Rs 1.50 crores worth of shares given to it in consideration for trade mark user rights, leaving an actual investment of Rs 30 lakhs. If the dividend income of Rs 21 lakhs on the Rs 1.50 crores of capital issued in consideration for trade mark user rights is regarded as compensation to the Glaxo (UK) on this score, there remains a profit remittance of Rs 55 lakhs from Glaxo (India) to Glaxo (UK) for a single year, 1970-71, to be set against the latter's investment in this country of Rs 30 lakhs.

The Indian chairman of Glaxo (India) may sincerely believe that the Government of India and the Indian consumer should have been even more bountiful to Glaxo (UK), but Glaxo (UK) would surely acknowledge that the investment it made in India has been and remains among the wisest and most profitable made by it anywhere, including in the UK. It needs to be added that in addition to the Rs 76 lakhs proposed to be paid out to Glaxo (UK) by way of dividend, there are other payments by the Indian company to its British parent. The accounts for 1969-70 (those for 1970-71 are not yet available) showed a payment of Rs 57 lakhs as 'technical services fee'.

The other perennial grievance of the pharmaceutical industry in this country is that the large expenditures which it allegedly incurs on research are not adequately appreciated by either the price fixing authorities or the industry's critics. To quote J S Raj again: "with the increasing involvement of the pharmaceutical industry in local research and development, large investments will be demanded year after year for an activity where there is little possibility of adequate return over a reasonable period of time for the prolonged expenditure and hard work put into it." And yet one scans Glaxo (India)'s profit and loss account for 1969-70 and the schedules thereto in vain for an idea of the expenditure on research and development incurred by the compay during the year. The 'review of company operations' appended to the annual report and accounts for 1969-70 did mention that a new Research and Development Unit was nearing completion at Thana "at a capital cost of Rs 36 lakhs". This investment of Rs 36 lakhs in a research and development set-up after almost half a century of operation in this country has to be seen against the payment of Rs 57 lakhs as technical services fee to Glaxo (UK) in a single year.

None of this is to deny that the pharmaceutical industry has genuine problems which call for serious discussion. But such discussion is certainly not facilitated by the foreign-dominated drug companies' attempts to mislead everyone on such subjects as their profitability or their attachment to research and development in this country.

Electric Motors

Crucial Elements in Growth

DEMAND for electric motors has been rising rapidly with both industry and agriculture showing increasing preference for them over the traditional oil engine. What has helped this shift in demand is the relatively greater power supply in rural areas together with certain technical advantages of electric motors over oil engines such as that they are easier to start and control, cleaner to operate, require less space, and are cheaper. The result has been very quick growth of this relatively recent industry started after Independence. Today, it manufactures not only the standard motors but also such sophisticated models as flame-proof and explosion-proof motors, fraction motors, etc.

But the overall demand has proved to be 'erratic', according to the President of the All-India Electric Motor Manufacturers' Association, and this seems to be agitating the industry. What could this signify? In 1970, the output of electric motors, at 31.9 lakh HP, was considerably higher than the installed capacity of 25.7 lakh HP at the year-end. In the previous two years, the industry had been hit badly by the recession. The industry blames the state governments' monopoly purchasing of electric motors for distribution among farmers for the instability of demand. The co-operative marketing federations, set up by the various state governments to do the job of purchase and distribution, are according to the industry ill-placed to do the necessary marketing efforts or to render the crucial after-sales service. The industry thus recommends close co-ordination between the co-operative federations and the manufacturers.

Left to itself, the Indian Electric Motor Manufacturers' Association estimates the demand for electric motors of all types to be 3.0210 million HP by 1970-71 and 4.4550 million HP by 1973-74. However, the going may not be all that smooth. Demand increase in electric motors is partly a function of the addition to the power generating capacity. A shortfall in the latter could pull down the demand trend for electric motors. The latest assessment of the Union Ministry for Power and Irrigation has revealed a shortfall of 3.5 million kW in power generation capacity by 1973-74. This could have an adverse effect on the demand for certain electric motors.

Yet that need not spell disaster for the industry. Scope for diversifying the industry's output is vast. The country is still importing certain special types of motors. Chemical and fertiliser factories, steel plants, etc, need large-sized motors of above 450 HP. Requirements of these are not adequately met today. Moreover, since motors upto 50 HP are delicensed and their demand is normally met by the small-scale sector (of about 200 units), the bigger units could concentrate on the production of the large-sized motors where, today, a sizeable portion of the demand for small HP motors is met by the larger units themselves. By and large, however, the domestic market must continue to be the only effective outlet for the industry. Indian electric motors are expensive, which inhibits their export. Export prices of Japan, Italy, and West Germany, are less than 15 to 20 per cent of the Indian electric motor's price in the overseas markets! Shortage of essential raw materials, like copper, electrical steel sheets, and electrical grade aluminium, has, it is claimed, led to the high cost of production. Yet, development of substitutes could help to overcome this difficulty. While the industry has made a modest beginning in this, using aluminium to replace copper for instance, dependence on copper is still too heavy. The industry could encourage use of squirrel cage motors instead of slipring motors, for example, as the requirement of copper in the former is 30 per cent lower than in the latter. There is scope, too, for efforts to be made for better design and standards control of the products. Such efforts might pay off by helping the industry to lower its high cost of production — at present one of the major hurdles in the way of its growth.

LETTERS TO EDITOR

Indo-Soviet Treaty

MOHIT SEN'S article on the Indo-Soviet Treaty, or rather his comments on the critics of the Treaty (September 25, pp 2047-8), were very interesting. It would seem that they deserve analysis.

Sen begins by saying that "it would be quite wrong to imagine that there is a national consensus around the Indo-Soviet Treaty". Later he challenges the critics who, in his view, "talk glibly" of "elites" to "organise a campaign against the Treaty in India anywhere". Sen is certain of the response they would get. I would agree with him that the response would be poor. What beats me is to imagine that this can happen without there being a national consensus on the Treaty! Pray, what, then is the national consensus?

Secondly, it has been very hard for Sen to find in the "monopoly press" strong criticisms of the Treaty. He naturally had to confine himself to a single editorial title — "Was it really necessary?". I can give him a good bibliography of articles defending the Treaty which have appeared in what Sen calls the "monopoly press". One daily, in fact, carried an article well in advance of the Treaty commending an alignment with the Soviet Union. If these papers do not any longer form a part of the "monopoly press", then, of course, it is a magnificent illustration of peaceful transition. One does not know of whom, though!

Thirdly, such a sophisticated analyst as Mohit Sen should not advocate the argument that he has: if so and so would have been the Prime Minister and so on, the Treaty would never have been signed. Does Sen really believe that the reactionaries (even going by the CPI definition of the term) would never think of signing a treaty with the Soviet Union? Has he forgotten that way back in 1954 Savarkar had advocated a pact with the Soviet Union? And Savarkar would not quite qualify as a progressive — or would he?

Likewise Mohit Sen seems to have forgotten that on August 14, 1945, Chiang Kai-shek signed a Treaty of Friendship and Alliance with the Soviet Union. I do not know what Sen thinks of the Generalissimo today. However I hope he does not deny his reactionary credentials. If he could and did sign a Treaty of Friendship with the Soviet Union, how can Mohit Sen seriously rule out an Indian reactionary doing the same? Mohit Sen could always retort that Chiang Kai-shek is retrospectively a better man than Morarji Desai because Chiang, visionary as he is, fought the ugly Maoists, but Morarji Desai fought (did he really?) the progressive and socialist Indira Gandhi!

Finally, it may be comforting to believe that the Soviet Union will use its power "to shield India from US imperialist pressure and subversion". American economic and political interests are well protected and well entrenched in this country. They have nothing to fear either from this Treaty or from this "progressive" ruling party. Mohit Sen's arguments are not enough to reassure us that the Soviets would use their power to shield us from "US imperialist pressure and subversion". Let us wait and see. Rather let Mohit Sen wait and see.

G P DESHPANDE

New Delhi

Rural Works Programme

RANJIT Gupta has emphasised the need for scientific planning and a flexible approach in the implementation of the Rural Works Programme ("Rural Works Programme: Where It Has Gone Astray", May 15). He has further suggested that the developmental activities of the programme may be entrusted to autonomous bodies, not tied down "to out-moded and oppressive rules and procedures characteristic of governmental functioning".

While the need for a scientific and flexible approach is unquestionable and the use of autonomous bodies for the implementation of such programmes may be of advantage where such autonomous bodies are available and are willing to undertake this programme, it would appear that the author contradicts himself when he suggests that autonomous bodies may be set up at the District level in each and every District selected for the programme. It is difficult to see how autonomous bodies could be set up by the Government. They have to exist; their origin and growth has to be spontaneous and basically self-reliant. Voluntary bodies set up by Government will have neither the discipline of Government agencies nor the inner strength of voluntary organisations and will suffer from the worst of both worlds, as is seen from some of our experience in the past.

It is also surprising that the author wants all the District and Block Development officials, at present working in the Department to be attached and placed under the proposed District bodies. Having condemned their working, he seems to be seeking their support! There could be no merit in the so-called autonomous bodies if they are mere creatures of Government and are filled up with Government officials. It would be far better to rely on the Governmental machinery itself and introduce such innovations as will make for delegation, decentralisation and initiative.

P R DUBHASHI

Bangalore

Despite the Obvious?

Hansavivek

CHOWGULE STEAMSHIPS has concluded contracts for construction of one bulk carrier each with a Belgian shipyard and Hindustan Shipyard. The former vessel is to be of 64,200 DWT and the latter of 21,450 DWT. Both vessels, and another for the construction of which a contract was earlier given to a Rumanian shipyard, are all expected to be delivered in 1974. V D Chowgule, chairman, points out that a new hurdle in the way of the company's expansion is being put under the MRTP Act. While approving the applications for construction of Belgian and Rumanian bulk carriers, Government has sought to give retrospective effect to any change it might make in future on conversion into equity capital of loans already granted, or agreed to be granted, by the Shipping Development Fund Committee. He adds that approval has been made conditional under the MRTP Act, even though it is conceded by Government (i) that the company's proposals for expansion would not lead to concentration of economic power to the common detriment, (ii) that it would be expedient in the public interest to approve the proposals; and (iii) that the scheme for financing the expansion was satisfactory. Chowgule feels that the approval should have been unconditional and based on the merits of the company's proposal. He adds that the application to construct the 21,450-DWT bulk carrier at Hindustan Shipyard is still pending with Government for approval under the MRTP Act.

Owing to heavy recurring losses incurred in operating the Konkan passenger services and the steady fall in the passenger traffic, the company had sought permission to rationalise the sailing schedule, but the Director General of Shipping directed continuance of four sailings a week in the Bombay/Dabhol-Jaiged sector (including ports of Janjira, Shriwandhan and Harnai) and seven sailings a week on Bombay/Panaji line during the current season—once again compelling the company to continue operation of uneconomic services. The chairman has urged that Government examine the problems associated with the running of these services with a "fresh mind". Apart from suggesting the desirability of a rationalised schedule, he has also pointed out the need to undertake dredging and provision of better facilities at various ports. The company had to cancel some 45 voyages to Malwan last year. There is a steady fall in the number of passengers travelling to and from Malwan by sea, because ships have to anchor far away from the jetty, which makes the journey from the ship to the jetty appear hazardous to the passengers. Against an average of 250 passengers per voyage during 1967-68 and 1968-69, only 150 travelled during 1970-71. The aggregate loss to the company, owing to cancellation of voyages and fall in traffic, was some Rs 3 lakhs, according to the chairman.

Chowgule finds it difficult to predict the prospects for shipping during the remaining year, but feels that it is not going to be an easy period. Stagnation and inflation, he says, are the maladies from which most countries are suffering. Crude oil prices are on the rise and this would be reflected in higher costs of petroleum products. Operating costs of ships are likely to rise, and there is no possibility that these would be compensated by higher earnings. The tramp freights are currently at their lowest level and are likely to continue so for at least the next 12 months. More and more ships are being laid up as owners are not able to recover the bare running costs —not to speak of depreciation and interest. The international monetary crisis and the imposition of a 10 per cent surcharge on imports by the United States have injected an element of uncertainty in world trade, observes Chowgule.

BURN AND COMPANY complains that the Railway Board has been imposing on the wagon builders "manifestly uneconomic prices" and that taking advantage of the continuing recessionary conditions in the industry the company was again offered for the current year a small order at grossly uneconomic prices which it has not accepted. The company has been successful in securing substantial export orders for providing work for its underutilised capacity in rolling stock and structural steelwork manufacture. It is currently manufacturing bogie tank wagons for an order from the East African Railways valued at Rs 1.13 crores. It has also secured another order for rolling stock from Yugoslavia valued at Rs 9.83 crores. This contract involves offering deferred credit terms approximately 90 per cent of the contract value for a period extending over 10 years. The company is arranging with IDBI and one of its bankers for grant of a post-shipment medium-term credit for 90 per cent of the value of the contract. Burn has also made its first shipment of structural steelwork for a 600 MW power station at New Plymouth, New Zealand. Burn showed some improvement in its 1970-71 results when, with a marginal improvement in sales, trading deficit was reduced from Rs 65 lakhs to Rs 14 lakhs. After necessary provisions, there was a net loss of Rs 47 lakhs which lifted the accumulated net deficit from Rs 96 lakhs to Rs 1.43 crores. This was reduced to Rs 72 lakhs by transferring the entire amount lying in the general reserve. The refractory and ceramic group of works continued to operate satisfactorily as a whole, although some units in West Bengal continued to operate at a loss. As most of the unremunerative contracts have been completed, or are nearing completion, the working results for the current year are expected to improve.

JAGATJIT SUGAR could crush only 10,22,969 quintals of sugarcane during the year ended April 1971, compared to 13,62,534 quintals crushed during the preceding year, because of shrinkage in the area under cane. As sugar factories could not pay higher than the minimum price, of Rs 7.37 per quintal, fixed for sugarcane, farmers in Punjab found it more lucrative to switch over to other crops. The directors feel that prospects for the current year will depend primarily on the prices of gur and khandsari as this will determine the quantity of cane the factory will get. Diversion of sugarcane to manufacture of gur and khandsari can be checked if the sugar factories are able to pay a higher price for sugarcane. Indian Sugar Mills' Association has recommended a statutory minimum cane price of Rs 9 per quintal. Despite increased sales realisation, Jagatjit earned a lower profit during 1970-71. The company is now looking forward to a "prosperous year" in view of the favourable trend in price of sugar. The entire land of the factory, which was gifted to the company by the Maharaja of the erstwhile state of Kapurthala and registered in the name of the company, and other land, has been valued and revalued at Rs 97 lakhs and Rs 4 lakhs, respectively, by an officially approved valuer. The value of total assets of the company now stands at Rs 153 lakhs.

NATIONAL INSULATED CABLE COMPANY is making efforts to diversify production and to improve efficiency by replacing old machineries and installing balancing equipment. In view of the long delivery periods quoted by suppliers of indigenous equipment and the delay involved in procuring import licences, however, the directors find it difficult to specify when these plans will materialise. These efforts have been made necessary by the falling margins. The management intends to step up turnover with a view to improving profitability. Owing to general conditions of unrest in the country and lack of imported raw materials during a substantial part of last year, NICCO's turnover had been almost the same as in the preceding year. Cost of working went up substantially, with salaries and wages alone increasing by about 9 per cent. In spite of reduction in incentives, the company was able to export materials worth about Rs 25 lakhs against Rs 23 lakhs in the previous year. Keen competition in international markets is also affecting the company's exports. From April 1971, the company terminated sole selling agency agreements with three parties. In order to maintain sales in these territories, sales depots have been established at Hyderabad, Gauhati and Cuttack. A sales depot in Madhya Pradesh will also be established very shortly.

TRAVANCORE SUGARS AND CHEMICALS crushed 59,178 tonnes of cane during the year ended April 1971 — as against 51,439 tonnes crushed in 1969-70, 32,718 tonnes in 1968-69, and 30,214 tonnes in 1967-68. The quantity each year has been far below the crushing capacity of the factory, which could have easily worked about 150 days in a year and crushed not less than 1,50,000 tonnes. H V R Iengar, chairman, says that crushing less than this quantity is uneconomic and this is why, in spite of higher sugar prices realised on the free-market sugar, the company has not been able to make a profit. The presence of a co-operative factory practically next door makes matters worse; neither factory gets adequate cane supplies, and both incur losses. He says the co-operative factory has accumulated 'huge losses' in spite of substantial government aid. The magnitude of the problem of adequate cane supplies is such that, without 'massive' aid from Government to explore and develop new areas for growing cane, it will be difficult to carry on indefinitely. The Kerala government is seized of the problem, but the chairman points out that large-scale development of a new area takes time, effort and a large input of finance. Commenting on cane prices, Iengar says the central government fixed the price for the 1970-71 season at the unchanged level of Rs 73.70 per tonne for a recovery of 9.4 per cent or below. The company had to pay this price, although the average recovery in its case was only 8.22 per cent. The levy price for sugar in Kerala is fixed on the basis of average recoveries within the state and in the states of Orissa, West Bengal, and Assam, where recoveries are normally higher than in Kerala but lower than in the rest of India. When the average is higher in other states, factories in Kerala that get a lower recovery suffer from this grouping. Iengar has decided to relinquish office of chairman. The board has decided to appoint in his place a nominee of the Kerala government which has a substantial holding in the company.

The Week's Companies (Rs in Lakhs)

	Chowgule Steamships		Burn and Company		Jagatjit Sugar		NICCO	
	Latest Year 31-3-71	Last Year 31-3-70	Latest Year 30-4-71	Last Year 30-4-70	Latest Year 30-4-71	Last Year 30-4-70	Latest Year 31-3-71	Last Year 31-3-70
Paid-up capital	100	100	364	364	11	11	202	202
Reserves	202	175	4	73	145	46	113	115
Borrowings	528	582	316	307	95	91	124	43
of which Term borrowings	493	530	—	—	1	1	25	25
Gross fixed assets	851	850	891	877	153	51	189	187
Net fixed assets	683	658	250	263	117	16	59	62
Investments	—	—	52	53	9	9	6	—
Current liabilities	116	89	426	348	30	91	67	66
Current assets	262	212	736	680	154	214	441	364
Stocks	14	13	388	345	132	182	185	153
Book debts	84	78	332	316	17	29	238	198
Net sales	309	288	942	917	148	95	378	384
Other income	9	8	83	80	3	6	28	40
Raw material costs	77	72	236	220	82	107	207	193
Wages	43	44	465	435	17	17	76	70
Interest	22	26	30	25	7	4	6	4
Gross profit(+)/loss(—)	110	96	—14	—65	5	16	41	46
Depreciation provision	43	43	31	32	2	2	5	5
Tax provision	2	—	—	—	4	1	20	21
Net profit(+)/loss(—)	65	53	—45	—97	—1	13	16	20
Development rebate provision	25	59	2	1	—	—	—	—
Transfer to reserves	27	—	—	—	—2	10	—	—
Dividend								
Amount	E10 P3	E-NIL P3	—	—	1	3	16	20
Rate (per cent)	E15 P9.5	E-NIL P9.5	—	—	12	25	8	10
Cover (times)	3.70	—	—	—	—	4.33	1.00	1.00
Ratios (per cent)								
Gross profit/sales	35.60	33.33	—	—	3.38	16.84	10.84	11.97
Net profit/capital employed	7.83	6.18	—	—	—	8.71	3.62	5.55
Inventories/sales	—	—	41.19	37.62	89.19	191.70	48.94	39.84
Wages/sales	13.91	14.93	49.36	47.43	11.48	17.90	20.11	18.33

FROM OUR CORRESPONDENTS

From Independence to Political Settlement

G S Bhargava

THE Prime Minister's current tour of Western countries marks another phase in India's diplomatic efforts to find a 'political' solution to the Bangla Desh crisis. If some Indian political commentators are to be believed, everything now hinges on President Nixon. He has only to snap his fingers, plug the built-in loopholes in the US Administration's suspension of military supplies to Pakistan, go along with the other members of the Aid Pakistan Consortium in refusing credits to that country and publicly admonish the Yahya regime for its brutalities in Bangla Desh. Cumulatively these steps are expected to chasten Yahya Khan to such an extent that he will at once release Sheikh Mujibur Rahman and begin negotiations with him for 'a political solution acceptable to the elected representatives of East Bengal'. And so Bangla Desh will come into being, the refugees will troop back, the Mukti Bahini will be reintegrated into the country's defence forces and everyone will be happy ever after.

Notwithstanding the onus this scenario places on the US, it should be flattering to Washington because it credits America with leverage *vis-a-vis* Pakistan which it does not enjoy even in some of the client States of Latin America. It also presents the sorry spectacle of the non-aligned world, the Soviet Union and everyone else looking to the President of the US to deliver the goods. At the same time, it raises two questions: does it mean the Soviet Union is no more than a silent spectator in the matter? And why should India have borne the burden of the refugees, suffered disruption of its development plans and entered into a long-term treaty with the Soviet Union when the key to the problem was in an altogether different direction?

This is not the only contradiction in the Bangla Desh situation as it confronts India. By a series of acts of commission and omission the policy makers in the External Affairs Ministry, if they can be so called, have so confounded the picture that today even India's aims in Bangla Desh are not clear, not to talk of the means of achieving them. When the Pakistan army went into action in East Bengal on March 25 last it was a clear case of the generals forcing a national liberation struggle to assume the shape of armed action so that their military superiority could undo the outcome of the December 1970 general election and the people could be cowed into subjugation. India could have reacted to the development in one of two ways. It could have joined most of the other countries in expressing moral support to the struggling people, taking exception to the repressive policies of the Pakistani regime or it could have reacted differently taking into account the security implications of Pakistan's action for India. The Western countries, fed by reports of journalists expelled from Dacca by the Yahya regime, voiced horror at the army's action and made gestures of disapprobation against Islamabad. The Soviet Union, as revealed by President Podgorny's message to General Yahya Khan and a comment published at that time in the *New Times*, Moscow, provided a slight variation to the theme by condemning Pakistan's repressive policies and urging political accommodation. India, on the other hand, took the lead in putting the Bangla Desh movement in its correct perspective as a liberation struggle and in lending full support to the aspirations of the people of Bangla Desh. The Prime Minister, it seemed, was out to recapture the elan and dynamism of Nehru's first decade of foreign policy management. The Soviet idea of a 'political' solution was alien to India's thinking at that time, as revealed by the resolution unanimously adopted by the Lok Sabha.

In this context it should be pointed out that the Soviet reaction, too, would have been different, at least verbally, if the anti-colonial overtones of the Bangla Desh struggle had been adequately projected or if there had been an element of a different kind of competition with the West or China. Though some US and British newspapers began to speculate in terms of an independent Bangla Desh neither Washington or London was sympathetic to the proposition. Surprisingly, China also viewed it as an Indo-Soviet 'conspiracy' to undo the territorial integrity of Pakistan and adopted the posture of a defender of the *status quo*. Even then Moscow did not have second thoughts on what the *New Times* had earlier denounced as 'imperialist moves' to bring about secession of East Pakistan.

In other words, the competition among the Big Powers was, if anything, not in favour of Bangla Desh but of what was advertised as the territorial integrity of Pakistan. The effort all round was to bail Pakistan out at different levels and in a variety of ways. While Washington and Peking maintained covert or overt material support to Pakistan, Moscow went to work at persuading India to acquiesce in the preservation of Pakistan as a single entity. But Indian policy still seemed unchanged either as a result of misreading of the signals or because of the Prime Minister's attempts to retain the initiative.

But soon the initiative was allowed to slip away. The totally unfounded expectation that the people of Bangla Desh with a few thousand regular troops at their head would be able to drive away the Pakistan army and liberate the territory was naturally belied. Reports of Pakistani atrocities shocked people everywhere except in West Pakistan where the military action was presented as a crusade to preserve the territorial integrity of the country. But to assume on the basis of this, as did some innocents in South Block, that the Yahya regime was up against a solid wall of world public opinion which would make it, through open denunciation and economic sanctions, acquiesce in the independence of Bangla Desh was wishful thinking. Scores of Indians went round the world stoking the conscience of governments. Volumes were published recording the anger and torment of newspapers and public men in the different countries. If the weight of world opinion could undo a military regime the one in Islamabad would have died a thousand deaths.

The accent in Indian pronouncements at that time was not so much on a 'political' solution, because an independent Bangla Desh was still on the cards. The settlement visualised was on the basis of withdrawal of Pakistan troops from Bangla Desh. The only difference was that what was earlier expected to be accomplished by the unarmed people of Bangla Desh was now assigned to that amorphous entity called world opinion.

Meanwhile arose a serious complication. The Pakistani propaganda line that the Bangla Desh struggle was secessionist began to evoke response in many Asian-African capitals. The Soviet Union succeeded in making India, perhaps unwittingly, accept a 'political' solution as the ultimate aim as was clear from the joint statement which Swaran Singh signed in Moscow on June 9. As for the US it continued its backing for Yahya Khan rationalising this as necessary for building up its leverage in Islamabad to accomplish what the two super powers were already agreed on achieving. In other words the erosion of India's will to strive for an independent Bangla Desh was matched by a fortification of the Islamabad regime's determination to prevent it.

It was then clear that if India endorsed the Bangla Desh people's urge for independent existence it would have to strive for it on its own, at least initially. That would have required active and energetic support to the Mukti Bahini to the point of giving open military aid in dislodging the Pakistani regime and establishing a popular government in Dacca. It would have meant a long-term commitment with implications of defying the super powers. It was not necessary that such a policy would inevitably lead to an Indo-Pakistan war or conversion of the Bangla Desh movement into another Indo-Pakistan dispute. But the risk was undoubtedly there.

Apparently the Government of India was not prepared to take the risk. It sought the easier, or what seemed to be the easier, course. It decided to concert its policy with that of the Soviet Union which, unlike the US and China, was not siding with Islamabad and which was, on the other hand, for a 'political' settlement within the framework of a single Pakistan. This would have the saving grace of Moscow exerting itself for the type of solution it stood for by impressing on both Pakistan and the US that it would be the best way out of the impasse. Just as in West Asia while the US tries to influence Israel in favour of a negotiated settlement the Soviet Union keeps Egypt under check, here too the US would pressurise Pakistan to go in for a political settlement which the Soviet Union had already made India acquiesce in.

The only uncertain factor is China. In 1966 Peking had denounced Tashkent and endeared itself to Pakistani leaders like Z A Bhutto. A similar uncompromising posture by China now would be more effective. So putting through the 'political' solution would have to wait until China made its position clear and the hope was that Peking, too, would play the game. But what about the refugees? Will the proposed 'political' solution be 'acceptable' to them to the extent of persuading them to return to their hearths and homes? Enabling India to absorb ten million people is not an impossible task, if the international community gets down to the task. Generous help towards refugee rehabilitation should also enable President Nixon to live down his record of support to the Islamabad regime in the teeth of opposition from the US Congress. In short, there is no reason why everyone should not be happy ever after.

WEST BENGAL

Government-Supported Terror

ONE of the peculiarities of the colonial capitalist evolution in India is that, while it has led to the birth of monopoly capital and Rightwing social democracy, it has not produced any sturdy stream of bourgeois liberalism. Its absence has never been so conspicuous as in relation to the recent developments in West Bengal. While every detail of Gestapo storm-trooper atrocities is being re-enacted in this state, there is hardly any protest or concern voiced by any section of liberal democracy, within the state or outside.

Although some of the top journalists in the national newspapers are known to have a red or 'fellow-travelling' background, they are content to let the sleeping dog lie and to make do with police hand-outs of the type: 'shot while trying to escape'. Even events like the Barasat mass murders or the Baranagar-Cossipore atrocities, which are totally incompatible with the democratic pretensions of a bourgeois democratic set-up, are being permitted to lie buried inside the dusty files of old newspapers; and so are the unfulfilled promises of judicial inquiries.

But why blame the poor pinkish journalists who have, after all, their cushy jobs in the big business newspapers to lose for any excessive addiction to 'conscience'? It all really started with the purest reds themselves. When the Naxalites were being systematically liquidated on the streets and inside the jails, CPI(M) hardly bestirred itself to protest against the ominous developments. It took the party more than a year and atrocities on the scale of the Baranagar-Cossipore bloodbath to realise the gravity of the phenomenon. But when CPI(M) was at last ready to call for resisting these offensives with militant mass actions, CPI had hardened itself to a position of firm supporter of the ruling party and, correspondingly, disrupter of all Left actions. What is more, this party has been able, taking advantage of some omissions and commissions of CPI(M), to hold back other Left parties, like SUC and Forward Bloc, from any joint mass actions with CPI(M).

Thus, stage by stage, the situation in West Bengal has reached a point when:

(i) anyone suspected to have Naxalite links is an outlaw — be he a respected middle-aged teacher with a foreign degree or a tender school boy;

(ii) the same is also the case with the younger cadres of CPI(M), suspected to be part of its self-defence apparatus; but,

(iii) strong-arm brigades of Congress, partly absorbed in officially sponsored 'Resistance Groups' or 'Resistance Parties' which are reported to be three lakhs strong, have complete 'diplomatic' immunity.

In the circumstances, besides arrests, tortures and some liquidations under suspicious circumstances, miniature Baranagar-Cossipores are happening almost daily in scattered parts of greater Calcutta. Threats of full-scale enactment of Baranagar-Cossipore are hanging over some other parts of the city — partially paralysing the normal life of the locality for days together. Besides, hundreds of innocent and politically untouched persons, within a particular age-range, accidentally caught in suddenly cast police dragnets are having to pass through the mill — unless promptly released through the influence and affluence of their guardians.

Against this background of white terror, the state and union governments have launched their offensives against CPI(M)-led trade unions. The private sector employers, though not yet fully reassured, have started flexing their muscles and there is already a perceptible change in their attitude to their employees. The less-than-usual success of the Bangla *bandh* on October 13 has further emboldened the government and the private employers.

While the rather too frequent use of the *bandh* weapon, particularly on a local scale, may have irritated and antagonised a section of public opinion,

the indifferent success of the *bandh* on October 13 was due to three main reasons :

(i) Large-scale use of terror — official and semi-official. Army, CRP and local police in battle array, threat of administrative actions against the absentees and deployment of Congress (R) squads under police protection, all combined to wean away from the strike and hartal the more vulnerable periphery of the broad mass of supporters of the Left.

(ii) The unconscionable delay in and unseemly haggling over the call of a united action against the mass dismissals of the state and central government employees robbed the call of much of its solemnity and reduced it to a formal ritual when it ultimately came.

(iii) To the two more substantial causes noted above was added the relatively fortuitous factor—the panicky reaction of a top CITO leader who had in a public statement on the eve of the *bandh* directed the ranks to desist from even peaceful picketing. Loyal and disciplined as CPI(M) ranks are, they took it to be a directive from the High Command and fully abided by it. As a result of this, bullying squads of Congress had a walkover even in some of the areas where CPI(M) enjoys wide mass support.

While the recent offensives by Congress, openly backed by the state machine, have scored some initial successes in terrorising and disorganising CPI(M) bases in certain areas, deeper down things are moving in an opposite direction.

First of all, all inter-party clashes within the Left, including the CPI(M)-Naxalite clashes, have almost totally stopped. Deep concern is being felt by the entire Left base, including even considerable sections of CPI, at the wide-fronted offensive by the government and the violent attacks by Congress. This has already resulted in a certain estrangement between CPI and Forward Bloc leaderships. The latter has sharply attacked the CPI's political stance of firm support to Congress, adopted at the recently concluded Cochin congress of the party, as a betrayal of the Left.

Secondly, the stigma of 'gangsterism', which the establishment press and other mass media had been able to fasten on CPI(M) in the earlier phase, is today increasingly attaching to Congress(R) despite the eloquent silence of the mass media. People in different affected areas are drawing their own conclusion from their own personal experience.

Thirdly, direct and open collaboration between the state machine and Congress brigades in the violent attacks on the Left bases are steadily exposing the democratic pretensions of the regime and helping the people to understand the Marxist interpretation of the basic character of the state power.

LUCKNOW

Political Uses of Backwardness

UP is one of the 'underdeveloped' states in the country. Its population is one-sixth of India's and whereas the density of population is 182 per square km for the country as a whole, in UP it is 300 per square km. The growth rate for the economy as a whole at constant (1960-61) prices during the period 1960-61 to 1967-68 was 3.14 per cent; that for UP was 2.28 per cent. India's per capita income at 1960-61 prices is Rs 307; the per capita income for UP is Rs 245. UP occupies the eleventh position among the states in power generation.

These and similar indicators of economic backwardness have always been used by politicians for election purposes. Recently the Thinkers' Forum, started by Congress(O) leader C B Gupta, has been using them, with the help of present or retired civil servants, to oppose radical programmes. In the thirties, forties and even fifties, clubs such as the Forum used to be formed for disseminating Left thinking. In fact, soon after Independence, a Thinkers' Forum was started to bring together academics, civil servants and politicians to promote radical policies. The end of these earlier efforts coincided with the failure of the socialist and radical movement in the state. Now the Right seems active, using the very techniques the Left had employed.

On October 9 and 10, the Thinkers' Forum organised a seminar on the industrialisation of UP. At the seminar, Ram Sahay, member of the Board of Revenue and a former Agricultural Production Commissioner of the state, made a frontal attack on the socialistic policies professed by Prime Minister Indira Gandhi. He said: "Singapore had 10 times UP's per capita income and a growth rate 50 times that of this state. This was because there were no constraints on free enterprise there" (*National Herald*, October 11). Nothing less than the traditional courtesy of Lucknow could tolerate such estimates being aired in public. P N Srivastava, former PWD Chief Engineer, assumed an imperialist attitude and ascribed UP's economic backwardness to the laziness of the people! Reforms in the educational system and the need to expand village industries were commonplace suggestions.

Baljit Singh emphasised the need to create an adequate infrastructure: power, transport, communications, financial institutions and a leading sector industry such as the timber industry in Sweden or coal in the UK. Such an industry for UP, he visualised, could be manufacture of agricultural implements and machinery or heavy chemicals. Baljit Singh advocated that these be in the public sector which would have to invest at least Rs 200 crores in them. For administrative convenience he favoured the division of UP into four separate parts: the Hill Region, the Bundelkhand, the Western Region and the Eastern Region.

T G Charlu, a former Director of Industries, spelt out the 'constraints' as he saw them: area-wise UP was the largest state in India; it lacked raw materials and was land-locked, being 700 miles from the nearest port. Continuing the story of economic backwardness, Charlu told the audience: "The foreign exchange position has tightened, transport cost has risen, and the socialistic overtones in Central Government policies have dampened private capital investment" (*National Herald*, October 10). He, too, advocated more concessions for the private sector. Charlu went on to stress that, out of 30,000 small industrial units in the state, 65 per cent were being run by non-UP entrepreneurs.

Why are such entrepreneurs numerous in neighbouring Haryana and Punjab, but not in UP? The answer is not simple but is to be found in the complex of what British rule left behind. This comprised the entrenchment of the Zamindari system coupled with caste barriers; the lack of socio-religious reform which made the social and economic system rigid and did not permit the emergence of an entrepreneurial class from the farming, manufacturing and trading castes. After Independence hardly anything significant—except abolition of Zamindari—has been done to energise and activise the potential small entrepreneurs in various sectors of the economy. The interests of politicians have been closely tied to those of big business and the big landlords. Only a democratic movement can liberate the productive classes from the semi-feudal shackles and take the economy on to a growth path.

MAHARASHTRA

New Posture on Land Ceilings

MAHARASHTRA's Chief Minister, V P Naik, recently startled his critics, both within the Congress and outside, by announcing the state government's intention to lower the ceiling on agricultural land holdings and to change the unit of holding from the individual to the family. The government, he said, would promulgate an ordinance to give effect to these proposed changes. However, there was no commitment as to when the ordinance would be issued. And though there was an assurance that it would be issued by the present government, this was taken to mean that the amendments to the state's land ceiling act would be the responsibility of the new government after the elections in February 1972.

The announcement ostensibly marked the reversal of the earlier firm stand that Maharashtra would wait and see what other state governments intended to do in the matter of land ceilings. It also came as a surprise since Naik is known to be one of the staunchest opponents of land reforms among state chief ministers. He has frequently argued in public that any changes in the agrarian structure would adversely affect agricultural production in the country.

Why the change of posture then? Clearly, the new land policy has much to do with the power struggle in the state? The announcement was evidently meant to silence the Chief Minister's critics who seem to be out to brand him as a 'reactionary' opposed to the progressive policies of the Congress. It has been known for some time now that in the power struggle in the state Naik did not exactly enjoy the support of Indira Gandhi. Is the proposed new measure meant to allay her fears and correspondingly to take the wind out of the sails of the other aspirants to chief ministership?

Reports suggest that N K Tirpude, Minister for Housing and Forests,—who had left the government in 1960 and was in political wilderness for eight years till Naik brought him back into government in the face of strong opposition—was the main spirit behind the Chief Minister's move. The change in Naik's stand apparently occurred after Tirpude met D P Misra and was told by the latter that the Prime Minister would oppose Naik's continuance as Chief Minister since he had failed to toe her line. If Naik would change his posture on land ceilings, matters might be helped and Mishra could be of some help to Naik in his fight for continuance in power. Thus, Naik and Tirpude, with their old Madhya Pradesh contacts with D P Misra, are aligned in battle against politicians of western Maharashtra and Marathwada. Men like Uma Shankar Dixit and D P Misra cannot, after all, let Naik down since he represents the strongest rightist section in Congress.

Till now, Naik depended on Y B Chavan for his continuance. Evidently, with the changed equation at the Centre between Chavan and the PM, Naik has realised that the Union Finance Minister will leave him in the lurch if pressures against his continuance seem inconvenient to him. Naik has therefore entered the arena with ideological weapons in an attempt to add a new dimension to the power struggle. The newly reorganised Congress Forum for Socialistic Action, which is meeting in Poona on November 9, must have added to the pressures on Naik. The Forum, presided over by the State Party General Secretary, Sharad Powar, has launched a campaign against Naik's continuance. Naik, according to the Forum, is a "reactionary, opposed to the progressive policies of the state Congress". Mohan Dharia, Union Minister of State for Planning, who is known for his radical postures, is a prominent member of the Forum.

Another attempt on behalf of the Chief Minister to muster forces against his adversaries, notably Shankarrao Chavan and Y J Mohite, seems to have come in the form of an inspired story in a section of the press that Naik was proposing to drop some of his colleagues to prune administrative expenditure. The report, which was subsequently denied, seems to have been an attempt at warning some of the junior ministers in the government that their wholehearted support and loyalty were expected by the Chief Minister.

MANILA

Another Tottering Model

(From a Special Correspondent)

PHILIPPINES presents a picture of political strife and economic deceleration. The only ray of sunshine is the breakthrough in the production of rice.

The country is passing through an acute period of political strife following the bombing of the opposition Liberal Party rally by some unknown persons. An opinion poll has shown that the majority of people believe that the bombing was carried out at the instigation of the ruling party, if not of President Ferdinand Marcos himself. The curious failure of the administration to round up any of the assassins involved weeks after the incident heightens the worst suspicions of many people. The President has done little to sooth popular restlessness. Instead, he has suspended the writ of *habeas corpus* claiming that the city of Manila is in danger of being burnt down by communists. This has enabled him to goal a number of left wingers, including several university professors, without having to bring them to court.

There is a widespread feeling in Manila that the President is using his position to enrich himself. Under the present constitution there is no way of bringing him to book, short of impeachment by the congress (on similar lines as in the US) which appears an impossibility as he gets richer and richer and acquires the power that goes with money in a society where electioneering is associated with expending of large sums of money. Marcos himself is debarred from contesting for another term as president under the constitution, but it is rumoured that his wife, Imelda Marcos, will contest for the supreme post. A majority of the delegates to the constitutional convention, which is in session now framing a new constitution, have reacted to this by proposing that the family of Ferdinand Marcos should be debarred by the constitution from contesting for the presidentship.

There are some intellectuals, like Father Piron, a distinguished priest and teacher, who attribute the ills of the country to the presidential system. The argument is that there is often no harmony between the president and the congress — as is the case now — and this makes it difficult to have speedy planning and legislation. Further, in a country where the electorate is not

sufficiently educated in the issues on hand, it might elect a president on irrational grounds whereas a group of legislators like the congress might be in a better position to choose a prime minister. The argument is that the supreme executive authority, whether we call him president or prime minister, should be elected indirectly and be responsible to parliament.

The root cause of the present situation in Philippines is, however, deeper than this. It is that the parties representing the very poor, like the communists, have been debarred from democratic participation, so that the only parties left in the field are ones which basically represent the interests of the rich. These have to scramble for the votes of the poor who are alienated from them. The result is an attempt to win the votes of the poor through bribery and expensive electioneering. This, in turn, makes political corruption an inbuilt feature of the system. Unless a politician spends money he can't get elected, and if elected he must not only recover his 'expenses' but also accumulate wealth for the next round!

Perhaps one should not despair too much. Philippines, due to an excess of law graduates, has a very legalistic urban elite, who are quick to notice even minor infringements of the law — though they may look rather puzzled if the police dump students secretly in the river without leaving any trace of evidence. The press is vocal as it caters to this urban community of sophisticated intellectuals, some of them sporting very long hair. And the country is fortunate in having articulate and public spirited scientists like S R Gonzalez who when he is not engaged in solving problems in mathematical logic is exposing political corruption to rallies of hippie-like students, sons of the rich burdened by their adolescent consciences.

Meanwhile the economy is in the doldrums. Following an excess of public spending in the pre-1969 election period, financed by minting of new money, prices rose viciously. The economic growth in the last two years has been poor. It is difficult to get hold of reliable statistics, but all the indications point to this. Let us examine the record before 1970.

Philippines' national income grew at a respectable rate of 5.4 per cent per year at constant prices during 1960-69. In the latter half of the period, 1965-69, the rate was above the average — it rose to 6 per cent per year. The higher growth in the latter period was achieved in spite of the deceleration in the growth of the manufacturing sector; only agriculture and mining expanded at above the average rate after 1965. This is partly due to the fortunate breakthrough in rice production using the new hybrid varieties developed at the world-famous Rice Research Institute at Manila. Foodgrain output had been rising at the rate of 6 per cent per year — a circumstance which makes the growth of population, at 3.1 per cent per year, seem less alarming.

The growth of manufacturing was highest during the period of import controls in the early fifties — it was as high as 13 per cent per year in 1950-54. But it decelerated to 9.8 per cent in 1955-59 and to 4.4 per cent during 1960-69. Economists believe that the initial spurt provided by protection has worked itself off and now the manufacturing sector faces sluggish market conditions. There is reported to be much excess capacity in industry. One can't fail to notice the intensive advertising — more than half of the time on television and radio seems to be devoted to it. It is a paradox that in a developing country, which is supposed to be short of resources and needs to encourage saving, there is such intensive advertising to promote consumption.

Indeed, the malaise is very deep rooted. It stems from a series of circumstances. Firstly, foreign ownership is still important and foreign investment is relied on heavily. One consequence is that a number of manufacturing plants established in the period of protection were of the assembly type with most of the manufacturing taking place in parent plants abroad. Growth of this "jump over the tariff wall" type of manufacturing has led to little addition to the talents of the country, apart from some small contribution to incomes. Moreover, the spectacular growth of foreign investments has enlarged the stream of investment income flowing out. Secondly, the income distribution is highly skewed. About 57 per cent of the families are reported to be receiving income less than 1500 pesos (approximately $ 375) a year, which means that the task of selling manufactured goods becomes difficult beyond a point. Indeed, it is arguable that the structure of incomes associated with capacity creation in manufacturing is such that the capacity seems to outstrip the demand generated from the associated growth of income.

The economy continues to depend on a few countries and on a few exports. In 1969, 80 per cent of Philippines' exports went to two countries — USA and Japan. Primarily commodities like abaca, sugar, coconut and lumber constituted more than 90 per cent of exports. The implication is that export performance is closely tied to the pace of economic growth in a few countries and upon production conditions in a few commodities.

What are the planners doing to tackle these problems? The joke is that when Professor G Sicat, a Harvard product and author of an OECD-sponsored volume on the Philippines, was appointed the president of the country's supreme planning body, the only idea he had to regenerate growth was that better national accounts be prepared! More seriously, Sicat seems to think that a public sector is not really the answer, and in any case it seems to be politically unacceptable. Hopes seem to lie in attracting more foreign investment. But this really depends upon providing a thriving market, and in the absence of large public investment, it is difficult to see how market conditions are going to improve. Jose E Romero, Jr, Director-General of the Congressional Economic Planning Office, seems to be more optimistic and appears to support a more vigorous public investment policy.

One problem that does not receive adequate attention in Philippines is family planning. Access to means of birth control does not seem to be widespread, and in a predominantly Catholic country there seems to be some reluctance to publicly airing views supporting family planning. The politicians are afraid of risking the support of Catholic priests, even though among the priests themselves there is a strong movement in support of birth control. It is one of those instances where an individual politician can't gather enough courage to advocate a beneficial policy because he is afraid of risking some support, whereas if he keeps quiet he does not lose anything. So in the end no politician advocates family planning seriously while everyone of them is convinced of the need for it. Controlling population growth is not all that practical nor is it the panacea to the country's poverty, but it is important to provide an adequate number of clinics to advise on birth control.

Can Institutional Reforms Do the Trick?

Shivram

INSTITUTIONAL reforms — i e, reforms of the institutions governing the mode of ownership of the means of production or method of distribution of resources — have been tried on a sizeable scale in only a few countries of Asia. The most widely known attempt is that in land reform. Even this has been attempted in a limited way and its achievements are even more limited. Co-operative development is yet another attempt at institutional reform which has hardly succeeded in many Asian countries outside communist China, Taiwan, Japan, and parts of India (e g, Maharashtra and Gujarat). Attempts at state trading (either through nationalisation of existing agencies or *de novo* organisation of state-owned agencies) have been made in specific circumstances (outside communist China) and the results thereof are difficult to assess. State ownership of industrial plants (proverbially associated with public or state-owned sector in contrast to private sector) has been tried in a few areas, and here again the achievements are uneven.

The reasons for this relative failure of institutional reforms are diverse, and they vary according to the stage of historical development of the country's socio-economic structure. In parts of India, Burma, and other South Asian countries, where the customary form of tenure prevails, any rapid development has obviously to follow rather than precede monetisation of the agricultural economy and its integration with the wider national economy. In countries with remnants of feudalistic systems, the political power of the landed estates is clearly the main limiting factor. Fortunately this type of agrarian structure has been replaced in many Asian countries by peasant proprietorship. In the countries having peasant proprietorship and a semi-developed industrial economy (these constitute the majority of the Asian countries), concentration of land-ownership and control over credit, marketing, and processing facilities, have made it possible for the upper classes of the rural sector to dominate the State apparatus in collaboration with urban industrial interests. Individual or corporation farming in rural areas side by side with a corporate industrial structure or industrial conglomerations, has not yet been evolved to any significant extent in this region. The socialist type of economy, with an emphasis on centralised planning, exists only in North Korea and North Vietnam. A socialist economy, with an emphasis on communal ownership of all means of production on a scale never witnessed before in human history, is being evolved in communist China. The problems in that country are of a different kind and are not included in the present discussion which is confined to problems of countries with peasant proprietorship and semi-developed industrial structures, that are making attempts at transforming the social structure within the Western type of democratic set-up.

Admittedly, some institutional reform or the other is taking place in most Asian countries. The question is, whether the scope, content, speed, and extent of these reforms are adequate for rapid and sustained economic growth and for reducing sectoral, class or regional inequalities. To put it more precisely, successful institutional reforms should ensure: (a) that capital formation is sufficient to create a rising standard of living for a growing population; (b) that the rate of growth in the country is comparable to that in the communist countries; (c) that the gap in technological development between Western industrialised countries and Asian countries is reduced; and (d) that the security of expectations among the masses (resulting from sustained increase in living standards) is strong enough to encourage wider adoption of family planning methods.

As of now, the toiling masses of rural Asia have no real incentive, or propensity, to accept limitations on family size. The hazards of living, the lack of adequate employment opportunity for the educated, and the limited opportunity for vertical mobility, have all encouraged a feeling of insecurity and resignation. It is not surprising, therefore, that family planning propaganda has not succeeded to the extent considered desirable. To conclude, institutional reforms, together with other forms of planning, should create objective conditions in which the choice between a larger family and higher living standard is real for the common man. In this sense, the institutional reforms attempted so far have certainly failed.

At the operational level, it is neither necessary nor desirable to draw an artificial distinction between institutional reforms and general economic planning. While this statement would be strongly objected to by Western-oriented economists, trained in classical and neoclassical schools, the experience of practical planners over the past few years has conclusively exposed the dangers of distinguishing between social and economic planning. The relative failure of institutional reforms in the past may, in fact, be ascribed to this sort of artificial distinction as much as to various allied factors. Firstly, production processes and production structures are often studied in isolation from the social structure. Secondly, the planners, apprehensive of political upheavals, have often resisted the demand for changes in the mode of ownership of the means of production. Thirdly, the outdated State apparatus, inherited from colonial days, is called upon to attend to new duties, involving value determination, price fixation, and modification of income-flows, far beyond the capacity of the present administrative structure. Fourthly, institutional arrangements for ensuring the desirable rate of capital formation —

SUBSCRIPTION RATES

	Inland	Foreign (Surface Mail)		
Six months	Rs 32			
One year	Rs 60	Rs 85,	$ 11.35,	£ 4.75
Two years	Rs 110	Rs 160,	$ 20.75,	£ 8.75
Three years	Rs 160	Rs 235,	$ 30.50,	£ 13.00

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

A SUDDEN OUTBREAK OF CIVIL WAR IN AN AFRICAN COUNTRY NEARLY RUINED MR. GOPINATH'S BUSINESS...

For years Mr. Gopinath has been doing a very successful export business with a reliable buyer in Africa. The buyer was prompt in his payments and Mr. Gopinath never had any cause for complaints.

Then came the fateful day when the newspapers carried a news item relating to an outbreak of civil war in the country to which Mr. Gopinath was exporting his goods

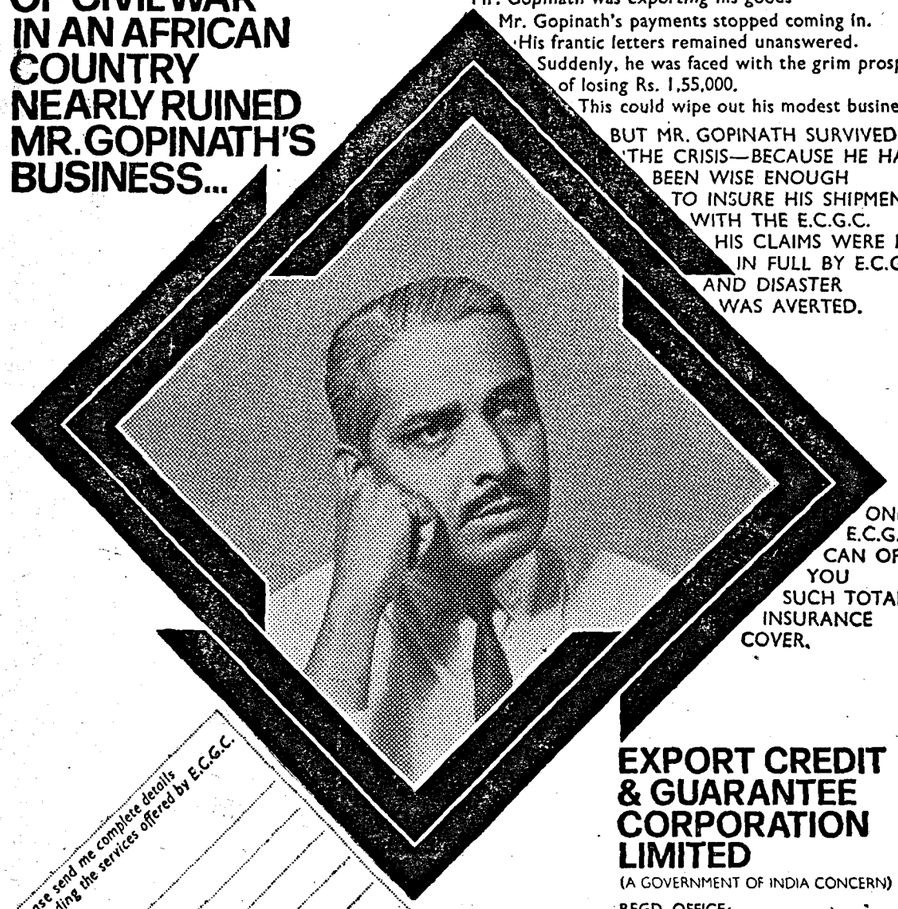
Mr. Gopinath's payments stopped coming in.

His frantic letters remained unanswered.

Suddenly, he was faced with the grim prospect of losing Rs. 1,55,000.

This could wipe out his modest business.

BUT MR. GOPINATH SURVIVED THE CRISIS—BECAUSE HE HAD BEEN WISE ENOUGH TO INSURE HIS SHIPMENTS WITH THE E.C.G.C. HIS CLAIMS WERE PAID IN FULL BY E.C.G.C. AND DISASTER WAS AVERTED.



ONLY E.C.G.C. CAN OFFER YOU SUCH TOTAL INSURANCE COVER.

Please send me complete details regarding the services offered by E.C.G.C.

NAME

ADDRESS

DEPT.

B & P W

For complete details mail the coupon to your nearest branch office.

EXPORT CREDIT & GUARANTEE CORPORATION LIMITED

(A GOVERNMENT OF INDIA CONCERN)

REGD. OFFICE:
10th Floor, Express Towers,
Nariman Point, Bombay 1 BR

BRANCHES:
BOMBAY 4, Rampart Row, Bombay-1
CALCUTTA Tata Centre, 10th Floor, 43, Chowringhee Road, Calcutta-16
NEW DELHI Chaudri House, 10-A, Curzon Road, New Delhi-1
MADRAS
Indian Bank Bldg., 1st Floor, 17th North Beach Road, Madras-1
ERNAKULAM
Chathuruthi Bldg., 1st Floor, Mahatma Gandhi Rd., Ernakulam-11.

AIYAR5-ECGC.26

if necessary through forced savings — have never been properly planned. This has resulted in appropriation of additional income, generated by the investment, for additional consumption by the more favourably placed groups — thus widening the gap beween the rich and the poor.

A review of institutional reforms of many Asian countries reveals that institutional reforms have not been given proper attention or that they are at best treated as a social or ameliorative programme of no central importance. Institutional reforms have rarely been considered as an integral part of the planning process. The consequently limited achievements of planning in the last two decades have therefore created grave doubts in the minds of many people as to the feasibility of achieving rapid growth through planning in a democratic set-up.

Except in Japan, and in some parts of other countries such as India, institutional reforms are rarely attempted on an integrated basis. The success of land reform and the co-operative development scheme in Japan is in no small measure due to the integrated approach of the government. Similarly, in Maharashtra and Gujarat, the success of land reforms and co-operative schemes may be ascribed to the integrated way in which these schemes were attempted. No doubt, the favourable political situation — in that the states were not dominated by rural vested interests which had been effectively replaced by urban interests — was also a contributory cause.

Thus the relative failure of the institutional reforms in most Asian countries can be ascribed largely to the inadequacies of scope and content of the reforms attempted so far. Vested interests, which dominate the legislative wing, effectively prevent passing of any legislation aimed at radical transformation of the social structure. Much of the land reform legislation in the past has made little provision for effective distribution of land. While preambles and declared aims are laudatory, the operative paragraphs have built-in clauses for ensuring their failures. With regard to co-operative development schemes, too, the vested interests have almost always succeeded in either modifying the schemes to suit their purpose or in effectively sabotaging the entire scheme if it is found detrimental to their narrow interests. The usual practice is to adulterate the scope and content of the scheme to such an extent that it loses much of its potency.

In a class-ridden hierachical society, of the type prevailing in most Asian countries, transactions are almost always governed by market forces. The relative bargaining power of the weaker sections has generally declined with the growing population pressure. With the growing concentration of wealth and consequently of political power, it has become increasingly difficult to ration and allocate scarce resources.

Rationing transactions, in order to readjust the value of payments between unequal bargaining parties, assume critical importance in this situation; yet the State machinery finds it increasingly difficult to handle these functions because of political pressures. Allocation of scarce resources in order to safeguard the interests of the weaker groups and of the undeveloped regions, may be frequently declared as the main objective of planning, but it has become virtually impossible owing to political pressures. The situation is so critical that, except in a few countries with effective democratic control, the State has practically ceased to perform this function. The domination by a small number of industrial magnates, or by career bureaucrats with close affinities with the industrialists, or by the well-to-do urban interests from developed regions has often meant the neglect of the interests of the poor and the weak particularly from the backward regions.

While the success of institutional reforms is dependent on the efficiency and power of the State, unfortunately it is true that the State apparatus itself in many Asian countries is incapable of introducing the reforms successfully. Except in a few countries the legislative wing is dominated either by the landed gentry or by the urban vested interests. The personnel employed in the judiciary and executive wing often align themselves with the interests of the ruling classes; the position is not very much better in regard to the newly created State-owned autonomous agencies, such as the State Trading Corporation, State-owned banks and State-owned factories. Only a few examples should suffice to prove the point.

The fifth Report on Progress in Land Reforms, prepared by FAO, UN and ILO, contains numerous examples which prove that almost all the wings of the State apparatus align themselves with the richer classes. Various reports on rural credit — particularly the follow-up rural credit surveys in India — have proved that the State, which was originally expected to support the weak in their bargaining against the strong, often aligns itself with the strong. State officials, who were appointed on the managing committee as a part of the scheme for State participation in the share capital of the co-operatives, were either ineffective or incapable of withstanding the pressure from the rich. Even after the nationalisation of private commercial banks in some Asian countries, a large part of the credit resources are still offered to the rich and the powerful by bank officials who are under the hegemony of the industrial magnates represented in the banks' directorates. Officials of the State Trading Corporations often find it safe to operate in league with the private trade rather than in competition with them. Bureaucrats managing the State-owned plants are more interested in ensuring their promotion or getting better jobs in the private sector after retirement, rather than in defending the national interest. Officers empowered to decide about licences and permits are vulnerable to bribes and other forms of corruption. Members of the judiciary in many countries, if not all, are prone to seek favours from the powerful industrial corporations while seeking employment opportunities for their sons and their relatives; it would be surprising if they actually decide judicial problems keeping in mind the welfare of the vulnerable groups.

In the context of the inflationary economy and the stagnation of the ridiculously low government-salary scales, even an honest government official often finds it difficult to survive. With the steep rise in the pay scales in the private sector and the growing volume of unaccounted money in the nation's economy, any sensible monetary management for ensuring higher savings and greater capital formation has become virtually impossible.

Thus, while in theory the State is the main instrument for carrying out institutional reforms, in practice it has become an important institution in many countries. The growing imbalances, both sectoral and regional, have made it still more difficult to distribute the element of sacrifice equitably among classes, sectors, and regions. Sacrifices have to be imposed on various groups and areas if savings are

to be accreted and a high tempo of investment is to be maintained. But inequity in distribution of sacrifices among different sectors, regions, and classes, has undermined the confidence of the people in the ability of the State to undertake institutional reforms successfully. There is a growing realisation that, while the private sector, steeped in its own narrow interest, is incapable of effecting rapid capital formation, the performance of the public sector and the co-operative sector *as they are actually constituted at present* does not show much promise either. What should be done to enable the public sector and the co-operative sector to perform more fully the role expected of them by the masses, is the principal question. Unless these two sectors are mobilised to step up capital formation, there seems to be little hope for peaceful transformation within a democratic set-up. The problem in this regard is as much an economic one as it is a social, political, administrative, or management problem.

The Koreans Begin to Talk

R R Krishnan

EXACTLY one month after the first meeting, the representatives of the South and North Korean Red Cross Societies held further talks to discuss the problem of families separated by the partition of Korea at the truce village of Panmunjom. The first meeting which took place on August 20 at Panmunjom was indeed the most important event in the Korean peninsula since the end of the Korean War in 1953. The meeting lasted for only four minutes but the fact that such a voluntary exchange could take place at all, made it a truly significant event. It was a formal occasion to exchange the texts of the South Korean proposal and the North Korean reply on the issue of locating separated Korean families. The contents of the proposal and the reply had been broadcast earlier by Seoul and Pyongyang radio stations. The President of the South Korean Red Cross Society who took the initiative suggested to his North Korean counterpart at the August 20 meeting that further talks between the South and the North be held in Geneva before October this year to discuss the procedural problems. In the carefully worded text, he was allowed by his government to use the words "North Korea" instead of "Northern Puppet", the official South Korean nomenclature for the Pyongyang regime. North Korea accepted the South's proposal within 48 hours. It suggested that the scope of the talks be widened and that Panmunjom should be the meeting place—on Korean soil rather than abroad. South Korea agreed to the venue but refused to widen the scope of the talks. Since then four meetings have taken place in a cordial atmosphere.

Justifiably and predictably the recent parleys at Panmunjom have aroused intense excitement and have rekindled the hopes of reunification among many of the 40 million Koreans living in that tragically torn and tension ridden peninsula. Almost 26 years ago similar hopes were aroused in Korea when Japan's surrender was announced. The defeat of Japan meant the end of 35 years of Japanese colonial rule and the beginning of a new era in which the Koreans hoped they would shape their own destiny. But these hopes were shortlived. For Korea was separated into two zones in August 1945. Soviet troops occupied the area north of the 38th parallel and American troops moved into the south after the War ended. When these two powers departed in 1948 they left behind a divided nation; Korea had fallen victim to the cold war. However, the Korean people continued to look forward to the reunification of their country.

In June 1950, the Korean War broke out. If the purpose of the war was to end the artificial division of the country, the three years of fighting did not achieve it. The Armistice Agreement that brought the war to an end in 1953 provided for the establishment of a military demarcation line 151 miles long. A demilitarised zone extending across the peninsula was also created as a buffer between the two belligerents. A Military Armistice Commission (MAC) composed of ten members, five appointed by North Korea and China on one side and five appointed by the United Nations Command on the other, was set up to supervise the implementation of the truce terms and to settle through negotiations any violations. The senior member of the UN component is always an American officer of two-star rank and it is he who does the talking with his counterpart from North Korea. The MAC's meetings in Panmunjom are invariably acrimonious with both the parties levelling charges and countercharges of truce violations. But the MAC has, somehow, managed to preserve 'peace' in the peninsula, however uneasy and fragile it might be. One important provision of the Armistice Agreement was that until such time as a political settlement could be reached, the relative military combat strength of the two opposing sides was to be maintained at the same level as on the day of the cease-fire, July 27, 1953. This provision has been violated by both sides.

It is not particularly relevant to determine who was the first to violate this important provision. What matters is that in the last eighteen years both the North and the South have constantly added to the stipulated number of soldiers, engaged in an arms race and thereby have increased tension. Today, the Korean peninsula is one of the most militarised regions in the world. It has about one million armed men in an area of 85,000 square miles and in a population of only 40 million. Apart from 40,000 American troops stationed in South Korea and the regular South Korean forces, there is the Homeland Reserve Force of 2,000,000. North Korea has no foreign troops on its soil, but has well-trained and equipped armed forces of 400,000 and a strong People's Militia of 1,300,000, all in a population of about 12 million.

Further, for various reasons, both real and imaginary, a whole generation of Koreans, in both parts, live in fear and suspicion of the regimes across the border. The spectre of the 'rabid' communism of North Korea and its close relations with the Soviet Union and China haunts the Seoul regime. Similarly, the presence of large numbers of American soldiers in a stridently anti-communist South Korea, having cordial relations with Japan—the former colonial master of Korea—alarms North Korea.

So acute and pathological is the mutual fear and suspicion that no contact whatsoever has taken place between the South and the North for the last 18 years. Even an exchange of post-cards telling a southern wife whether her husband and children are dead or alive has not been possible. In this respect the situation in Korea is vastly different from that between the two Germanies and in some respects even worse than that between the two Vietnams. A Korean from the South is not allowed to meet his brother or sister from the North even in a third country. The partition of Korea is a total human tragedy without any redeeming features.

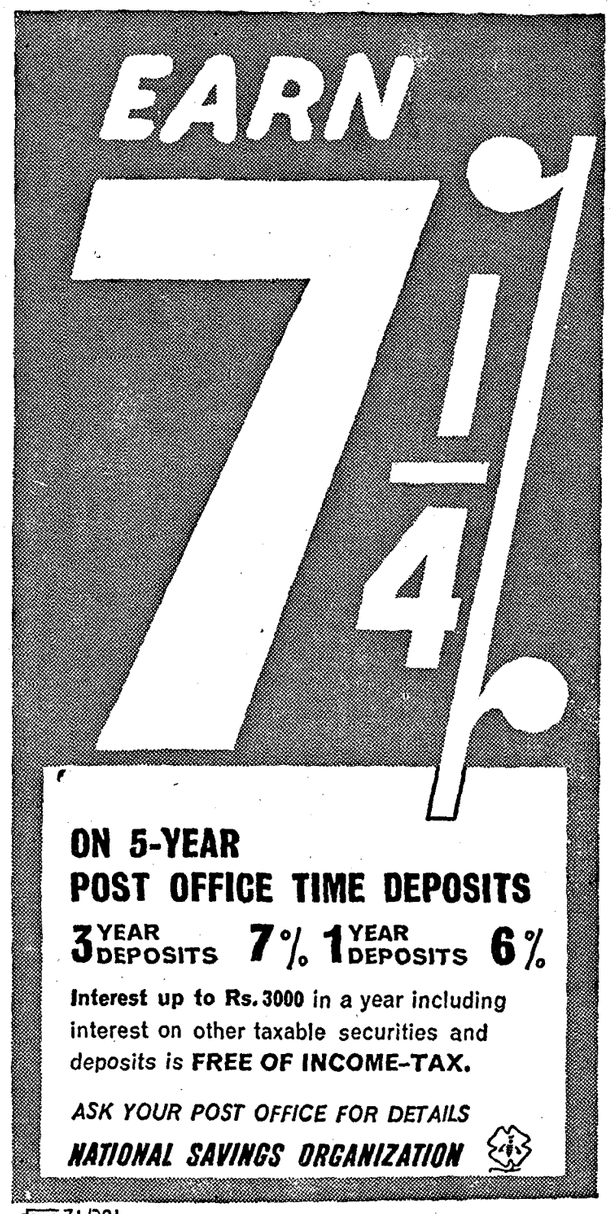
Now at long last there are hints of significant developments inside and outside Korea which promise a lessening of tension in North-South relations. Last autumn the United States carried out a partial withdrawal of its troops from South Korea thereby removing albeit partly, one element of tension in the peninsula. Subsequently during the presidential election held in April 1971 in South Korea, the opposition candidate forcefully demanded a lessening of tension and exchanges between the North and the South; he demanded that postal communications be restored and visits by journalists, athletes, be encouraged. A few months earlier, a retiring American chief of the United Nations Command had also mentioned the desirability of the "Koreans talking with the Koreans" at Panmunjom and about the possibility of the headship of the UN Command being transferred to South Korea. This would have enabled the Seoul and Pyongyang regimes communicating directly with each other, instead of operating through an intermediary.

Non-Ideological Gesture

It is not absolutely clear as to what brought about a change of heart in the South. Perhaps, the significant economic growth and the increase in its own military capability during the last decade, the growing cordiality between Tokyo and Seoul and the belief that the United States will not totally abandon its interests and commitments in South Korea, were considerations that, taken together, prompted the Seoul regime into adopting a more conciliatory posture towards the North. Above all, Nixon's proposed visit to China and the 'thaw' in Sino-US relations must have provided that extra impetus to make the Seoul regime adopt a new policy toward the North in the form of a non-ideological gesture.

So far as the formal record goes, it is Seoul and not Pyongyang that has stood in the way of North-South contacts. North Korea on its part has repeatedly declared that it seeks a purely "Korean solution" to the reunification problem. Pyongyang has often asked for an "exchange of letters at least", to be followed by "economic and cultural interchange and visits by individuals between North and South Korea." But at the same time it has refused formal negotiations with President Park Chung Hee and his government. South Korea has also persistently rejected the North's proposals as a "hoax" and a "cover" for North Korea's "attempts to communise the South by force."

It seems it was North Korea which modified its attitude towards the ruling party of the South first. Kim Il-Sung, North Korea's leader, while welcoming Prince Sihanouk to Pyongyang, last August, declared that he would be prepared to talk to any political party in the South including the ruling party of Park Chung Hee. This time South Korea responded differently. Within one week of Kim Il-Sung's announcement, it allowed the South Korean Red Cross Society to agree to meet the representatives from the North. The ice was broken. As the first concrete step on the difficult road to reunification and as the first move towards relieving the agony of separated Korean families, the parleys at Panmunjom should be welcomed by all.



Loss of Credibility

Nireekshak

WITH the armies of India and Pakistan facing each other along the entire border in the west and the east, newspapers like *Times of India* and *Hindustan Times* have been paying special attention to such things as rice harvesting in Chhamb and the road traffic out of Ferozepore. Some other strictly military information — such as the strength and position of the Pakistani forces and the various steps they are said to be taking to ready themselves for battle — is also being given to readers. The Defence Minister's various pronouncements in border towns, giving advance intimations to the 'enemy' of what looks like the Indian General Staff's plan of battle, are of course being given great prominence.

All this is the work of a special species of reporters that has made its appearance "somewhere on the Indo-Pakistan border" or, less mysteriously, "somewhere on the Rajasthan border" — the same species, incidentally, which, not long ago, identified itself by the dateline "somewhere in Bangla Desh". A map purported to be a scale drawing of "Pakistan's defence canals" has also made its appearance in some newspapers. It must remain a matter of no small wonder to intelligent readers how any reporter could go to any border anywhere to say, as a *Times of India* scribe did, "Pakistan has moved all its troops to the border without keeping any reserves"; or how anyone could come upon such "reliable reports" at a tiny border outpost of all places. And is it really necessary for the *Hindustan Times* to send a reporter to Jaisalmer and Barmer in order to be able to publish the following: "According to the latest reports, there is a heavy concentration of the Pakistani troops very near the Barmer border. The prominent places garrisoned are Hatango, Gadra city, Khisar Chachro and Badin. The troops are supported by Mujahids."

Surely, 'reporting' of this kind will lose none of its value, and may gain added credibility, if it is made from relatively more prosaic observation points like Srinagar or Amritsar or even Delhi. For all the talk recently about the lack of professionalism in the press, it would appear that few newspapers are yet ready to enforce recognised or recognisable standards. If there is an "eyeball to eyeball" confrontation of the armies, as some scribes say there is, (why not "teeth to teeth", by the way?) the least that they and other reporters could do to justify their intervention is to show clearsightedness by sticking to observed and verifiable facts.

While the 'special reporting' of the confrontation has been confined to two or three newspapers, editorial comment on it has been widespread. And Yahya Khan's broadcast, calling for an Indo-Pak 'dialogue,' followed by Indira Gandhi's reply, were the subject matter of the most recent comments. "This mischievous suggestion [for a dialogue] is a trap set for India by the wily President of Pakistan", wrote *Hindusthan Standard*. "For India to agree to a talk would amount to an admission that the struggle for freedom in Bangla Desh was waged at India's instigation and it could be called off at her behest. The suggestion does not indicate the Pakistan President's peaceability.... On the other hand, there is every possibility of Pakistan going berserk if its aggressive posture does not bring off the desired intervention by friendly countries on its behalf."

Load of Rubbish

To which *Hitavada* added: "greater danger than war" would be "another Tashkent". The acceptance of any proposal for an Indo-Pak dialogue, it said, "would imply acceptance of the Pakistani charge that India was involved in the East Bengal uprising. It would also mean permanent acceptance of a crore of refugees by India, because they would not return to autonomous East Pakistan under the tutelage of West Pakistan rulers.... As far as the Indian people are concerned, they would welcome war in preference to another Tashkent." Much the same thing was implied by *Deccan Herald* when it wrote: "It is time that Pakistan's 24-year itch was ended" for, as the paper wrote in an earlier editorial on the same subject, "India cannot ignore the continuing influx of refugees nor the provocative and belligerent posture expressed in General Yahya's broadcast and the movement of Pakistani troops on India's western borders".

According to *Mail*, Yahya Khan's proposal for a dialogue was "another load of rubbish... for the whole point of the present situation is that there should be a dialogue between Yahya Khan and Mujibur Rahman, not between Yahya Khan and Mrs Indira Gandhi".

Tito's visit to India and Nixon's proposed visit to Moscow were two other events which attracted editorial interest. In its editorial, 'A Whiff of Fresh Air', *Tribune* remarked that Yugoslavia's "forthright support to the oppressed people's freedom struggle" [in Bangla Desh] and "reaffirmation of solidarity with India at a crucial hour" were in sharp and welcome contrast to the international community's general reluctance to face the realities of Bangla Desh. The Indo-Yugoslav communique "reads interestingly" in the context of the plea by the Big Four for restraint, said *Indian Express*. "An intriguing feature of the joint communique is New Delhi's oblique rejection along with Belgrade of the Brezhnev doctrine of limited sovereignty. This was not India's attitude when Russia overran Czechoslovakia.... Can it be that India has now decided to be more non-aligned on the side of Yugoslavia than of Soviet Russia?" the paper asked. As an "old and consistent friend of this country", commented *Indian Nation*, Tito has "come here at this crucial hour" not just to pay a courtesy call. "If he is enabled to understand the trends in this part of the world in their correct perspective, he can make valuable contribution towards the solution of at least some of the problems...."

As for Nixon's summitry, "It is important", said *Hindu*, "for Mr Nixon to improve relations with China without whose co-operation he cannot hope to implement his plans for American withdrawal from Vietnam... [and] it is even more important for him not to allow relations with Russia to be soured particularly now when big decisions are impending in Europe and West Asia.... The world has now entered an era of negotiation and summit diplomacy and three countries share the balance of power." In the opinion of the *Free Press Journal*, "President Nixon intends not merely to win the Presidential elections next year, but to establish a style of diplomacy that will be associated with his name."

Credit Needs of Farmers

A Seshan

Report of the Expert Group on State Enactments Having a Bearing on Commercial Banks Lending to Agriculture; Reserve Bank of India, Bombay; pp 190; Rs 6.00.

THE 'social control' and subsequent nationalisation of 14 leading commercial banks was a landmark in the economic history of India giving a new direction and orientation to the operations of banking companies. The adoption of the 'multiple credit agency approach' in financing agriculture has triggered what may be called the Agricultural Credit Revolution, second in importance only to the Green Revolution in agriculture. At the end of March 1971, the total amount of farm credit (directly lent to cultivators) outstanding to commercial banks was Rs 235 crores. Thus, within the short period of 3 years, the banks achieved a position which took more than half a century for the credit co-operatives in the country to reach.

Among the host of problems which have arisen in the wake of the decision to give priority to agriculture in the lending operations of the banks are the impediments posed by various administrative lacunae and legislative enactments in the field of land reforms, money-lending, debt relief, etc. They relate, first, to restrictions on transferability rights in land, as a result of which many farmers cannot offer to a commercial bank their lands as security for loans, and second to provisions for regulation of money-lending activities and fixation of maximum interest rates, protection of certain class of assets of cultivators from attachment in execution of decrees, etc, which will apply to commercial banks, if they are not specifically exempted from their purview. Similarly, debt relief legislation, enacted in several states, has provided for moratorium on debts, scaling down of debts, repayment of scaled-down debts in instalments, and compulsory reduction of interest and principal. Wherever such provisions have not been made applicable only to past debts, the banks are likely to be adversely affected. Besides these restrictive features in legislation, there are a few provisions in state enactments which give privileged treatment to co-operatives. Most state enactments confer a first charge on crops and land in favour of co-operatives for recovery of loans due to them from the members. This naturally places commercial banks at a disadvantage *vis-a-vis* co-operatives.

In view of the multi-agency approach adopted in agricultural credit and the need to quicken the pace of banks' operations in lending to farmers, the need was felt for a comprehensive look at various state enactments to locate the hurdles in the way of banks and suggest their removal. It was in this context that the Governor of the Reserve Bank of India appointed, in September 1969, an Expert Group under the leadership of R K Talwar to identify the inhibiting factors arising out of legal enactments and to make recommendations on the extent to which, and the manner in which, these enactments would require to be modified to facilitiate the operations of commercial banks in the provision of finance to agriculturists.

The Expert Group has brought out a business-like report, containing 7 chapters and a number of appendices. In Chapter 1 the genesis of the Group and their terms of reference are indicated. Chapter 2 gives the background to the problems under consideration and the Group's approach towards their solution. Each major problem is taken up for detailed consideration in each of the succeeding Chapters. Thus the restrictions on land alienation rights of farmers and the modifications to be made there are dealt with in Chapter 3. The problem posed by the provisions relating to 'priority of charge' is tackled in Chapter 4. Chapter 5 discusses the recovery and other operational difficulties of commercial banks. Chapter 6 deals with facilities like waiving of stamp duty, registration of mortgages, etc, to be made available to farmers borrowing from commerical banks. A summary of the recommendations is provided in Chapter 7.

Since amendments to various enactments would be a time-consuming process, the Group has taken the pains to prepare a model Bill ['The Agricultural Credit Operations and Miscellaneous Provisions (Banks) Bill'] to carry out an omnibus modification of all the restrictive provisions in different enactments. The passing of this Bill by state legislatures, is expected to make it unnecessary to carry out amendments to individual enactments. It was indeed thoughtful on the part of the Group to have prepared such a comprehensive Bill and saved the labour and time of state governments. In the appendices, besides the questionnaire issued by the Group, there is *inter alia*, a wealth of (state-wise) information on existing enactments having a bearing on commercial banks' lending to agriculture.

The Group has emphasised the need to provide rights with regard to land alienation or interests therein to all those farmers who do not have them now—such as backward classes, tenants, fragment holders and share-croppers. It is pointed out that most of the laws on land alienation, money-lending, and debt relief, were passed in a bygone period with a view to protecting farmers from usurious money-lenders. By their very nature these laws were never intended to be made applicable to institutional credit agencies. Further, at the time they were enacted, besides the Government only one institutional credit agency, *viz*, the co-operatives, had been engaged in the provision of finance to farmers. It was logical, therefore, for exemptions from the legislation to be provided only in respect of co-operatives. With the entry of commerical banks into the field of agricultural finance, it is but fair and equitable, for the purpose of these laws, that commercial banks should be treated on a footing of equality with co-operatives rather than get bracketed withe money-lenders. The Group has, therefore, recommended amendment of these laws to provide for exemptions also in favour of commercial banks.

While appreciating the amount of labour and thinking that has gone into the Report, a reader may perhaps feel that the Group's approach is rather security-oriented. This may appear to be out of line with the recent reorientation of credit policies with its emphasis on production rather than on security. However, this impression is not really warranted as may be seen from the following extracts from the Report.

> "It would be observed that most of the recommendations of the Group are aimed at removing the difficulties in creating a valid charge/mortgage on land in favour of commercial banks and the realisation of such security. These recommendations are based on the assumption that it would be necessary for commercial banks to

take land as security in regard to advances granted by them to agriculturists. It is, however, being pointed out that commercial banks are essentially purveyors of short-term credit and there should not be any occasion for them to insist on security of land in addition to hypothecation of crop and pledge/hypothecation of inputs... Co-operative societies normally provide only short-term loans and the cultivator needs unencumbered land to borrow from land mortgage banks for his development requirements. In the case of a commercial bank, however, the entire productive needs of the cultivator (short-term and long-term) can be provided by the bank and the cultivator will not normally seek any other institution for meeting his credit requirements for approved purposes. To leave an unencumbered asset with the cultivator in such circumstances would not only be unnecessary, but would also offer needless temptation to the cultivator to resort to avoidable unproductive borrowings. In any case, the retention of security of land with the bank would ensure that such borrowings, whenever they become necessary, are resorted to with the knowledge and concurrence of the bank. While, therefore, a loan need not be denied to a person on the ground of his inability to provide land as security, where land is available, it would be legitimate for banks to seek security therein even in regard to short-term loans. In fact, this is the reason why several Co-operative Societies Acts make it obligatory on the member of a society to create a charge on his land or interest in land by means of a declaration for loans taken by him. We are recommending provisions for the creation of similar charge in favour of commercial banks".

The Group is anxious to ensure that the multi-agency approach to agricultural credit does not lead to over-financing of farmers. The real essence of the production-oriented 'crop loan system' is that the credit needs of a farmer for production purposes should be met irrespective of the value of landed security he can offer. Adequate care is taken of this principle in the Report. The Group's recommendations regarding the financing of 'oral tenants' and share-croppers—the really vulnerable and disadvantaged sections in the farm population—further reflect its concern for the observance of the basic principle of the crop loan system. The Group's suggestion, that a provision be made for the splitting up of a security between a co-operative and a commercial bank, shows its awareness of the need which may, at times, arise—where a farmer may have to approach more than one institutional credit agency. The ideal long-term objective should, of course, be for one institutional credit agency to meet all the credit requirements of a farmer. If such an ideal were ever achieved, many problems connected with 'prior charge' on security, over-financing, etc, will become redundant.

The Group has done its job. The ball is in the court of the state governments. It is up to them to move quickly in the matter.

DAMODAR VALLEY CORPORATION

5 3/4 PER CENT BONDS, 1983

OF RS. 450 LAKHS

Subscriptions will be received at the office of the State Bank of India at No. 1, Strand Road, Calcutta-1. Prospectus and application forms will be available at the above office and the office of the Chief Accounts Officer, Damodar Valley Corporation, Bhabani Bhawan, Alipore, Calcutta-27.

Issue Price	..100 per cent
Rate of Interest	..5¾ per cent per annum
Currency	..12 years
Brokerage	..6 paise per cent to Banks and recognised Brokers on allotments made in respect of applications bearing their stamps.
Underwriting Commission	..38 paise per cent to every applicant subscribing Rs. 25 lakhs or more.

Payment of interest and Repayment of the principal guaranteed by the Government of India.

Bonds will be TRUSTEE SECURITIES under the Indian Trusts Act, 1882 and APPROVED SECURITIES for the purpose of the Insurance Act, 1938 and the Banking Regulations Act, 1949.

Proceeds of the Bonds will be utilised in financing the power expansion programme during the Fourth Five-Year Plan Programme.

Subscriptions will open on 9th November, 1971 and close on 11th November, 1971, or earlier without notice on being fully subscribed.

Regional Disparity and Economic Development of Pakistan

I: The Facts

Arjun Sengupta

In the years after Independence, the Western wing of Pakistan developed much more rapidly than East Pakistan in almost all the major areas of economic activity. But if one looks into the details of the initial conditions of Pakistan's development — in terms of factor endowments, resource position or growth potential — one cannot seriously maintain that it was in the nature of things that West Pakistan would come to dominate the East or that a different set of policies could not have achieved quite a different pattern of regional development. Between 1947 and 1950, the total regional income of East Pakistan was almost certainly higher than that of West Pakistan.

One cannot, therefore, explain the subsequent growth of regional disparity in terms of initial differences in the infrastructure of the two parts of Pakistan.

This article, which studies the growth of regional disparity in Pakistan, is published in two parts. In this, the first part, the author examines available evidence on the growth of disparities between West and East Pakistan. The second part of the article, to be published next week, will present some hypotheses to explain the growth of disparity with the purpose of isolating the factors that contributed the most.

WHEN Pakistan was created in 1947, there was little in the nature of its economy which could have indicated the way its Western wing would grow to dominate its Eastern part. It was almost completely an agricultural economy, with the East as the world's largest producer of raw jute and the West a major exporter of raw cotton and between them practically self-sufficient in food. There were only 34 factories in the whole of Pakistan with a total employment of about 26,000 people. Three years after independence, West Pakistan had only three textile mills, and the East, still producing about 75 per cent of the total world output of jute, had virtually no capacity to produce any jute manufactures. There were just a few plants for sugar refining, tea processing and manufacture of cement. Virtually all the manufactures used in Pakistan were imported.

Nor was it true that natural resources or geographical conditions favoured the Western wing more than East Pakistan. Rapid growth in agriculture would have required large expenditure in any case, but the potential for East Pakistan was definitely no worse than for West Pakistan. It had a much larger area of fertile land and plenty of rainfall. To increase output and productivity, it needed investment in coastal embankments, flood control measures and low-lift pump irrigation, and the supply of fertilisers. But that would hardly have cost more than what was required in West Pakistan, given its relatively barren lands, problems of water-logging and salinity and the resulting necessity for an expensive network of irrigation canals. Indeed, a recent study has shown that even tube-wells — the one factor that is regarded as the centrepiece of the agricultural prosperity of West Pakistan — had a very substantial potential of return in East Pakistan, at a not much greater cost.[1] They probably could not have been financed by private farmers as they were in West Pakistan and the government might have had to come forward in a much bigger way. But in terms of social cost, there was nothing in the nature of the agriculture of East Pakistan that could have made its potential for growth any lower than that of West Pakistan. In fact, in a study of 1963, Mahbub ul Haq, one of the architects of economic policy under President Ayub, gave an edge to East Pakistan over the West in the agricultural field, and wrote: "If proper steps are taken, the eastern wing is destined to become the granary for the whole of Pakistan."[2]

For the potential growth in industries, both the regions were on equal footing. Both were poor in industrial raw materials and minerals. Except for raw cotton in the West and raw jute in the East that allowed a very rapid growth of the respective textiles manufactures, the availability of other agricultural materials was not so large as to permit any significant growth of modern industries. While West Pakistan had some potential for sugar, paper board and possibly edible oil, East Pakistan had the potential for leather, paper from soft wood and tea processing. Some tobacco was grown, more in the West than in the East. Mineral resources in Pakistan are not substantial, and most of them have been discovered only in recent periods. Large deposits of natural gas were discovered at Sui in West Pakistan only in 1952 and their productive use started in 1955. Subsequently, several other sites with deposits of gas and small amounts of other minerals were discovered in both the wings of Pakistan. But all these could hardly explain any comparative advantage in industrial growth for West Pakistan.

Not Due to Initial Differences

It is important to emphasise this point to dispel the widely held misconceptions about Pakistan's economic development. Over the years of the history of this country after independence, its Western wing developed much more rapidly than East Pakistan in almost all the major fields of economic activity. But if one looked into the details of the initial conditions of Pakistan's develop-

DAMODAR VALLEY CORPORATION

IN THE SERVICE OF THE NATION

POWER GENERATION

☆ BIGGEST GENERATING ORGANISATION IN INDIA (CAPACITY 1061 MW)

☆ Contributing 11 per cent of Total National Generation

☆ Gross Annual Revenue (1970-71): Rs. 25.89 crores

☆ Net Average Cost of Fixed Assets : Rs. 121.07 crores

☆ Return on above (1970-71) : 5.93 per cent

IRRIGATION

1969-70

☆ Rabi: 0.65 lakh acres

☆ Kharif: 7.36 lakh acres

FLOOD CONTROL

TABLE 1 : GROSS PROVINCIAL PRODUCT OF EAST AND WEST PAKISTAN
(at 1959-60 factor cost, in crores of rupees)

	1949-50		1954-55		1959-60		1963-64	
	East	West	East	West	East	West	East	West
Gross provincial product	1237.4	1209.1	1381.6	1410.6	1497.2	1646.7	1867.1	2009.0
of which								
Agriculture	807.4	659.5	870.4	694.8	904.2	771.1	1059.9	875.6
Manufacturing	47.2	96.1	65.1	156.9	91.2	201.8	137.1	269.4
Large scale	(6.9)	(27.7)	(20.0)	(80.2)	(40.6)	(115.9)	(80.9)	(74.1)
Small scale	(40.3)	(68.4)	(45.1)	(76.7)	(50.6)	(85.9)	(56.2)	(95.3)
Construction	5.8	17.9	12.6	28.9	22.4	42.7	67.3	83.7
Electricity, gas, water	0.6	2.7	1.0	3.7	2.0	8.7	9.3	14.2
Transport and communication	63.1	60.8	77.9	81.0	90.0	92.1	112.7	111.8
Trade	137.9	147.7	147.8	177.7	156.0	210.5	208.7	274.6
Population (ml)	42.25	35.31	47.70	39.87	53.85	45.03	59.67	49.89
GPP per capita (Rs)	293	342	290	354	278	366	313	403

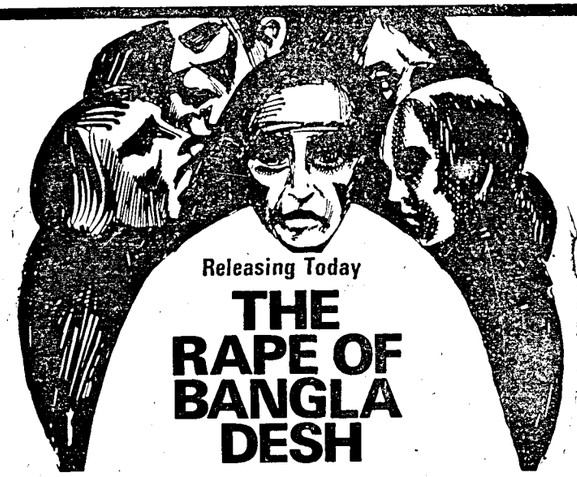
Source : Khan and Bergan (4).

ment, in terms of factor endowments, resource position or growth potential, one could not seriously maintain that it was in the nature of things that West Pakistan should dominate the East or that a different set of policies could not have achieved quite a different pattern of regional development. Between 1947 and 1950, the total regional income of East Pakistan was almost certainly higher than that of West Pakistan. Availability of power was negligible, and the contribution of transport and communications to provincial income was somewhat larger in East Pakistan than in the West. Income generated from services was larger in West Pakistan but the number of scheduled banks in East Pakistan was 111 in 1948 as compared with 89 in the West.[3] West Pakistan had a large irrigation network that was developed over several decades in the past, but considering the vast territory of the province and conditions of the soil and the climate, they were very inadequate to push through a rapid growth in agriculture. One could not therefore explain the growth in regional disparity by initial differences in the infrastructure of the two provinces.

It was said above that in the initial years the regional income in East Pakistan was *almost certainly* higher than that in West, for it is very difficult to have a definite picture of the growth of national income of Pakistan on a regional basis. For the first time in 1964 official estimates of regional incomes were given by the CSO and that also only for the years 1959-60 to 1962-63. Khan and Bergan[4] worked on the raw data of CSO and produced two series of gross provincial product (at 1959-60 factor cost) for the two wings of Pakistan. A summary of these is given in Table 1. But there are other scholars who attempted to estimate regional incomes and their disparity. Their methods of estimation were different both in terms of definition, i e, whether they are gross or net, at factor cost or market prices, etc, and in terms of items included or excluded or how they were allocated to different provinces. But still the differences in the estimates of regional incomes in the initial period were all in the same direction. For example, Khandkar[5] found for 1950-51 that regional income of East Pakistan was 10 per cent higher than that of West Pakistan. Haq's estimates show higher regional income in East Pakistan in relation to West Pakistan from 1949-50 to 1952-53. In 1951-52, East Pakistan's income was 5 per cent higher and in 1952-53, it was 8 per cent higher than West Pakistan's. Papanek's estimates[6] were for regional GDP at market prices, and in 1949-50 the income of East Pakistan was more than 10 per cent higher than that of West. The regional incomes, according to Papanek, became just about equal in 1954-55.

Khan and Bergan's estimate, as seen in Table 1, also reveal a higher provincial product for East Pakistan than for West in 1949-50. They also show that East Pakistan's income remained higher until 1953-54. From 1954-55, the picture changed and West Pakistan's income exceeded East's for the first time that year, after which the gap continued to widen throughout the period. It will also be seen that in the value added in transport and communication, the share of the two wings was very similar. The value added in electricity, gas and water in the initial years was very small in both the provinces. Until about 1953-54, West Pakistan's edge over East in trade was very small, hardly exceeding 7 to 8 per cent.

Despite the higher regional income of East Pakistan in the initial years, the per capita income of East was lower than that of West from the beginning. This was the conclusion of all the available estimates for regional incomes. Khan and Bergan's estimates show that the per capita GPP of East Pakistan was not only lower than that of West, but was also declining more or less steadily till about 1959-60. This is also corroborated by other available estimates. The extent of disparity, defined as the excess of West Pakistan's per capita income over East's, was of course different for different estimates, since this depended on the differences in the estimates of both gross provincial product and regional population. Khan and Bergan's figures for population are close to the official. They assume equal average annual compound rates of growth of population for both the wings — 2.4 per cent for the period 1949-50 to 1959-60, and 2.6 per cent for 1959-60 to 1964-65. These figures follow the estimates of the Planning Commission which adjusted for under-enumeration of the figures of 1961 Census according to which the average rate of annual increase was 2.36 per cent for West and 1.91 per cent for East Pakistan. If West Pakistan's population actually grew at a faster rate than East Pakistan's, the per capita disparity figures, computed from Khan and Bergan, would of course be overestimates. But it should be noted that population growth rates have been used for estimating the output of some sectors, e g, fish in East Pakistan and small-scale industries and services in both the wings. So an overestimate of population would affect both the numerator and the denominator of per capita income figures.



Releasing Today

THE RAPE OF BANGLA DESH

"SORT THEM OUT" was Yahya's code message that spelt death and destruction for millions in East Bengal.

Anthony Mascarenhas saw it all. Taken on a conducted tour he was to report "the great job the army was doing".

What he saw was shattering. He smuggled himself out of Pakistan to expose to the world the devastation unleashed by Yahya's blood-thirsty terrorists.

An insider, he reveals the devious methods of Yahya and his henchmen to throttle democracy in East Bengal. The blockade of the press. The "disposal" of men. The dramatic disappearance of Mujib. The desperate, behind-the-curtain struggle for power in West Pakistan.

Read for the first time the details of the dramatic events that shaped the most startling political crime in history.

Pp. 190 with illustrations. Price Rs. 18.00

VIKAS PUBLICATIONS

5 Daryaganj, Ansari Road, Delhi-6

Branches : Bombay Bangalore Kanpur London

naa/961

DESIGN SATISH SUD + ASSOCIATES

TABLE 2 : DISPARITY IN REGIONAL INCOMES

[Gross Provincial Product (in crores of rupees) and Per Capita GPP (Rs)]

	Khan and Bergan		From Bose *		Papanek **	
	East	West	East	West	East	West
1949-50	1237.4 (293)	1209.1 (342)	1205.2 (285)	1242.1 (352)	1313 (305)	1183 (330)
Disparity	1.17		1.24		1.08	
1954-55	1381.6 (290)	1410.6 (354)	1343.8 (282)	1448.2 (365)	1432 (298)	1431 (356)
Disparity	1.22		1.29		1.19	
1959-60	1497.2 (278)	1646.7 (366)	1456.8 (270)	1687.1 (375)	1559 (288)	1679 (373)
Disparity	1.32		1.39		1.29	
1963-64	1867.1 (313)	2009.0 (403)	1817.1 (304)	2059.1 (413)	1999† (327)	2379† (464)
Disparity	1.29		1.36		1.42	

Note : Disparity refers to the ratio of per capita GPP of West Pakistan over that of East Pakistan. The estimates of Khan and Bergan and of Bose are at 1959-60 factor cost. Papanek's figures are of gross domestic product at market prices, at constant 1959-60 prices.

Figures in brackets represent per capita GPP.

* Calculated from Bose's figures for East Pakistan GPP.

** Papanek uses trend data for major crops, and a partly arbitrary allocation of indirect taxes and subsidies. He mentions "these data are not reliable".

† Refers to 1964-65.

Sources : Khan and Bergan (4), Bose (8), Papanek (6).

But there are other considerations which suggest that the Khan and Bergan estimates of regional incomes understate the extent of disparity. The CSO estimates of national income provide a regional breakdown of about 97 per cent of total national income. A regional breakdown was not attempted for the remaining 3 per cent of incomes originating in banking and insurance, inter-wing communication and central government and defence activities. Khan and Bergan, working with the CSO data, extended the regional incomes series from 1949-50 to 1963-64, by allocating these incomes to the two wings on a fifty-fifty ratio. This procedure has been challenged by Anisur Rahman.[7] He suggests a regional breakdown of incomes originating in banking and insurance based on the provincial distribution of deposits and advances of scheduled banks which showed a proportion of 73:27 in favour of West Pakistan. And for incomes originating in central government and defence, he suggests an allocation of 74.6 : 25.5 on the basis of the distribution of the labour force in public administration for the year 1955. S R Bose[8] in another context provides an estimate of gross provincial product of East Pakistan by allocating to the East 37 per cent of the value added in transport and communication, 33 per cent of banking and insurance and 30 per cent of central government defence. Except for these items, for which Khan and Bergan allocate 50 per cent to East Pakistan, Bose's estimates are similar to Khan and Bergan's. The percentages used by Bose, as he mentions, "were estimated by the CSO and used by a group of experts in Transportation Survey of East Pakistan".

The second column of Table 2 has been calculated from Bose's figures for East Pakistan and Khan and Bergan's figures for the whole of Pakistan. It will be seen that these estimates considerably increase, throughout the period, the extent of disparity as measured by *the ratio of per capita gross provincial product of West Pakistan to that of East Pakistan*. This confirms our statement that Khan and Bergan figures may be regarded as underestimates of the extent of disparity.

YEARLY COMPARISONS NOT VALID

Lest one is carried away by these statistics of yearly disparity, I must add that one must not make too much of the absolute figures of gross domestic products, especially their regional breakdown. For many sectors, the estimates are based on assumptions that are subject to unknown errors, the size of which for some years may be quite large. For example, in agriculture, the estimates use a variable called "normal" yields which are based on official crop-cutting experiments of questionable reliability. In West Pakistan, a number of crop-cutting experiments based on probability sampling for wheat and cotton showed that the official figures generally underestimated the yields by 10 to 15 per cent. Official estimates also tend to overstate production in a poor crop year and understate it in a good year. Similarly, a recent CSO study showed that the CMI figures for 1959-60 of the value added in large-scale industry were underestimates to the extent of 9.5 per cent in East Pakistan and 5.8 per cent in West Pakistan.[9]

In such a situation yearly comparisons of per capita GPP may not make much sense. One can place some reliance only on the picture that emerges from the trends over a number of years, hopefully expecting that some of the large errors would be cancelled out. The end year figures of disparity as given in Table 2 upto 1959-60 give a picture that corresponds to the trends fitted to annual figures of disparity between 1949-50 and 1959-60. There is a distinct impression of widening disparity with time, especially during the First Plan period. For the Second Plan period after 1959-60, the end year figures of disparity calculated from Khan and Bergan and estimates based on Bose, as given in Table 2, would suggest that per capita disparity declined from 1959-60 to 1963-64. But the annual figures for these five years do not reveal any trend whatsoever.

Column 3 of Table 2 presents estimates of gross provincial product made by Papanek and the disparity figures calculated from them. The estimates are included for two reasons. First, Pa-

TABLE 3 : GROSS PROVINCIAL PRODUCT FOR EAST AND WEST PAKISTAN
(Estimates for 1964-65 to 1968-69 at 1959-60 Factor Cost)

	West Pakistan		East Pakistan		Disparity*
	Total (Rs crs)	Per Capita (Rs)	Total (Rs crs)	Per Capita (Rs)	
1964-65	2244.05	443	1861.75	301	1.47
1965-66	2243.15	459	1953.65	303	1.51
1966-67	2459.60	461	2053.70	315	1.46
1967-68	2708.15	494	2142.95	320	1.54
1968-69 **	2891.22	514	2237.48	325	1.58
1969-70 **	3156.30	546	2271.33	321	1.70

* *Disparity is the ratio of per capita GPP of West Pakistan to that of East Pakistan.*

** Rough estimates.

Sources : Pakistan Economic Survey, 1969-70.
Performance Statistics of West Pakistan, April 1969, Government of West Pakistan.

panek's attempts are theoretically much more in conformity with the index of structural change and regional development than the official estimates. Trend figures are used for major crops to reduce random fluctuations, giving typical rather than actual value-added in crop production. For manufacturing, Papanek uses the results of a survey conducted by him rather than the CMI figures, which generally give a larger value added and a larger growth rate than survey data. Furthermore Papanek's figures are in market prices, while the official estimates are at factor cost. With a rapidly increasing amount of indirect taxes accompanying the growth of industry and also agriculture, domestic product at market prices are much better indicators of the physical increase in output than GDP at factor cost. Unfortunately, given the paucity of information, in actual practice the allocation of indirect taxes and subsidies to different sectors is very difficult and subject to significant errors.

Secondly, Papanek's estimates show for the initial years, a much larger gross provincial product for East Pakistan than the official estimates. Also Papanek's figures show a widening disparity of the per capita GNP with time, not only upto 1959-60 but also during the Second Plan upto 1964-65, contrary to the estimates based on official figures. In his academic honesty, Papanek observes: "These data are not reliable. By some plausible changes in assumption, East Pakistan's domestic product can be shown to have grown more or less rapidly than West Pakistan's in the 1959-60 to 1960-65 period". In view of the fact that the official estimates are also very largely based on guesses and *ad hoc* assumptions, one cannot very easily form a judgment about the relative reliability of Papanek's estimates *vis-a-vis* the official figures. So I have presented in Table 2, Papanek's figures, side by side with the official figures.

No Estimate for Third Plan

For the Third Plan, no estimate of the regional breakdown of the gross national product of Pakistan is available. In Table 3, I have presented some estimates of gross provincial product of East and West Pakistan from secondary sources, but following as far as possible the procedures of Khan and Bergan. A West Pakistan document, published by the Planning and Development Board, Bureau of Statistics, Lahore, called Performance Statistics of West Pakistan, April 1969, gives a series of gross provincial (domestic) product of West Pakistan for the period 1964-65 to 1968-69 and of unallocable income between the two wings upto 1967-68, all at constant factor cost of 1959-60. To make it comparable with the Khan and Bergan procedures, I added the net factor incomes from abroad to the unallocable incomes, and allocated 50 per cent of that to West Pakistan. The total figure for West Pakistan for every year was deducted from the GNP figures at 1959-60 factor cost for the whole of Pakistan as given in Pakistan Economic Survey 1965-70, to get the gross provincial product for East Pakistan. For the year 1968-69, for which figures of unallocable income between the two wings is not available—mainly because of no separation between the central public administration and defence and total public administration figures—5 per cent of the total GNP for that year was taken out and 50 per cent of that was allocated to West Pakistan. (The unallocable incomes with the net factor incomes constituted about 5 per cent of the preceding few years.) For the year 1969-70, a clue was taken from the Fourth Plan document, p 535, stating that provisional estimates for 1969-70 indicate that the gross regional product of East Pakistan has increased only by 22 per cent over the base year figure for the Third Plan. This gave the figure for East Pakistan's GPP for 1969-70 over 1964-65, and West Pakistan's figures were obtained by deducting this from the overall GNP figures. The population estimates are rather rough, taken from the all-Pakistan figures from the Economic Survey and allocating 45 per cent to West Pakistan—following approximately the ratio of the last few years of Khan and Bergan estimates.

Again, one should not attach too much weight to the yearly figures of disparity. But one cannot escape the conclusion that over the years of the Third Plan there was a definite tendency for sharply widening disparity. So, even though during the Second Plan period, there was no trend in the figures for disparity—it was neither rising nor falling—during the Third Plan it was clearly increasing. This is corroborated by other estimates of the rates of growth of gross provincial product. During 1959-60 to 1964-65, the Second Plan period, the GPP of East Pakistan grew at 5.3 per cent a year (compound rate) and that of West Pakistan grew at 5.4 per cent a year.[10] But during the Third Plan, according to Pakistan Economic Survey, 1969-70, the annual average growth rate in East Pakistan was 4.1 per cent as against 6.1 per cent for West Pakistan. Assuming the same growth rate for population of the two regions, as we have done, it is clear that the disparity was widening during the Third Plan.

The measurement of disparity based on a comparison of the per capita gross provincial product at constant factor cost of the two regions—a procedure followed by Khan and Bergan and all others that we have mentioned so far—is open to another more fundamental criticism. The regional GPP's are calculated as quantities multiplied by same base year prices and generally indicate the value of money income in terms of base-year purchasing power of money. But if one rupee in East Pakistan had a purchasing power in the base period different from that in West Pakistan, the ratio of per capita GPP at constant prices of the two regions could not reflect the disparity in terms of per capita real income. Anisur Rahman makes this point forcefully.[11] He quotes from the Second Five-Year Plan (p 59): "Prices of similar goods have generally been higher in East Pakistan than in West Pakistan, the difference sometimes far exceeding the cost of transport and distribution." An examination of the data would reveal that price differences widened during the Second Plan period and the subsequent years, which means that if the base year was chosen from a more recent period, the differences in the purchasing power of money between the two regions would be greater. In such a situation the disparity in the per capita constant price GPP would definitely understate the disparity in real income.

The problem is to find an index which would show the regional income of East Pakistan when the value added in different sectors are calculated at West Pakistan's prices relative to the regional income of West Pakistan calculated at West Pakistan's prices. It is almost certain that this index would have been much lower and hence our measure of disparity (*i e*, per capita GPP of West Pakistan/per capita GPP of East Pakistan) is much higher than what is indicated by the constant price per capita gross provincial product. Unless one does the full exercise, one cannot really say anything more precise or quantitative than this. But it may be of some interest to note the exercise done by Mahbub ul Haq. He finds that in East Pakistan both rice and wheat were very much more expensive than in West Pakistan, and that in West Pakistan rice was more costly than wheat. He then claims that one ton of rice has the same nutritional value as one ton of wheat, and so they should be treated as similar goods. (Incidentally, that rice and wheat should be treated as the same commodity has been pleaded also by Papanek and Anisur Rahman.) He then values East Pakistan's total rice production at the price of wheat in West Pakistan, and also adjusts the value of rice production in West Pakistan by the same price of wheat. This lowers East Pakistan's regional income very substantially, but West Pakistan's income rather marginally. As a result he finds that in 1959-60, the estimate of disparity becomes double the figure obtained from constant price per capita incomes.

Similar exercise can be done easily for other years also as regional estimates of average prices of rice and wheat are available. The price of rice in East Pakistan is generally double the price of wheat in West Pakistan, and since this commodity has a very large weight in East Pakistan's total income, these exercises would definitely show a drastic fall in East Pakistan's regional incomes. No such attempt is made here as it is not quite legitimate, and it is not even an approximate substitute for the full exercise mentioned above.

TABLE 4 : PER CAPITA CONSUMPTION OF SOME COMMODITIES
(per year, in lbs)

	1969-70		1959-60		1951-52	
	East Pakistan	West Pakistan	East Pakistan	West Pakistan	East Pakistan	West Pakistan
(1) Wheat	33.10	231.63	9.1	221.8	2.3	225.8
(2) Rice	334.70	53.93	365.0	38.8	335.3	31.9
(3) Pulses (excluding gram)	6.68	8.08	6.8	4.5	11.4	4.5
(4) Fats and oils	6.44	13.99	—	—	—	—
(5) Milk	21.04	228.12	—	—	—	—
(6) Meat	6.00	7.97	—	—	—	—
(7) Fish	24.60	4.49	9.3	3.5	3.9	2.4
(8) Vegetables	80.75	77.78	—	—	—	—
(9) Refined sugar	5.60	15.89	2.6	6.5	2.7	8.0
(10) Tea	0.23	0.92	0.1	1.0	0.1	0.5
(11) Cotton cloth (yds)	10.86	13.22	3.0	9.0	1.7	1.4

Higher Cereal Consumption

There was another consequence of the high price of rice in East Pakistan that should be noted. The cereal food of East Pakistan has always been mostly rice. In 1951-52 per capita consumption of rice was about 14.7 ounces a day while that of wheat was 0.1 ounce and of other cereals, mainly gram, another 0.1 ounce a day. In 1959-60, which was a very good crop year, per capita availability of rice went up to 16 oz a day, and of wheat to 0.4 oz. Ten years later, in 1969-70, by the time wheat consumption became fairly widespread, per capita consumption of rice was still about 14.6 oz a day with wheat consumption about 1.4 oz a day. In West Pakistan, on the other hand, although wheat was the main cereal, its per capita consumption hovered around 9.5 to 10.5 oz a day and per capita consumption of rice increased steadily from 0.4 oz a day in 1951-52 to 1.4 oz in 1959-60 to about 2.4 oz in 1969-70. These cereals were supplemented substantially by other items like jowar, bajra, maize, barley and gram. In general, per capita consumption of all cereals was almost stable in both the regions throughout the period but was generally higher in East than in West Pakistan. The result was an overwhelming portion of East Pakistan's per capita income which was substantially lower than that of West Pakistan, was absorbed in the consumption of cereals which were again relatively more expensive in East than in West. It was natural that per capita absorption of other consumer items would be much smaller in East Pakistan compared to that in West Pakistan. This feature was present throughout the period after independence; and in 1969-70, when per capita income at constant prices was much higher than in 1951-52, per capita consumption in East Pakistan of milk was less than a tenth of that in West, of fats and oils less than a half, of refined sugar about a third, often about a fourth, and of meat about 30 per cent of the per capita consumption in West. In 1951-52, per capita consumption of cloth was slightly higher in East than in West. But in 1969-70 per capita consumption of cotton cloth in East Pakistan was only 10.86 yards compared to 13.22 yards in West Pakistan[12] (see Table 4).

Notes

1 Ghulam Mohammad: "Development of Irrigated Agriculture in East Pakistan: Some Basic Considerations", *Pakistan Development Review*, 1966.
2 Mahbub ul Haq: "The Strategy of Economic Planning: A Case Study of Pakistan", 1963.
3 Quoted by M Anisur Rahman (footnote 7) from Economic Survey of East Pakistan, 1963-69.
4 Khan and Bergan: "Measurement of Structural Change in the Pakistan Economy: A Review of National Income Estimates", *Pakistan Development Review*, 1966.
5 Khandkar, R H: "The Pattern of a Divided Economy: A National Income Analysis of India and

Pakistan", *The Journal of Royal Statistical Society*, general series, 1955.
Papanek: "Pakistan's Development", Harvard, 1967.
Anisur Rahman: "East-West Pakistan: A Problem of Political Economy of Planning" (mimeographed).

8 S R Bose: "The Trend of Real Income of the Rural Poor", *Pakistan Development Review*, 1968.

9 See Khan and Bergan (footnote 4) for the details for different sectors.

10 Stephen Lewis: "Pakistan: Industrialisation and Trade Policies", p 139.

11 Anisur Rahman, *op cit* (footnote 7).

12 The figures for 1969-70 are taken from the Fourth Five-Year Plan and for earlier years from S U Khan: "A Measure of Economic Growth in East and in West Pakistan", *Pakistan Development Review*, 1961.

Pledged to serve people engaged in all vital sectors of the economy

DENA BANK

gives high priority to helping small industries progress and prosper

DENA BANK is an active partner in the development of the vital sector of Small-scale Industries. Through its large network of branches DENA BANK is giving financial assistance to a large number of enterprising entrepreneurs, thereby helping them to produce more goods,to employ more people and to accelerate the pace of our country's all-round progress.

Please visit the nearest DENA BANK Branch and enquire how DENA BANK's Small-scale Industries Finance Scheme can help you also.

DENA BANK
Head Office:
Devkaran Nanjee Bldgs.,
17,Horniman Circle, Bombay-1

RATAN BATRA DENA/01

The Police in India

David H Bayley

In September this year, for the first time since Independence, the National Commission on the Police was set up. While police commissions were appointed in most states in the sixties and they did fairly exhaustive studies of the situation in the states, there was no integrated all-India survey of the functioning of the police.

The point is that, though the existing police system functions reasonably well within the terms of its operations, its achievements are less than adequate for the requirements of a vital democracy. It is not enough for the police to enforce law and order after an outbreak of violence. They must have a living contact with the people whose trust they must earn.

What historical, organisational, and conceptual factors have prevented the police from shaping up for this task? This article outlines the general background of conditions in which, and goals towards which, the police in India have been functioning to date.

A SIGNIFICANT but generally unnoticed announcement was made by the Government of India in September. For the first time since Independence, and for only the third time in the history of India, a national commission has been created to study the functioning of the police. During the 1960s, police commissions were appointed in most states. Their reports have been completed, though they have not been widely publicised, and a few have yet to be released in full to the public. The national commission is the capstone to almost a decade of serious and penetrating examination of police problems.

India is by no means the only nation that feels compelled to re-examine its police arrangements. Nor is it the only nation that has recently experienced a growing incidence of public disorder and indiscipline. The need to secure order and to enhance civility has been felt worldwide. This is one area where the imprecise distinctions between rich and poor nations, modern and traditional societies, and developed and underdeveloped countries, have no application. Indeed, considering the disarray among the police in many Western countries, such as the United States, the customary direction of technical assistance and advice might well be reversed.

The purpose of this article is to determine what problems confront the Indian police and what features most need to be improved. It should be clearly understood that, though the police has its defects, as any active force has, it nevertheless has much to commend it. For example, the structure of the national system has been intelligently devised—allowing for state direction while avoiding paralysing fragmentation and providing all-India legal codes and standards without entailing monolithic centralisation. The Indian Police Service is composed of able, carefully selected, well trained, and dedicated men. The police have played a neutral role in partisan politics; they have never sought to take political initiative into their own hands. Police operations are by and large accountable to law and to the institutions of representative democracy. Finally, considering the persistence and seriousness of social violence since Independence, the police have demonstrated remarkable tact, restraint, and imagination in coping with crowds and civil disorder. For these and other reasons, India may be justly proud of its police service.

Appraisals of the police are frequently crippled by adopting, at the outset, a too narrow and limiting perspective. Police officers, civil servants, and lay consultants, are often preoccupied with day-to-day problems of police work. Their frustrations are immediate; so their advice and testimony are mundane, focusing on matters of routine and practice. Police reforms, however, should not be considered simply as a technical problem of improving the performance in containing crime or securing law and order. Though the police do have a specific, unique, and critically important function, they play a much larger social role which must not be lost sight of. The police are not just one agency of government among many; they are its most common and awesome representative. The police are ubiquitous, powerful, and intrude on human lives at moments of enormous emotional importance. They are also the most visible agents of the rule of law. Consequently, if public attitudes to law and government are important to a nation, then an appraisal of the police role must take into account the impact upon larger political structures. Furthermore, the effectiveness of the police in curbing criminal activity—their specific charge—is determined largely by their relations with the surrounding society. A police force both shapes, and is shaped by, the society it serves. Police organisations must not be looked upon as interchangeable parts in a social machine; they are part of a society's very character. In order to understand fully what a police force is, and what it can become, it must be examined in its social role—both how it impacts society and how society affects it.

A Colonial Police

The most surprising feature of the contemporary Indian police is that its activity remains so largely colonial in mould. Reference, here, is not to overall organisation of the police, which was largely established by the Police Act of 1861. Of greater importance is the persistence of behaviour patterns and philosophy. The primary function of the police continues to be containment of trouble once it occurs—whether it be mob violence or individual criminal activity. It reacts to threats to law and to government, but it does not actively seek to serve the peculiar security needs of individual citizens. From the citizen's point of view, the police are largely a passive force, difficult to energise, bureaucratic in working, impersonal and offhanded in operations. The national commission might examine whether the followmg hypothesis is true: the majority of contacts between individual policemen and citizens involve the actual or implied enforcement of law; very little time is devoted by policemen to non-enforcement mediation, when criminal sanctions are not involved, or in responding to calls for general assistance. The explanation for this situation is the same as it was under the British. The Indian police continue to be shaped primarily by the requirements of

public order; the overriding preoccupation of officials responsible for the police is with threats to law and order. Let us examine the evidence in support of this diagnosis.

First, there are, by conservative estimate, about 600,000 policemen in India today. Of the total, at least half and possibly three-fifths belong to the armed police. It is difficult to be precise, because government has not released statistics on police strength for almost a decade. It is safe to assume, however, that over half the total number of policemen are not engaged in station-house duty, investigation of crime, street patrolling, traffic regulation, or responding to the needs of individuals. They live in cantonments, train to function in groups, handle firearms, and are seen by the public exclusively as armed guards or in crowd-control duty. Counting armed and unarmed policemen together, there is probably about one policeman for every 800 persons; excluding the armed police, there is approximately one policeman for every 1,600 people. The proportion of armed policemen to the total is growing, and will continue to grow in the near future.

Police are chronically a 'non-Plan' department; they will find money increasingly scarce, except perhaps in states like West Bengal. What little new resources are available will be used to build up police formations capable of directly coping with public disorder. The armed policemen, stationed at Calcutta street corners, are harbingers of the times. Moreover, the functional division between armed and unarmed police is likely to become even more rigid. Police officers fear that unarmed police will be stigmatised if they are used for riot duty. To safeguard their reputation, it is therefore considered more prudent to import armed police—outsiders, as it were—if violence has to be employed against crowds. Thus it is most unlikely that emphasis in the near future will be put on unarmed, as opposed to armed, police.

The point is that the law and order problem is real. It is a threat that government can *ignore only at its* peril and at enormous cost in suffering to its people. The point here is not that law and order is not a significant issue, but simply that, as in British times, it is an enormous constraint on the structure and behaviour of the police. It will also act as an enormous constraint on the ability of the new police commission to recommend significant reforms: conscious of peril and knowing the police to be hard-pressed, the commission may feel compelled not to burden it with disorienting innovation.

Secondly, rural India is terribly under-policed. This is a function of deployment, not of shortage in total numbers of men. In the cities, there is about one unarmed policeman for every 600 people—a figure that compares favourably with large cities around the world. In the countryside, the figure is one for every 1,800 people. There is greater disparity between rural and urban areas with respect to police per unit of population in India than, for example, in Great Britain or in the United States. India neglects its non-urban population. It may be argued, of course, that there is much less crime in rural areas, therefore there is less need for police there. This is certainly what official crime statistics indicate, but the conclusion drawn is false. Crime statistics are an artifact—i e, they reflect as much about the organisation collecting them as they do about the real world. Crime statistics show what comes to the official attention of the police. Consequently, the more policemen the more crime, and this has nothing to do with the honesty of policemen. The police commission could make a great contribution by studying the true incidence of crime in rural areas. In this way, deployment of police could be effected without relying on specious arguments from official statistics.

Contrary to what one might think, there is enormous latent demand for police in rural areas. A public opinion survey conducted in 1965-66 showed that 79 per cent of rural people interviewed would prefer to have a regular police officer stationed in the village than the local chowkidar.[1] Attempts to transfer police stations from one village to another invariably raise protests from people living near the existing station. Considering the low opinion so many people have of the police, these expressions indicate a serious need for enhanced protection and service.

Thirdly, opinion surveys bear out what people generally suspect about public regard for the police: police are not perceived as responsive, sympathetic, and trusted servants of the people.[2] People generally hesitate to approach the police; they do so only when their need is acute or contact unavoidable. And the police of independent India do not appear to have significantly transformed the public's suspicion. The view of a former police commission is probably as true today as it was in 1903: the police ". . is generally regarded as corrupt and oppressive; and it has utterly failed to secure the confidence and cordial co-operation of the people".[3]

All in all, since 1947, government has not seized the opportunity to create an effective, responsible, citizen-serving police force, covering the length and breadth of the country. It has focused pre-eminently on the containment of group-violence, and it has done so in those parts of the country where such violence is most visible and possibly most unsettling, *viz*, in large towns and cities. By default, rather than design it has neglected important sections of the populace and has failed to demonstrate that police protection and assistance can be obtained speedily and willingly through the initiative of individual citizens. This is not to suggest that policemen should do 'social service' work. Such activity would detract even further from performance. It means that the police should minister much more to the security needs of individuals. Physically they must be available close at hand and psychologically they must be primed to respond resourcefully to such requests. They must be attuned to out-reaching preventive action rather than be waiting passively for crime to occur. In short, policemen have failed to become as sensitised to requests for service from below as they have been to commands from above.

As for the influence of the police on attitudes to government and law, their effect has not been wholly negative. At the same time, it has not been very supportive. The police represent an opportunity, which is going unexploited, for developing a higher level of citizen-regard for government, its institutions, procedures, personnel, and the rule of law within which it works.

A Proposal

The size of the armed police should be reduced by shifting manpower to the unarmed constabulary. Prevention should play a larger role relative to containment. In this way, a more pervasive police presence could be created, especially in rural areas. Patrolling could be more active and solicitation of the needs of citizens less episodic. At the same time, alternative methods of meeting the requirements of law and order should be explored. Characteristically, with arguments involving security, precise measures of the magnitude or imminence of threats cannot be constructed. Dispositions are, therefore, made by reference to the worst possible situation. Understandable anxiety, especially among district officers, produces cautiousness in making dispositions and this undermines attempts to use manpower in less passive ways.

There may be one way in which weight can be shifted from armed to unarmed police formations without jeopardising public order. The traditional separation between police for armed riot duty and police for unarmed non-riot duty should be reconsidered. Training can be given to unarmed policemen, whose numbers will be expanded, in the use of weapons and in the tactics of riot work. A much reduced district armed police, or a reserve force consolidated for several districts, could provide an immediate striking force in the event of unforeseen disturbances. If trouble escalates, or if there is warning of greater impending trouble, unarmed policemen can then be collected from their normal posts and assigned to armed police formations. In this way, manpower does not stand idle awaiting public disorders. This proposal will require improved communications and transport. The benefits customarily attributed to separating unarmed from armed police, in terms of effects on public opinion, are overstressed. As surveys have shown, all police are generally regarded as faceless; most people do not recognise policemen as individuals.[4] This is especially true in riot duty, where ranked uniforms obscure individual personalities. Considering the already low reputation of the police, it is doubtful whether armed crowd-control duty would significantly reduce the utility of the unarmed police assigned to it. Surveys also show that, of people who have experienced police crowd-control work—firings and lathi-charges—, as great a proportion approved the police action, finding it justified and restrained, as were critical of it.[5] Beyond doubt, there is great merit in not arming policemen who do routine patrolling and station-house work. The example of the British police is compelling. But there is no equally compelling reason why unarmed policemen should never take up arms and do riot work.

The advantage of this proposal is that a vast reservoir of manpower can be tapped to provide an effective police presence throughout the country in non-emergency times. Such a shift cannot occur overnight; many of the armed police, even when retrained, will not be suited for more intimate police work. But, over several years, police manpower could be shifted from the cantonment to the station-house without deterioration in control of public violence. It is quite likely, moreover, that a pervasive police force attuned to prevention could stifle at birth many of the incidents that lead to riot and disorder.

The feasibility of this proposal ought to be tested in the field. This could be done by means of controlled experiments in the new deployment in selected districts. Proposals for reform of administration are often accepted or rejected *en toto* on the basis of *a priori* argument alone. The Indian police establishment is sufficiently large and the country sufficiently spacious, so that proposals of many sorts could be tested in the field without diminishing the efficiency of the whole. The police commission might consider establishing a central unit to encourage, monitor, and financially support experiments within the states with regard to alternative police arrangements and practices.

The way to win the respect of the population for the police is to utilise manpower so it can be genuinely responsive to individual needs. Crime prevention and public co-operation are won by deeds, not by exhortation and special events tacked onto already demanding workloads.

Start at the Bottom

Any significant attempt at reform of the police must begin with the men at the bottom, not at the top. The quality of police performance can improve only if the constabulary is changed. Moreover, the quality of police work is hampered far more by deficiencies in human performance than by legal impediments. Neither legal tinkering nor adjustments in leadership can offset the defects on the job of the personnel at the bottom of the police hierarchy. The gravest problems of police practice can only be solved by reshaping the Indian constable.

What is the evidence to support this assertion?

Firstly, approximately 93 per cent of the entire manpower of the police is composed of constables and head constables. These men are ill-educated, poorly trained, and miserably paid. They have been given little authority. They display little initiative, looking to superior officers for direction. The disparity in human quality and hence in performance is enormous between the men at the top and the men at the bottom of the police establishment. In this, the police reflect the gaping inequalities of Indian society generally. By contrast, the police of Britain or the United States are not nearly so well led; it is rare to find officers in these countries with college degrees, let alone the sophistication of Indian officers. On the other hand, the constables or patrolmen are vastly superior to Indian constables or patrolmen. They are given all the power and responsibility possessed under law by any police officer. Promotion in the United States and Britain does not endow an officer with greater police power; it simply raises his pay and gives him new jobs — usually administrative ones. In India, initiative and responsibility are concentrated in a very narrow segment of the police establishment; the bulk of the force, accounting for most of the contact with the public, is not permitted to display these qualities, precisely because it does not possess them. The Indian police systematically puts its worst foot forward.

Secondly, wage rates are so low for constables and head constables that corruption is virtually assured. A police constable's wage is equivalent to the lowest salary for the most unskilled central employee. The peon who opens the door or carries messages in government offices in New Delhi makes more than the constable patrolling the street in Patna. Though wage rates differ among states, they are generally not high enough to permit a constable to eat what is required for a person doing even light or sedentary work.[6] A constable cannot perform adequately and support his family even minimally on the wage he is paid. Coupling modest authority with poverty wages in an invitation to venality. Over nine-tenths of all policemen are in exactly this position.

Thirdly, and as most state police commissions found, the level of criminal investigation leaves much to be desired; this opinion is prevalent even in official police quarters. At the same time, rates of conviction and arrest in India relative to known crimes compare favourably with most countries. Officers have forthrightly testified in several forums that investigation malpractices are common, delays substantial, and supervision inadequate. Instances have been reported of constables and head constables undertaking criminal investigations — a practice which is contrary to law.[7] Many of the state police commissions have concluded that case-loads are much too

high for officers of investigating rank. If this is true — and it is a point the police commission should check — it would again argue that too much manpower is being concentrated at non-decision-making levels.

Fourthly, police officers complain frequently about the suspicion with which the judiciary views them. It is certainly true that courts have been strict. Police activities, especially criminal investigations, are hedged in with a bewildering array of rules. Police officers chafe under this burden, not only because it demeans their self-image, but because it complicates and slows down their work. They testify eloquently that these constraints should be loosened. Why, they ask, should two independent witnesses from the neighbourhood be required when searches are made? Why cannot confessions voluntarily given before an officer of IPS rank be made admissible in court? Why is such enormous weight attached to 'first information reports' that they become the heart of many cases and the bane of every investigating officer's existence?

Police and judiciary are caught in a reinforcing cycle of suspicion and recrimination. Judicial distrust, rendered into rules and laws, makes convictions more difficult for the police to obtain; the police become frustrated and, since they are judged to some extent by their record of 'convictions obtained', are tempted to 'cook' evidence; the judiciary, faced anew with evidence of malpractice, finds its suspicions reinforced and looks with an even more jaundiced eye at police evidence. To break this cycle, there needs to be improvement in the men who do the mundane work of criminal investigations. The remedy for distrust between police and judiciary is not repeal of these offending rules. Such rules can, and will, be repealed only when the quality of police work has so improved that such rules become superfluous. Once again, reform must come from the bottom up — rather than from the top down. An expanded corps of investigating officers, more highly trained, perhaps better paid, and abolition of their obtruding subordinates, the police constable, is the first and necessary step.

Fifthly, impressionistic as well as survey evidence indicates that the public believes that favouritism and political influence play a large role in determining how the police act. Granting this is true — and many state police commissions concluded it was — the problem is unlikely to be met by stricter rules administered through a thinly-spread officer corps. Superior police officers are in relation to their subordinates what the judiciary is in relation to all the police. They suspect them of wrongdoing and rely primarily on formal rules to curb it. The result among the lower ranks is frustration on a myriad niggling rules and a sense of being inevitably in the wrong. The existing system, of exhortation and surveillance from the top, has not been particularly successful. This suggests that improvement must come from within the lower ranks, not from without. The capacity, and the willingness, of lower ranks to resist appeals for special treatment can be created only by generating an *esprit de corps* among these men. This requires raising the professional quality of this stratum and making it respectable in its own eyes.

A Proposal

The 'police peon' should be abolished. Supernumerary ranks of constable and head constable should be exchanged for an expanded cadre of inspectors, sub-inspectors, and assistant sub-inspectors. The lowest ranks of the police should be capable for the first time of being given and taking independent initiative and discharging all the essential duties of the policeman. The lowest ranking policeman must be allowed to do work which he can be proud of and must be supported at a standard of life sufficient for his needs. Autonomous in authority, proud in ability, sufficient in income, he could then begin to break the traditional suspicion that has tarnished police relations with the public, judiciary, politicians, and even superior police officers. Implementation of this proposal would cause a decline in the total number of police bodies. Constables would be traded for a smaller number of more qualified men. The gain in goodwill, efficiency, and respect would be more than recompensed. In this way, policemen would begin to appear capable and worthy of discharging their obligations.

Conclusion

Two broad conclusions emerge from this analysis of the contemporary Indian police: firstly, less emphasis should be placed on containment and the maintenance of passive forces, and more emphasis should be given to creation of a police presence which is pervasive and preventive; secondly, the most serious and chronic problems of the police can be traced to the status and failings of the lowest ranks. If these conclusions are correct, two fundamental reforms are called for. First, armed police should be exchanged for unarmed police, thereby making available a greater number of unarmed police for patrolling and station-house work. Secondly, a greater measure of functional egalitarianism should be created among police ranks by raising the lowest level of police personnel in responsibilities, pay, and respect. This can be accomplished by abolishing the post of constable and head constable and devoting the resources freed to increased recruitment at higher ranks. The effect of both these reforms will be to reduce the total number of police. However, the range of effective police coverage will not be sacrificed but should improve because a larger number of unarmed policemen will have substantial decision-making capabilities.

Furthermore, the national police commission should not be content with scrutinising technical and administrative problems related narrowly to crime and the maintenance of order. The work done by the state police commission has generally been well done, but the national commission should be prepared to supplement these studies when it finds that data needed for its deliberations are not available. The commission should also encourage experimentation on a limited scale with promising innovations, so that their merits can be decided in the future on the basis of hard facts.

Evidence of paternalism and the posture of reacting to specified problems rather than assuming initiative to prevent novel ones are found in many places. The transformation of a sharply non-egalitarian administrative structure, by raising the bottom manpower levels, thus requires struggling against the nature of Indian society itself. The fact is that the police fit so well a society based upon elaborate status differentials, on the one hand, and a colossal labour surplus, on the other. Creation of a new police will be uphill work against a resistant environment. If it is any consolation, the same was true a century and a half ago when Robert Peel created the now-renowned 'Bobby'. Significant reform will be even more difficult to achieve at a time when conditions of law and order appear to be deteriorating. It will be easy to find excuses for doing what is familiar.

The existing system functions reasonably well. This is true enough, but the achievement is less impressive when measured against what a vital democracy requires. The police exert enormous influence upon a people, especially as in India, where so many are young and learning to accommodate themselves to the institutions of a more egalitarian democracy founded on the rule of law. The police can protect these institutions and aspirations not only by arresting criminals but by what they choose to do and not to do in daily life, by the manner they adopt and by the example they constitute as an organisation in society. There are few countries that have attended adequately to the social and political dimensions of enforcing the law. India has an opportunity to show the way.

Notes

1 David H Bayley, "The Police and Political Development in India", Princeton: Princeton University Press, 1969, pp 388-89.
2 *Ibid*, chapter 8.
3 Indian Police Commission, 1902-03, p 150.
4 Bayley p 214ff.
5 *Ibid*, pp 272-76.
6 India, Ministry of Finance, Commission of Enquiry on Emoluments and Conditions of Service of Central Government Employees, 1957-59, p 61 ff.
7 Bihar Police Commission Report, p 103 ff, and Government of India, Law Commission of India, Fourteenth Report (Reform of Judicial Administration), 1959, Volume II, pp 735-44.

Capitalist Development in Agriculture

Reply

Ashok Rudra

UTSA Patnaik in her article "Capitalist Development in Agriculture" (September 25, 1971, pp A-123-A-130) has made plenty of references to me. I suppose I have to thank her for the attention she has given to the study jointly made by A Majid, B D Talib and myself of large-scale farming in Punjab, even though the epithets she uses very freely and abundantly are far from flattering: "unhistorical and incorrect method of analysis", "idiosyncratic way", "formulation of the statistical problem ... quite incorrect", "methodological mistake", "superficial and incorrect", "some understanding of the post-colonial agrarian structure is absolutely essential", "very poor Marxist", etc, etc. As a corollary, in her positive assertions about what is methodologically correct, historically correct, statistically correct, etc, she does not suffer from any hesitations or doubts at all. It is indeed refreshing to come across so much self-assurance; whether so much self-assurance is better than having any doubts is another matter. One should be grateful for being taken so seriously as to be pointed out so many errors. After all, it is possible that Utsa Patnaik is right. But then it is also possible that she is wrong!

Utsa Patnaik does not stop at just pointing out all my superficialities, errors and gross ignorance; she proceeds further and gives me plenty of directions as to how to improve my work: "it would be useful if Rudra could retabulate his data ..."; "if Rudra could give us the results of carrying out this exercise" —referring to a certain exercise she recommends; "Rudra should be careful not to confuse ...", etc. As Utsa Patnaik feels so free in using the verb "should" in connection with me, may I be permitted to tell her that while she has every right to criticise my work and call it wrong and superficial and what not, such directions as how to tabulate or retabulate data or such advice as to whether the mean or the median is a better statistical average she might with advantage reserve for any students she might have working under her? Pearls of wisdom, after all, should not be thrown at poor statisticians and poorer Marxists!

Utsa Patnaik has made so many criticisms that it is neither possible nor necessary to reply to all of them. Let us look at the most important one. She finds it unhistorical, incorrect and idiosyncratic that I should have tried to find positive associations between a number of variables each of which I expected to take high values for capitalist farmers. The fact that most of the variables taken in pairs fail to reveal strong positive association indicate that there has not yet been among the farmers of Punjab any strong *polarisation* and I have expressed doubt whether it serves any important purpose to talk about capitalist development before polarisation has reached a sufficiently high degree. In the long classroom lecture which Utsa Patnaik has given about the slow process of capitalist development she ends up with the observation that a "simple and basic fact which Rudra ignores" is that there will not be overnight transformation of non-capitalist farmers into a readily identifiable group of pure capitalists". Even Rudra will agree to this quite unexceptionable proposition. The point that I emphasised was that it does not help much to talk as if such a readily identifiable group has already made its appearance when it has not.

I find that Utsa Patnaik does not find much fault with the variables I have chosen to study. In a situation of capitalist development one should expect to find a polarisation developing such that not only would the values of the variables tend to increase among the farmers undergoing the transformation but increase *conjointly*. As long as such conjoint movement has not taken place to a considerable extent — that is, as long as there is no polarisation — we cannot say that capitalist development has taken place. I would say that the changes that have taken place are largely of a quantitative order, within the framework of the production relations and class structure as has been existing from before. The emergence of a new class would imply that the transformation of *quantity into quality* has taken place. I would suggest that such a transformation has yet to take place.

Let us now look at the statistical criteria Utsa Patnaik suggests after disposing of mine as "idiosyncratic". The criterion for being a "pure capitalist" is to have higher than average value ("either the mean or the median, preferably the latter"!) for each of my five variables and another two variables she suggests. Now whenever there are two or more observations on a variable, there is an average and there are some observations above and some below the average. The above criterion will have it that whenever a farmer has a more than average value for any one of the variables, he is a bit of a capitalist farmer; and he is a pure capitalist farmer when he has got more than average value for each of the variables. Let us go to a village consisting of all very small farmers, say an Adivasi village. For each of the variables concerned there will be some average and there will be some above the average. All these farmers should be regarded as capitalists of a certain degree, whatever be the absolute value of these variables, however low the averages and, therefore, however low the observations falling above the average. The richest peasant in the village might conceivably have higher than average value for each of these observations. He must then be treated as a pure capitalist farmer. What meaning idiosyncrasy!

Let us now proceed to Utsa Patnaik's reaction to my talk of discontinuities in connection with the question, how to demarcate rich, middle and poor peasants. I am afraid, she will discover to her

horror that while talking of the correct Marxist definition of these classes she has been talking of nothing but discontinuities, just as Moliere's bourgeois *gentilhomme* discovered to his great elation that all his life he has been speaking "prose". Thus, let X be the size of farm and Y the proportion of hired labour to family labour employed in farming. Then the Marxian's definition suggests a discontinuous fuction $y = f(x)$ such that for $x < x_1$, y is positive, for $x > x_2$ y is negative and for $x_2 \leqslant x \leqslant x_1$, y is 0. The function has got two discontinuities, one at x_1 and the other at x_2. If, on the other hand, there are no discontinuities, then f(x) would intersect the x axis at some point, say x_0. In that case there would not be a class of middle peasants. It is of course true that if one takes actual observations, one will obtain a scatter and no function, other continuous or discontinuous, will fit the data.

With such observations how to decide from what point onwards to consider peasants as rich peasants, especially as it will be found that in most size groups (however one measures size) some peasants hire in labour, some hire out and and some do both? To answer this question one will have to set oneself the statistical problem: given observations on y and x, what are the best estimates of the points of discontinuity x_1 and x_2, assuming now that there are two such points such that $Ef(x) > 0$ for $x > x_1$, $Ef(x) < 0$ for $x < x_2$ and $Ef(x) = 0$ for $x_2 \leqslant x \leqslant x_1$? I have, however, not talked of the particular variable — proportion of hired labour employed to family labour. Instead, I have talked of there being discontinuities in all the important variables relating to farm economies. The justification is this. If indeed there are three classes among peasants, then there must be certain qualitative differences between farms belonging to the three classes. As soon as one talks of classes based on size (however one defines size) as one does in Marxian literature one implies that this size variable x, while changing in quantity terms gives rise to quality difference, once at x_1 and once again at x_2. If therefore z be any variable relating to farm economies one should expect a qualitative difference in z's relation with x in the three classes, that is, for $x < x_2$, $x > x_1$ and $x_2 \leqslant x \leqslant x_1$. That is the same thing as saying that z regarded as a function of x has got discontinuities at x_1 and x_2. If indeed the variables dependent on x did not have any discontinuities at the same points x_1 and x_2 then it would not be analytically useful to talk of three classes. It goes without saying that classes cannot be demarcated with razor's edge precision at mathematical points x_1 and x_2; in general there will be one zone around x_1 and another around x_2. But the essential point is of the variables y, z, . . etc, being discontinuous if not at the same point as x_1 and x_2, at about the same points.

I suggest that the concept of discontinuities is the direct translation of the Marxian concept of "quantities into qualities". Marxism claims to be a science; if so, its adherents ought not to remain content by merely repeating the very letters of Marx, Engels and Lenin. If one has to undertake measurements and test hypotheses arising from Marxian analyses, one will have to undertake such translations as I have done. And for me, the Marxian concept of three classes in agriculture remains a hypothesis to be tested. If in actual statistical analysis one fails to discover discontinuities one will have to give up the idea that there indeed are three classes. (Utsa Patnaik will also have to do so, for if there are no discontinuities it would mean there are no middle peasants.) I would not accept any hypothesis, even if it were propounded by Marx or Lenin, unless it passes the test of empirical verification.

After defending my positions, I may now turn to some of the statistical propositions of Utsa Patnaik. I find it very curious the way she talks about "scale effects". What does she mean when she says "more capitalist scale of operation"? She argues that "the effect of aggregation on the basis of size is to blur the scale effects(?)" and that "much better indicators of scale of operations than size, are (a) the value of capital stock, and (b) the annual value of output". Whatever be the scale of operation, it is difficult to understand how if grouping by size blurs something, grouping by annual value of output will not. Grouping by size is bad she says, because one will lump together an 8 acre farm which is run on intensely capitalistic lines with another farm of 8 acres that is run on traditional lines. How is the problem of such lumping together avoided when one takes annual value of output? In that scheme of classification will one not lump together a farm that had an annual output of Rs 50,000 out of a cultivated gross acreage of 11 acres with another farm that also had annual output of Rs 50,000 but out of a gross acreage of say 53 acres?

Utsa Patnaik also advises me to go in for calculating the rate of profit on capital advanced and the rate of surplus value appropriated and quotes her own results. She is indeed a brave statistician. I wonder how she satisfied herself on the following points:

(a) How does she calculate surplus value created by wage labour considering that where there is inevitably a large proportion of family labour going into production side by side with wage labour? How could the ratio of surplus value be a measure of the exploitation of workers, considering that the value is not all produced by wage labour?

(b) How does she calculate profit, given that, as is well known, much of outputs and inputs are non-monetised? (I did not calculate profit but dealt only with the "monetised part of profit" and therefore did not take the trouble of taking its ratio to either working capital or to fixed capital.)

(c) What is the justification for thinking that the rate of profit on working capital is a good index for comparing the relative profitability of two lines of investment? What about fixed capital? Of course, the expedient of forgetting fixed capital is taken recourse to in much of model making just because it makes life simpler. If one is working with algebra, taking profit as a constant proportion of turnover or a constant fraction of turnover (implying the same turnover period in all sectors) yields nice and convenient simultaneous equations. If one is trying to quantify, forgetting fixed capital does away with the problem of measuring fixed capital, all the more difficult in Indian agriculture where much of fixed capital is formed by direct application of non-monetised labour to land improvement.

Photo Copying Machine

A HIGHLY economical electrostatic photo copying machine will be introduced in the market by Advani-Oerlikon. The company has already manufactured 20 such machines. The process for these machines was invented by the National Physical Laboratory and was licensed to the company by the National Research Development Corporation. The process does not involve use of any wet chemicals, being a direct positive-to-positive reproduction of any written or printed material on any type of paper or any other material having a reasonably smooth surface. Finished permanent prints in any of the four colours — black, blue, green and red — up to fullscape size can be obtained in about a minute's time.

ECONOMIC AND POLITICAL WEEKLY

Founder-Editor: Sachin Chaudhuri

Vol VI No 46 November 13, 1971

Growth by 'Liberalisation' I—Concentration on Each Other —For Home Consumption 2294

Business 2295

Perspectives

China, India and Japan —Dhananjoy 2298

Companies 2299

From Our Correspondents

South: Conflicts in Tamil Nadu —Mohit Sen 2301

Bhutto Goes to Peking —G P Deshpande 2302

Gujarat: Majur Mahajan Asserts Its Identity —Ajay Oza 2303

Co-operatives Are Not Insulated —K K Taimni 2304

Businessmen In Blinkers —S Srinivasan 2306

Bangkok: By the Grace of the GI 2307

London: Prospero Is Stunned —Farrukh Dhondy 2309

The Fourth Estate 2312

Reviews 2313

Special Articles

Reg'onal Disparity and Economic Development of Pakistan II: Some Hypotheses to Explain Growth of Disparity —Arjun Sengupta 2315

Elections in a Scheduled Caste Neighbourhood: A Punjab Town —Veena Dua 2323

Competitiveness of Indian Steel Exports: Reply —Samuel Paul 2327

ECONOMIC AND POLITICAL WEEKLY
Skylark 284 Frere Road Bombay 1
Phones 266072, 260566, 260192
Editor
KRISHNA RAJ
Assistant Editors
Rajani X Desai, Jawid Laiq
Business Manager: A Fernandes
Circulation Manager: Shiv Patil
Editorial Staff
Colin de Souza, Haresh M Advani
Shireen Heerjee, Ashok Rao

Time for Cool

THE Prime Minister is about to complete her three-week tour of six Western countries. Whatever might have been the calculations when the tour was planned, as it has turned out, the developments in East Bengal, the exodus of refugees into India and the mounting military tension between India and Pakistan have come to be at the centre of the Prime Minister's talks with the leaders of the countries on her itinerary. It is difficult to say, on the basis of newspaper reports, what has been achieved by these talks. The Prime Minister is expected to give her own assessment to Parliament early in the winter session. Broadly, it might seem that, with one conspicuous exception, all the countries visited by her agree to a lesser or greater extent that, first, a political solution has to be sought for the situation in East Bengal; second, such a solution should come about through negotiations between the West Pakistan authorities and the leaders of the 'democratically elected representatives of the people' of East Bengal; third, military suppression of the East Bengalis by the Pakistan Government should end; fourth, arms supplies to the Pakistan Government would be suspended; and, fifth, the exodus of refugees into India has cast a heavy burden on India which needs to be shared by the international community.

The one conspicuous exception is, of course, the United States. On the face of it, the differences between the Indian Prime Minister and President Nixon might appear to have been not so much on the basic issues as on the immediate measures to be taken to reduce tension between India and Pakistan. President Nixon reportedly stuck to the US position that India should agree to a mutual withdrawal of troops and to the stationing of international observers on both sides of the Indo-Pak border. However, what this means by implication is that the US sees the developments in East Bengal as primarily, or at any rate substantially, as an issue between India and Pakistan, the resolution of which calls for equal and matching action from both sides. More basically, the US approach to the Indian subcontinent continues to be dominated by the urge to prevent the break-up of Pakistan and the consequent accretion of strength to India. But in this is the US position so different from that of the other five Western countries visited by the Prime Minister? Is not the accent on a 'political settlement through negotiations' perfectly consistent with an urge to preserve Pakistan more or less in its present form? And did not Soviet Prime Minister Kosygin himself assure his Algerian hosts recently that even his country stood by the 'territorial integrity' of Pakistan?

Now that we have acquired, through the Prime Minister's extended tour and through the earlier perambulations of sundry ministers, a first hand idea of the views of almost all countries and certainly of those that matter (with the exception of China, whom we appear to have written off as being irrevocably committed on the Pakistani side) what does it all mean in terms of the immediate course of action for the government? There is a general expectation that some decisive steps will follow the Prime Minister's return, among them the declaration of a state of emergency. In the last few weeks the Indian and Pakistani armies have taken positions along the entire border between the two countries; shelling, air violations and other 'incidents' have become regular occurrences; and Pakistani saboteurs have stepped up their activity in the north-eastern states and in Kashmir. Against these developments, there can be no question about the need for the utmost vigilance on the part of the government.

At the same time, there already exists in the country, including within the government, a considerable section of opinion which is convinced of the case for a war with Pakistan at this juncture. The reasons extend all the way from deep-seated hostility to Pakistan which has very little to do with the developments in East Bengal to the simple and straightforward argument that it would be cheaper to fight a war with Pakistan than to maintain ten million refugees indefinitely. But what sort of a war will guarantee the return of the refugees? And more important, our elaborate efforts to Gallup Poll the countries of the world have, as mentioned above, made clear that any attempt by India to militarily alter the political balance in the subcontinent through a war with Pakistan would almost certainly fail—given the international straitjacket within which we function. Fortunately, our options are not so limited. It is in fact the regime in Pakistan which is under intolerable stresses just now and it would be wise to allow these stresses to work themselves out. With the Pakistani army in East Bengal almost entirely drawn to the border, it has been possible for the Mukti Bahini to step up its operations in the hinterland. The regime's calculation that while the regular army moved up to the border, razakars and irregulars would be able to take care of the Mukti Bahini are

being fast proved wrong. And in West Pakistan itself there are rumblings of impending political developments. Yahya Khan's plans of rigging up some sort of a civilian government in East Bengal through the 'elections' promised for next month might very well be defeated by opposition from certain political parties, such as the People's Party of Bhutto. The time is for keeping our cool.

Industry

Growth by 'Liberalisation'!

IF the speech of the Minister for Industrial Development opening the meeting of the Industrial Advisory Council last week is any index, this ministry of government appears to be totally lacking in economic expertise of any sort. The Minister repeated the by now well known fact that industrial production in the first five months of the current year rose by a mere 1.8 per cent as against 6.6 per cent in the corresponding period of last year. Of course, he did mumble the usual excuse about the index not fully reflecting the actual growth of industrial production, especially the alleged 11 per cent growth in the small industries sector. Apart from this there was no attempt to examine in which types of industries the shortfalls in production actually have been and what these might have been caused by.

Instead the Minister went on to the subject of the supposed slackening of private sector investment in industry, even though this premise itself was hardly borne out by his own statistics of industrial and capital goods licences issued. According to the Minister, 510 licences and 752 letters of intent were issued up to October 23 this year compared to 363 licences and 438 letters of intent last year. Similarly Rs 100 crores worth of capital goods imports were licensed between April and August this year as compared to Rs 65 crores in the same period last year. Is this a picture of slack private sector investment in industry?

Of course, it suited the industrialists present very well that the discussion should centre on private sector investment and what could be done to accelerate it. This gave them a chance to air their well known complaints against industrial licensing and particularly against the Monopolies and Restrictive Trade Practices Act. The official response to this was cringing. The Secretary to the Ministry of Company Affairs assured the meeting that only 3 applications had been rejected under the MRTP Act (two of them presumably from private sector shipping companies for acquiring the controlling interest in Jayanti Shipping). But surely there can be no virtue in approving practically every application under the MRTP Act; over a period of time this can only suggest that the government is not serious about enforcing the provisions of the Act. In which case, why have the Act at all? The Minister for Industrial Development similarly went into a fit of breast-beating about how while he was keen to speed up the issue of licences, the various administrative ministries were holding up decisions on applications. Surely, the Cabinet and not the Industrial Advisory Council was the forum for raising issues of inter-departmental co-ordination within the government such as this!

The entire discussion at the Advisory Council meeting had an air of unreality about it. This was inevitable for two reasons. First, no one, certainly not the Minister, referred to the factor most responsible for the slack in industry — the failure of public sector investment to pick up for the third successive year in the Fourth Plan period. Second, even in respect of private sector investment, the Minister could say nothing at all about where such investment was wanted. Clearly, the government no longer has any notion of industrial priorities. In the circumstances, it is reduced to thinking and acting in terms of 'liberalisation' of various sorts — industrial licensing, capital issues control, foreign collaboration, restrictions on tse big houses, and so on. At the end of it all, the government wakes up to find that none of this is attracting investment into particular industries where investment is most needed, such as paper — only to make itself look even more ridiculous by threatening nationalisation, as the Minister for Industrial Development did at the Advisory Council meeting.

Communists

Concentration on Each Other

SERIOUS debate on party priorities and policies can only be applauded. And there had been much self-examination and discussion at the ninth congress of the CPI held last October at Cochin and at the deliberations of the Central Committee of the CPM in Bangalore last August. A fiery controversy also seems to have been going on in the CP(ML) about revolutionary tactics and, if news agency reports are to be believed, was resolved last month with the expulsion of Charu Mazumdar from the party. But one begins to have strong doubts about the relevance and value of the debates within the CPI and the CPM on noticing that the discussions have tended to get bogged down by harping on two issues: (1) Indira Gandhi and (2) how to attract the followers or "mass base" of other political parties. The CPI is morbidly fascinated by the idea of attracting to itself "progressive" Congressmen and secondarily, the CPM's mass following.

The CPM is also most concerned about mesmerising the CPI's lower rung cadres and at the latest meeting of its Central Committee last week, the spectre of Indira Gandhi made an appearance once again. At Bangalore, the Central Committee had again identified Indira Gandhi and her party (although with some difference in emphasis on the relative culpability of the two) as "representing the landlords and the bourgeoisie" and therefore the focus of the CPM's struggle was to be the overthrow of the Congress party and Government. Last week's discussions, however, indicate a shift in the CPM's stance towards the Congress and Indira Gandhi. This shift might be due to the increasing political and police pressures which the CPM is facing in West Bengal and also, though to a lesser degree, in Kerala. These pressures may have moved the CPM towards seeking an easing of tension between itself and the Government in New Delhi and through the latter, the Congress-CPI Government in Kerala and the Central Government's agent in West Bengal. The Central Committee continues to regard Indira Gandhi as "the spokesman of the bourgeoisie-landlord combination" and therefore to be resolutely opposed, but at the same time it has chosen to indicate that it will back this very same spokesman of "the bourgeoisie-landlord combination" when she adopts progressive measures or chooses to fight extreme reaction.

While there is some basis for understanding this contradictory policy, what is totally inexplicable is the peurile desire of both the CPI and the CPM to examine policies and issues on the basis of whether they would entice each other's members. This method of examining issues is particularly facile when the large mass of people still remain politically unconscious (in the Marxist sense) and unmobilised. Instead of seeking a following among the large numbers of unpoliticised and unmobilised people the CPI and the CPM appear to be greatly concerned about weaning away each other's membership. Clearly, the parliamentary way of life with its constant toppling and floor-crossing has affected the ideological vision of both parties.

Correction

In the editorial "Forever Amber!" (November 6) para 2, line 1, for "The plain fact is that the potential loss of a few million dollars of annual US aid..." please read "The plain fact is that the potential loss of a few hundred million dollars of annual US aid ...".

Ed.

Group of 77

For Home Consumption

THE two-week meeting of the so-called Group of 77 in Lima which ended on Monday has been described, with unwitting appropriateness, as an 'economic Bandung conference'. The appropriateness of the description arises from the fact that the time for Bandung conferences has been gone some decade and a half. In the early and mid fifties the picture of the ex-colonies, poor but proud in their independence, coming together to demand rightful retribution from their erstwhile colonisers and exploiters carried a measure of credibility. Not any longer. The ex-colonies are still very poor, of course, but no more have they anything to be proud about. Their rulers rule over divided, bedraggled peoples with the help more or less of the very apparatus of repression built up by the former colonial regimes. And the brave postures they strike against the rich countries ring hollow since at other times they have all, almost without exception, individually accepted formal and informal arrangements implying varying degrees of subordinateness to these very countries.

The final communique adopted by the Lima conference repeated the worn-out cliches about the rich countries setting aside 1 per cent of their national incomes for the development of the 'third world', making the terms of aid easier, granting preference to the exports of the poor countries, facilitating the transmission of technology, and so on. But to what purpose have the countries represented at Lima used such aid as they have so far received? Or, again, how many of them have framed policies and programmes to make the best use of technology received from abroad? Indeed, even those countries which had started with rudimentary efforts at national economic planning are now in the process of abandoning the experiment. India is a conspicuous case in point. In this context the cry for more aid and trade on easier terms is part of the effort on the part of the rulers of these countries to continue to avoid the 'hard' options of raising internal rates of saving, achieving a minimum of efficiency in allocation of resources, evading basic institutional reforms and so on.

Striking a more aggressive note, the Lima communique condemned the rich countries for their large armaments expenditures and for the vestiges of colonialism and racialism among them. But, once again, what about the mounting expenditures of the developing countries themselves on military and para-military forces which divert resources from economic development and are aimed more often than not at containing internal disaffection—the result, invariably, of socio-economic stagnation?

Who did the spokesmen of the countries assembled at Lima think they were impressing? Surely, not at all the rich countries towards whom their communique was ostensibly directed. Indeed, the only purpose of such get-togethers appears to be the propaganda value they have back in the participants' home countries. The lionising by our Press of our Foreign Trade Minister for his alleged achievements at Lima seems to bear this out.

BUSINESS

Perils of Smallness

AFTER visiting Japan, Australia and Thailand, a technical mission of the Indian Pulp and Paper Technical Association is reported to have come out strongly in favour of licensing small paper mills. The mission has further suggested import of second hand paper machines and also that small paper mills should combine lumber business, as hardwood could be used as lumber and saw-wood for pulping, thereby enabling many small-scale pulp mills to come up.

It is not known what exactly the technical mission was after in going on its South-East Asian tour, but it is to be hoped that the suggestions made by it would be weighed very carefully before any decisions are taken. While shortages are currently felt in both cultural (writing and printing) paper and industrial paper, the immediate necessity is to raise the output of cultural paper. Much remains to be done in this regard and a host of problems ranging from equipment availability, resources and raw materials have to be tackled with a long-term perspective both by the industry and the government. One would have expected the IPPTA mission to have said something in this regard, especially since despite all that has been said about the problems being faced by the industry, no concrete steps have been taken to raise output and bring down prices. Paper prices have been going up — as had been predicted in these columns some time ago. The current ex-mill price of cream wove paper is Rs 2,300 per tonne against Rs 1,900 per tonne in May 1968, around the time of decontrol.

Since the mission has come out strongly in favour of small paper mills, it is necessary to examine the economics of small-sized units in the paper industry. The incentives given to establish small-scale paper mills in India during Manubhai Shah's regime had not only economic but also social and political overtones. In the early sixties licences were granted to 120 applicants for setting up paper plants with capacity ranging from 2 to 20 tonnes a day. These units were designed to produce speciality papers which were outside the purview of control. The apparent justification for this was "the need to disperse industries and to provide increasing employment opportunities. ... also, the undergrowth of a middle class entrepreneurship in very large numbers is the sure guarantee and foundation for an industrial democratic society". As events turned out, however, only 34 out of the 120 units licensed were established; of these 21 have capacities of less than 10 tonnes per day and 9 between 10 and 20 tonnes per day. Four of the units with less than 10 tonnes per day capacity have remained closed. Most of the units were not operating profitably till 1969-70, mainly due to technical and managerial inadequacies. With decontrol of paper prices and the prevalent conditions favourable to sales of

almost any kind of paper, it is hardly surprising that all the units are making profits now.

Nevertheless, the small units continue to suffer from various handicaps. Some of them do not have pulping facilities or chemical recovery or processing plants; as a result the element of wastage is higher and production costs are high, especially with prices of bought out pulp continuously rising. A variety of acceptable substitutes in the form of cereal straw, waste paper cuttings, cotton waste, etc, which have some cellulosic content, have helped to sustain output.

Given the necessity to raise output of paper, it seems justifiable to bring the existing small units nearer economic sizes of, say 50 to 60 tonnes per day capacity. However, the deficiencies in the capital structure of these units and the managerial inadequacies are bound to render the process of expansion very slow and, in any case, when it comes to production of writing and printing paper in integrated mills, the situation is much less favourable to the small-scale units — mainly because chemical pulp (and hence writing and printing paper manufacture) is subject to greater economies of scale. It seems, therefore, that the country stands to gain if the contemplated import of second hand paper machines is used to increase the output of writing and printing paper in the larger units. This is not only expedient but necessary before a long range raw material development plan for the industry is conceived of and accepted.

Forward Trading

More Senseless Curbs

A Correspondent writes:

IT is difficult to understand the rationale behind the recent Government curbs on commodity markets. Last month, the Government amended the Forward Contracts (Regulation) Act through issue of an Ordinance which provided that all ready delivery contracts in which either delivery of goods or payment of price is dispensed with shall be deemed as forward contracts. Soon thereafter trading in non-transferable specific delivery (NTSD) forward contracts in groundnut and groundnut oil was prohibited throughout the country. Later, the Forward Markets Commission (FMC) suspended futures trading in cottonseed, coconut oil and gur.

True to its methods of working, FMC has not cared to explain the circumstances which prompted the Government to resort to these successive curbs. Or, is it that FMC has no valid explanation to offer? FMC virtually abandoned its statutory functions under the FC(R) Act many years ago and has accepted the status of a subordinate department of one or the other of the Central Ministries under which it is obliged to function from time to time.

If it has been reduced to this pathetic position, FMC has only itself to blame. Throughout its two decades of functioning, it has never conducted any systematic, scientific study of the working of forward markets. Lacking the competence and expertise to carry out such studies, it chose the bureaucratic path of resorting to regulations to justify its existence. The result was a plethora of needless controls on forward markets which reduced the utility of these markets without any compensating benefit to the economy. As the Dantwala Committee observed, such action "served only the limited purpose of reducing the volume of trading and open position in the forward markets. It did not check the rise in ready prices, if that was the intention".

That the Central Ministries do not consult FMC on major policy issues concerning forward contracts and forward markets is an open secret. And New Delhi, without even an elementary understanding of the working of forward markets, has shown a fondness for prohibiting forward trading in the naive belief that this would somehow curb unhealthy speculative activity and arrest inflationary trends in commodity prices. In fact, independent research studies both here and abroad have time and again shown that far from aggravating commodity price trends, futures trading exerts considerable sobering influence on ready prices. Past experience of the behaviour of prices of several commodities like cotton, groundnut and groundnut oil, mustardseed, etc, has supported this conclusion. But the authorities in New Delhi have neither the time nor any wish to learn from their mistakes. The ban on futures trading in cottonseed, coconut oil and gur seems to be one more link in this unending chain of mistaken policies.

The ban on NTSD contracts (which provide for delivery of goods and payment of price after 11 days) in groundnut and groundnut oil was perhaps long overdue. In the absence of countervailing futures trading, NTSD contracts in these commodities have exercised undue pressure on restricted, available physical supplies. Representatives of the trade and industry in oilseeds have raised a hue and cry against this ban. They have also been quick to point out that the NTSD contracts in groundnut and groundnut oil were always by and large fulfilled by actual delivery. This might have been so. But the fulfilment of a large proportion or even all of such contracts by physical deliveries hardly redeemed them. In fact, the statutory provision for compulsory delivery has been the major weakness of these contracts. It has often encouraged manipulation in these contracts, especially in times of acute scarcity of deliverable supplies. The frequent payments crises in the oilseeds markets during the past few years bear witness to the truth of this statement.

The misuse of NTSD contracts notwithstanding, the ban on them will cause some difficulty to the groundnut crushing and vanaspati units, as these contracts served to ensure uninterrupted supplies of raw materials. In their absence, these units would be constrained to rush in for available ready supplies and would more often than not decide to hold large stocks. The desired objective of the Government of containing the ready prices of groundnut and groundnut oil would then be defeated.

Paradoxical though it may appear, so long as the Government does not wish to take over the ready trade in groundnut and groundnut oil, the proper course for it would have been to revive futures trading in these commodities. This would supply the requisite hedging facility to the industry. More importantly, unlike the narrow NTSD contracts, the broad and competitive futures contracts would have offered better guarantees against unscrupulous manipulation of ready prices. Instead the authorities have chosen to impose curbs on ready delivery contracts for fear that these contracts would be misused for speculation following the ban on NTSD contracts. Are the authorities more concerned with speculation than with prices? In their effort to curb paper speculation, they have been unwittingly encouraging speculation in physical commodities with more disastrous consequences for prices and price fluctuations.

But even the paper speculation may not be ended so easily. Illegal speculative trading is already reported to be rampant in the country. The curbs on commodity markets would give it a further shot in the arm. In the end, it appears, the only beneficiary of the recent curbs would be the Enforcement Directorate of the Forward Markets Commission.

Sugar

Time for Full Decontrol

SUGAR prices have moved up with the beginning of the new season. The 1970-71 season ended with prices around Rs 185 per bag; at the time of writing, prices have touched Rs 212 and traders believe that prices will go up further. By the end of 1971 prices are expected to touch Rs 240 per bag. The cavalier fashion in which Government is handling the industry is amazing. Final figures of area under sugarcane and sugarcane production for the 1970-71 season have not been published yet. If the industry has to be competently handled, the first forecast of area under sugarcane for the current season should be issued before October every year; and the final forecast must be issued before the monsoon begins. But no expert body has bothered about this so far. As is well known, sugar statistics are not issued by Government but by the industry which issues them as and when it suits it. Statistics for July were issued on September 27, for August on October 12 and for the entire season on November 6. Industry must be compelled to issue these figures within two to three weeks of the end of the month.

During the season 1970-71, total despatches ranged from 275,000 to 439,000 bags per month. The maximum despatch took place in the last month of the season, September. The last season had opened with a stock of 2,088,000 tonnes; the current one opens with a stock of 1,444,000 tonnes which is, incidentally, the second highest opening stock between the seasons 1961-62 and 1970-71. As is well known, interests connected with industry including some state governments, canegrowers and millowners have been pressing for higher cane prices. Simultaneously, industry has now brought down its estimates of the current season's production to 3,200,000 tonnes. On this estimate, total availability in the season will be 4,666,000 tonnes. Total requirements are placed at 4,300,000 tonnes, so that the current season would end with only 36,000 tonnes, i e, only a month's requirement. In order to avoid such a calamity, cane prices must be raised—so the argument goes.

Meanwhile, on October 12 government announced an excise rebate of Rs 17 per quintal on sugar produced in October-November in excess of 80 per cent of production of the corresponding period of the previous season. A rebate of Rs 16 per quintal is to be allowed on production of the remaining 10 months of the season on the same basis. The offer of a higher excise rebate on production in the first two months does not make much sense. As a matter of fact, most mills in the north commence crushing only from November 15 onwards. In any case, the rebate should enable the industry to pay at least a rupee more to growers. Current reports show that gur and khandsari units are buying cane at Rs 7.50 to Rs 8.00 per quintal. The millowners are in a position to easily offer Rs 8.50 per quintal. Thus it would appear that by providing the rebate, government has sidestepped the issue of increasing the price of cane.

What the government could have done, had it been inclined to act in a more forthright fashion, was to give up altogether the fixing of the minimum price for sugarcane as well as quotas for monthly releases of sugar. Industry should have been left completely free so that the more efficient units as well as the more efficient zones could have been put in better position to exploit their advantages. Simultaneously, licensing of sugar factories and the preference shown to co-operative units at the expense of the exchequer should have been abandoned. As for the cost of cane in various parts of the country and the returns from cane and other alternative crops almost nothing is known, though there is much kite-flying on the subject by pseudo-experts.

'Amul'

Co-operative Success Story

THE Kaira District Co-operative Milk Producers' Union, Anand, popularly known as 'Amul' celebrated its silver jubilee last week. An important feature of the celebrations was the presentation of Rs 10 lakhs by the federating milk co-operatives to Amul, as a token of their gratitude. The funds are to be used for making available nutritious food for children through a trust to be created.

'Amul' can rightfully feel proud of its activities and achievements during this period, particularly during the last 15 years. Beginning modestly in 1946 with just two village milk producers' societies, Amul has matured into the most successful co-operative venture in the country. Today there are more than 700 affiliated milk co-operatives (with 1,80,000 farmer members) in Kaira villages. The share capital of the co-operative union has increased from Rs 3.2 lakhs in 1955-56 to Rs 34.7 lakhs by 1970-71. The quantity of milk collected from farmers has increased from about 11 million kgs to 118 million kgs during the same period. The value received by sale of milk and milk products has increased from Rs 7.4 million to Rs 273.9 million. The dairy complex of Amul has been expanded to handle 5,00,000 litres of milk per day.

Product diversification has been another important feature of the growth of Amul. The products of Amul include Amul butter, milk powder, baby food, casein and cheese. Cheese has been manufactured from buffalo milk for the first time in the world on a commercial scale, by Amul, using a formula devised by CFTRI, Mysore.

'Amul' has helped Kaira farmers in several ways. It has raised and stabilised milk yields through the spread of scientific dairy farming and supply of 'Amuldan'—a quality feed, manufactured by Amul's own feed factory near Anand. According to some village studies, dairy income accounts for 45 per cent of total farm income in Kaira villages. Amul not only pays stable prices for milk (115 paise per litre), it shares part of the profit with the member co-operatives. Amul has helped develop Kaira villages through its extension work and creation of village level infrastructure, e g, rural roads, dispensaries, village water works, schools libraries, etc. During 1968-69 Amul spent nearly Rs 3.5 lakhs on such activities.

An even more significant contribution of Amul is its 'spread effect'. Several other districts in the state, like Mehsana, Baroda, Surat, Rajkot, Ahmedabad, etc, have been inspired by Amul's achievements and are actively guided and supported by it in organising and developing dairying in their respective areas. Further, Amul's experience is being utilised for dairy development all over the country through the National Dairy Development Board, located at Anand.

Dairies in other areas can depend upon the rich experience of Amul. But some of the factors such as the timely and generous assistance from agencies like FAO, UNICEF and OXFAM and even the Government of India, which were so vital to the accelerated growth of Amul, may not perhaps be available to the other dairies. While these advantages of its early start enjoyed by Amul may not be available to the new dairy units, the benefits of the experience and consultancy services of Amul should be utilised to the full.

PERSPECTIVES

China, India and Japan

Dhananjoy

THE voting on the restoration of China's legitimate rights in the United Nations hides a few realities regarding the attitudes of member States towards Peking. Not all among those who voted for the Albanian resolution are friends of China and some among those who voted against it are not as hostile to Peking as appears on the surface. The Chinese Foreign Office may, therefore, not regard the list of those who voted for and against (and those who abstained) as the basis on which it will evolve relationships in the United Nations. For example, Israel voted with the Arabs for Peking but it would be difficult for Tel Aviv to expect any benefit in terms of Chinese attitudes to the Arab-Israeli question. Similarly, Thailand's abstention and Malaysia's support may mean very little of difference for Chinese purposes.

Changed Attitude

There are two votes, however, which truly reflect attitudes to China within two of Asia's important Governments. While India voted wholeheartedly for the admission of China, Japan opposed it. It is not so much the Indian vote as the changed Indian attitude to China which is likely to impress Peking. Faced with the crisis in Bangla Desh, India has rediscovered the importance of having good relations with China.

Of course, the attitudes on which India's policies before 1962 were based had begun to give way to greater realism more than five years ago. The essence of the Nehruite view of India-China relations was that both India and China were large Asian states entitled to important roles in world affairs and co-operation between them would be equally beneficial to both. A sense of equality lay at the root of Nehru's initial friendship towards China and his later aversion to it. By the mid-sixties, equality with China became a mirage and it was quite evident that without a fundamental change in the nature of Indo-Pakistan relationship, the real competition of India would be with Pakistan rather than with China. In Nehru's view, Pakistan was a nuisance but it was utterly wrong for India to make it the central problem of its foreign policy. The situation has now changed. The powerful nations of the world have helped Pakistan to strive towards equality with India, thus making Indo-Pakistan relations the major concern of this country.

We may go on saying that China's attitude to India has changed but what is even more important is that our attitude to China has undergone a sea change. We have now begun to accept that China is a super power with which India cannot compete and as a neighbouring super power, it could be either beneficial or harmful depending on the state of Sino-Indian relations. There is no longer the myth of Sino-Indian rivalry nor the dream of equality between India and China nor the fantasy that China is more expansionist or aggressive than any other power of the world.

New Friendliness

It is in this light that the Indian vote in the UN and the subsequent steps taken by India to convey to the Chinese a sense of new friendliness towards Peking ought to be viewed. However humiliating it may appear to some Indians, a large majority of people here would have no interest in abandoning this method of improvement of relations with China. As for the Chinese, it is precisely this assurance that India had given up its highly ambitious goal of emerging as a power equal to China that they may have been waiting for all these days. In this sense, those who welcome good relations with China and then ask India to become "the fourth Great Power of the world" may be indulging in a self-defeating exercise.

The conditions for this change in India have been prepared by a number of developments. India's economic performance has been much poorer than China's; its military capability has been built up with external support; Pakistan has started giving it a great deal more of trouble than before; and the world outside has no illusions now about the relative status of India and China in the world. Above all, Bangla Desh poses such a grave challenge to India that it can have no such foreign policy as defeats its objective of ensuring a satisfactory solution of the problem there. It is not the clamouring of the traditional friends of China who have made a difference to the official policy but the inability of the Indian Government to sustain its old attitudes to China in the face of these grim realities.



Opposite Trend

An entirely opposite trend has been in progress in Japan. The economic miracle achieved by that country, the technological progress made by it, the world-wide feeling that it might emerge as one of the world's economic super powers and the praise showered on its performance by friends and foes alike have all liberated Japan from its sense of inferiority in relation to the victorious powers of the Second World War. The mood in Tokyo even a year ago was of triumph and the ambition was of an impending Japanese breakthrough in political terms.

It was not long ago that Japan had demanded a permanent seat in the Security Council and it has been fed for quite a long period on the belief that it was entitled to a much bigger status in international politics. Apparently, Japan had maintained a degree of aloofness towards the political problems of the world and rebuffed all Western attempts to make it a dominant South-East Asian power. It had done so because it viewed itself as a country engaged in a global economic competition with the most developed parts of the world. To the extent that a special Japanese interest in South-East Asia would cut down its capacity to compete with the United States in the technological race, it was imperative for it to refuse to play such a role.

However, in the course of the last two years, particularly since Sato's visit to Washington, the Japanese had clearly begun to regard South Korea and Taiwan as areas of special interest for themselves. The acceptance of China as a super power by the world community comes precisely at a time when Japan might have been getting poised to play that role. And if there is a power which has been thrown into utter confusion by the developments of the last few months, it is Japan

The Japanese vote in the UN, therefore, has to be taken as seriously by Peking as the Indian vote. In one case, it reflects the readiness to accept China as a super power; in the other a refusal to do so. How the Japanese will reshape their foreign policy is going to be a major international question in the years to come. There will be many powers to fan the flame of Japanese ambition and internationally Japan may not find it very difficult to pursue certain ambitious goals.

The answer to the question as to what is a proper role for Japan will however be provided by developments in Japanese domestic politics. Indeed, this is a crucial problem. The left-wing in Japan will try to reverse the course adopted by successive Japanese Governments to project the country in a major international role and to nurture a new kind of Japanese nationalism. The right-wing will move further towards the adoption of more open nationalistic postures. A confrontation within Japan is, therefore, a distinct possibilty. Not only China but other powers of the world will watch Japan with considerable anxiety and interest in the years to come.

COMPANIES

Lower Margins but Doing Well

Hansavivek

CROMPTON GREAVES is acting as technical consultant to State Electrical Industries of Iraq for establishing a factory in that country for manufacture of ceiling fans to its designs. The Indian company is responsible for planning and guiding the project to the stage of full production, for provision of designs, knowhow, and training, as well as for supply of equipment, tooling, assemblies, components, and raw materials. The agreement with the Iraqi company will not only give a further boost to CG's exports, but will add valuable experience to the company in overseas manufacturing operations. Export sales during the year to June 1971 were about Rs 5 lakhs less, at Rs 68 lakhs, but new export orders were over Rs 130 lakhs against Rs 45 lakhs in 1969-70. With large orders for plant products on hand, this year's export invoicings are expected to be substantially higher than the past year's. The company also expects to complete this year a realignment of product groupings, as substantial additional factories and facilities have been completed.

Demand from Electricity Boards for plant products continues overall at a satisfactory level, despite some imbalance; but the same is not true of demand from industry or agriculture, especially for non-plant products like motors and pumpsets. The directors feel that government policies are restricting capital and development expenditure in both these sectors. They also complain that shortages of certain materials continue to be a powerful cause of the rising costs, and this is likely to affect manufacturing, distribution, and financing costs as well. These adverse factors notwithstanding, they hope it will be possible for the company to maintain 'satisfactory progress' by appropriate redeployment of resources and efforts. CG's working results for the 34th year ended June 1971, show diminution of margins as reflected in a lower gross profit despite a 16 per cent rise in sales. This, however, was attributable mainly to the inclusion, in the latest year, of the benefit of only one year's tax credit certificates whereas last year the accumulated benefit of the preceding 4 years had been included. It is also due to increased costs of financing. Tax credit certificates received for 1970-71 were less than Rs 6 lakhs while in the preceding year's accounts they were about Rs 37 lakhs. Interest and commitment charges increased by approximately Rs 28 lakhs over the year.

DEMPO STEAMSHIPS has placed firm orders for two new ships—one of 66,000 DWT with a shipyard in Belgium and the other 21,450 DWT on Hindustan Shipyard, Visakhapatnam. The latter is expected to be delivered by March 1974 and the former by February 1975. Financing arrangements for Rs 13.06 crores have been made with the Shipping Development Fund Committee. Meanwhile, shareholders' approval has been sought for raising the directors' borrowing limit from Rs 25 crores to Rs 40 crores. In terms of various loan agreements entered into with SDFC, a net sum of Rs 2.32 crores was outstanding as at the end

of the company's sixth year to March 1971. Subsequently, a further sum of about Rs 39 lakhs was received. The company has repaid a little over Rs 83 lakhs. In terms of the agreement with ICICI for one ship, a sum of about Rs 125 lakhs was outstanding as at the end of March last. Repayment is to commence from this month. The 1970-71 results of Dempo reflect the benefits of adding one ship to its fleet in November last year, of full utilisation of another taken on a time charter in April 1970, and of the world-wide boom in the freight market during part of the year. However, operating expenses also continued to increase owing to the inflationary trend all over the world. The company had also to contend with increase in cost of repairs and stores. Cost of repairs at American ports, it is pointed out, are much higher. Bunker prices have, moreover, almost doubled since 1969. Reviewing the conditions in the freight market, the directors say that a fair increase in freight rates was noticeable from the beginning of 1970. The upward trend was accentuated till mid-June 1970, and freight rates were rather steady till early October. They began to decline thereafter, and by December were back to the February-1970 level. With the continued decline, they are at present "rather on uneconomic level". The continued pressure on the dollar and the subsequent 10 per cent surcharge on most imports into the US and non-covertibility into gold, may have a dampening effect, the directors feel, on the company's performance in the current year.

INDIAN DETONATORS has through research, developed new products for use in underground gassy mines. The government has permitted their manufacture and sale. In collaboration with Jugoimport of Yugoslavia, the company had undertaken phased production of half-second and milli-second delay detonators in 1969. The final phase of the indigenous manufacture of the complete product was commenced in October 1970. The unit set up at Hyderabad, for the manufacture of PETN—an important raw material used in the production of detonators—, detonating fuse, and boosters, was commissioned in early 1970 and is yielding satisfactory results. Production of ordinary detonators, electric detonators, detonating fuse and safety fuse was satisfactory during the 10th year to March 1971. Although both turnover and profit were higher than in the preceding year, profit-margins diminished owing to rise in costs. The recommended dividend of 10 per cent, against 12 per cent paid last year, will absorb Rs 3 lakhs more at Rs 15 lakhs since it is payable on an enlarged capital. In December 1970, the company also issued by a prospectus, 10,000 eight per cent mortgage debentures (1980-84) of Rs 1,000 each. The subsidiary, Mysore Industrial and Testing Laboratory, is seeking renewal of the import licence for the malt project that expired in June 1969. Mysore Government has sanctioned continued purchase of the products manufactured by this unit for hospitals and dispensaries, till the end of March 1973. During the year ended March last, MITL's sales looked up from Rs 51 lakhs to Rs 52 lakhs, but its pre-tax profit dropped from Rs 9 lakhs to less than Rs 3 lakhs. This was attributed mainly to the increase in wages and salaries, settlement of all outstanding labour disputes, and payment of gratuity to employees who voluntarily retired.

The Week's Companies

(Rs in Lakhs)

	Crompton Greaves		Dempo Steamships		Indian Detonators	
	Latest Year 30-6-71	Last Year 30-6-70	Latest Year 31-3-71	Last Year 31-3-70	Latest Year 30-6-71	Last Year 30-6-70
Paid-up capital	480	480	100	100	150	150
Reserves	662	577	248	104	151	122
Borrowings	458	486	885	826	110	90
of which Term borrowings	91	91	882	826	108	8
Gross fixed assets	639	570	1288	1085	351	307
Net fixed assets	409	385	1013	893	235	227
Investments	1	1	—	—	21	22
Current liabilities	493	648	58	59	74	78
Current assets	1682	1805	275	192	233	191
Stocks	647	713	11	6	111	103
Book debts	1019	1060	67	34	101	76
Net sales	3114	2671	558	306	426	345
Other income	32	62	11	8	14	14
Raw material costs	1987	1706	66	44	149	114
Wages	304	268	34	28	71	54
Interest	61	34	46	40	9	3
Gross profit(+)/loss(—)	278	292	228	102	107	103
Depreciation provision	45	43	84	69	37	34
Tax provision	107	93	—	—	33	28
Net profit(+)/loss(—)	126	156	144	33	37	41
Development rebate provision	5	15	103	21	3	14
Transfer to reserves	73	93	31	2	19	15
Dividend						
Amount	48	48	10	10	15	12°
Rate (per cent)	10	10	10	10	10	12
Cover (times)	2.52	2.92	4.10	1.20	2.27	2.25
Ratios (per cent)						
Gross profit/sales	8.92	10.93	40.86	33.33	25.12	29.86
Net profit/capital employed	7.87	10.11	11.68	3.20	9.60	11.33
Inventories/sales	20.77	26.69	—	—	26.06	29.86
Wages/sales	9.76	10.03	6.09	9.15	16.66	15.65

° Five lakh bonus shares issued during the year were not entitled to dividend.

SOUTH

Conflicts in Tamil Nadu

Mohit Sen

CONFLICTS are developing in Tamil Nadu. Though these are conflicts at present mainly centred on the question of the DMK's entry into the trade union field, in reality the issue involved is far more important. And a study of how this issue is shaping and is being accentuated as well as how it is sought to be resolved would be of use to those who believe that in India today we need a united front if the Left is to achieve its democratic victory.

What Kind of Petty Bourgeoisie?

The DMK leadership is essentially petty bourgeois in character. But this analysis is not sufficiently concrete. We have to go deeper and ask what kind of petty bourgeoisie? The peasant petty bourgeoisie being rooted in production has somewhat more of a possibility of retaining a character in itself, even if not for itself. It has less chance, particularly these days, of becoming a vehicle for the interests and aspirations of other classes. This is not to say that the peasant petty bourgeoisie cannot act as the camp follower of some other class. It is not the peasant petty bourgeoisie as a camp follower that is presently under discussion. What is more interesting to analyse is what it is able to do when it acts with independence and initiative. In a way its very petty mode of production, its narrowness and the conservative obstinacy with which it does its production battle with nature gives it a certain hardiness and makes it somewhat impervious to the aspirations of other strata or classes. The opposite is the case with the petty bourgeois intelligentsia. It is true, of course, that in the new conditions of today it is possible for the petty bourgeois intelligentsia to play more of an independent role than in the past. At the same time its very "method of production" or earning its income makes it the representative par excellence. It can take on the role of others, espouse the interests of others and, indeed, articulate the aspirations and moods of others even better than its own proneness to fluctuation and instability. And it is from this kind of petty bourgeoisie that the bulk of the DMK leadership at different levels is drawn.

The DMK today is caught up between espousing the interests of the vast sections of the oppressed and downtrodden who have voted it so strongly back to power in the hope of achieving dignity, equality and some chances of a decent life and standing forth as the battering ram of the powerful bourgeois interests in the state, both indigenous and foreign. Its behaviour on the trade union front is indicative of the fact that strong elements in its leadership are not at all averse to adopting the latter course. And it is at this level that the DMK would have to be opposed and is being opposed.

It should be realised that it is not as if the DMK is moving into some kind of vacuum. The workers of Tamil Nadu are among the best organised in the country and they have been organised by the Communists and, to a lesser extent, by the INTUC. Thus, the DMK moves into a field which is not only reasonably cohesive trade union-wise but also politically. One could understand it if the DMK moved in there as a force to the 'Left' of the Communists, with more radical slogans and demands as well as advocating more militant forms of struggle. The DMK action is quite the opposite. It moves in not only as a disruptor but also, often enough, as direct agents of the company. What is worse is that it has behind it the power of the administration. And it is not as if the administration only helps on specific issues. It is increasingly taking to a policy of preventing a settlement between the workers and the owners if the union is not to its liking and if there is the slightest chance of the DMK being able to establish its own union.

It is against this policy of the DMK that the trade union movement and the parties who lead the working class in the state are offering resistance, not piecemeal but all along the front. And the DMK will find that in this field it would be difficult for it to have its way.

Another odd business has been the nationalisation of passenger transport by the DMK. Under its scheme no private operator who already holds more than ten stage carriage permits would be granted a new permit or allowed to renew the existing ones. Excess permits above a ceiling of fifty would be taken over by the state and entrusted to a corporation. This would affect five operators including the powerful TVS and Simpson groups. While it is to be welcomed that this important service would no longer be dominated by powerful capitalist interests, it is quite intriguing to learn that compensation is to be paid at the market value which is to be fixed by mutual agreement in each case; and where there is no such agreement a High Court judge would arbitrate. What makes it all the more curious is that when, after being introduced in June-July, the earlier Bill on the subject was withdrawn by the Government, the argument advanced was that the 25th amendment of the Constitution would enable the Tamil Nadu exchequer to avoid a heavy burden of compensation. Yet the present Bill, reintroduced in October with some minor changes, precisely provides for compensation at the 'market value' as if to overcome any difficulties in paying out compensation! What is the reason for this shift? And is there a pattern in this shift and the approach to the trade union question?

Grist to the Syndicate Mill

At the same time it must be borne in mind that the attitude to the DMK has to be one of unity as well as struggle. It would be quite wrong to imagine that the DMK has now shifted over to the camp of reaction or that there is nothing to choose between it and the Syndicate. The DMK is a democratic and middle-of-the-road party the struggle against whom is also for the purpose of maintaining, consolidating and developing the united front. It would be inadvisable to go in for forming any kind of "third front" of those other Left and democratic parties who are opposed to the Syndicate and who might feel that the DMK is a lost cause as far as forging democratic unity in the state is concerned. This, after all, is only another variant of the equidistance theory and would, in the given balance of forces in Tamil Nadu, only bring grist to the Syndicate mill.

It is precisely because of this fact and because of the complex nature of the forces at work that the conflicts in Tamil Nadu have a relevance far beyond its border.

Bhutto Goes to Peking

G P Deshpande

PRESIDENT Wilson once said that "a nation could not put its strength into a war and keep its head level". President Wilson's own successors have already demonstrated the truth of this statement in Vietnam. Bhutto, in his turn, is trying to imitate his patrons. He has talked of the waters of the Ganga and the Indus flowing red in the event of an Indo-Pak war. It will be a house-to-house war, he roared, little realising that he was giving away a part of his own game. There are his counterparts in this country too. One need not, therefore, take the rhetoric too seriously. It is an old trick, a little worn out. It seems to have become an accepted practice on the subcontinent that when foreign tours fail in their objectives, the pill should be sweetened with bold and brave talk of war. The sophistry can deceive people in Islamabad but it usually does not deceive the more hard-headed people in Peking.

Nobody knows whether Bhutto realises this or not; but the fact is that the waters of the Ganga are indeed red already and a "house-to-house" war is going on in Bangla Desh. Peking at any rate seems to be increasingly aware of this. This is the reason why Chi Peng-fei, the acting Foreign Minister of China, talked of the "Pakistani people". He said the problem has to be settled by "the Pakistani people themselves". This emphasis on the people was not only meant to satisfy the visiting People's Party leader; the chances are that the Chinese have probably reminded Bhutto that the problem in Pakistan is a people's problem and has to be solved by them and their representatives. Some representatives are, of course, free to travel around the world, while some are in custody and some others dead.

Chi Peng-fei, speaking at the luncheon given in honour of the visiting Pakistani leader, said that he believed that the Pakistani people were patriotic and wanted "to safeguard national unity and unification of the country". There is nothing wrong in expressing such beliefs, for such expressions mean precious little. That is probably the reason why Chi went on to say that the Pakistani people should solve their problem themselves. How? Would the people of Pakistan necessarily want a united Pakistan? Didn't the Awami League leadership ride on a tide of Bengali nationalism which was a fact already? Chi has nothing to say on the matter. He does not even castigate the Awami League, as presumably Bhutto would have liked him to. Nor does he even seem to be in a hurry to talk about the "reactionary" nature of the Awami League or about Sheikh Mujib's well known anti-communist views.

The reason for this silence may well be the crucial fact that the contradiction between the Western and the Eastern wings of Pakistan is antagonistic. In other words, it is not a creation of the Awami League but rather the Awami League is its creation. Under such circumstances, it does not become meaningful to talk about the Awami League or any other party. You can talk only about the social forces—that is, the people. Let them decide. If Bhutto would like the Chinese to believe that the people in East Pakistan do not share the views of the Awami League on the future of Bengal, he has to demonstrate it. Therefore, this emphasis on people settling their affairs. The ball is clearly in Bhutto's court or rather in General Yahya's court where Bhutto basks in his imperial glory as the *de facto* foreign minister.

It would be unfair to Bhutto, though, to say that Bhutto has deceived himself. Bhutto seems to have no illusions about his talks in Peking. In his speech at the luncheon he talked only about Indo-Pakistani tensions and a possible Indian attack. He did not respond to Chi's remarks about the Pakistani people settling their problems. One cannot attribute such a naivete to Bhutto as to say that he does not recognise the existence of the problem at all. It is, therefore, significant that he did not (or could not?) reassure his hosts in Peking that the Pakistani people will solve their problem. Later in Islamabad President Yahya talked of a possible Chinese involvement in the subcontinent. Bhutto did not sound optimistic on that score. He also stated in Islamabad that it would be "premature to seek in a panic" a solution in the UN Security Council. Evidently Chi himself does not seem to have been very enthusiastic about the Security Council. Hence Bhutto's emphasis on doing everything with "our own efforts".

II

Bhutto's failures are not necessarily our victories, however much our national Press might give us the impression. Bhutto's failure was not a personal failure. It is a failure which has stemmed from the structural weakness of Pakistan which the nimble-footed diplomacy of Bhutto could not cover up. Our failure, on the other hand, is all the more glaring and unintelligible.

We began with our standard fixation with China. China was and is with Pakistan, and so on. It has not yet dawned upon us that given the state of Sino-Indian relations and India's relations with USA and USSR, the Chinese have maintained a remarkable balance in their approach to the problem in Pakistan. We have sent emissaries all round the world to explain our position on Bangla Desh. The Prime Minister herself has gone to the cheerful and sunny lands of Europe and America to explain, to entreat, to beg. She is on her way back with nothing but loads of sympathy. One would have thought that it is the East Bengali people more than Indians who deserve and need sympathy. Nobody even refers to the East Bengali people.

Ironically, it is the Chinese who have been talking of the Pakistani 'people'. We should have talked to the Chinese about the problem. Little do we seem to realise that normal relations between India and China would be very useful during the difficult times that we are going through. We have been talking of exchange of ambassadors for easily over a year now. The Prime Minister has again reiterated that in Paris on November 9. But action does not seem to follow.

This is not to suggest that it is a panacea. The ambassador would go there finally in the typical lethargic Indian way. But the issue is what we want our approach to China to be. Ironically Bhutto seems to succeed in underlining the importance of the Indo-Soviet Treaty. Chi Peng-fei referred to "certain persons" who are interested in aggravating tensions in the subcontinent. Chi may well have Sino-Indian tensions in mind; and the certain persons he referred to may well be the comrades from Moscow who seem to have taken quite a fancy for New Delhi lately.

It would appear that the net result of Bhutto's pilgrimage to Peking has been to underline for us China's reservations about the recent confabulations between us and our Russian friends. As Chi Peng-fei put it there are certain people who are "exploiting tensions in the subcontinent in a wild attempt to achieve their ulterior motives". The Foreign Minister did not specify these ulterior motives. But it should not be difficult to appreciate the Chinese apprehensions about them. Our efforts (if we have made any) to dispel these seem to have been unsuccessful. Bhutto's failures are not our victories. But his own success, for whatever it is worth, has indeed emphasised our failure.

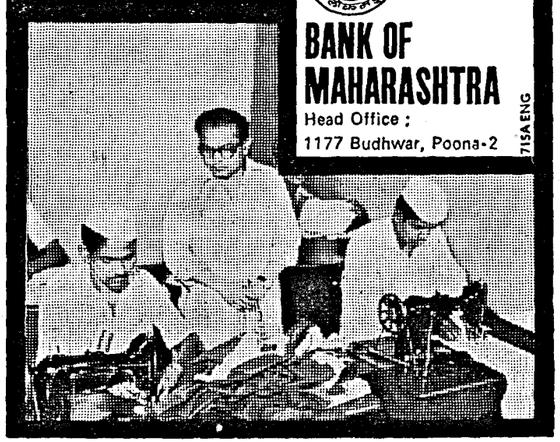
You may be one of those with skill but no money. You'd better come to us we will finance you



We have schemes. quite a few of them for people just like you. Schemes which will help you set up your enterprise, make a decent living.. and march towards prosperity.

For details contact our nearest Branch.

BANK OF MAHARASHTRA
Head Office :
1177 Budhwar, Poona-2



7ISA ENG

GUJARAT

Majur Mahajan Asserts Its Identity

Ajay Oza

THE Majur Mahajan was started way back in the second decade of this century by Mahatma Gandhi. It is today the largest trade union in Gujarat and has its base among the textile workers in Ahmedabad. It may be said to be a unique experiment in trade unionism in that it was intended to operate on the principle of safeguarding working class interests through class-harmony rather than class-struggle. Gandhi wanted the Mahajan to remain independent of political parties — even the Congress, of which he was then the leader. Today, after some half a century, the leaders of the Mahajan are reasserting their political independence. They have chosen to opt out of the INTUC, remain aloof from both Congress(O) and Congress(R) and field their own candidates in the next Assembly elections.

In fact, the Majur Mahajan had never been formally integrated with the Congress as the latter's labour wing in Gujarat. In retrospect one can see that, as with his other social reform programmes, Gandhi had mingled social idealism with political good sense in the founding of the Majur Mahajan. On the one hand, a trade union movement would help create a mass base for the nationalist movement in Gujarat. At the same time, with Ahmedabad's millowners being prominent members of and suppliers of funds to the Congress party it was necessary for Gandhi not only to talk to workers in terms of class-harmony but to keep the Mahajan and the Congress party as separate entities. And, in fact, the Majur Mahajan has so far been able to secure handsome economic benefits for the workers with a minimum of industrial unrest.

Yet, in one way, the Mahajan's independence of the Congress was only formal. Throughout its life it has supported the Congress in all elections — local, state and national. Not only that but leaders of the Mahajan, like Nanda, Vasavada and Khandubhai Desai, contested elections as Congress candidates and served as ministers in Congress governments. With this history of association between the Mahajan and the Congress, it was natural that when the Indian National Trade Union Congress (INTUC) was established in 1947 the Mahajan was affiliated with the INTUC. Moreover, since the Ahmedabad textile (and other) workers constitute the predominant section of industrial workers in Gujarat, the Majur Mahajan in effect became the Gujarat unit of the INTUC. No Leftist party has so far managed to get a foothold in the rapidly expanding industrial sector of Gujarat and the Majur Mahajan has continued to control the labour votes

in the state.

It is against this background that the recent decision of the Executive Committee of the Majur Mahajan to sever its connections with the INTUC acquires significance in Gujarat politics. The arrangement between Majur Mahajan and INTUC and between the Mahajan and the Congress party worked smoothly till the Congress split in 1969. Then the INTUC at the all-India level came under the sway of Congress(R). In Gujarat, however, Congress(O) was still a force to reckon with; also, Congress(R) was and remains unstable as a result of the intense faction-fighting among its leaders. Further, the Mahajan leadership consists of old Gandhian Congressmen who are sympathetic to Congress(O) as a party. Vasavada, the leader of the Mahajan, is still a member of Congress(O). It was becoming increasingly difficult for the Majur Mahajan to continue its alignment with INTUC after the Socialist Forum of the state Congress(R), with the help of Indulal Yagnik, extended its influence over the Gujarat wing of INTUC. The Forum's aggressively socialist programme — which, *inter alia*, includes nationalisation of textile industry — is certainly not acceptable to the Mahajan. It is not surprising, therefore, that Vasavada and other Mahajan leaders should argue that the INTUC had come under the influence of communists and that as Gandhians they could not continue to be part of INTUC. It was then only a matter of time before the INTUC in Ahmedabad split and the Mahajan declared its independence of it, although INTUC too is generally acceptable to Ahmedabad millowners.

However, the formal break with INTUC had to wait till the two bodies disagreed on a labour issue. The Khadilkar proposal to raise the minimum bonus from 4 to 8.33 per cent provided such an issue. The Mahajan refused to support the proposal on the ground that the industry was not in a financial position to meet the higher bonus. If payment of the higher bonus was insisted upon some more mills might be forced to close and the result would be further unemployment. As it is, the level of unemployment in Ahmedabad is already high on account of the large number of 'sick' mills. The Mahajan, therefore, refused to join the other trade unions in the struggle for increased bonus. In a bid to secure the labour votes for Congress(R) in the forthcoming Assembly elections, the non-Mahajan faction of the INTUC in Ahmedabad has, however, supported the struggle started by other Leftist parties. The Mahajan was thus provided with the excuse that INTUC had brought party politics into labour affairs and thus endangered the workers' long-term interests.

The non-Mahajan faction of INTUC is not in a particularly happy position. Having joined the struggle for higher bonus, it is now riding a tiger. Many mills in Ahmedabad have only just begun to recover from the recession with financial help from the Government and it is doubtful that they can right away bear the burden of the higher bonus. This faction of INTUC has already lost face over it efforts to bring about the reopening of the closed Jupiter Mills. It put pressure on the management and persuaded it to reopen the mill one day after Diwali, even arranging a widely publicised inaugural function attended by the Governor. But after the formal opening ceremony was over, it became obvious that the mill was in no position to resume production and so to this day it remains closed. Nor has the INTUC-inspired strike in Calico Mills been quite a success. All these have been setbacks to the INTUC as well as to the Socialist Forum. The Mahajan's cautious approach may eventually pay off in the face of the failures of INTUC and given the Mahajan's own goodwill with the millowners.

The Majur Mahajan's decision to put up its own candidates for the Assembly elections is an interesting side-issue. The Mahajan leaders say that their candidates will fight the elections as independents and representatives of a pure labour organisation, but its decision may be of greater significance than that. After all, given the Mahajan leaders' continuing association with Congress(O), many regard its independence at the elections to be only formal. It is thus suggested that the Mahajan is entering the election fray in the hope that it can use its mass base to win block votes for its candidates and, having secured its separate position, then bargain with the majority party, probably Congress(R), from a position of strength. Vasavada has claimed that the Mahajan wants to contest the elections only to represent labour interests as, according to him, no political party in India can truly claim to represent the workers' interests in the legislatures. But whatever the Mahajan's motives, its split with the INTUC will adversely affect the election prospects of Congress(R) — in the labour constituencies of Ahmedabad in particular and Gujarat in general.

Co-operatives Are Not Insulated

K K Taimni

FOR all the clap-trap that one periodically hears on the working of the co-operatives in the country, the fact remains that over the years they have come to occupy a significant place in the national economy and have rendered useful services particularly to the vulnerable sections of the community. What is not appreciated is that the co-operatives have had to operate in hitherto unexplored, and at times 'hostile', areas. Moreover, they have been subjected to external pressures from the socio-political structure in which they have to operate. What needs to be remembered is that the phenomenal expansion of the co-operative structure in India took place in response to the demands made on it by the State. From this stems both its strength as well as its weakness.

Enactment of legislation by various state governments debarring office-bearers in co-operatives from holding offices after a stipulated period, induction of proteges into the management of co-operatives under the guise of giving representation to 'weaker sections' or other interests in the community, and similar other changes in recent years, have aimed at capturing the controlling points in these organisations. These steps have given a severe jolt to the traditional leadership of the co-operatives, who now loudly talk of 'self-reliance' and 'de-officialisation of the movement'. Yet, until recently, this very leadership was merrily enjoying State patronage and State expense. It had thus failed to chalk out a programme for the planned development of the co-operatives in the country. If it finds itself today in a tight corner as a consequence of the wider political conflict which is impinging upon the co-operative structure, it has nobody to blame but itself.

This is the setting in which the seminar, organised recently in Poona by the Vaikunth Mehta National Institute of Co-operative Management, assumes specific significance. The purpose of the seminar was to review the present modes of planning for co-operative development and to focus attention of policy-makers on the need to have a perspective plan for development of co-operation. It was nevertheless inevitable, given the wider setting, that the discussions and speeches would inadvertently bear the mark of what has marred the co-operative movement's management.

In a highly posturing inaugural address, C Subramaniam called for "diffusion of controlling interests in the co-operative organisations so that they may adequately reflect the needs of the underprivileged and the poor". He drew attention to "what I regard [as] three major areas of deficiency in the working of our co-operative institutions". These were: (i) failure to draw into the co-operative fold the underprivileged and weaker sections of the community, (ii) failure of the co-operatives to take initiative in modernising agriculture and allied occupations; and (iii) failure to develop a competent managerial cadre for manning the co-operatives. He suggested that co-operatives should work on 'integrated local development' in the rural areas. But he quite conveniently left out any analysis of the reasons for the failure of the co-operatives. Who, indeed, as was pointed out by a participant later, has been responsible for the present state of affairs? Co-operatives in India have been controlled and managed by the state bureaucracy and, if these have failed to come up to expectations, would not the political leadership and the bureaucracy be responsible for it?

Connoting the same amorphousness of purpose, the general discussions that followed did not flow from any of the 32 papers that had been circulated for the seminar.

Planning for co-operative development has, in fact, always been a governmental activity — with a limited role in this being assigned to the Reserve Bank of India and the National Co-operative Development Corporation. The co-operatives themselves were often just passive witnesses to the entire process. Leaders of co-operatives, who were consulted while formulating the plans, quite often presented only their own individual views, so that there was no effective institutional involvement of the co-operatives at any stage of the planning.

A number of participants at the seminar, therefore, underscored that the various working groups and the consultative committee of the Ministry of Agriculture (Department of Co-operation) were a mere eyewash and were by no means a platform for the articulation of the aspirations, needs, and requirements of the co-operative movement. The annual conferences of the Registrars of Co-operative Societies and the Ministers for Co-operation — which were cited as the other forums for consultation with the co-operative leadership — were similarly dismissed as rituals, primarily employed for putting the co-operative rubber stamp on the decisions already made within government departments.

Predictably, the environments in which co-operatives actually functioned and within which the alternative process of planning would have to be evolved were sidetracked at the seminar. Yet the unpleasant truth is that co-operatives have become politically important and have proved handy to a section of the community for asserting its dominance over the entire community. Both of these factors have determined the shape and direction of the movement as it exists today, and in the circumstances no independent planning worth the name is possible for the development of co-operative movement. Real institutional planning is possible, ironically, only in those sectors that are politically expandable and socially harmless.

Weeraman made a determined effort in his paper, "The Need for Planning for Co-operative Set-Up", to focus attention on the need to correct the "unco-operative position that obtains at present in the co-operative movement before planning for future development" is possible. Among the 'unco-operative' aspects, he included "the powers of the Registrar to nominate office-bearers and directors, to supercede management itself, and even to impose by-laws on a co-operative society". He rather dramatically summed up the situation in the words: "The co-operative is now to them [the community] only a facility to be availed of when necessary, similar to a train being used only when a journey has to be made. The society, like the train, is the concern of the State. The co-operative movement which has been deprived of its co-operative character under the law could not become co-operative unless that law is changed". This also summed up the feelings of almost all the non-official participants in the seminar.

The process of planning for co-operative development, it was noted, would be affected by two sets of factors — external and internal. Among the external factors were listed policies and attitudes of the ruling political party, role of the state administration, and the competitive behaviour and social and economic aspirations within the community. The internal factors listed were: quality of leadership, structural integration within the particular sector, availability of expertise, and past performance of the individual units. No process of planning could possibly escape the impact of these important factors. In fact, the feeling was that the quality of the planning process would be determined solely by these factors.

On the alternatives to the existing process of and agency for planning co-operative development, there was near unanimity. Everybody seemed to favour federal organisations for each sector. Many supporting arguments were put forward; resources available at the primary level were inadequate, there was need for perspective planning, expertise could be developed and retained at the federal level only, a national view was imperative if an integrated development of the entire movement was to be achieved, etc.

Even government officers who were present fell in line with these arguments, though they felt that, before federal organisations could take up the task, the movement should become self-sustaining and self-reliant. Only then could it survive political interference; or else history would repeat itself. Two major resources, *viz*, managerial and financial, came in the way of the co-operatives becoming self-sustaining; the leadership would have to devote its attention to these aspects, they felt.

As for co-ordination between the process of planning for general economic development and the co-operative movement's development, it was felt that, though the objectives of the State and the co-operatives were the same — restructuring of society socially and economically on more egalitarian lines — difficulties were bound to crop up, because of the different perception of these objectives by the co-operatives and by the political leadership, and because of the distinct strategy of each in achieving these objectives. Once a conflict arose between the two, the will of the political leadership would prevail. Co-operative leadership would, therefore, be better advised to consider management of such conflict before starting to plan for the development of co-operatives in the country.

The seminar was useful insofar as it succeeded in highlighting the lacunae in the present State-dominated and State-directed planning process; but it could not offer an effective alternative agency, strong, healthy, and capable enough to withstand the onslaught of the other external forces that would come into play once co-operatives are insulated from the State agencies and deprived of State patronage.

Businessmen in Blinkers

S Srinivasan

YET another occasion for our industrial magnates to display their undoubted flair for mouthing well-worn cliches and avoiding awkward issues — that was what the recent seminar, held in Bombay on October 8, on "Business and Business Associations in the Changing Environment" turned out to be. The organisers of the seminar, the Indo-American Chamber of Commerce and the All-India Association of Industries, had prepared a background paper which had raised some significant issues.

"The first and major step in effective management", the background paper pointed out, "is achieving cost reduction or a higher level of productivity". And yet, not a word was spoken about the imperative need to cut costs. Bharat Ram, who incidentally had a word of praise for the background paper, went on to affirm that the entrepreneur in the present circumstances is not free to work towards a price reduction. He tried to explain away the industry's lapse on the cost front by saying, "initiative, resources and results have been taken out of its (industry's) hands, and all these are being dominated and influenced by the politician and the bureaucrat". His swipes at sections of society other than the business community — trade unions, the government and the bureaucrats — reminded one of the fond mother who, while watching her son on parade, exclaimed, "Everyone in the line is out of step except my dear John".

The cost reduction issue merited only a passing reference at the hands of Harish Mahindra. "Business," he said, "should be continually concerned with quality improvement and price reduction". However, it was not for him to admit that this precept is being honoured in the breach than in the observance. Nor did he care to outline the specific steps that should be taken to achieve cost control. He left it all to modern management techniques. While the latter can certainly keep costs to the absolute minimum, the community as a whole does not stand to benefit by the exercise unless at least a part of the cost reduction is passed on to the consumer in the form of lower prices. Here it is a question not so much of modern management techniques as of an enlightened outlook on the part of the entrepreneur. Neither Mahindra nor Bharat Ram appeared to be interested in this aspect of the problem. As for D C Kothari, another speaker, he did not even bother to mention the question of cost control.

Evaded Responsibility

Raising productivity levels was another issue that was successfully fuddled, if not altogether evaded. Bharat Ram was at pains to pass the 'buck' on to trade unions; after repeating the familiar plan that wages needed to be linked to productivity, he said "the trade unions cannot absolve themselves of their responsibility in this area". Surely, Bharat Ram knows that almost every increase in productivity is the direct result of managerial innovations like optimum use of human, material and monetary resources, improvement of production processes, upgrading of sub-standard raw materials through research and development, better planning, purchasing and packaging, finding out ways and means of reducing the cost incurred by suppliers of raw materials and distributors of finished goods, etc, and that has little to do with the workers, except to the extent of their co-operation in implementing changes designed to achieve a higher level of productivity. What the participants in the seminar knew full well, but did not like to speak out, is the fact that inefficient management and not obduracy of labour is the real reason for the failure to achieve higher productivity levels.

If industrialists like Bharat Ram are really that earnest about relating wages to productivity, how come there was no suggestion at the seminar that employers should work out specific norms of productivity and come out with a formula which will offer labour a specific quantum of wage increase for, say, every five or ten per cent increase in productivity? Also, what prevented the employers from proclaiming that it would be their policy to share productivity gains with the employees and the consumers? (A higher productivity has no significance to society, unless its gains are shared by employers, workers, consumers and the general public.) And where was the warning to business houses that cannot resist the temptation to mask productivity gains (by appointing their friends and/or relatives either as purchasing agents of sole selling agents) to avoid their having to share it?

Mahindra cited two brilliant examples in productivity bargaining — one between the management and the employees of Esso's Fawley Refinery in England and a more recent productivity deal concluded by British Oxygen. Why is it, then, that our employers find it difficult to emulate the example of their opposite numbers in Britain? Have our managements really applied their minds to this kind of bargaining? Such questions were neither posed nor answered.

The subject of imaginative industrial relations policy, which is an essential feature of enlightened management, was scrupulously avoided by the speakers — except Mahindra who too was content with the statement that, as a profession, personnel management in India is not as attractive as purchase or sales management and that there is a tendency to shy away from it. It was not for him to appeal to his fellow industrialists to eschew reactionary or pussilanimous or paternalistic attitudes in dealing with the workers and their unions; to warn them about the risks of not recognising majority unions, of failure to adopt a neutral role in inter-union wrangles and of by-passing their personnel managers by referring industrial disputes to political busybodies whose only interest is the publicity they secure for themselves.

In dealing with the problem of presenting the image of the business community to the public, D C Kothari appeared very much concerned with projecting it in every nook and corner of the country. He did not pause to inquire whether the image, as it appears today, was worth projecting. When someone in the audience asked Kothari what were the contributions of the business community that could be publicised, he mentioned "the taxes we pay, the employment we provide, etc". And this, in spite of the pointed reference in the background paper: "Businessmen's activities that will have a favourable impact on the public mind are precisely those that are not directly connected with the pursuit of profit".

Kothari was the only speaker who dealt at length with the role of business associations in the changing environment. Strangely enough, he did not talk about the need for these bodies to learn to look at economic problems from a broader perspective, instead of confining themselves to submitting representations to the state and central governments. He was worried that the membership of the Federation of Indian Chambers of Commerce and Industry was not as representative of the business community as it should be. How a mere increase in the number of members will enable FICCI to raise its sights and "study problems in depth and present an objective case" was a mystery that was left for the audience to sort out. Bharat Ram pleaded dearth of secretarial services capable of collection of information and statistics and of anticipating the results of alternative policies. One would have thought that FICCI's Secretariat had enough expertise to tackle all this and more. There was, of course, no hint about the real snag — which is lack of vision on the part of the managing committees of business associations and their reluctance to identify themselves actively with national interests to some extent at least, even if totally as in the case of Chambers of Commerce in Japan described in detail by Takahashi who spoke on government-business relations in Japan.

It has become the fashion these days for industrialists to equate growth with development. "...the most powerful solution for resolving the contentious problems of poverty and unemployment," said Mahindra, "is not more of social welfare programmes or more government intervention or more foreign aid or more awareness of one's social responsibilities, but it is simply faster economic growth." Is it really that simple? No one can dispute the imperative need for economic growth. However, the assumption that once growth is ensured, prosperity surely and steadily percolates until it reaches the lowest income groups has been proved to be a dangerous myth. If economic growth is capable of bringing about distributive justice, there should have been no islands of poverty in countries with high growth rates. The fact, however, remains that the poor continue to be with us, and socially desirable, projects are starved of finance, rapid economic growth notwithstanding. It is surprising that this truth should have escaped Mahindra, who mentioned Marcuse, Sartre, Edward Mischen, Salvador Allende, Reich and Lindberg — all in one breath.

A rather amusing feature of the seminar was the intellectual posturings of some of our industrialists. Bharat Ram, for example, said that competitive business and co-operative endeavour are not antithetical and followed it up by saying, "I refer to the precept of thesis, antithesis and synthesis". What exactly this was supposed to convey, was not quite clear. Mahindra went into a brief dissertation on 'value premises' in his address. He attributed the failure of most discussions to the fact that individuals do not bother to ascertain their 'value premises' at the very outset. Continuing, he asked "when, for example, a person who has faith in enlightened capitalism as conceived by the school of Ayn Rand gets together with another who subscribes fully to the exploitation theory of Marx ... we cannot expect them to be talking to each other". It was difficult to appreciate this reference to the importance of establishing value premises in a discussion between thoroughly respectable, dynamic conservatives where there was no danger of the capitalist and the communist confronting each other with their rival sets of values. In any case, the seminar was concerned not with the evaluation of the merits of alternative ideologies; its objective was the lot more modest one of finding ways and means of making the enlightened capitalist move with the times and become a little more enlightened.

One really worthwhile suggestion that came from Mahindra was that an independent body of businessmen, consumers, trade union leaders, government officials, and other prominent individuals, might conduct a social audit of business houses covering such areas as price policies, industrial relations, and social welfare activities. The idea is sure to be given short shrift by industrialists. If by a miracle it survives, and is given concrete shape, what an opportunity it will provide for exposing the yawning gap between profession and practice among the members of the business community!

BANGKOK

By the Grace of the GI

(From a Special Correspondent)

THERE is a curious similarity in styles of planning between Thailand and Britain. In Britain the overall constraint has been the balance of payments, and much of the 'planning' consists of demand management. Talking to planners in Thailand, one gets the impression that 'demand management' is their style of operations as well. In the newly released third five-year plan, which came into force on October 1, (the English version of the plan is not yet out), the growth targets for all sectors except agriculture and banking are lower than what had been achieved in the last five-year plan period (see Table 1). These growth 'targets' are really nothing more than 'forecasts', and it is forecasted that the economy would grow at a less rapid rate than in the preceeding five-year period.

The growth of income had been fairly rapid in the last five years. The GNP grew at a rate of 8.1 per cent per year, one of the highest achieved in this part of the world. No doubt this is due partly to the large military expenditures of the US government in Thailand. Estimating the contribution of US government expenditures to Thai economy is beset with all sorts of problems, chief among which is that many items of military expenditure are directly linked to imports, so that in one sense a part of the expenditure is direct transfer of military equipment from America to Thailand. After eliminating such clearly identifiable imports, the United States Embassy has put the figures as follows:

	(Million US $)
1965	30
1966	130
1967	215
1968	214
1969	186
1970	160

Source : The Investor, April 1971, p 318; published by Thailand's Board of Investment. (One US $ is equal to 20.825 Baht.)

Thus US military expenditures reached a crescendo in 1967 and 1968, constituting about 5 per cent of national income. As a result of this, Thailand was able to import 60 per cent more goods than it exported and at the same time build up its reserves, which have however begun to decline by small amounts since April this year. In addition to the large US military expenditures, Thailand had also been lucky in experiencing a decline in its import price index.

In spite of the high growth rate of income in these favourable circumstances, there is little evidence that the character of the Thai economy has changed. The share of manufacturing output has fluctuated beween 14 and 15 per cent of GDP. The sector which

TABLE 1: TARGETED GROWTH RATES DURING THE THIRD FIVE-YEAR PLAN PERIOD

Sector	Growth Rates Per Year 1967-71 (Actuals)	1972-76 (Targets)
Agriculture	4.1	5.1
Mining and quarrying	8.1	6 0
Manufacturing	9.2	8 0
Construction	8.4	6.5
Electricity and water supply	20.7	15.0
Transportation and communication	7.5	6.0
Wholesale and retail trade	7.7	7.0
Banking, insurance and real estate	14.4	15.0
Ownership of dwelling	4.1	2.5
Public administration and defence	10.0	6.0
Services	8.8	7.0
Gross domestic production	7.2	7.0

has boomed the most is residential construction. This does not get adequately reflected in national income data due to statistical problems, but anyone can see the extent of new construction in Bangkok in the last few years—large numbers of new hotels as well as residential houses.

Indeed this is the sad aspect of economic growth in Thailand. Large military expenditures have flowed in, often tying up domestic resources as well for military purposes. These in time have created a demand for various kinds of services—some of them valuable like engineering, but mostly for residential accommodation, massage bars and hired wives. In some areas it has also led to substantial additions to employment, but the chief spillovers have been to residential construction and massage bars.

It is particularly sad, therefore, to see that the planners have made little attempt to increase the productive potential of the economy in the third plan period. They seem to be operating under two constraints. Firstly, the relatively free trade policy should not be interfered with and the growth of money incomes has to be controlled in such a way that the balance of payments is not in deficit. Secondly, a public sector other than for creating infrastructure is considered undesirable; so growth has to be engineered through the private sector.

These two constraints together have left little scope for a bold attempt to restructure the economy. Added to all this, the private *industrialists in this* country operate as a cartel, in association with and with the connivance of the army which is the seat of real political power. The cliquishness of private industrialists has been noted by several observers. One of the consequences of this is that many industrial houses are unwilling to go public so that the savings of the general public are given a chance to participate in industrial development. These frustrated savings go in time into other accessible investments such as in small shops, urban speculation, etc, in spite of the fact that large manufacturing is sometimes highly profitable.

An example of cliquishness is that no one is allowed by a government decree to open a new bank. Further, the existing banks are unwilling to increase their paid-up capital by a public issue of shares (even though some of the banks have been highly profitable) because of their fear of losing control. The Siam Commercial Bank, for example, declared a dividend of 160 per cent in 1968, which rose to 187.50 per cent in 1969, and 235 per cent in 1970 (see Table 2). Other banks which have not declared such high dividends have been able to retain large profits and thus accumulate reserves. For *example, the Siam City Bank has a* paid-up capital of one million baht, but has added over the past three years 51.15 million baht to its reserves and undistributed profit which at the end of 1970 amounted to about 119 million baht (see Table 3).

In the context of the unwillingness to have a public sector, such cliquishness on the part of private industrialists has serious consequences for industrial growth. The industrial growth rate then comes to be determined by the savings rate of this elite group and the extent to which others are willing to let their savings be channelled to this elite at unattractive rates of interest compared to the rates of return on capital.

Due to the above reasons, there is increasing political disenchantment with the present set up in the country. Accusations of corruption at high levels abound. Recently a group of legislators have signed a petition to the Prime Minister suggesting that the government *should investigate, in collaboration* with the Swiss government, the secret accounts held by Thais in Swiss banks. One of the newspapers, however, has added wryly that it is not likely that the Prime Minister would take any action for fear of embarrassing *many high officials!*

The common people are also getting restless at the American presence in Thailand. In a letter to a Bangkok *newspaper entitled "what are the Ame*ricans really doing in this country?", a Thai, who has been working with a GI, recaptures a dialogue he had with the GI at a farewell dinner. Extracts from the letter are worth quoting:

> "After dinner we sat and talked about many subjects... At one point, during the conversation the GI asked about the reason behind and the reaction of Thai people to allowing the United States to establish military bases in this country.
>
> My friends and I told him what we personally thought as best as we understood the situation. We mentioned the co-operation agreements between Thailand and the United States. We explained that the United States requested *permission* to build military bases here and asked for the co-operation of Thailand, in order to transport bombs to go and destroy North Vietnam. The military bases play no role in suppressing insurgents in Thailand.
>
> We noticed that he began to show signs of misunderstanding. He said things to the effect that the US wished to set up military bases in

TABLE 2: DIVIDENDS AND BONUS PAID BY BANKS TO SHAREHOLDERS INCLUDING CASH AND FREE SHARES

(per cent)

	1968	1969	1970
Siam Commercial	160.00	187.50	235.00
Wang Lee Chan	7.09	9.18	7.75
Bank of Asia	2.50	5.00	6·50
Siam City	—	—	—
Bangkok Bank	14.00	14.00	15.00
Bangkok Bank of Commerce	19.11	16.45	16.61
Thai Farmers	20.00	15.00	20.00
Laem Thong	18.00	18.00	18.00
Union Bank	10.00	14.00	16.00
Thai Danu	19.00	20.00	20.00
Bangkok Metropolitan	20.00	30.00	40.00
Thai Military	30.00	30.00	40.00
Thai Development	—	—	—
Asia Trust	—	—	—
Krung Thai	11.73	5.83	13.00
Bank of Ayutthaya	12.00	12.00	12.00

TABLE 3: CAPITAL AND RESERVES OF BANKS

Bank	As at December 1967		Additions During 1968		1969		1970		As at December 1970	
	Capital	Reserves	Capital	Reserves	Capital	Reserves	Capital	Reserves	Capital	Reserves
Siam Commercial	3.3	114.0	—	11.5	—	14.0	—	16.9	3.3	156.3
Wang Lee Chan	0.3	2.9	—	0.1	—	0.2	—	0.2	0.3	3.3
Bank of Asia	40.0	42.5	—	0.7	2.0	2.5	3.0	3.8	45.0	48.0
Siam City	4.0	68.1	—	15.4	—	16.8	—	18.9	4.0	119.2
Bangkok Bank	200.0	109.5	100.0	68.0	—	38.5	100.0	82.6	400.0	298.6
Bangkok Bank of Commerce	31.1	51.3	6.6	7.2	6.6	5.8	5.7	10.2	50.0	74.4
Tahi Farmers Bank	30.0	82.9	10.0	17.9	10.0	23.3	—	23.0	50.0	147.1
Laem Thong Bank	12.0	32.9	—	2.9	—	3.0	—	3.3	12.0	42.0
Union Bank	30.0	24.9	—	8.9	—	15.0	17.1	19.2	47.1	68.1
Thai Danu	20.0	33.7	—	7.1	—	8.6	—	12.6	20.0	61.0
Bangkok Metropolitan Bank	10.0	62.5	—	17.7	—	23.6	—	30.1	10.0	133.9
Thai Military Bank	10.0	48.0	—	6.7	—	10.2	—	28.4	10.0	93.3
Thai Development Bank	32.6	11.8	3.6	1.7	35.7	8.5	28.1	0.2	100.0	22.7
Asia Trust Bank	40.0	11.2	—	6.3	—	4.9	—	6.6	40.0	29.0
Krung Thai	200.0	72.9	—	14.2	—	16.2	—	45.1	200.0	148.3
Bank of Ayutthaya	100.0	49.3	—	12.2	50.0	14.8	—	14.4	150.0	90.7
Total	763.3	756.3							1,141.6	1,535.5

this country and Thailand had no choice but to comply. The US can and does establish military bases anywhere it chooses all over the world. Besides, the Thai government and the leaders of this country have benefited a great deal from the American presence. They are well aware of the fact that as a result this country has made great strides economically. It was only after the establishment of the military bases in Thailand that modern shops, movie theatres, good hotels, etc, began to make their appearance here.

We tried to argue and explain that although he was correct to a certain extent about the benefits we have received from the American presence — this was only a very small percentage, affecting a small group of people such as the hired wives, and a small number of towns where the bases are situated — on the whole, however, the government is facing many problems created by the American presence.

We, the Thai people, have lost our most valuable customs, manners and traditions, which we held dear before they came to this country. Not a small number of Thais are now most dissatisfied with the situation and want the US to dismantle their bases and take all their people out of the country.

He then asked what the Thai people could possibly do? All that was needed was for the leader of his country to issue an order to the US troops in Thailand to take possession of everything in this country and it would happen with no difficulty whatsoever. He compared Thailand's present situation to that of the 51st state of the United States of America.

We then pointed out his ingratitude. This country is after all offering Americans a home where they live in peace and comfort.

His answer indicated that he felt Thailand had no choice in the matter. He said that every baht and satang which we are receiving in the form of aid was not much different from selling our country to the United States on the hire-purchase plan. All this, he said, was obvious from the fact that every policy decision on the part of the Thai government followed the American lead.

We really felt sad and at the end of our tether, but all we said was that he was different from us. We had different customs and different feelings. Thailand and the Thai people are peace-loving and generally look upon other people in a friendly light. From now onwards, however, we Thais will have to realise that our friendship, and the loving kindness which we have shown to foreigners, and especially to Americans, are all utterly worthless to them. The GI probably understood the way we felt, for he changed the subject and took his leave soon after.

After he left we stayed up and talked about this matter for a long time. It will be a long, long time before we can forget what we heard and experienced that night. The feelings we have will remain with us as long as there are Americans and American military bases in Thailand.

LONDON

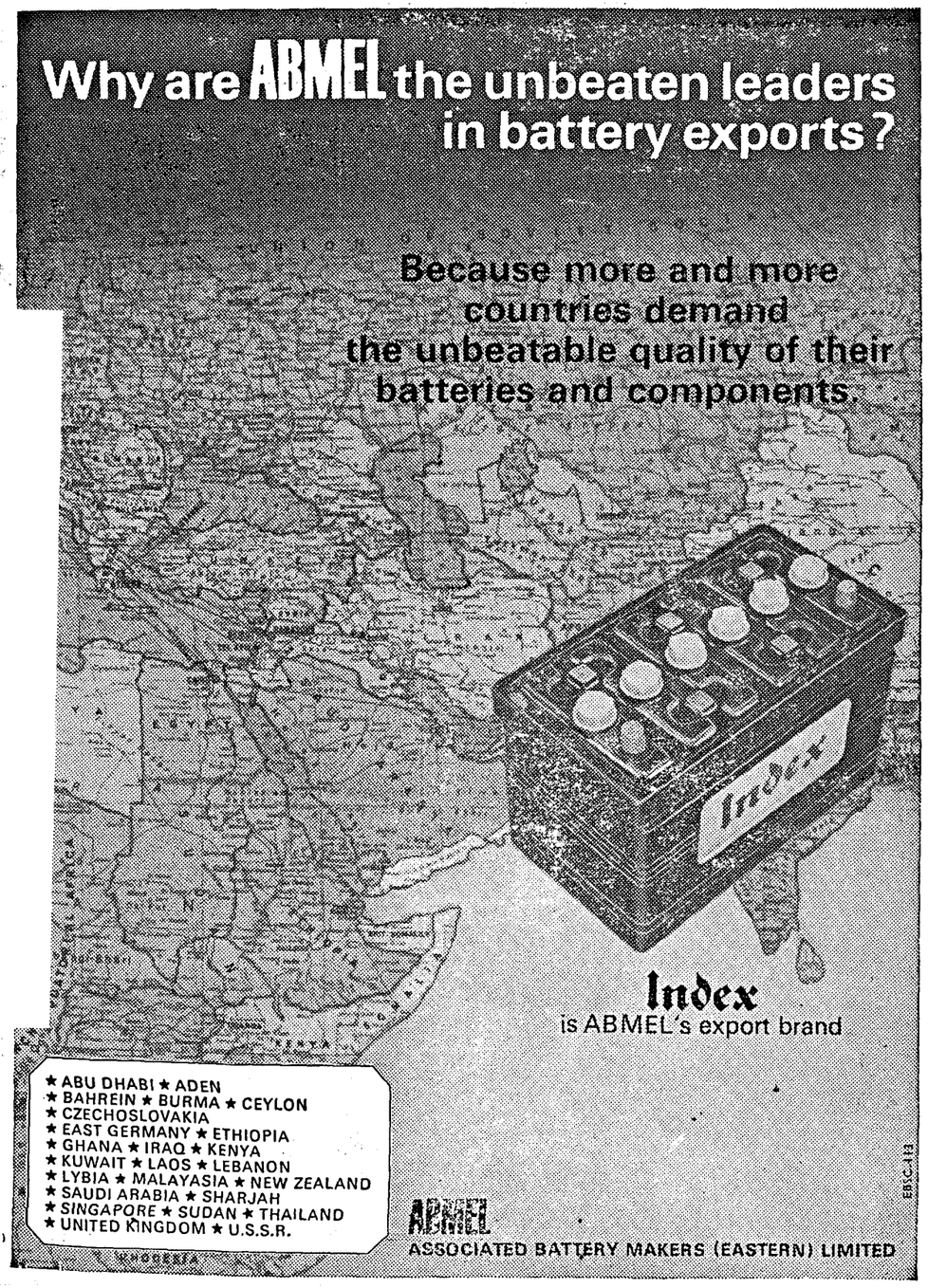
Prospero Is Stunned

Farrukh Dhondy

ANGELA Davis says, and every colonial knows its true, that all black trials are political trials. In the programme of the Black Panther Party of America they have a clause demanding that all black people in state and federal prisons be set free because the constitution of the United States guarantees every citizen a trial by a jury of his or her peers, and all those people are behind bars at the behest of white juries.

Three weeks ago, in London, at the Old Bailey, the trial opened of nine black people charged with conspiracy to riot. As it began, the defendants made a representation to the court to be tried by an all black jury. Their demand, which would have necessitated a change in the law if it had been granted, was thrown out of court after two days of legal wrangling by their barristers. "I need give you no reason", said Judge Edward Clark, summing up his categorical refusal.

There wasn't a person in that court, official, defendant, or member of the public, who didn't in some way understand the unstated reason. The least part of which was, of course, that before a black jury, the charges would never have stuck. The defendants, characterised by the prosecution as nine dangerous people who are attempting to subvert the State through their leadership of black political organisation in



London, would walk out of that court free men and women with the support of their community openly displayed.

The demand, if granted, would have subverted British 'justice' by asking it to comply, in spirit and letter, with what it pretends to. The defendants pointed out that they were asking for no more than the Magna Carta promised to the commoners of the State; they were asking to be tried by a jury of their peers and they were making some assumptions about the nature of British society. They were assuming, correctly, that in real terms the society is racially divided, a division which white and black feel, a division which will be enshrined in law once the 'aliens' bill is put on the book, a division which the police are conscious of, a division which schools, employers, landlords, political parties and the government exploit.

The division of opportunity, significant as it is, makes the experience of a black Britisher different from that of a white one. It makes sense, then, that the blacks refer to each other as 'brother' and 'sister', and to the exploiting agent as 'the man'. Words incarnate the reality; for there to be justice according to the letter of the law, the Mangrove Nine ought to have been tried by their peers, ought to have had a black jury.

By refusing them their right, Britain declared that theirs was a society which could not afford justice. But in the words of one of the defendants, "they chose the wrong set of niggers this time". I feel, that much to their regret, the British courts are going to learn how substantially true that statement is. Britain is, at this moment in history, experimenting with ways in which to control the dissent which the crisis of their economy has caused (and I don't feel it's grandiloquent to pull history into the argument because the resolution of the forces at this particular time will have far-reaching consequences). Northern Ireland, sick at heart for years has broken into the recurring allergy of guerilla warfare. Four large firms, including the Upper Clyde Shipbuilders and BSA, have been occupied and are being run by the workers, defying the Tories to accept it or send the troops in; the unemployment in the country, now at the million mark, is generating the rhetoric of the thirties once again; the Angry Brigade, an unidentifiable organisation, has started bombing the homes of Industrial Ministers and police stations.

All this and the blacks too. The escalating discontent of the black population is giving rise to very hard-headed political organisations — movements around which black anger will gather, as fingers belonging to a hand gather in a fist. "They shit scared, man, they shit scared", a demonstrator said to me as 10,000 black people marched against the Immigration Bill earlier this year and the police came in their hundreds to escort them. A nation that can afford democracy doesn't need the torture and internment camps of Northern Ireland, it doesn't need the political trials of political black people.

It is only over the last two years that the British government decided that part of the game was up; it was no good holding political defendants on charges like obstruction and assault, but they could deepen the divisions between black and white workers by charging black people with conspiracies of one sort or the other. The Mangrove Nine, seven 'brothers' and two 'sisters', were all arrested at various times in the year following a demonstration of black people in Notting Hill Gate in West London to protest against the brutality of policemen to black people and to expose the victimisation of black clubs and organisations in the area. The defendants get their collective name from the Mangrove restaurant, a black restaurant in Notting Hill Gate, which has been raided several times by the police because the owner refused to pay bribes to the local policemen and because the place is a central spot for the community in the area. None of the raids had any positive results for the police, none of the charges they tried to pin on the restaurant and its owner, Frank Critchlow, ever stood up in court. On August 9, last year, the demonstrators gathered outside the Mangrove restaurant, about 400 strong, and marched past the three police stations which control the community. Brother Darcus Owusu, one of the defendants in the trial, made an opening speech. "Brothers and Sisters", he said, "we have complained too long to the police about the police and nothing has been done, we have complained to the courts about the courts and nothing has been done, we have complained to parliament about parliament and nothing has been done, it is time the people did something for themselves." He went on talk about the attitude of police to that community of black people, and understanding Caribbean voices shouted back "Rock away Brother D, fire some heavy shots, sock it to them Brother D", etc. The policemen, who later broke up the demonstration and are now being used in evidence as prosecution witnesses, claim that he started the speech with the statement "Kill the white pigs" and was met with answering shouts of "Kill the white pigs".

As in all these trials, the prosecution is relying not on hard facts, but on the general psychological insecurity it can create in the white jury by characterising the demonstrators as savages irrationally attacking the police force. The defence have consciously eschewed the policy of attempting to fight the case on non-political grounds, and are making it clear that they understand the status of such legal persecution in the State's corpus of control. Two of the defendants, Althea Jones Lecointe and Darcus Owusu (charged under his slave name of Radford Howe) are conducting their own defence. Predictably, the judge picks up for the jury the points the prosecution has missed in cross-examining witnesses, harries the defence lawyers when they seem to be making nonsense of police testimony, and persistently attempts to whitewash the political complexion of the trial. The prestigious national newspapers follow the trial, but report it only when they can support the prosecution's contention that nine 'dangerous' political adventurists have been caught attempting to make political capital out of the dissatisfactions of the black community and deserve to be sent down.

The jury — 10 white, two black — are by now aware that more is at stake than the personal liberty of nine young black people. The galleries of the court are full each day of their supporters, and the radical press is full of the issue. This trial, like the black trials in America, will measure in a sense the attitude of white Britain to its Achilles heel. Though black people are tried in Britain's courts for one thing or another every day, this particular trial makes one feel that an ironic force of historic justice is at play. It has something to do with the sight of so many black people queueing to get into the public gallery, day after day, outside the Old Bailey in the business citadel of London. It has something to do with the eloquence of the descendants of the slaves on whose blood this empire was built, with their standing up in a British court and perceptibly frightening it. If Britain is using this as a test-case for their post-Immigration Bill generation of blacks, then Britain can see that it has met with the will and the organisation to resist. Prospero is stunned that Caliban speaks, his loss on it now is that the rest of the island can hear him.

In the News-Maker's Absence

Nireekshak

WITH the Prime Minister away, the focus of political and journalistic attention was bound to shift, as it has done, to points in Europe and America. For a brief moment it appeared as though New Delhi had not much grist to provide for the mills of its special correspondents. This may have been an inconvenience in normal times, though never much more than that, as the native ingenuity of the special correspondents is known to have survived greater obstacles. But these are not normal times. And in any case, before any inconvenience could be felt by anyone, there came some windfalls which newspapers avidly picked up. The windfalls came in the form, first, of the new tax levies and, second, the Soviet Deputy Foreign Minister's visit to the capital. China's admission to the United Nations, again, found the correspondents busy. There has been much animated editorial discussion also.

Statesman, for example, which had never concealed its distaste for the Indo-Soviet treaty, used N P Firyubin's visit and talks here to throw fresh doubt on the usefulness of the treaty. "Soviet friendship is by no means a matter to be despised", it allowed generously, "and the implied assurance of aid, should it be necessary, is indeed welcome. Yet highly dramatised exchanges with the Soviet Union convey the impression of an extravagant dependence on Moscow with expectations on New Delhi's part which there is no reason to believe will be inevitably fulfilled." Referring further to the activation of Article IX of the treaty and the explanation furnished by officialdom that this was a "natural consequence of cordial relations with Moscow", the paper asserted it was still "obscure" in what sense the treaty could be regarded as "natural". In fact it was far from clear, said the paper, whether the treaty was made necessary by New Delhi's foreign policy or whether policy is now being shaped in the light of the treaty".

This view was however hotly contested by *National Herald*, which said that the treaty had cast a responsibility on the Soviet Union "to foil Pakistan's aggressive designs on India, and it is certain that she [the Soviet Union] will fulfil her obligations". The Soviet Union, *Herald* noted, was "a dependable ally" of this country and "this friendship is of great value to her... when her security is being threatened by Pakistan". Alone among all newspapers, *Herald* asserted that "there are indications that the Soviet Union will help India in a big way" though what these indications were it did not feel called upon to explain. Without going as far as the *Herald* to uphold either the treaty or Soviet friendship, ***Hindustan Times*** conceded that the "invocation" of Article IX of the treaty has "added a new dimension to the bilateral talks between the two Governments". Even though the invocation of the article may have been "premature" in some respects, "politically it is a pregnant gesture". Yet all this does not mean, the paper cautioned, "as some supporters of the treaty imagine that the Soviet Union is committed to go the whole hog with India in the unfortunate event of an outbreak of hostilities between India and Pakistan...".

It was perfectly true, commented *Free Press Journal*, that "the treaty does not impose any obligation on either party automatically to go to the assistance of the other in the event of an attack or threat of attack against it". However, it added, "the treaty does not preclude such assistance and in any clear case of attack the moral obligation to assist will be found irresistible". As for Firyubin's talks in Delhi and the joint statement issued after it, they make clear, *FPJ* said, that "the treaty has successfully met the first test to which it has been put".

The discussion on China's admission to the United Nations turned on familiar lines. India has always been an advocate of China's entry in the United Nations, the general argument went, and it has therefore reason to welcome the General Assembly's decision. The delay in admission was universally attributed to American intransigence—"a twenty-three-year old absurdity created by American refusal to see reality squarely in the face", as *Amrita Bazar Patrika* put it. However, opinion differed on the possible impact of China's admission on the United Nations itself. As *Patrika* saw it, "it is easy to see that the UN would not remain hereafter what it has been till now, but which way it would move is a question to which an answer is unpredictable at this stage". *Deccan Chronicle* however took a more positive stand on the question. "The UN as a forum for imperialist intrigues can be expected to undergo a vast transformation", it said. "It will now make China to act in a responsible manner and strive to strengthen the UN as the true conscience-keeper of the world. Its presence should contribute a great deal to the furtherance of peace and understanding among nations."

Hindu, like most others, saw the decision as "historic". The decision "is perhaps the most important step the UN has taken since it authorised collective military action to repel the North Korean communist aggression in 1950... What the UN will be, once Peking comes in, will naturally depend on its global aims. It is certain to be a third centre of power... From whatever angle one may look at it the UN will no longer be the same, once Peking takes its rightful seat." And according to *Indian Express*: "China's entry into the UN marks a revolutionary step, more far-reaching than many who voted for her admission realise... There is no doubt that China will now assume the leadership of the Afro-Asian bloc." What is more, while a "Sino-American rapprochement... signifies a nightmare for the Kremlin... China's entry in the UN could ultimately also signify that for the White House".

The new levies met with a mixed reception. While most newspapers conceded that the levies were unavoidable in the circumstances, not everyone was sure of their impact or whether they would be the last of such imposts. "Inevitable", commented *Times of India*. "The new levies are just the beginning of a long haul. The cost of providing even a modicum of relief to the nine million refugees will push up the budgetary deficit this year... More taxation is inevitable and all sections of the people will have to share the consequent burden."

In the context of the "crisis on our borders... there are no two opinions on the Government's action to mop up resources", remarked *Deccan Herald*. However, it added, the levy on newspapers and periodicals can scarcely be "considered either fair or equitable". If sufficient attention has not been paid to the effect of the new taxes, "there is still time for the Government to make changes so that the levies are not harsh on the weaker sections of society".

Indian Experience in Urban Planning

Ardhendu Bhattacharya

Urban Government, Finance and Development by Abhijit Dutta; World Press; pp 171; Rs 15.

THIS book is a collection of 15 papers presented by the author to various seminars and journals. Broadly, the book deals with Indian experiences in the field of urban and regional planning. Financial and administrative inadequacies of most urban local bodies have been studied in the perspective of centre-state relations. A diagnosis of fiscal proposals embodied in the Basic Development Plan for Calcutta Metropolitan Area, and the economic implications of rent control Acts in India, are also analysed.

The first two papers are general and present the evolution of the concepts. The author has highlighted the growth of a large number of urban planning and development bodies, their financial inadequacies, the absence of inter-unit co-ordination, and the lack of governmental support. The regional planning difficulties assume wider dimensions when the planning area extends beyond the territory of just one state. Dutta, in paper three, has discussed the plan for the National Capital Region, which covers 12,647 square miles of area extending over the four states of Delhi, Haryana, Uttar Pradesh and Rajasthan. He finds there is inherent apathy among the states involved in such joint planning effort. Dutta is, therefore, right in suggesting that, since the concept of inter-state planning is yet to take shape in India, planning efforts initially should be directed towards inter-state co-ordination of a few selected functions, such as water management, power system, transportation, etc.

In his paper, 'Financing Municipal Services', Dutta has drawn the observations by the Zakaria Committee with regard to the existing gap between the actual and desired levels of municipal expenditures in most Indian municipalities. He has discussed possibilities of raising revenue from various sources, including better administration of property taxation, a tax on commuters to the cities, and a tax on urban land values. However, he finds inherent limitations in most such tax efforts and other internal resources to finance urban development. He, therefore, suggests a reorientation of financial relations between the state and local bodies, and proposes the creation of a municipal finance commission in every state for revenue devolution by way of tax sharing and grants. It is generally agreed that the funds for urban development should increasingly come from central or state governments; but at the same time, we must ask the local bodies to shake off the present inertia for additional taxation and tap the existing sources more fully. The reasons for apathy are political, sheer inefficiency, and/or outdated methods of property income valuation.

For financing urban development, Dutta has suggested the creation of a central loan agency with regional offices. The recently created Central Housing and Urban Development Corporation, with its headquarters in New Delhi, is a step in the direction which Dutta has emphasised.

In paper 10, Dutta has suggested some modifications in the system of general purpose grants now being granted by state governments on per capita basis instead of on a performance basis. Similarly, such factors as population density, settlement pattern, type of workforce, the economic base, age structure, sex-ratio, topography, etc, are not considered in determining the size of grant. Dutta, however, has not suggested any specific formula for guiding the size of such a grant.

The author has discussed in paper 12 some of the fiscal and administrative proposals contained in the Basic Development Plan for Calcutta. The BDP correctly rejected the idea of an all comprehensive general purpose planning and development authority and, instead, suggested an apex planning body at the top, more than half a dozen functional agencies, and consolidation of fragmented municipal units. It was felt that the proposed arrangement would be consistent with the spirit of local self-government, would be economically viable, and would simultaneously remove the usual ills of general purpose single metropolitan-wide local government.

Dutta's plea for a single metropolitan government as a means to prepare a metropolitan capital budget is untenable. It is possible to enforce inter-unit co-ordination through the creation of a high-powered capital budget division within the apex planning body. Such a division should be entrusted for carrying out cost-benefit studies of various urban development schemes with a view to fixing the overall priority. Dutta has very subtly pointed out the following demerits of BDP proposals: (i) lack of economic appraisal of various schemes put together in BDP and hence inadequacy of information about the apportioning of priorities to various schemes; (ii) absence of bold suggestions and lack of analysis for boosting internal revenue; (iii) the non-including of major findings and conclusions of expert bodies like rural-urban relationship committee; and (iv) the suggestion to create a Rs 10-crore revolving fund—without mentioning the sources for such a revolving fund.

Dutta has discussed, in paper 14, the pros and cons of the present rent control method *vis-a-vis maintenance of* housing stock. He thinks that the present method of rent control of old structures, in particular, is not conducive to their maintenance. Existing rent control Acts provide for permitted rent increases and rent control holiday periods only to relatively new houses, i e, those built in the post-War years. However, his suggestion for gradual relaxation of rent control Acts on old houses is debatable since its adoption would mean preferential treatment for old houses. A general reorientation of the entire rent control policy may instead be suggested which would take into account, among other factors, the ability and willingness of house owners to repair and maintain, trend in land prices, etc. The experience of the Bombay Building Repair Board, as Dutta highlights, deserves serious consideration. The Act seeks to shift the maintenance of rent controlled buildings primarily onto the tenants through the levy of a cess. The cess varies inversely with the age of a building. Tenants of old houses are made to pay more. The fund of the Board is also supplemented by loans from government and municipal authority.

The book is, indeed, a very good collection of papers on what may be called Indian experience in urban planning and development. It would be of particular interest to researchers, fiscal analysts working for urban planning, administrators, politicians, and municipal decision-makers.

From Tambu Consciousness to Modern Capitalism

E A Ramaswamy

Capitalism, Primitive and Modern : Some Aspects of Tolai Economic Growth by T Scarlett Epstein; Canberra, Australian National University Press; pp xxiv + 182; $ 6.50.

THIS book is about economic development among Tolai, a people of Melanesian stock living in the Gazelle Peninsula of New Britain. Cannibals till the turn of the century, the Tolai are now little different from entrepreneurs anywhere.

The turning point in Tolai economic development came with contact with Europeans. The Germans established trading stations in the peninsula to purchase copra from the natives. The continuing international demand for copra familiarised the Tolai with cash cropping. Later, at the end of the Second World War, the Tolai eagerly took to cocoa cultivation when the Australian administration introduced the crop. Considerable cash income accrued to the Tolai as a result of cash cropping. But most of their consumption needs could still be met with subsistence production. As a result they could accumulate large sums of money. What enabled the Tolai to accumulate and invest their savings rather than expend it on consumption was their traditional predisposition to hoarding. Even in pre-contact days the Tolai had a shell money called Tambu. Almost everything, including human flesh, could be bought with Tambu. Stockpiling Tambu was every Tolai's dream. Large quantities of Tambu were given away as marriage payment and during mortuary rites. The culmination of Tambu consciousness is seen in the belief that when after death the soul arrived at the gates of heaven, the ghost at the gate asked, Where is your Tambu? How much Tambu was distributed during your mortuary rites? Admission to heaven was conditional upon satisfactory answers to these questions.

It became a matter of prestige for the Tolai to invest their savings in such productive enterprises as copra driers, retail ships and trucks. With the emergence of permanent and substantial assets in the form of tree crops and service industries, many Tolai began to question the traditional system of inheritance. The Tolai were matrilineal with patri-virilocal residence. Property was owned in common by the matrilineage and passed in the matriline. The system worked well so long as cultivation was subsistence. Land was plentiful and the Tolai practiced shifting cultivation. But when a man invested considerable resources in planting perennial tree crops, often with the help of his sons, he did not want to see the fruits of his labour go to his sister's sons. The Tolai devised devious methods to pass on property to their sons. Some even talked of a shift from matriliny.

This unique study of a primitive people's response to opportunities for development is a significant contribution to the growing literature on economic anthropology. It is evident from Epstein's discussion that it was certain features of the traditional social structure which enabled the Tolai to respond so massively to these opportunities. This once again raises the familiar question of the relation between economy and society and of the suitability of some social structures for economic growth.

Twice Chewed and Tasteless

J A Naik

Soviet Relations with India and Pakistan by Devendra Kaushik; Vikas Publications; pp 119; Rs 15.

DOING research in a contemporary or historical problem is a laborious task. It requires hard work and patience, if not necessarily an objective attitude and an analytical approach. If, however, anyone wants to find out a shortcut to authorship, the writer of the book under review has shown how simply this could be done. He has simply copied down, with slight changes here and there, a work already published on the same theme and has presented a paraphrased version with some significant changes to the readers. Of course, the author has taken sufficient care to retain original footnotes in the book under copy and has not mentioned anywhere — either in the preface or in a footnote — the book that seems to have supplied him the bulk of his material. The only significant contribution that Kaushik seems to have made is that he has taken the trouble to present the Soviet official line to his readers.

The book is divided into five chapters. The first deals with 'pre-independence ties'; the second with Soviet policy from 1947-52; the third with Soviet policy during 1952-55; the fourth, during 1955-65; and the last deals with the 'Tashkent' period. Although the chapters contain a chronological treatment of the theme, the real treatment, however, is not confined to the chronological order and the author tries to present a very consistent, benevolent, picture of Soviet policy towards India. Whatever 'complications' arose in the Kremlin's relations with India, such as during the days of Stalin, were, according to Kaushik, largely due to 'anti-Soviet designs' of the 'Western imperialists' and the 'national bourgeoisie' at home. He dismisses as 'not true' an interpretation of Soviet policy on Kashmir as 'indifferent' and 'non-committal' in the beginning, and does not see Russia's 'own national interests' in its subsequent pro-India phase.

Although Soviet writers themselves are showing, during the post-Stalin period, appreciable wisdom and freedom in criticising Stalin's 'incorrect' policies towards India, for Kaushik the difference between Stalin's and Khrushchev's policies towards India is only one of degree. He, therefore, terms the phase under Stalin as the 'misty dawn' and the early Khrushchev period as the 'clearing sky'. Stalin was less friendly and Khrushchev was more friendly, but nevertheless it is all a story of friendship alone!

It is not the intention of this reviewer to suggest that a work on Soviet-ology or Sinology should necessarily contain cold-war terminologies of most of the Western writers to give it an appearance of scholarship and objectivity; but, surely, a study of the foreign policy of a seasoned, global power such as the Soviet Union would demand a more analytical and searching treatment than the *druzhba* model permits.

A more pertinent question in this connection is whether Indian scholarship can contribute anything either to Sovietology or to Sinology by copying the Western models of approaches or by bringing studies of foreign policy issues within the framework of the 'party line'. Indeed, it seems that, an understanding of the real nature of the foreign policies of communist countries has been more badly damaged than communism itself has been because of the experts who have deliberately or unwittingly chosen to be partisan observers of the scene. Cannot Indian scholarship contribute something of its own in this respect?

Regional Disparity and Economic Development of Pakistan

II: Some Hypotheses to Explain Growth of Disparity

Arjun Sengupta

This article, which studies the growth of regional disparity in Pakistan, has been published in two parts. In the first part, which appeared last week, the author examined the available evidence on the growth of disparities between East and West Pakistan. In this the concluding part, are presented some hypotheses to explain the growth of disparity with the purpose of isolating the factors that contributed the most.

It is difficult to find any systematic explanation of this growth of regional disparity in Pakistan. Several factors operated together and their interrelations gave rise to the disparity, but which factor or combination of factors were principally responsible for this pattern of growth is difficult to specify.

In this part of the article some hypotheses will be presented with the purpose of isolating the factors that contributed most to this growth of disparity. They cannot be considered established, however, with the nature of evidence that is available. They have to be regarded only as tentative hypotheses, indicating lines of further research needed to settle this question with some confidence.

THE picture that emerges from the analysis given in Part I of this article is that, although initially there was nothing much in the economic conditions of Pakistan that was noticeably favourable to West Pakistan, the gross provincial product of West Pakistan was growing much more rapidly than its population relatively to East Pakistan. As a result, the difference between the per capita income of West and East Pakistan widened over the years, and even in the late 1960s there was no indication of a reversal of that tendency. The figures of per capita consumption of some of the major consumption items in the two regions, as given in Table 4, corroborated this evidence of the increasing disparity of per capita income during the period 1950 to 1970.

For the purpose of isolating the principal factors responsible for the disparity, it is fruitful to divide the whole of Pakistan's experience in economic development into two subperiods: one up to 1959-60, i e, the end of the First Five-Year Plan, the other after 1960-61, the years of the Second and Third Five-Year Plans.[13] Such periodisation for Pakistan's economic development is a general practice now, mainly to stress that there was a breakthrough in Pakistan's growth process with the beginning of the Second Plan period — which incidentally also happened to be just a couple of years after the installation of the Ayub regime. The period of 1949-50 to 1959-60 was a period of relative stagnation of per capita GNP — a rate of growth of 2.4 per cent in GNP being almost neutralised by a 2.3 per cent growth in population. Khan and Bergan estimates showed a decline of per capita GPP by 1 per cent a year for East Pakistan with a 1.1 per cent increase in that for West Pakistan. In the Second Plan period of 1959-60 to 1964-65, Pakistan's GNP grew at about 5.5 per cent, which was nearly double the growth rate of the preceding decade. And during the Third Plan, the overall growth rate of GNP was about 5.7 per cent. Throughout the decade of 1959-60 to 1969-70, per capita GPP of both the wings increased noticeably, though, as we have seen, it increased faster in West than in East.

But this discontinuity in growth performance is not the principal reason for this periodisation in our present context. For, although the per capita GNP was stagnating during 1949-50 to 1959-60, there was a substantial expansion in the industrial activity in Pakistan. The growth rate figures are not very useful here, since with a negligible base they show an exorbitantly high rate of growth of industries. But there is no doubt that rapid industrialisation was going on. For our purpose, these are two main characteristics of this periodisation. During the period 1949-50 to 1959-60, the growth of agriculture was very small in Pakistan, about 1.3 per cent a year. But since 1959-60, there has been a sharp increase in agricultural output, with a growth rate of 3.4 per cent a year during the Second Plan and of about 4.5 per cent a year during the Third Plan. Secondly, since 1959-60, there has been a sharp rise in foreign assistance inflow into Pakistan. During the whole period, 1950 to 1960, the total foreign assistance, including grants and loans, flowing into Pakistan was about $ 1,362 million. During the Second Plan, 1960-65, alone, this inflow was $2,365 million, and in the next five years another $2,306 million.

The rate of growth in agriculture was low in both provinces during the first decade; but even then the growth rate in West Pakistan, which was 2 per cent a year, was about four times the growth rate in East Pakistan. This alone should go a long way to explain the widening disparity between East and West Pakistan during this period, especially when one considers that agriculture accounted for about 60 to 70 per cent of the regional product of East Pakistan, compared to about 45 to 51 per cent in West Pakistan. But, in addition, there was an interesting factor about relative price movements which further aggravated the problem for East Pakistan.

At the time of the establishment of Pakistan, most of the consumer goods manufactures absorbed in Pakistan were imported from India — a source that



TABLE 5: REGIONAL VALUE ADDED IN LARGE-SCALE INDUSTRY AT CONSTANT PRICE 1959-60

(Rs crores)

Years	West	East
47 - 48	10	7
48 - 49	14	8
49 - 50	18	12
50 - 51	24	16
51 - 52	35	18
52 - 53	46	20
53 - 54	56	25
54 - 55	79	31
55 - 56	93	35
56 - 57	102	40
57 - 58	116	43
58 - 59	130	52

Note:

1 Large-scale firm : CSO definition —a unit using power employing more than 30 workers any day in the year.

2 From 1947-1959 : Value added by firms with assets of less than Rs 1 million increased only 15 times, while that added by larger firms increased 15 times.

3 Deflated by regional wholesale prices index of manufactures. In 1951-52 index for East Pakistan was 98.9 for West Pakistan 90.6. This was applied to 47-51 years for for which no index is available.

Source: G F Papanek, : "Industrial Production and Investment in Pakistan", *Pakistan Development Review*, 1964.

was very quickly closed within a few years, so that all such goods had to be imported from abroad. During the Korean boom, Pakistan's export earnings from raw jute and cotton increased very substantially, even though Pakistan did not devalue in 1949 together with India and the UK. But this Korean boom was short-lived, and when it collapsed there was a drastic fall in Pakistan's exports. The policy that was followed in response to this was not devaluation, but a severe system of import controls by which imports of consumer manufactures were practically forbidden. Since Pakistan's exports were overwhelmingly agricultural, the result was a sharp fall in the terms of trade for agriculture.

Lewis and Hussain[14] have made a detailed study of this phenomenon and found that, although in the initial years the terms of trade for agriculture fell in both the wings, they fell much more sharply in East Pakistan than in West. The falling terms of trade in agriculture and the rising terms of trade for manufactures have been rationalised later in Pakistan's economic literature as transfer of resources from a 'low' savings sector to a 'high' savings sector and has been described by, among others, Lewis, as a major contributory factor to Pakistan's industrialisation. In the case of East Pakistan, a sharp fall in agriculture's terms of trade took away resources from there which were hardly transferred to industries in that same region. We have, therefore, to explain why the resources from agriculture were not transferred to industries in East Pakistan itself, to which we shall come shortly. In any case, it is clear that a relatively sharper fall in the terms of trade for agriculture in East Pakistan as compared to that in West Pakistan reinforced the effect of the relatively lower growth of agriculture in widening the disparity between the two wings.

From around the mid-1950s, the terms of trade for agriculture started rising in both wings. In West Pakistan, it is explained mostly by the rapid expansion in supply of industrial output in the face of a low rate of growth of agriculture. In East Pakistan, expansion of industrial output could explain this only to a limited extent. The major explanation is provided by a rapid increase in interregional trade, where East Pakistan's imports from the West became increasingly those of manufactures. Items like cotton textiles, manufactured tobacco, rape and mustard seed oil, provisions and oil man's stores, sugar, chemicals and drugs, cement, paper board, boots and shoes, and salt, accounted for between 47 and 50 per cent of total imports of East from West Pakistan, during 1955-56 to 1959-60 — but only for about 23 per cent of that in 1948-49. The value of total imports of East from West Pakistan increased by 140 per cent between 1948-49 and 1955-56, and by another 85 per cent between 1955-56 and 1959-60.[15]

All these calculations and transactions were made in terms of domestic prices. But the policies of import control, overvaluation of the currency and discrimination against primary exports in the 1950s had differential effects on the relative prices in the two wings. Lewis, in another recent study, has calculated "the ratio of the terms of trade each province's agricultural sector received relative to what it might have received in world trade for the period 1951-52 to 1963-64". He finds that "not only did East Pakistan farmers receive lower prices for their products than did West Pakistan farmers, but they also paid higher prices for their manufactured goods."[16] This is, of course, a notional problem, but it makes clear that the effect of import controls was felt more strongly in East Pakistan, where the agricultural sector was squeezed much more than in West Pakistan.

It should be noted that, although East Pakistan's agriculture was relatively more squeezed than West Pakistan's, it does not follow that the actual amount of transfer of resources from agriculture to industry was greater in East than in West. The value of that amount depends on the portion of the output marketed, and since West Pakistan's agriculture was more commercialised than East Pakistan's, it was quite possible that the amount of tranfer of resources from agriculture to industry was larger in West than in East Pakistan. Lewis thinks this was so, saying that in the mid-1950s, per year, West Pakistan's farmers marketed about $ 500 million of agricultural goods against $ 200 million worth of manufacture resulting in $ 300 million transfer, while East Pakistani farmers marketed $ 300 million of goods against $ 100 million worth of manufactures, having $ 200 million of transfer of resources from agriculture to industry. The evidence here is scanty but, if it is true, this would be a partial explanation of slow growth of industry in East Pakistan, even if all the resources transferred from agriculture in that province were invested within itself.

The pattern of industrial development in the two regions is much more complex. In Table 5, we have presented the estimates of value added in large-scale industry in the two wings of Pakistan taken from Papanek's survey data, and it clearly reveals a much higher rate of growth in West Pakistan than in East Pakistan. In the first few years, the rate of growth of industries was very high in both regions as it started from a very low base — consumer goods having expanded at the highest rate — and, except for tea and some matches, most of the industries like sugar, edible oil, tobacco and cotton textiles, came up in West Pakistan. Intermediate and investment goods industries also expanded at a rapid rate during this period and in the period 1954-55 to 1959-60, their growth rates were almost 70 per cent higher than those of consumer goods industries. A large number of different kinds of industries turned up and, except for jute and paper products, most of these in-

TABLE 6 : SOME ASPECTS OF THE INDUSTRIAL ACTIVITY IN PAKISTAN

Industry	Percentage of Total Establishments in East Pakistan, 1957	Percentage of Total Gross Output Originating in East Pakistan, 1957	Percentage of Imported Raw Materials to Total Raw Materials, 1960	Rates of Growth of Gross Value of Output, 1954-55 to 1959-60
Basic metals	4	2	69.8	14.8
Electric machinery	6	2	64.4	40
Other machinery	8	5	56.1	33
Footwear etc	7	4	neg	12.2
Non-metallic minerals	15	13	15.4	19.8
Rubber products	12	15	na	13.6
Metal products	15	21	75.4	23
Transport equipment	16	n a	86.1	45
Tobacco manufactures	18	n a	8.7	18.2
Cotton textiles	11	24	12.3	17.7
Chemicals and chemical products	20	26	61.7	30.0
Printing and Publishing	34	19	28.1	11.3
Beverages	29	20	4.0	0.6
Food	40	23		27
Leather and leather products	43	37	18.3	35
Paper and paper products	50	89	28.3	22

Sources : 1 N Islam, "Some Aspects of Inter-wing Trade and Terms of Trade in Pakistan", *Pakistan Development Review*, 1963.

2 S Lewis, "Economic Policy and Industrial Growth in Pakistan", page 114.

termediate goods industries were established in West Pakistan.

Table 6 presents a picture of the pattern of industrial activity around the end of our first sub-period of 1949-50 to 1959-60. The census of manufacturing industry of 1957 showed that East Pakistan shared only 18 per cent of the total number of establishments, 30 per cent of their average daily employment and 26 per cent of their gross output. Except for the jute industry, which was entirely in East Pakistan, and paper, the overwhelming part of the output of most other industries originated in West Bengal. Three other industries, which had very high growth rates, were sugar, edible oils, and tobacco manufactures or cigarettes. The share of East Pakistan in the physical output of these industries in 1959-60 were 35 per cent, 6 per cent and 11 per cent, respectively.

It will also be seen from this Table that most of the industries in the intermediate and investment goods sector — such as chemicals, basic metals, machinery, electric machinery, transport equipment, metal products — which showed very high rates of growth in 1954-55 to 1959-60, and had a negligible share of production in East Pakistan, were heavily dependent on imported raw materials.

It is interesting to note this as it reveals the importance of availability of imports in influencing the pattern of industrial development in Pakistan. Capital goods for most of the industries had to be imported anyway, and, assuming that they could be availed of in either wing, the location of the industries would have depended very much on the availability of raw materials. Location of industries heavily dependent on imported materials would have been neutral as between the two wings but for the import policy and the licensing policy of Government and the facilities of social overhead services. Industries dependent on domestically produced materials—like cotton textile, sugar, edible oil, food, tobacco, footwear, jute textile, tea and paper—would be expected to be established in the regions of the supply of raw materials. But here, also, the availability of imports and public policy, together with the availability of social overhead services, played some role in the location and rate of expansion of these industries, because their plants had to be imported. There is also evidence that several of these industries would have been as efficient in East as they were in West Pakistan, had they been operated in East Pakistan with materials imported from West.

The greater availability of imports in West Pakistan than in East Pakistan and the related question of transfer of resources from East to West Pakistan through foreign trade, are well known facts, which are most frequently discussed in the literature on Pakistan's economic development. We do not have to deal with this problem in great detail; presenting of some bare facts should be sufficient. The average annual imports of West Pakistan from abroad during the period 1950-51 to 1954-55 were about Rs 105.31 crores, and during 1955-56 to 1959-60, Rs 152.5 crores. The corresponding figures for East Pakistan were Rs 43.94 crores and Rs 62.48 crores, respectively; East Pakistan had a surplus on foreign trade account, of Rs 42.4 crores a year, during the pre-Plan period, and of Rs 35.5 crores per annum during the First Plan period; at the same time it had a deficit in inter-wing trade with West Pakistan throughout the period. Still on the combined balance of trade, including both foreign and inter-wing trade, East Pakistan had a total surplus for 1950-51 to 1959-60, of about Rs 166.6 crores. West Pakistan, on the other hand, had a total deficit on foreign trade account of about Rs 554.5 crores for this whole period. It had a surplus on account of the inter-wing trade of Rs 229.9 crores, but in the combined trade account during this whole period it had a total deficit of Rs 331.6 crores.

Two things emerge from all this. Throughout 1950-51 to 1959-60, there was a net outflow of resources from East Pakistan. It was exporting abroad much more than it was importing, and although in its trade with West Pakistan it was getting more than it paid the deficit was not sufficient to compensate it for the loss of its resources through foreign trade. West Pakistan was selling more to East Pakistan than it was buying, but it was importing so much more than it was exporting abroad that there was a very substantial net inflow of resources to West Pakistan. This net inflow was financed to the extent of 50 per cent by the surplus of trade accounts in East Pakistan. The mechanism was simply that the exporters of East Pakistan surrendered whatever foreign exchange they received to the central bank in exchange of rupees and this foreign exchange they earned was spent very largely by importers of West Pakistan. The remaining part of West Pakistan's net deficit on trade account was financed by foreign aid and loans.

Secondly, although during the pre-Plan period there was a foreign assistance inflow of $ 74.4 million a year, and during the First Plan period, of $ 198 million a year, throughout this period there was no net inflow of aid to East Pakistan. A net inflow of aid is always reflected in an equivalent deficit on trade account and the trade surplus of East Pakistan reveals that, even if some actual disbursement of foreign aid resources was made, the

disbursement was more than matched by the outflow of resources through exports.

By bringing in the questions, such as the foreign exchange rate, one could show that the resource transfers from East Pakistan were even larger. For instance, since Pakistan's currency was very much overvalued during this period, the value of trade surplus in foreign exchange from East Pakistan should have a much higher value in terms of domestic resources than the nominal value in terms of the official exchange rate. The deficit in inter-wing trade account taking place in Pakistan currency should be deducted from a much larger total of surplus on foreign trade account, which would give a correspondingly higher figure for the net resource transfer. Theoretically, this point is correct; but a quantitative measure of this enlarged transfer cannot be given unless one finds out the shadow rate of exchange which would depend on the actual use of foreign exchange in all the different activities. With some foreign aid funds actually flowing in, the problem is even more difficult; for, one dollar of foreign aid may have a quite different shadow value from another dollar of foreign aid, depending upon the source of aid and the nature of the tying in of such aid.

In any case, it is clear that a substantial part of the resources generated in East Pakistan during this period, which could have been used within that province, were transferred to West Pakistan to finance a large fraction of the total absorption of resources in West Pakistan over and above what was generated in that region. This definitely contributed to the expansion of West Pakistan's economy at a higher rate than that of East Pakistan. But still, it does not explain our problem of growing disparity; for, the question remains: why was it that a much larger import surplus could be generated in West Pakistan but not in East Pakistan.

A similar point can be raised about the volume of private investment in the two wings. Estimates of private investment are very difficult to get—particularly as a time series with a regional breakdown for the period before 1959-60. Mahbub ul Haq estimates a series on the basis of the use of inputs, and this is probably the most reliable of the generally unreliable estimates and information on this point,[17] and can be used to indicate the broad order of magnitudes. Haq shows that, in 1949-50, total private investment in East Pakistan was about Rs 14 crores, while that in West Pakistan was about Rs 38 crores. In 1954-55, the corresponding figures were Rs 20 crores and Rs 55 crores, and in 1959-60, they were Rs 37 crores and Rs 77 crores. These estimates were in current prices, and show that, even in 1959-60, private investment in East Pakistan was less than in West Pakistan a decade earlier in 1949-50. Total private investment in West Pakistan, throughout the period, was about 2 to 2.7 times that in East Pakistan. If these figures are roughly representative of what actually happened, then they, together with regional distribution of public investment, should go a long way to explain the higher growth in West Pakistan than in East Pakistan. But it still begs the question: why did private investment flow so much to West Pakistan and not to East Pakistan? In other words, why was it more profitable to invest in West rather than in East Pakistan.

This leads us to examine in greater detail the nature of government policy in Pakistan—first, in terms of public expenditure, and then, in terms of import policy. It should be noted at the beginning that, although public development expenditure in Pakistan was quite substantial its main aim was to aid the private sector in its process of development. During the pre-Plan period, i e, between 1948-49 and 1954-55, public development expenditure was about Rs 50 crores per year, and over 80 per cent of that went to West Pakistan.[18] A Six Year Development Programme was adopted in 1950, under which about Rs 250 crores were spent upto 1954, mostly on the development of the infrastructure facilities. In 1952, was established the Pakistan Industrial Development Corporation (PIDC) which was supposed to develop industries, with or without private participation, in areas where private investment was not forthcoming. Its head office was located in Karachi, and it was immensely successful in promoting industrial development in West Pakistan through its pioneering activities and diversification of industries among various lines of consumer and intermediate goods—such as woollens, sugar, fruit canning, chemicals, telephones, cement, fertiliser and so on. PIDC also initiated the exploitation of the reserves of natural gas at Sui. Some attempt was made to start jute and other manufacturing by PIDC in East Pakistan, but this was far less than was required to generate a momentum. Besides, little was done to develop infrastructural facilities.

The formulation of the First Plan, 1955-56 to 1959-60, it is generally accepted, was guided mostly by the structural changes that had accrued in West Pakistan in the pre-Plan period. About Rs 400 crores of public development expenditure during this plan went to West Pakistan compared to only Rs 113 crores to East Pakistan. The overwhelming part of this expenditure in both the wings went to water, power, transport, and communications. The absolute amount, of Rs 187 crores, going to these two sectors in West Pakistan, was about three times the amount of Rs 64 crores that went to East Pakistan for the same two sectors. The amount for agriculture was Rs 34.9 crores in West Pakistan compared to Rs 22.1 crores in East Pakistan. But manufacturing and mining absorbed about Rs 75 crores in West Pakistan, as against only Rs 3.3 crores in East Pakistan.

It is not very easy to appreciate the reasons why planned public development expenditures were so much lower in East Pakistan than it was in West Pakistan. Even during the Second Plan, only about Rs 631 crores of public development expenditure went to East Pakistan, compared to Rs 763 crores to West Pakistan. It is not true that the problem of disparity went unnoticed in official circles. The First Plan document states (p 74): "The problem of regional development is specially acute between East and West Pakistan. Because they are more than a thousand miles apart, there is very little movement of population between the two wings. Even the movements of goods cannot be as free and smooth as in contiguous areas. This means that, so far as possible, and subject to other objectives of the programme, economic opportunities should be moved to the people, rather than people to the opportunities". Yet the plan allocations and their implementation do not reveal any attempt to follow this dictum in practice.

Was it that the planners thought that the potential for growth was much lower in East than in West Pakistan? The First Plan (p 75) stated that there was not "any significant difference in the magnitude of potential economic opportunities between the two wings". But in the Second Plan, the lower allocation to East Pakistan was justified by stating that the regional allocations were guided by the need "to maximise

development in the less developed parts of the country without prejudicing national development as a whole" (p 398). The implicit assumptions were, of course, not made clear as to why there should be this conflict between the growth of East Pakistan and the overall growth of the country.

In any case, the major impact of public development expenditure was a very rapid development of infrastructural facilities. The way these were differentially developed in the two regions during 1949-50 to 1959-60 was definitely responsible for any substantial difference in the productivity of investment which was implicitly referred to in the Second Plan. The rate of installing generating capacity during 1947-60, was about 16 per cent a year. The net availability of electricity in East Pakistan in 1951-52 was 20,225 thousand kwh and in 1955-56 43,969 thousand kwh, while in 1959-60 it went up to 77,226 thousand kwh. The corresponding figures for West Pakistan were 295,474 thousand kwh, 705,982 thousand kwh and 1,198,779 thousand kwh. In 1959-60, the figures for the numbers per million persons of railway wagons were 6 for East Pakistan and 166 for West; of buses and trucks, 85 in East and 495 in West; of post offices, 83 in East, 186 in West; miles of high-type roads per million persons was 28 for East and 225 for West; and the number of branch offices of banks was 110 in East compared to 286 in West.[19] Such a public development expenditure policy created social overhead facilities much more rapidly in West Pakistan than in East, and consequently had an external economic effect of stimulating private investment through increased profitability.

The exchange control policy, on the other hand, created a mechanism which effectively allocated much of the total import capacity, i e, export earnings plus foreign aid, in favour of West Pakistan. In the beginning of the period, when Pakistan had to depend on foreign trade for most of the commodities supplied at home, a policy of open general licensing was followed, according to which those who had the capacity and resources to import could become importers. It is at this time that the trading activities of Pakistan were virtually monopolised by a few trading groups—mostly immigrants from India and operating in and around Karachi. They already had long experience in trading with a well-developed nexus of communications and organisation, and they had substantial resources in the form of liquid capital.[20]

With the collapse of the Korean boom, Pakistan Government introduced stringent quantitative controls on imports; and from 1953 to 1959, about all imports into Pakistan came under one or other form of import licences which regulated imports both by type and value of commodities as well as by destination to specific regions. The predominant licences were commercial and industrial licences. Commercial licences allowed imports of commodities that could be resold, and were highly profitable as the prices they fetched in the domestic markets were well above the c i f prices with duties. The allocation of these licences and amounts of imports of each commodity were determined by the amounts the licenseholders had actually imported during 1950-52. Industrial licences, on the other hand, allowed the manufactures to import specific quotas of machinery and equipment, spare parts, and raw materials, for their own use; and these were legally non-saleable. Quotas were fixed in terms of installed capacities, and once an investment was sanctioned and capacity was installed, quota holders became regularly entitled to imports in the following years.

Both these licences—which accounted for about two-thirds of all imports to the private sector throughout 1950 to 1964—favoured the trading communities in Karachi. Because they were predominant importers during 1950-52, they got most of the share of commercial imports, and enormous profits as windfall gains during the period of stringent restrictions on imports. The overwhelming portion of these commercial licences—between one-half and two-thirds—were used to import raw materials.[21] Naqvi has shown that, in 1959, 95 per cent of raw materials for capital goods and 44 per cent of raw materials for consumer goods were imported under commercial licensing.

Imports of raw materials were highly profitable, because alongside the strict control on final consumer goods imports the rapid expansion of highly profitable consumer goods industries essentially depended on raw materials. Further, although capital goods imports were more freely allowed, as we have already noted above, industries in this sector expanded at a very rapid rate raising the profitability on the raw materials for capital goods.

This also suggests that, for traders who were importing raw materials, it would be increasingly attractive to move into direct production of final goods. Indeed, although profits earned on trading activities were large, since the accounting units of imports were more or less fixed, there was little scope for further expansion of these activities; compared to that, investment in industrial activities become highly profitable. Papanek talks about a 50 to 100 per cent profit in the initial years. While these figures may not be reliable, there is evidence provided by Papanek that industrial investment was about 30 per cent more profitable during 1947-55 than in 1956-58. So the traders with capital resources could enter the industrial field and reap the advantage of the profitabilities of the initial years.

Papanek provides figures to show how the traders, who converted themselves into industrialists, came to dominate the field of industrial investment and activities during this period. For our present purpose, what is relevant is, first, that by becoming industrialists the groups which controlled the commercial licences, also tended to dominate industrial licences; secondly, that since they were traders operating mostly in and around Karachi, there was a built-in bias in their activities in favour of Karachi and of West Pakistan—a bias which was also reinforced by the excellent social overhead facilities of that city which even before Partition was one of the most modern port-cities in the subcontinent. Further, since Karachi was also the capital, the rate of development of overhead facilities was high and the sanctions for industrial investment there were much easier to obtain. The result was a quite phenomenal increase in industrial activity in Karachi during this period. In 1954, of the total value added in large-scale manufacturing in Pakistan, of Rs 68.8 crores, 31 per cent was in Karachi as against 49 per cent in the rest of West Pakistan, and only 20 per cent in East Pakistan. The corresponding figures for 1959-60 were 30 per cent in Karachi, 45 per cent in the rest of West Pakistan, and only 25 per cent in East Pakistan—out of a total of about Rs 155 crores.

Thus, the factors that tilted the balance of supply of imports to West Pakistan were as follows:

(a) the traders, who dominated the field of private imports, belonged to West Pakistan and particularly to Karachi and they had their trade connections and organisational channels developed mostly in West Pakistan. Their operation in East Pakistan would have to be attracted by considerably higher profit margin to compensate for their breaking into new lines of venture.

(b) As the traders themselves become industrialists or closely associated with them, and as these industries cropped up mostly in West Pakistan and particularly Karachi, the availability of imports tended to get concentrated in West Pakistan.

(c) Industries developed in the Western region because of (i) profitability of particular lines of activity, (ii) enormous expenditure on and development of social overhead facilities by the government and (iii) the availability of imports through established traders.

The factors (b) and (c) are interrelated. The most profitable line of activity during the early period was cotton textiles, which accounted for more than a third of all value added by industry in 1958. Papanek has shown that, until 1954, there was a very large excess demand for cotton textiles and prices charged were "what the traffic would bear". During 1951-54, wholesale cloth prices rose by 20 to 30 per cent, while the general wholesale price index fell sharply by about 30 per cent. Raw cotton prices also declined by one-third. All this would indicate very high profitability in this line of activity.

The result was that, of the total imports channelled by commercial and industrial licences a much smaller fraction went to East Pakistan. In 1959-60, East Pakistan received 36 per cent of commercial licence imports and about 35 per cent of industrial licence imports, while Karachi alone received 45 per cent of the former and 37 per cent of the latter, and the rest of West Pakistan received only 19 per cent and 28 per cent, respectively.

It is interesting that the regional distribution of government imports followed almost the same pattern as that of private imports. In the pre-Plan period, government imports were less than one-fifth of total imports but in the First Plan period, they amounted to almost one-half; so a deliberate policy on government account imports could go a long way to compensate for market-guided private imports biased in favour of West Pakistan. But during the pre-Plan period East Pakistan's share in Government imports was only 30 per cent and during the First Plan, only about 36 per cent.

The growth of disparity in our second sub-period, between 1959-60 and 1969-70, is much easier to explain. By 1959-60, a whole decade of development and policy led to the building of capacities and assets, trade and production organisations, and social overhead facilities, decisively in favour of West Pakistan. So any additional rupee of investment would be attracted more to West Pakistan than to East. If matters were left entirely to market forces, the disparity would have widened far more sharply than it did during the Second Plan period of 1960-65. There was a sharp rise in public expenditure during this period — almost six times as much as in the First Plan. Although the total of Rs 631 crores was still about 18 per cent lower than public development expenditure in West Pakistan, the step-up was quite substantial for East Pakistan. Expenditure on water and power increased almost four times and that in transport and communications rose more than five times. Expenditure in agriculture was almost the same as in West Pakistan, but in manufacturing and mining it was about 33 per cent higher. Obviously, this was not sufficient to reverse the trend in disparity; in fact, private investment at the end of the Second Plan in East Pakistan was only 20 to 30 per cent of that in West Pakistan. But still, for the first time, a substantial boost was given to the per capita GPP of East Pakistan.

The relevance of the sharp rise in foreign aid during this period — which we chose as a criterion for dividing the sub-periods — should become clear at this point. During the Second Plan, there was a marked fall in the export surplus of East Pakistan indicating a sharp rise in the imports to that region. The annual average of imports rose to Rs 122 crores during the Second Plan compared to Rs 62.5 crores in the First Plan. At the same time, West Pakistan's import surplus increased very significantly from Rs 91 crores annually during the First Plan to Rs 191.5 crores during the Second Plan. Obviously, the transfer of resources from East Pakistan could not contribute much to finance this import surplus of West Pakistan. So, this sharp rise in imports of East Pakistan simultaneously with continued increase in the import surplus in West Pakistan was possible only because of a very large increase in foreign aid inflow.

This increase in foreign aid also enabled the government to start liberalising the imports. In 1960, open general licensing was reintroduced to promote the entry of newcomers to import trade, and this helped very much the entrepreneur in East Pakistan. Bonus voucher imports started rising from 1959-60, and in 1969 the Free List was introduced with a total of 51 items.

The point to note is that, when the availability of foreign exchange as well as the command over resources that planners could distribute between the regions increased, the Government chose not to force the diversion of resources to East Pakistan but to liberalise control and rely more on market incentives. But as we have seen, the market was already biased against East Pakistan. Besides the already-installed overhead facilities and other factors in West Pakistan which made investment relatively more profitable in this wing, the very fact that this province was growing at a faster rate reinforced its growth. Lewis made some calculations to determine the source of growth in manufacturing industries and found that, in 1959-60 to 1963-64, about 87 per cent of growth in the value added in manufacturing was explained by the growth of domestic demand as against only 2 per cent from import substitution. In fact, he showed that, over time since the First Plan period, the growth of domestic demand was increasing in importance as a source of growth of manufacturing.

It was only in the Third Plan that public expenditure in East Pakistan exceeded that in West Pakistan. East Pakistan should have got 53 per cent of the target expenditure total of Rs 3,000 crores. This proportion was more or less achieved, but the actual total expenditure was only Rs 2,186 crores — 27 per cent less than the target.[22]

As one would have expected, however, given the circumstances, actual private investment was totally different from what was expected. The target of private expenditure during the Third Plan was Rs 2,200 crores, expected to be equally distributed between the two provinces. The realised private investment in East Pakistan was about Rs 544.3 crores which was about one-third of Rs 1,620.3 crores invested in West Pakistan. It is clear that the market still favoured West Pakistan.

Notes

13 See Khan, T M: "Growth of National and Per Capita Income in Pakistan" in the IEA volume on: "Economic Development in South Asia", Macmillan, for the characteristics of these two periods.

14 Lewis and Husain: "Relative Price Changes and Industrialisation in Pakistan", 1951-1964.

more backward than the Meghs who enjoy various benefits to which Scheduled Castes are entitled. Some educated Barwalas are trying to get themselves categorised as a Scheduled Caste.

Most Meghs claim to be Arya Samajists in terms of their rites of passage. However, many of them also visit non-Arya Samaj places of worship. One Megh household practices Sikh rites and considers itself Sikh by religion. Arya Samaj has practically no following in other castes. The upper caste Hindus in the Camp do not like to be associated with Arya Samaj, as it is identified with the Meghs — a low caste. The Arya Samajists are the most important religious group in the Camp because, besides being numerically preponderant, they constitute the only religious group which openly participates in politics.

There are two local Arya Samaj centres in BG Camp which I refer to as Neta and Virodhi. Neither of them has a large membership. Virodhi has 110 registered members, while Neta does not have any registered member. The number of registered members is, however, no indication of the popularity of an Arya centre. Both the centres are regularly visited by a large number of people, and both are deeply involved in politics. Their platforms are widely used by political parties for campaigning in the various elections.[3] While Neta has been associated with the Congress since its inception in 1948, Virodhi has been changing loyalties from one party to another. In the 1967 elections, it supported the Jan Sangh.

The Meghs were converted to Arya Samaj around 1910. They were then promised the status and privileges of the twice-born. Arya Samaj gave them the right to wear the sacred thread and to read the sacred *Vedas*, which were forbidden to them earlier. Like other low castes, the Meghs saw this religious conversion as an opportunity to raise themselves in the social hierarchy. They hoped it would mitigate the stigma attached to their birth. This has not materialised, however.

Although they now wear the sacred thread and perform all other rituals performed by the higher caste Arya Samajists, they have not been able to attain equal position with the latter. The upper caste Hindus, whether Sanatan Dharmists or Arya Samajists, look down upon the Meghs and treat them as a low caste. The Meghs feel frustrated, because even the most educated and highly employed among them are unable to get brides from outside their caste.

It is not surprising that the Meghs feel closer to the other Scheduled Castes, whether Arya Samajist or not, rather than to caste Hindus, including Arya Samajists. The Meghs' status as Arya Samajists and their status as a Scheduled Caste are not always compatible, and there is often a conflict of loyalties. Consequently, the Meghs stress one status in one situation and the other in another situation. For instance, they acted as Arya Samajists when they actively participated in the agitation against cow slaughter; but during the elections, they acted as a Scheduled Caste and did not hesitate to disregard the dictates of Arya Samaj.

In the past, the Arya Samajists, high as well as low caste, were by and large pro-Congress. The Meghs' support for Congress was reinforced by their status as a Scheduled Caste. During the 1967 elections, however, they were in a predicament because of the Arya Samajists' decision to boycott the Congress; they had to choose between Arya Samaj and Congress. Their interests as a Scheduled Caste demanded that they should continue to support the Congress, but their interests as Arya Samajists demanded that they should support the Jan Sangh.

Megh Caste: Unity and Diversity

The Meghs are themselves differentiated in terms of their educational qualifications, occupational status, political affiliation, and commitment to various leaders, both in the Camp and outside. Neta and Virodhi reflect these differences clearly. While most of the members of Neta are illiterate and unskilled labourers, the members of Virodhi are mostly educated and work as skilled and semi-skilled workers, and some even own flourishing business concerns. While Neta supports the Congress, Virodhi supports Jan Sangh.

The differences in the political leanings of the two centres are mainly due to the rivalry between Budha Mal and Sardari Lal, the Secretaries of Neta and Virodhi, respectively. The two are sworn enemies and have always opposed each other in elections. Sardari Lal is the leader of the young and educated section of Meghs. Although he has not had much education himself, he is a great champion of the cause of education for the Backward Classes and Scheduled Castes. Just recently, on his insistence, a primary school was started in Virodhi. He is widely acclaimed for his 'wisdom', 'organisational capacity', and 'largeheartedness'. All the young Meghs in Jullundur (for that matter, most of the Scheduled Caste people there) regard him as their leader and look to him for counsel. In spite of his popularity, he has not been a success in the elections. He made two unsuccessful attempts to defeat Budha Mal in the municipal elections. The latter was a municipal commissioner[4] for three consecutive terms before he was defeated by a CPI candidate in 1964. Sardari Lal rejoiced over his defeat, although he was not happy about the CPI victory. Budha Mal continued to enjoy an important position in the Camp even after his defeat because he was associated with the then Food Minister of Punjab, Yash Pal. Moreover, he wielded great influence on the older section of Meghs who regarded him as their leader.

Notwithstanding their personal rivalry and different political commitments, Budha Mal and Sardari Lal agreed to unite for the 1967 elections — provided the Congress agreed to nominate two Meghs to the Legislative Council. The demand for Megh representation in the Legislative Council was made through the Megh Sudhar Sabha, the Megh Welfare Association.[5] The Sabha was activised and fresh elections were held to choose the office bearers. Budha Mal, the Secretary of the Sabha for over two decades, agreed to the elections on condition that he would be recommended for representation to the Legislative Council. Sardari Lal was elected the Secretary of the Sabha and one of his close associates, the President. Budha Mal was elected one of the Directors. The Sabha decided to send a five-member deputation to the Chief Minister to press their demand for representation on the Legislative Council. It was resolved that, if the Chief Minister conceded their demand, the Meghs would support the Congress candidate in South Jullundur. The resolution was signed, among others, by Budha Mal and Sardari Lal.

On January 18, 1967, the deputation consisting of Sardari Lal, Budha Mal, and three other prominent Meghs from BG Camp, went to meet the Chief Minister. The deputation was informed by Yash Pal, the Congress candidate from South Jullundur, that the Government could not consider their demand before the elections. He promised to do his best, however, once the elections were over. Sardari Lal, disbelieving Yash, demanded a written assurance, which was refused. The deputation returned without meeting the Chief Minister. With this, the dissension between Sardari Lal and Budha Mal once again came into the open. Sardari Lal, dissatisfied with the Congress and its candidate, persuaded the Megh Sudhar Sabha to field Milkhi Ram, a Megh from the Camp, against Yash. Budha Mal, arguing that votes could not be cashed against any gains, announced his support for the Congress.

TABLE 1: CASTE, RELIGION AND PARTY AFFILIATION OF CANDIDATES IN SOUTH JULLUNDUR ASSEMBLY CONSTITUENCY

Name of Candidate	Caste	Religion	Party
Yash Pal	Khatri	Arya Samaj	Congress
Man Mohan Kaliya	Khatri	Sanatan Dharam	Jan Sangh
Milkhi Ram	Megh	Arya Samaj	Independent
Mela Singh	Megh	Sikh	Independent
Jaswant Singh	Adharmi	Sikh	SSP
Jaswant Singh Khambra	Adharmi	Sikh	Independent
Heera Singh	Jat	Sanatan Dharam	Independent

It must be mentioned here that Sardari Lal committed Virodhi to the Jan Sangh because of his opposition to Budha Mal, rather than on any ideological considerations. Sardari Lal's decision was also influenced by Virender, an important Arya Samaj leader and influential politician from Jullundur who had pledged himself to the Jan Sangh. Much of Sardari Lal's popularity was due to his intimate association with Virender.

The Candidates

There were seven contestants for the Assembly seat from South Jullundur — two of them belonging to BG Camp. The real contest, however, was between the Congress and the Jan Sangh candidates. Table 1 shows the caste, religion, and party affiliation of the candidates.

Yash Pal, the sitting Congress member from this constituency, is a prominent Arya Samaj leader. He owns a press and publishes two daily newspapers, one in Hindi and the other in Urdu. His *Hindi Milap* was the first Hindi daily to be published from Jullundur after Independence. This fact was greatly publicised during the elections as proof of Yash's love for Hindi. He started his political career at an early age during the freedom struggle. His student life was marked by frequent terms in prison. He joined the Congress after obtaining his Master's degree, and is proud of his unquestioning loyalty to the party. He was the Food Minister of Punjab at the time of the elections.

Man Mohan Kaliya, the Jan Sangh candidate, had been associated with his party for almost a decade. Before that he was a member of the RSS (Rashtriya Swayam Sewak Sangh). A lawyer by profession, he came from a middle class family in Jullundur city. At the time of elections, he was president of the Jan Sangh in Jullundur and also a municipal commissioner.

The local Jan Sangh leaders were unhappy about their party's choice for opposing Yash. The latter was a seasoned politician with considerable experience in contesting elections. Kaliya got his nomination because he was a native of Jullundur. The leadership of Jan Sangh in Punjab is in the hands of people indigenous to East Punjab, and the refugees rarely get a chance to come up. Many Congress supporters claimed that the Jan Sangh had agreed to field a weak candidate in South Jullundur so as to help the Congress to win in exchange for Congress support in North Jullundur.

Milkhi Ram was supported by the Megh Sudhar Sabha, because he was the least controversial figure in BG Camp. He was not associated with either of the two Arya centres in the Camp and was, therefore, acceptable to all the Meghs. Moreover, he was an influential person and a sitting Municipal Commissioner from BG Camp.

Jaswant Singh Khambra, the SSP candidate, was promised support by the CPI as well as by the Sant-Fateh-Singh and Master-Tara-Singh factions of Akali Dal. Mela Singh — the Megh candidate from BG Camp — and Heera Singh contested as Independents.

The Campaign

Both Yash and Kaliya had two offices, each, in the Camp. These offices worked round the clock for about a month before the elections. Yash, in particular, attached great importance to the Camp as it was considered a Congress stronghold.

Budha Mal was the manager of one of the Congress offices in the Camp. He arranged for Yash to meet small groups of people who were persuaded to speak out their problems to him. Budha Mal had a band of workers who went from house to house to assess the reactions of the voters to the Congress and to Yash. These house-calls helped to establish the strategies for winning over the different categories of voters. Many who were apparently anti-Congress could be induced to cross over. Some needed only persuasion, others money, and still others jobs and licences to sell some scarce commodity. These were then individually contacted by Yash who tried to satisfy their demands.

Yash showed great familiarity with the people of BG Camp. He ate with them, milked their cows, and joked with them, as if he was one of them. His informal manner helped him to project himself as a friend of the poor and the depressed. In addition to door-to-door canvassing, he organised two public meetings in the Camp. Prominent Congress leaders, who addressed the meetings, praised Yash for his commitment to the ideals of democracy and socialism and stressed that the Congress was the only party which stood for the interests of the poor. Yash asked the voters not to listen to the propaganda of some fanatics in the name of Arya Samaj. If at all any one deserved the votes of Arya Samajists, it was himself, an Arya Samajist.

Budha Mal cautioned the voters to beware of Sardari Lal's clever propaganda in the name of Arya Samaj. Sardari Lal had amassed wealth by unlawful means and was now trying to pose as a *suvaran*, a clean caste man. It was, therefore, not at all surprising that he should join forces with the caste Hindus and support the Jan Sangh — a party which stood for the interests of caste Hindus. He added that it was only the Khatris, Aroras, and Rajputs in the Camp, who supported the Jan Sangh. Even the Barwalas had pledged their support to the Congress.

The Jan Sangh which had no high hopes in the Camp adopted the strategy of splitting Congress votes. It, therefore, financed the campaigns of Milkhi Ram and Mela Singh. It hoped that these two candidates, both Megh, would cut into the Megh support for Congress.

The Jan Sangh campaign in BG Camp was organised by Sardari Lal. He went from door to door, urging people to vote for Kaliya. Those voters who were against Jan Sangh, or against Kaliya, were asked to vote for Milkhi Ram, the candidate of the Megh Sudhar Sabha. He organised a number of meetings in Virodhi which were addressed by prominent Arya Samaj leaders. The Congress, they said, had betrayed the Punjabi Hindus by conceding the Sikhs' demand for Punjabi Suba and by relegating Hindi, the sacred language of the Aryas, to a secondary position. They also condemned the Congress Government for its failure to ban cow slaughter.

Sardari Lal made ample use of the resources of Virodhi to campaign for Kaliya. Members of Virodhi were deployed to stick posters, distribute handouts, and to make announcements regarding Kaliya's visits to the Camp. Virodhi was thrown open to Kaliya, where he addressed meetings whenever he visited the Camp. Sardari Lal himself addressed several meetings at Virodhi. He mocked Yash's claims to

TABLE 2: VOTES POLLED BY CANDIDATES IN SOUTH JULLUNDUR ASSEMBLY CONSTITUENCY

Candidate	Number of Votes Polled in Constituency	BG Camp
Man Mohan Kaliya	19,138	881
Yash Pal	14,222	2,067
Jaswant Singh Khambra	3,260	441
Mela Singh	1,013	622
Milkhi Ram	778	386
Heera Singh	149	17
Jaswant Singh	140	23
Total	41,399	4,439

being an Arya Samajist. "How could he, a friend of the Sikhs and a beef-eater, be an Arya Samajist?" he asked. Sardari Lal warned the people against Budha Mal's propaganda in the name of Scheduled Castes and depressed classes which, he alleged, was a mere vote-catching device. In fact, it was the Scheduled Caste label which had made it impossible for the Meghs to move up in the social hierarchy. He challenged the people to name even one Congressman who was prepared to marry a Megh girl. No good had come out of the Meghs' loyalty to the Congress over the previous 18 years. Only the Arya Samaj could help the Meghs to move up socially. He warned that the Meghs would go down as an ungrateful people in the history of Arya Samaj, if they failed to use their discretion at this crucial moment. They must prove that they were worthy of the honour accorded to them by Arya Samaj.

A prominent Arya Samaj leader and a local journalist poured out editorials highlighting Yash's misdeeds. These related mostly to his refusal to support causes which were dear to the Arya Samaj—such as the ban on cow slaughter and the demand for Hindi, and the Hindus' rightful place in the state.

A significant aspect of elections in BG Camp was that neither Kaliya nor Yash committed themselves openly to any of the Lok Sabha candidates. Kaliya had been assured support by Sardari Lal on the understanding that the latter would support the Republican candidate for the Lok Sabha. Kaliya could not do this, however, without disregarding his party's commitment to support the Swatantra candidate. While Sardari Lal campaigned for the Republican candidate, Kaliya himself maintained a discreet silence. Yash did not mention, even once, the name of Sardar Swaran Singh, the Congress candidate for Lok Sabha: he could not have claimed to be an Arya Samajist and asked for Arya Samaj support while campaigning for a Sikh.

The other five candidates appealed for votes mainly in the name of caste and kinship. As already mentioned, Sardari Lal did not directly campaign for Milkhi Ram. His name was suggested only as a substitute for Kaliya. Sardari Lal had proposed Milkhi Ram as the candidate of the Megh Sudhar Sabha, just to prevent all anti-Jan Sangh votes from going to the Congress. Milkhi Ram did not mind this arrangement, because he expected that contesting for the Assembly would help him at the time of the municipal elections.

The Results

Of the 53,335 voters in the South Jullundur constituency, 41,399 (78 per cent) exercised their franchise. The invalid votes aggregated to 2,699. Man Mohan Kaliya, securing 19,138 votes, was declared elected. Yash Pal, with 14,222 votes, came second. All the other candidates forfeited their deposits. In BG Camp, 4,941 out of 6,042 (82 per cent) voters exercised their franchise. There were 502 invalid votes. Although Yash lost the elections to Kaliya, he secured 1,186 more votes than Kaliya in BG Camp. The distribution of valid votes among various candidates is shown in Table 2.

Most of Kaliya's 881 votes came from the Khatris, Aroras and Rajputs. In spite of Sardari Lal's efforts, he was able to get only a few Megh votes. In the city, most of Kaliya's votes came from caste Hindus. Yash polled substantially among the Meghs, besides securing both Hindu and Sikh votes. No Sikh candidate was able to win an appreciable number of votes. The Congress was able to poll most of the Sikh votes in the constituency, because the Akali party did not put up any candidate of its own. Its support to Jaswant Singh Khambra was only nominal and it did not make any serious effort to campaign for him.

Conclusion

The election results indicate the Meghs' clear preference for the Congress. This is significant, particularly in view of the decision of the Arya Samajists and the Megh Sudhar Sabha to boycott the Congress, as well as of Sardari Lal's open support to the Jan Sangh.

The most important factor which influenced the electoral behaviour of Meghs was their status as a Scheduled Caste. They were acutely aware of the distinctions which separated them from the caste Hindus. They felt they were structurally too far removed from the latter to have any common economic and political interests. They were proud of their association with Arya Samaj, but also felt that their social position rather than sectarian affiliation should decide their choice of political party. Budha Mal was reiterating the same point when he declared that religion had nothing to do with their political commitments. Moreover, the Meghs, like other Scheduled Castes, associate the Jan Sangh with the caste Hindus and believe that it represents only their interests. It is natural, therefore, for them to have the same resentment towards it as they feel towards the caste Hindus. Added to this was their apprehension that the Jan Sangh, if it came to power, would do away with the special privileges to which the Scheduled Castes were entitled.

On the positive side, it was the image of the Congress as a friend and well-wisher of the Scheduled Castes which helped Yash to poll Megh votes. The Meghs' association with the Congress for 18 years, and the marked improvement in their socio-economic position since 1947, had reinforced this impression. It was generally felt that the Meghs owed their improved social position to the Congress. This is not to suggest, however, that the Meghs were complacent about their social position. On the contrary, their 'improved social status and their increased awareness of their rights and privileges made them impatient and disgruntled. They strongly resented the wide gap between the promises made to them at the time of elections and their implementation later. Yet they did not want to dissociate themselves from the Congress which, they expected, would continue to help them rise in the socio-economic hierarchy. Closely associated with this hope was an uncertainty about the programmes of other political parties. As one of my informants put it, "At least we are familiar with the policies and programmes of the Congress Government; who knows what the other parties would do once they are in power?"

Notes

1 This paper is part of a project on the General Elections of 1967 undertaken by the Department of Sociology, University of Delhi, with the help of a grant from the University Grants Commission. The project was directed by M N Srinivas and A M Shah, and the papers were edited by them and E A Ramaswamy. This author studied the elections in the same place where she has been doing fieldwork for her Ph D dissertation.

2 In Punjab, the Jains generally align themselves with the Hindus against the Sikhs. This identification was further intensified at the time of the 1967 general elections because of their common support to anti-cow slaughter movement.

3 For an analysis of the relationship between local Arya centres and political parties, see my paper 1970 b.

4 Municipal councillors in Punjab are known as municipal commissioners.

5 The Megh Sudhar Sabha is an organisation formed specially to look after the education and welfare of the Meghs. It was formed soon after their conversion to Arya Samaj in 1910.

References

Dua, Veena 1970 a: 'Social Organisation of Arya Samaj: A Study of Two Local Arya Centres in Jullundur', *Sociological Bulletin*, Volume XIX, Number 1, pp 31-50.

1970 b: 'Arya Samaj and Punjab Politics', *Economic and Political Weekly*, Volume V, Numbers 43 and 44, pp 1787-1791.

Competitiveness of Indian Steel Exports

Reply

Samuel Paul

I AM grateful to S A Dave and S K Subramanian for their comment ("Competitiveness of Indian Steel Exports" May 29, 1971). Dave and Subramanian have proposed some extensions to my long term criterion for judging the competitiveness of products, and questioned my formulation of the short term criterion. Let me, to begin with, take up the points on which I agree with them.

First of all, Dave and Subramanian are right that in my article I had referred only to the use of criteria for ranking products in terms of competitiveness. I agree that when the domestic resource cost (D_i) of a product exceeds the shadow rate of foreign exchange, it would not be worthwhile (in economic terms) to export that item. Thus the cut off point in the selection of products is given by the shadow exchange rate. I did not refer to this point in my article as its focus was on a comparison and ranking of steel products.

Secondly, in formulating the long term criterion, there is a case for splitting capital costs into their indigenous and import components provided this pattern is supposed to continue in the future. I did not incorporate this distinction in my formulation mainly because I was not convinced that the imported component of capital cost would continue to be significant in the future. I think my assumption is reasonably valid in regard to our steel industry which was the subject of my paper. Let me, however, add that d_i given in my formula refers to depreciation cost per unit of product i. It does not distinguish between indigenous and imported capital equipment and other assets.

In view of my definition of d_i, equation (2) of Dave and Subramanian suffers from some amount of double counting with respect to capital costs. If capital costs on account of imports are expected to be significant in the future, the proper procedure would be to redefine my d_i and r_i as referring only to the domestic components of depreciation and returns. In that case, we should restate the long term criterion as follows:

$$D_i = \frac{\sum_j X_{ji} + d'_i + W_i + r'_i}{F_i - \left(d''_i + r''_i + m'_i + m''_i \right)}$$

where d'_i = depreciation cost on account of indigenous machinery and other assets per unit of i;

d''_i = depreciation cost on account of imported machinery and other assets per unit of i;

r'_i = return on the indigenous component of investment and other assets per unit of i; and

r''_i = return on the imported component of investment and other assets per unit of i.

I have serious differences of opinion with Dave and Subramanian on the short term criterion. On this subject they have made three points. (1) The short run criterion would not be substantially different from the long run criterion except that some of the terms in the formula would assume a value of zero. If, however, general recessionary conditions do not exist, current import costs should be regarded as cost for a given industry. Even labour cost can be a real cost if workers can be laid off. Other inputs can be exported and their foreign exchange earnings represent their true opportunity cost. Since I have ignored such inputs, my criterion does not reflect the true cost of all factors involved in production. (2) Life of the capital assets may exceed the short run period of two years assumed by me. If so, sufficient funds must be kept aside for depreciation. Depreciation should, therefore, be a part of the short run cost. (3) I have not taken into account any domestic cost in my short run criterion. This may not matter when allied products are compared, but not in other cases. On the basis of the foregoing comments, Dave and Subramanian define the short run criterion as follows:

$$D'_i = \frac{\sum_j X_{ji} + W'_i + d_i}{F_i - \left(d'_i + m'_i + m''_i \right)}$$

where W'_i = current wage costs, and other terms are as defined in their equation (2).

I thought I had fairly clearly explained the concept underlying the short run criterion. Let me quote from my article: "In the short run, when idle capacity exists, the real cost of increasing output up to the capacity limit is the cost of the variable inputs (indigenous and imported) required for producing the additional output. In fact, if the variable inputs themselves have no opportunity cost, then, from a national point of view, the real cost of the extra output will be zero. On the other hand, if the existence of idle capacity is due to input supply bottlenecks, the variable inputs themselves may be in shortage so that their opportunity cost will be positive."[1] I do not, therefore, know how Dave and Subramanian concluded that "Paul has assumed the existence of idle plant capacity and that the real cost of producing the additional output is only the imported variable inputs."[2] I suspect that Dave and Subramanian have mistaken the assumption I used in my empirical analysis of steel exports for the criterion I offered for measuring short run competitiveness. It is true that in my analysis of selected steel products, I used the FOB realisation less the cost of direct imported inputs per tonne of product as the criterion for measuring short run competitiveness. Dave and Subramanian should have asked whether this approach made sense given the conditions prevailing in the steel industry and the country for the period for which the study was made.

First of all, let it be noted that the "FOB realisation" criterion I used is not the same thing as the domestic resource cost criterion. I employed

in production, employment, exports and the advance of technology in general and import substitution in particular would have been made in the absence of these arrangements for import of capital and knowhow—a different kind of terrain altogether".[5] Despite this disclaimer it must be pointed out that the Bank is in an enviable position as far as access to data and information and ability to muster and deploy the necessary administrative and research skills needed for the job are concerned. Though the factual data presented by the survey report provides data on the extent of payments made to the foreign collaborators, the various kinds of restrictive clauses stipulated in the agreements and the nature of foreign financial participation, the data are not adequate enough to make any quantitative assessment of the impact of foreign collaboration on Indian industry.[6]

Insufficient Empirical Evidence

The main thesis of Kidron's study is that there has been an excessive import of technology and capital into the country imposing a net burden on the economy. At the end of the book, he attempts to assess the cost of foreign capital and technology to the Indian economy.[7] On the basis of available published data on outflows of profits, dividends and royalties and the supporting cases of particular industries he cites, Kidron concludes that there has been an excessive dependence on foreign capital and technology, resulting in a net burden to the economy. By comparing the inflows of foreign exchange with the outflows generated by foreign private investment, he concludes that in the fourteen-year period ending in 1961 foreign investors had taken out of the general currency reserve three times as much as they contributed directly.[8] Though it is plausible that foreign investment has been a net drain on the foreign exchange reserves Kidron's conclusion is not supported by sufficient empirical evidence. A comparison of the fresh inflows of foreign capital with the outflows by way of royalties and dividends, with the latter being in excess of the former, alone does not justify the conclusion. The effects of imported technology and investment on productivity, savings in foreign exchange occurring due to import substitution, the impetus it provides to exports and the other external effects of imported knowledge and investment on the economy need to be considered in arriving at such a conclusion.[9] Some of the indirect effects of foreign investment are hard to

its variability or lack of it in response to changes in output. Viewed thus, it is difficult to justify the proposal of Dave and Subramanian to regard depreciation as a relevant cost in the short run unless depreciation varies directly with output. Is depreciation a real cost similar to material or wage costs which could have been avoided if output was reduced?

(2) Having treated depreciation as a short run cost, Dave and Subramanian have proposed that the annual charge on capital may be ignored in the short run analysis. The rationale underlying this distinction is by no means clear. Does it make sense to say that depreciation should be recovered, but not the return on investment? The confusion has arisen because Dave and Subramanian have misinterpreted the economic distinction between the short run and the long run.

In my article, when I referred to a period of two years as the short run, I did not imply thereby that the productive life of capital was two years as Dave and Subramanian seem to have understood. I took this period only because for the steel industry two years seemed to be a reasonable definition of the short run. Rerolling capacity could be increased given two years or investors may pull out of such business in two years. Further, I said that it might take at least two years before existing capacity could be fully utilised. I chose this period deliberately to show that we need not attribute any cost to capacity (depreciation) in the short run. All of us would like to provide for depreciation, overheads, etc. But the fact of the matter is that we would be willing to produce and sell in the short run even if these costs are not fully recovered because by doing so our total losses could be minimised. As far as the short run is concerned, capital costs are sunk costs and short run decisions should not be misguided by treating them as "relevant costs."

In the Indian context, there is the special problem that though idle production capacity exists, production is held up by other supply bottlenecks and not by demand. Given this situation, is it proper to consider the true domestic resource costs of exports as equal to the marginal costs of production? The answer is, "certainly not". Instead of exporting the extra unit of output produced, it could well have been sold in the domestic market. If it could have been sold internally, all marginal costs as well as depreciation and return on capital could have been recovered. In other words, the full cost of the extra unit is the relevant domestic resource cost of the export even in the short run because there is an opportunity to sell it in the domestic market, unless, of course, it is argued that the opportunity cost of denying the extra output to the domestic market is zero. Note that there is no sanctity about recovering depreciation and not the annual charge. The domestic price may be such that all costs can be recovered. In the short run, it is all a question of what the feasible alternatives are, given the limited flexibility. If the domestic price level is so low that the annual charge on capital cannot be recovered, then, that sets the limit to the domestic resource cost in the short run. It is easy to see that domestic resource cost both in the short run and the long run approximates the full cost of the product (socially valued and adjusted for various factors as shown in our formulas) when domestic demand is high and input bottlenecks co-exist with excess production capacity. In these circumstances, the distinction between the short run and long run criteria for measuring competitiveness does become rather thin. The same kind of problem arises when firms are working up to full capacity and are required to divert some part of the output for export. Clearly, the domestic resource cost of export in this case is the full cost of production including the return on investment, since that is what is being sacrificed by diverting output in the short run from the domestic to the export market. It is extremely important, therefore, to ask the question, "What is the social opportunity cost of export?" before formulating both short run and long run criteria for measuring competitiveness.

Summing up, let me say that Dave and Subramanian may have been misled into making certain comments on my article through a misunderstanding of what I attempted in terms of the analysis of steel products. But more important than that is a misinterpretation on their part of the meaning of the opportunity cost in the short run which is reflected in the formulation of their short run criterion. The observation that the shadow exchange rate provides the acceptable upper limit for domestic resource costs when products are ranked is one with which I wholly concur.

Notes

1 S Paul, "Competitiveness of Indian Steel Exports" *Economic and Political Weekly*, May 29, 1971, pp 1087-93.

2 S A Dave and S K Subramanian, "Competitiveness of Indian Steel Exports: A Comment" *Economic and Political Weekly*, September 11, 1971, pp 1979-80.

Tata Chemicals Limited

Statement by the Chairman, Mr J R D Tata

THE following statement by Mr J R D Tata, Chairman of Tata Chemicals Limited, dealing with the Company's working for the year ended June 30, 1971 has been issued to the shareholders:

To The Members,

The Year's Working

Shareholders will, I hope, have noted from the annexed accounts that for the ninth year in succession the profits before tax were higher than in the previous year. With the project for the further expansion of our soda ash producing capacity from 600 to 1000 tonnes a day finally approved by Government, we may now look forward over the next three years, including the current one, to another period of growth towards significantly higher levels of production, turnover and profit.

It is because of these encouraging prospects that your Directors decided to maintain the dividend of 15 per cent on ordinary shares on the enlarged capital, even though the total amount available for distribution this year was less than in the previous year owing to the much larger allocations to depreciation and development rebate reserve.

Dividend Policy

There are, I know, some shareholders who consider that in these uncertain days, when investors have little to look forward to but further assaults on their interests by Government, Companies should distribute in dividends the bulk of the profits instead of ploughing back substantial amounts into modernisation and expansion. This is a defeatist and short-sighted view to take for it assumes that never will good sense prevail and economic realities bring about a change in Government policies. It is also clearly against the long term interests of shareholders. Apart from the fact that, private sector industries, however difficult life may be made for them by Government and Parliament, have a duty to the country to increase their output and efficiency, it is in fact the only way in which they can survive and prosper, despite all the difficulties and obstacles placed in their way.

A cursory study of the financial and profit standing of a representative section of the private sector shows clearly that those companies which, for any reason, have been unable or unwilling to modernise and expand, have either stagnated or fallen back, whereas those companies which were able to invest the necessary resources in money, and effort to achieve growth and improved efficiency have produced good financial results.

Your Company is a typical example of the latter, and I, for one, hope that subject only to limitations imposed by Government, it will continue to take every opportunity to expand and improve its plants, processes and efficiency, to diversify its products and, generally, to contribute to the growth of the country's economy and welfare.

Restrictions on Growth

I have referred to Government curbs on growth. These unfortunately continue to be the most serious obstacle to progress so far as the private sector is concerned, and the main cause of the present slow-down in industrial growth. Once the country had decided many years ago to base its future development on a planned and controlled mixed economy, it was inevitable, and right too, that the freedom of action which private enterprise had enjoyed in the past would be restricted in the future so as to conform to the new pattern, but it was reasonable to hope that Government would exercise the tremendous economic powers it had secured from Parliament in such a way as to promote the maximum growth of both sectors and would draw fully on the large and growing resources in initiative, experience and managerial skills available in the private sector.

It was to be expected that, in Parliament's anxiety to see the public sector develop quickly some temporary restrictions would be imposed on the growth of the private sector in certain fields, but subject to that caveat one could have hoped that all economic decisions would be results-oriented and free from ideological bias. Such hopes, which in my innocence I myself shared, have been belied in practice.

Failure to Discriminate

That Government have had reason, in recent years, to be suspicious of big business in India, is to be admitted in the light of the greed and lack of ethics demonstrated in the last two decades by certain elements in the private sector. No one could object therefore to Government imposing restrictions on such elements or even outright denial of further growth to them until they proved deserving of public confidence. What is, in my view, highly unfair and unjustifiable as well as detrimental to the public interest is Government's insistence on tarring the whole of the private sector with the same brush and denying or delaying growth even for those with an unimpeachable record of efficiency, fair dealing and sense of social responsibility.

Frustrating Delays

Superimposed on the crippling effect of Government's licensing policies on growth now based largely on an obsessional hostility to any large-scale enterprise in the private sector, unending delays have plagued projects for expansion, diversification or modernisation submitted to Government for approval. Our own Company, in recent years, has provided its quota of examples of frustrating delays and obstacles strewn along the path of every project submitted to Government, however urgently needed and beneficial to the country.

Fertiliser Project

Today, a full four years after it was submitted in response to Government's own invitation to the private sector to help raise fertiliser production in the country, the magnificent fertiliser project we put forward in November 1967, remains undecided. If it had been quickly approved, as it deserved to be, we would by now have been about half way through its execution and already in production of some Rs 50 crores worth of fertilisers a year. Instead, unable to reconcile themselves to such "bigness" in a project mooted by one of the so-called larger houses, Government, after two and a half years of procrastination, compelled us to re-

duce the project to about a third of its original size. Even after this was agreed to, a fresh objection was raised in connection with the import, in the initial years, of phosphoric acid instead of sulphur for making phosphoric acid with imported or indigenous phosphate rock. The import of phosphoric acid in the initial period was a fundamental element in our project, which was aimed, insofar as the manufacture of phosphatic fertilisers was concerned, at the total elimination of sulphur through a process, still under development abroad and at Mithapur, using hydrochloric acid instead of sulphuric acid.

We have informed Government that the proposed change in the Letter of Intent effects a fundamental and unacceptable change in the project and that if it is insisted upon, we would prefer to abandon altogether the phosphatic part of our project until it can be undertaken without importing sulphur. Discussions are continuing on the subject and, at the rate at which this project has moved in the past, I can only hope that I shall be able to announce in my Chairman's Statement next year that some further progress has been made.

Soda Ash Exansion

I am happy to say that our application for the expansion of our soda ash output from 600 to 1,000 tonnes a day has not led to the type of stalemate experienced by us upto now in regard to our fertiliser project, and we are grateful to Government for their clearance of the project in May this year. But even here we have a striking example of the serious delays caused by Government's cumbersome and time-consuming licensing process, now further complicated by the administration of the MRTP Act.

The fact that a serious shortage of soda ash would develop unless capacity was quickly increased, and that it would inevitably lead either to a heavy outgo of foreign exchange on imports, or a set-back to production in consuming industries, accompanied by large-scale black marketing, became evident over two years ago. It was in recognition of this impending shortage that we submitted our project for the expansion of our capacity to 1,000 tonnes per day in May 1969. Yet it took two full years for Government to give its final approval to our application, although it was recognised by Government themselves as providing by far the quickest and most economical means of ensuring continued full supplies of this essential product.

Such delays caused by the excessively complex procedures adopted by Government to process applications from private industry are a serious hindrance to the country's industrial growth. Although this has been known and repeatedly ventilated for many years no change whatever has taken place in the attitude and policies of Government in the matter.

On the contrary, whereas some years ago the issue of a letter of intent, let alone the industrial licence which usually followed it almost automatically, provided a virtual assurance that the project applied for would go through fairly smoothly thereafter, today, even an industrial licence, often a conditional one, merely permits the recipient to launch himself on an obstacle course in which the clearance of half a dozen Ministries may be involved. When one of the "larger Houses" is concerned, the matter is even subject to Cabinet approval which, naturally, may take months, to obtain.

Monopolies Commission

Amongst the prime hurdles in such an obstacle race is the newly created Monopolies Commission. Anti-monopoly laws and commissions are, in many countries, well known and accepted legislative and administrative devices to ensure that a monopoly or dominant control of a market does not operate in a manner detrimental to the public interest, and no objection could therefore be raised on principle to the creation of this new measure in India. In fact, by setting forth sound and reasonable criteria or guidelines, a Monopolies Commission could, if anything, help to simplify and expedite existing procedures. I regret to say that our Monopolies Commission is hardly likely to fulfil this expectation. On the contrary, judging from its performance upto now, there is every reason to fear that it will provide a further and grievous source of delay and confusion.

Shareholders of Tata Chemicals will be surprised to know that in the last few weeks little else has been done in the Head Office of your Company and of other Companies in Bombay House than to answer a host of questions and submit a mass of documentation to the Monopolies Commission, not in regard to a project even remotely concerning us but to a project of the Tata Engineering Locomotive Company! Even more surprising is the fact that most of the information sought from us is totally irrelevant to the Telco expansion project itself, and certainly irrelevant to our own activities. Most of the information sought was, in any case, already well known and available in published materials.

Irrelevant Enquiry

The Monopolies Commission's extraordinary action in involving a large number of companies totally unconcerned with the Telco expansion project, in their examination of the latter's application is not only an inexcusable waste of the time of Government and corporate officials but a form of undeserved harassment of companies and officials who try to do a good and honest job and serve their company and their country to the best of their ability.

Company's Record

One would have thought that, in the eyes of Government and its Monopolies Commission, what was significant about Tata Chemicals was not that it had participated in an industrial exhibition, and shared a common building, minor services and a common telephone exchange with other Tata Companies — all, evidently considered as glaring proofs of an alarming concentration of economic power but that the Company's pricing policies were such that in the past year alone it had voluntarily forgone nearly Rs 50 lakhs of profit by selling its products at prices below those of its competitors. The total amount so forgone since price control was withdrawn has amounted by now to well over Rs 2 crores.

That a Company with such a record of efficient, honest and socially conscious service to the country, the community and the consumer, should be subjected to this kind of pointless harassment and waste of time and energy, cannot but fill one with despair at the evidence it provides of disregard or ignorance of national priorities, of the lack of a sense of urgency, and of the heavy cost of delays to the nation.

I have reason to believe that our Prime Minister is greatly concerned at the current slowdown in the economy, is anxious to remove road blocks in the path of economic progress and to simplify and expedite the industrial licensing process. I take this opportunity of drawing, with great respect, her attention to one of the most flagrant examples of such road blocks to

progress, resulting not from the passage of regulatory laws but from their misapplication to purposes clearly outside the intent and scope of the law.

Bright Future...

Having taken so much space and time in discussing the impact of Government's policies on industrial growth in general and on our Company's activities in particular, I shall conclude by saying once again that your Company remains in good shape, that it is fully geared to the achievement of continuous improvement both in its output and efficiency and that the morale of its organisation remains high despite the frustration of the delays and inaction mentioned earlier. The future of the Company and your own as its owners, is therefore assured provided it never departs from the basic policies — perhaps philosophy would be the better word — which have enabled it, after so many years of struggle and effort, to reach its present technical, financial and organisational strength, all of which along with its reputation, are today at their peak.

If Only...

If only Government would permit us to deploy fully our great material and human resources, and our managerial skills, we could make a striking contribution to the economic growth of the nation.

J R D Tata
Chairman

Dated, 1 November, 1971.

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

Dempo Steamships Limited

Speech of the Chairman, Shri Vasantrao S Dempo

THE following is the Speech of Shri Vasantrao S Dempo, Chairman, Dempo Steamships Limited, delivered at the Sixth Annual General Meeting held on November 5, 1971:

Ladies and Gentlemen,

I have great pleasure in welcoming you to this Sixth Annual General Meeting of the Company. The Audited Accounts and Directors' Report for the year ended 31st March, 1971, have been in your hands for sometime now and with your permission I shall take them as read.

Since we met last certain events have taken place which have national and international significance. The political strife simmering in our neighbour country on the eastern border has culminated in untold human misery which has also created a tension in our border states and claimed a large share of our national budget. The imminent entry of the UK in the European Common Market may perhaps affect adversely our export of traditional items. By far the most important development is the possible revaluation of European and Japanese currencies and/or devaluation of the US Dollar which would necessarily have far-reaching consequences in the financial world.

On the national scene, the signal success achieved by the Congess Party, led by our Prime Minister, by securing a dominating majority in the Lok Sabha, is a healthy sign inasmuch as it has offered the country a strong Central Government which can take its decisions without wavering and much loss of time. This has also improved the image of our Government in the international field which, I hope, will result in smooth conclusion of economic deals with the countries abroad.

A welcome feature of the labour-management relations is the initiation by the Central Government of a dialogue between the representatives of management and labour. Our country now needs a long and uninterrupted period of industrial truce to strengthen our national economy and achieve the goals set forth in the Fourth Plan.

Results

You will have noticed from the Annual Report and the Accounts that during the financial year under review the Company's gross freight and charter hire earnings jumped up to Rs 5.58 crores from Rs 3.06 crores last year. The rise of about 182 per cent in earnings lifted up the net profit from 33 per cent of the paid up capital to 144 per cent, i e, almost 4-1/3 times. The major contributory factor was the boom in the world freight rates which, till October 1970, helped us retain a sizeable margin after meeting the equally spectacular rise in operating costs.

The tables have turned, the charter market has slumped to the bottom unknown for 20 years, and many shipowners have been obliged to lay a part of their fleet either for survey work or otherwise in order to save themselves from uneconomic working. A reversal of the trend is no doubt inevitable; but the international political and economic conditions are uncertain and it would be hard to say when it would happen and whether the worst would fall before the tide turns. The situation demands a cautious approach to distribution of profits and I trust, you will excuse your Directors for recommending a dividend of 10 per cent.

Doubts have been raised in certain quarters as to the taxability or otherwise of the dividend. Your Company has sought clarification from the Central Board of Direct Taxes. The Company also made an application to the Income-tax Officer for exempting the dividend from tax. This legitimate request has been rejected and therefore, as advised, we have filed a writ petition before the appropriate Judicial authorities to obtain redress. The dividend will be paid out of the General Reserve when it is declared.

Development

Your Directors have been able to finalise an order for 66,000 DWT bulk carrier with BOELWERF Naamloze Vennstschap, a well known firm of shipbuilders in Belgium. The Shipyard has agreed to extend to us credit in terms of which a fifth of the price has to be paid in four equal instalments of which the last instalment falls due at the time of delivery in February, 1975 and the balance in instalments extending over eight years.

Your Directors have placed another firm order for a new bulk carrier of 21,450 DWT with Hindustan Shipyard Limited, Visakhapatnam. The payment is to be made under a phased programme coinciding with the delivery of the ship in March, 1974.

Arrangements have been made with the Shipping Development Fund Committee for financing the purchase of these two new ships. The total loan

would be of the order of Rs 13.05 crores.

With the acquisition of the two ships, the Company's tonnage will rise from 1,26,700 DWT to 2,14,000 DWT.

To finance this expansion, it is necessary to raise the powers of your Directors to borrow. Your approval to the proposal will, therefore, be sought at the Meeting.

PROSPECTS

The world shipping is currently in troubled waters on account of the heavy shrinkage of the international movement of cargoes and the resultant excess of tonnage and the consequential fall in freights. Any improvement in this situation has to wait for the solution of the currency crisis and the end of the recession in industrialised countries. Although it is a capital intensive industry involving a long gestation period, it has got to provide efficient service at an economic cost at all times. As such, undeterred by erratic fluctuations in the freight market, it has got not only to expand but also to improve its services. In this process the current type of general cargo ships may be rendered obsolete and their replacement by bigger and better ships is inevitable even though their initial costs are high. The rapid containerisation in a case in point. No maritime country can afford to brush aside this trend except at its peril.

India cannot ignore this reality. Thanks to helpful policies of the Government, Indian shipping has made rapid strides during the past two decades and is able to carry 18 per cent of the cargo. But the goal to lift 40 per cent of the cargo at the end of the Fourth Plan is still far off. The mere fact that there has been a big increase in the prices of new ships and operating costs and an equally big fall in freights should not be a deterrent to efforts commensurate with the task of achieving the targets of growth. The Indian shipping industry has no doubt to execute this job irrespective of what happens to the freight market; but it can do so only under conditions which are in no way disadvantageous *vis-a-vis* its overseas competitors.

Viewed in this light, the Government's decision to withdraw the development rebate with effect from May 31, 1974, has come as a shock. The magnitude of its impact may be gauged from the fact that it has till now enabled the industry to finance two-fifths of the cost of newly acquired ships by augmenting internal resources. The Finance Minister has hoped that the advance notice given by him would quicken the tempo of investment. It is not, however, realised that many of the ships ordered during the past two years will not be delivered before the deadline. The press has reported that a fresh policy for pricing and subsidy in respect of ships indigenously built is under consideration. Apart from the quantum, the capacity of the Indian shipyards is limited. It would, therefore, be a sad mistake to presume that the contemplated measure would provide an adequate substitute for the development rebate.

Another feature of the Budget proposals is the change in the system of calculating profits eligible for the tax holiday. The conventional method of calculating it on the basis of the written down value of the ship has been changed in favour of adjustment of Government loans against the capital base before arriving at the tax-free quantum of profits.

The two measures are not conducive to the future growth of the Indian shipping industry of which your Company is a part. The proposed abolition of the development rebate would be disastrous to companies which have placed orders for new ships on the basic assumption that the shipping companies will continue to be allowed to build funds out of current earnings to finance replacement and expansion of their fleet. I earnestly hope that the Government will at least come to the rescue of those who might not get the ships ordered before May 31, 1974 so that they do not fall victims to changes in the Government policy in respect of past actions. This is the minimum expected of the Government though it would not be enough to stimulate growth.

It has been my lot to emphasise every year the need for rapid development of port capacities; but the financial constraints have widened the gap between intentions and achievements and have further inflated our operating costs over which we have hardly any control. On the other hand, attempts to transfer a portion of the burdens to our patrons have run into difficulties, partly because they constitute a threat to our exports. In this context, I would urge the creation of a strong mechanism for periodical consultations between shippers and shipowners. May I also venture to suggest that UNCTAD, due to meet in Santiago in April next, should evolve a code of conduct in order to discipline the Conference system?

Against this background, the outlook for Indian shipping will have to be viewed cautiously and the desire for growth has to be restrained on the basis of international developments and domestic handicaps. In the case of your Company, the heavy financial outlay on its new building and the prospects of the development rebate being not available in the event of the new ships being not able to jump over the Budget proposal, superimposed on cost inflation and falling freights, point out to a profit squeeze in spite of the best effort of the management to minimise its gravity and the possibility of the dividend being pruned. It is, therefore, prudent to consolidate the position of the Company instead of planning for expansion. Your Board's decision to maintain the dividend is in that direction.

GENERAL

Shri P C Bhattacharyya and Shri S Rajagopalan have resigned from the Board since they have completed their terms as Government Director and Deputy Director respectively on behalf of the Shipping Development Fund Committee. The Government has requested the Company to appoint Shri A K Srivastava as Government Director and he has joined the Board in August this year.

It is gratifying to note that Shri Raj Bahadur has been appointed as Minister for Shipping and Transport, with Cabinet rank. Shri Raj Bahadur, you know, has played a prominent role in the development of Indian Shipping and we look to him for assistance in our effort to achieve the national goal. I also take this opportunity of requesting you to join me in expressing our grateful thanks to all the Officers of the Ministry of Shipping and Transport, Port Authorities, Mercantile Marine Department, Shipping Development Fund Committee, other Government Departments, and in particular to the Transport Secretary, Shri S K Datta, ICS, Jt Secretary, Shri R Tirumalai, and the Director General of Shipping, Shri R Doraiswamy, for their valuable assistance and guidance. I would like to record our appreciation to our Agents and Brokers, both at home and abroad, and convey our thanks to our staff on the shore and on board for their co-operation in our effort to build your Company.

VASANTRAO S DEMPO
Chairman

Regd Office:
Dempo House, Campal,
Panjim, Goa.

ECONOMIC AND POLITICAL
WEEKLY

Founder-Editor: Sachin Chaudhuri

Vol VI No 47 November 20, 1971

All Options Open—Interlude for Diplomacy—*Why the Secrecy?*—Countering Regionalism 2334

Business 2336

Companies 2339

From Our Correspondents

Industry Grinding to a Halt —Arthagnani 2341

Hardwar: Abodes for the Almighty 2342

Priorities in Higher Education 2343

Export Processing Zones: Gains at the Margin —Angus Hone 2345

India's Trade Prospects in Latin America —Mohan Ram 2347

Poland's New Style Party —K Krishna Moorthy 2349

The Fourth Estate 2352

Review

Foreign Technology: Role and Control —Baldev Singh 2353

Special Articles

Interest Sensitiveness of Deposits in India —G S Gupta 2357

Impact of Green Revolution on Landless Labour: A Note —Partap C Aggarwal 2363

Statistics 2366

ECONOMIC AND POLITICAL WEEKLY
Skylark 284 Frere Road Bombay 1
Phones 266072, 260566, 260192
Editor
KRISHNA RAJ
Assistant Editors
Rajani X Desai, Jawid Laiq
Business Manager: A Fernandes
Circulation Manager: Shiv Patil
Editorial Staff
Colin de Souza, Haresh M Advani
Shireen Heerjee, Ashok Rao

Domesticating Foreign Policy

FOREIGN policy, especially towards Vietnam and South-East Asia, was a major issue in both the 1964 and 1968 American Presidential elections. If Johnson was elected in 1964 at least partly because the campaign noises he made over Vietnam were less strident than those made by Barry Goldwater, he was also forced to retire from the 1968 race as he had not been able to disentangle Vietnam from the web of American domestic politics. When Nixon took over in 1968, it was difficult to visualise how even an admittedly astute political operator like him could lessen the US enmeshment in Vietnam without losing face internationally and without causing a domestic uproar about all those years of wasted American blood and treasure. Yet, through a series of well-calculated moves Nixon has not only defused Vietnam as an issue in US politics and consequently, in the 1972 election, but has managed to do this without arousing much passion at home or abroad.

This does not mean that the Nixon Administration has done anything as radical as to change the objectives of US foreign policy or lead the country into a new isolationism. Even if it wished to do anything so drastic, the constraints exercised by America's wide international economic-commercial network, its nuclear-military power status and its complex institutionalised relationships with most countries of the world would make it next to impossible for the Administration to change significantly America's foreign policy objectives or to opt out of the international economic-political-security system which the Americans themselves have had such a large hand in creating. All that Nixon and his advisers have done is to realise — and it has taken the Americans two and a half decades to do so — that these foreign policy objectives can be met without an obviously pugnacious display of political and military might. These objectives — namely, maintaining US economic influence (a euphemism for economic exploitation) over much of the globe and at the same time guarding the home country from any possible military threat from the other two major nuclear powers, Russia and China — it is now seen, can be achieved without propping up all kinds of dubious and shaky 'anti-communist' regimes and without reacting instantly to vaguely Leftward changes of government in distant parts of the globe. The idea that a communist takeover in a far-flung region was a military threat to the United States was given up more than a decade ago when Kennedy and McNamara came to power in 1960 and revised American ideas about military security. But the idea that such a takeover was a serious political threat directed at the United States has withered away only with the advent of Nixon.

Nixon has brought about this transformation most smoothly by a variety of moves, some deliberately dramatic and others quietly unobtrusive, which have altered the style of US foreign policy but have left its substance basically unchanged. The most dramatic of these moves was his successful attempt to get invited to Peking. The relative easing of tension with China has helped towards removing the China bogey from the minds of Americans; it has thereby oiled the process of disentanglement from Vietnam and has also to some extent reduced the fears of several South-East Asian regimes about US disengagement. All this has been managed without in any way changing any US policy objective. (Of course, the Chinese have also not fundamentally changed any of their policy objectives.)

Concerning Latin America, the United States has not made any dramatic gesture, but nor has it reacted violently or precipitately to the nationalisation of large American oil and other holdings by the Velasco Ibarra government in Peru or to the consolidation of a Marxist-Communist government in Chile. In fact, in an unprecedented move it has agreed to give Chile a credit of over three million dollars to buy military supplies from the United States. Even the widespread successes of the Tupamaros in Uruguay have not needlessly alarmed the Administration. A cool assessment of the Latin American situation has probably made clear to the Administration that the events in Chile, Peru and Uruguay affect the bulk of US investments — which are in Brazil, Venezuela, Argentina and Central America — only marginally.

In Europe, the United States has taken good care to see that it in no way hampers Brandt's and Western Europe's reconciliation with the Soviet Union. Nixon's impending visit to Moscow, the Four-Power Berlin Agreement, the steady progress of the Strategic Arms Limitation Talks in Vienna, all point to the fact that both the United States and the Soviet Union have a stake in improving relations with each other and so maintaining the *status quo* over wide areas of the world. They are both as interested in retaining the *status quo* and peace in West Asia as in South Asia. In that sense both are also interested

in the integrity of Pakistan, but are unlikely to interfere directly if Pakistan does break up, as this eventuality will not vitally affect the economic or security interests of either of them. Finally, it is this calmer assessment of the foreign interests of the United States that has given the Nixon Administration the confidence to impose the ten per cent surcharge on goods from abroad. It knows that the irritation caused among its friends and allies can lead to no tangible trouble for itself.

Credit Policy

All Options Open

THE Reserve Bank this week announced what it described as its 'policy' for the 1971-72 busy season. The preamble to the policy, as set out in the Governor's letter to commercial banks, runs as follows: "The overall economic situation warrants a cautious approach so as not to aggravate the inflationary factors in the economy but to provide all possible assistance for achieving a step up in industrial production and meeting the requirements of financing food procurement, priority sectors and defence-oriented production". The letter also urges banks to be alert to the requirements of industrial units assisted by the Industrial Reconstruction Corporation of India.

The phrasing of the preamble gives the impress that the policy measures which follow are based on clear-cut priorities for commercial bank lending. This impression, however, proves to be entirely baseless. Banks are expected to finance food procurement and agriculture, export and small-scale industry and defence-oriented production (which could mean anything from sulphuric acid to vanaspati) and industries in trouble as well as all "traditional borrowers" in general. In sum, practically every segment of the economy is to be given credit on a priority basis!

The Reserve Bank 'estimates' the seasonal credit expansion to run to Rs 500 crores against Rs 390 crores in the 1970-71 busy season. Food procurement would absorb Rs 125 crores against Rs 70 crores, leaving Rs 375 crores for the rest, against Rs 320 crores. The point is not that the residual is larger, but that the Reserve Bank gives no basis for its arithmetic. Has industrial output been held down by credit shortage? If so, in which sectors? What precise areas of the economy would benefit from an additional dose of credit and yield a higher output: engineering units which do not get enough steel, cotton mills which cannot sell thier output at the present high prices, the jute industry which is too hide-bound to arrive at a settlement with labour and take advantage of the slack in Pakistani supplies to the export markets or the sugar industry which is going in for a smaller output?

The Reserve Bank expects banks to funnel in deposits of the order of Rs 500 crores during the busy season. This likely accretion to their resources should be seen against the fact that the banks started the busy season with a credit-deposit ratio of around 73 per cent which was a clear 6 points below the ratio at the beginning of the last busy season. The increase in deposits (which could actually turn out to be even larger than the Reserve Bank's estimate, given the high level of deficit spending — Rs 609 crores between April and October this year against Rs 70-odd crores in the corresponding period of last year) would be sufficient for meeting the credit needs of the busy season, food procurement excepted. Yet the Reserve Bank has chosen to allow the banks sizeable access to Bank rate refinance, in the name of continuing the credit policy initiated in the last busy season.

Thus banks are expected to have a Bank rate refinance quota of Rs 200 crores against their lending for food procurement, export, small industry and agriculture. And to take care of any difficulties that particular banks may face on account of shortfalls in lending for these purposes, the Reserve Bank has allowed banks access to unlimited amounts at the Bank rate against trade bills of exchange right till the end of October 1972. But should some wretched bank lack such eligible paper, it will be taken care of by the decision to keep alive the old Bill Market Scheme officially claimed to have been killed. And as if all this is not enough, banks have been told that in "very exceptional cases" they would get discretionary finance at the Bank rate.

Why this concern about refinance when the banks are so highly liquid? Ostensibly this is being done because credit demand and deposit growth do not always match and peak requirements tend to exceed deposit resources. But it is not peak demand alone that the Reserve Bank is worried about, for it has in effect told the banks that their outstanding borrowings at the end of the busy season could be as high as they were at the end of the last season, namely, Rs 191 crores. Considering that banks started the season with borrowings of only Rs 19 crores as against Rs 150 crores last year, this is an invitation to them to expand their borrowings by over Rs 170 crores as against Rs 40 crores in the last season. Clearly, banks are being given sufficient room to expand credit well beyond Rs 500 crores, if they wish to.

The "cautious approach" thus arrives at a veritable credit surge! This charge too has been anticipated by the Reserve Bank — while permitting the banks sizeable access to refinance, it has told them not to use the available limits. In other words, should credit demand prove to be slack and deposit growth larger than expected, the Reserve Bank can claim to have prevented banks from tapping refinance. On the other hand, should bank credit expand rapidly, this would be hailed as the fruit of a promotional policy. Clearly, the Reserve Bank is keeping all options open.

Bangla Desh

Interlude for Diplomacy

THE Prime Minister's statement to Parliament on Monday on her recent tours of six Western countries did not throw any new light on the outcome of her talks in these countries. The countries visited by her, "as well as others", realise that "it will not help to deal with peripheral problems without finding a political solution in Bangla Desh through negotiations with the already elected leaders of the people of Bangla Desh and in accordance with their legitimate wishes". Further, "most countries also realise that the release of Sheikh Mujibur Rehman is essential and intend to impress this upon the military regime of Pakistan". What the Prime Minister left unsaid was that without any exception the political solution envisaged by all these countries is very much within the framework of Pakistan.

The Prime Minister also expressed the hope that the "joint or several efforts of the statesmen whom I met will make the military regime in Pakistan realise that no good can come of sabre-rattling or by forcing a military conflict on India". This expectation on our part fits well with the approach of these countries who have on the whole taken the position that the issue calling for immediate action by the international community was the mounting tension and the threat of war between India and Pakistan. The government's efforts to keep the Bangla Desh issue separate from the Indo-Pak issue do not appear to have succeeded.

To sum up the outcome of our diplomatic efforts of the last few months, then: the governments of the major powers, including the Soviet Union, have offered to exercise such influence as they have over the Pakistani regime to persuade it to work for a political

settlement of the Bangla Desh issue while the Government of India has undertaken that in the meanwhile it would do its part to prevent Indo-Pak tensions from erupting into a war. That some such informal understanding has been arrived at is plain enough from the Prime Minister's statements since her return. The accent has shifted from Pakistan's military build-up on the borders and the possibility of that country wanting to internationalise the Bangla Desh issue by starting a war with India to Pakistan's total isolation and the severe pressures on it which would inevitably force it to seek a political settlement.

The government has, of course, categorically rejected the demand that India (along with Pakistan) withdraw its troops from the border. But on a couple of other issues the government has amended its earlier position. Thus the Prime Minister has replied to the UN Secretary-General's month-old letter offering his good offices to India and Pakistan over what he described as "this potentially dangerous situation" along the Indo-Pakistan frontiers. Instead of rigidly adhering to the position that what required international mediation was not the situation on the Indo-Pak borders but the one in Bangla Desh, the Prime Minister has offered support to the Secretary-General's initiative provided he was "prepared to view the problem in perspective". Similarly, the Prime Minister reportedly told the executive committee of the Congress Parliamentary Party that the government would not be averse to a US commission visiting India and Pakistan provided it was prepared to look into the Bangla Desh problem in its entirety. Neither of these may amount to a major reversal of policy but they do give an idea of the government's approach to the problem. And as the government waits for international pressure on Pakistan to work, there can be obviously no question of recognition of Bangla Desh. Recognition would put the government at loggerheads with the other countries on whose diplomatic effort we are depending. As mentioned above, these countries have left us in no doubt that they are thinking of a political settlement within the framework of Pakistan.

Rourkela

Why the Secrecy?

A Correspondent writes:

THE roof collapse at the Rourkela steel plant was no accidental mishap. It merits attention not only because it has meant a drastic curtailment in indigenous steel availability at a time when the steel shortage was already palpable and so necessitated even higher imports of steel, but because it underscores inherent weaknesses in the management of the steel plant which have been there since its very inception in 1959. Repairing and recommissioning the steel melting shop, therefore, may not solve Rourkela's problems unless steps are taken to correct some of the imbalances in the plant's design and operations. Several of Rourkela's units, especially those that came up under State II, such as the sintering plant and the coke ovens which have been giving trouble, have not been working to capacity. It may be time for the Union Ministry for Steel, if it means business about putting this Rs 390-crore project in order, to undertake a comprehensive study of the problems of Rourkela.

As a first step, it may be worthwhile for it to release the Loomba committee report on the roof collapse. There is no special merit in keeping secret the four-member committee's report which was submitted within the stipulated time at the end of August — especially since the magnitude of loss has been so great and 'drastic' steps have had to be taken by the Ministry to put through an overhaul of the top management of the plant: the plant's erstwhile general manager, R P Sinha, has been asked to retire prematurely; some others have been shunted to other units of Hindustan Steel. All this makes it a matter for public concern. Why then has the report been withheld?

The collapse of the entire 1,500-tonne tin and steel roof of the steel melting shop was blamed on improper maintenance. Government spokesmen, including the Union Minister for Steel, Mohan Kumaramangalam, attributed the mishap to the accumulation of iron dust on the roof. True, but how could this happen when the plant has a gas-cleaning unit set up during 1967-69? If the gas cleaning plant had been working to specifications, 99.5 per cent of the iron dust from the ld converters should have been precipitated away. Had the plant stopped functioning, or did the cause lie elsewhere?

Steel Express, a weekly published from Rourkela, has claimed that the superintendent of the steel melting shop had given the plant authorities warning of the impending 'accident' four weeks before it actually took place. In a letter on June 10 to the Manager, Civil Maintenance, he reportedly said: "Immediate action from your side is absolutely essential if serious roof collapses are to be avoided". Why was action put off till after the monsoon?

In the absence of knowledge about the Loomba Committee's findings, one has only independent reports to go by. Evidently, the Loomba Committee concluded that the roof of the steel melting shop was designed to take a load of 120 kg per square metre (psm) without the point-load. Yet the roof collapsed with a weight of 65 kg psm. Designers of the plant, IGKD, however claim that the roof was designed to take a maximum point-load of 100 kg psm only and that the roof should take a dust load of 30 kg psm. The *Steel Express*, on the other hand, suggests that the original tender papers had called for a roof capable of taking 300 kg psm, not 30 kg psm. It is alleged that after a tussle with the German designers and Voest of Austria, who put up the steel melting shop, the Rourkela management altered their records to have a roof to withstand only 30 kg psm. How are these discrepancies of specification explained?

One must also view July's disaster against the fact that a similar, but minor, mishap had occurred in the steel melting shop as early as in August

SUBSCRIPTION RATES

	Inland	Foreign (Surface Mail)		
Six months	Rs 32			
One year	Rs 60	Rs 85,	$ 11.35,	£ 4.75
Two years	Rs 110	Rs 160,	$ 20.75,	£ 8.75
Three years	Rs 160	Rs 235,	$ 30.50,	£ 13.00

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

1963. What steps did the plant management take at that time to avoid such future mishaps? Apparently, none. In fact, this year's collapse affected a much wider area of over 10,000 square metres out of a total area of 38,000 square metres.

Andhra Pradesh

Countering Regionalism

THERE is little doubt that one of the notable results of the March Lok Sabha elections was the reassertion of Central authority over the vagaries of state politics. Mohan Lal Sukhadia, Rajasthan Chief Minister for 17 long years, was summarily made to depart giving way to an outsider, Barkatullah Khan. In Kerala, the rejuvenated state Congress was given the 'go ahead' from New Delhi to join the CPI-led ministry as the dominant partner, although the CPI man, Achutha Menon, remains the Chief Minister. In Andhra Pradesh, the reassertion of Central authority was complicated by the demand for separate Telengana, but this very issue was skilfully used by the Prime Minister to oust a Chief Minister whom she did not trust — after his double game in the last Presidential election — and at the same time de-fuse the Telengana issue, at least for the moment. The alienation of the Telengana voter from the Congress had to be righted before the coming state elections. Since Chenna Reddy's animus was as much directed against Brahmananda Reddi as against the concept of Andhra Pradesh, it was not too difficult to persuade the Telengana Praja Samiti leader and most of his followers to come back to the Congress fold once Brahmananda Reddi was ousted from the Chief Ministership.

Yet, while the heat over the separate Telengana demand might have been temporarily turned off, the feelings of economic and administrative neglect which engendered the demand cannot disappear with the appointment of another Chief Minister, Narasimha Rao. It is in this context that the composition of Rao's ministry assumes significance. The exercise of their powers of patronage by former chief ministers of the state have left their flotsam of factions who owe allegiance to Sanjivayya, Brahmananda Reddi and (a much smaller group) to Sanjiva Reddy. Since the Sanjiva Reddy group shifted with him to Congress(O) it lost its influence and is now trying to get back into the main Congress party. The Brahmananda Reddi faction is still a force and so could not be entirely disregarded. But a number of members of this faction have found themselves without a ministerial seat. The Sanjivayya faction is the one which has been more carefully accommodated, in view of his position as Congress President. Chenna Reddy's followers have, of course, been accommodated.

But the Congress High Command, i e, Indira Gandhi, was not satisfied with this sort of ministry formation and the deft hand of political sophistication can be seen in the relatively large number of Scheduled Caste and other formerly ill-represented minority groups' representatives who have been included in the Rao ministry. Apart from the obvious goal of giving the Congress a new, radical image in the state, these representatives in the ministry from outside the usual Congress factions can be regarded as a means of further shifting the regional issue of Telengana into the background by bringing the problems of the minority groups to the fore. One basis of differentiation has been replaced by another. At the same time, the more relevant basis of differentiation — that of economic privilege and deprivation — has been pushed aside once again.

BUSINESS

Forcing a Slow Pace?

IT seems inconceivable that the jute industry, exporters, and the government have all failed to grasp the opportunities of what should have been a breakthrough year for jute. Yet missed them they have. Jute goods are the single most major item of India's exports, accounting for nearly 15 per cent of export earnings. If in the past the industry has been riddled with problems, such as unstable and costly supply of raw jute, stiff competition from Pakistan and a shrinking market in the face of synthetic substitutes, this was a remarkably favourable year for it. The Indian jute crop has been excellent, not to speak of the large quantities 'smuggled' from Bangla Desh. Pakistan's exports of both raw jute and jute goods have been choked off by the strife in Bangla Desh. Why, then, have exports failed to rise? The industry has tried to pin the responsibility on labour troubles and on conditions in the 'problem state' which is West Bengal — power sheddings, dock troubles, etc. But these are conditions of fairly long standing.

The jute mills have reportedly bought Rs 80 crores worth of East Bengal raw jute which is, even in normal times, far cheaper than Indian jute. The government has turned a blind eye to this, no doubt in the expectation of a boom in jute exports. In the excitement about export prospects the government appears to have gone back even on its commitment to support the price of indigenous raw jute. Since August the Union Minister for Foreign Trade has been assuring purchase of raw jute by official agencies like STC and Jute Corporation of India but to date support operations by neither have been in evidence (though one report has it that STC, in the course of its commercial operations, purchased Bangla Desh jute in Assam!). Acreage under jute can be switched over to rice and this has been partly responsible for fluctuating jute output and prices. Clearly, the failure this year to lift raw jute at reasonable prices will have repercussions on next year's crop.

But the availability of cheap raw materials has not persuaded the industry to step up production and take full advantage of the export possibilities. On the contrary, the industry has shown supreme unconcern towards the prospect of disruption of production as a result of the threatened strike in the third week of next month. Prominent jute mills have also been dropping hints that they would have to move to other states if West Bengal labour 'continues to pose problems to the industry'.

It is not, however, labour problems which have stood in the way of larger jute goods exports this year. The US, our major market, has had port strikes on its east and west coasts. Also given the far quicker responsiveness of synthetic substitutes to changes in market conditions it is likely that these have stepped in to fill the gap before our muscle-bound industry made any moves of its own. The other major market, the USSR which takes mainly hessian, requires central negotiations. And Africa, which could be a growing market, requires special marketing initiative. Neither the industry nor the Ministry of Foreign Trade has cared to make the extra effort.

Chemical Plants

Room for Vertical Strengthening

WITH development of industries such as fertilisers, chemicals, petrochemicals, refineries, dyestuffs, and pharmaceuticals, the chemical plant manufacturing industry has also grown. There are by now a large number of units manufacturing diverse types of plants—like sulphuric acid plants, superphosphate plants, and water treatment plants, besides miscellaneous equipment such as pressure vessels, heat exchangers, distillation columns, sulphitation vessels, neutralisers, and condensers. Firms like Larsen and Toubro, APV Engineering, Dalal Engineering, KCP, Garlick, and Anup Engineering, manufacture more sophisticated and complicated products including reaction vessels, mixers and blenders, extractors, vapourisers, dryers, scrubbers, etc.

Till now, 54 units have been licensed, out of which 49 are in production. Current output almost equals installed capacity, indicating full capacity utilisation. Production of chemical plants during the four years, ending 1970, has recorded an annual growth rate of over 20 per cent.

However, a considerable gap exists in equipment designing for high pressure vessels, heat exchangers (especially of the high pressure type), waste heat boilers, super heaters, instrumentation, and certain specialised equipment. Since technological development in chemical engineering is rapid, it would be desirable for India to import the know-how for equipment design from advanced countries, so that equipment to the latest design can be made here. At the same time, efforts will have to be made to co-ordinate the activities of local R and D and chemical plants manufacturers for undertaking equipment studies for different projects. At present India relies on imports for the more complicated types of chemical plants.

One of the critical operations in fabricating chemical-process equipment is welding. Yet not much progress has been made in developing knowhow here. The much talked of Industrial Research Institute for welding has not received serious attention from either government or industry. The standard complaint is that the quality of equipment supplied by certain firms is poor and that where quality is reliable prices are very high and delivery periods very extended. Some of the units do not have modern methods and techniques of inspection to ensure structural stability, dimensional accuracy, and workmanship, to the tolerance required for each type of equipment.

With the significant expansion of the chemical industry in India—especially in the three basic fields of fertilisers, petrochemical fibres, plastics and elastomers—the demand for chemical plants will increase substantially. The country, therefore, will have to break new ground in the design and manufacture of different equipment.

There are also substantial export opportunities for certain types of chemical plants to various parts of the world—especially to West European countries which are going in for large investments in chemicals. Developing countries in South Asia, Africa, and South America, also offer good export prospects. Since India would have to face keen competition from countries like Japan, a cost comparison study should be undertaken to gain a clear idea about international price trends and possible points for entry. Organisations such as STC and TDA could play a major role in identifying the overseas market potential for chemical plants.

Tata Chemicals

Making the Most of It

FOR the ninth year in succession, Tata Chemicals has shown a higher profit before tax in 1970-71. The expansion from 600 tonnes to 1000 tonnes per day of soda ash, for which clearance was given a few months ago, is already under way and the plant is currently capable of 700 tonnes per day.

Tata Chemicals is thus comfortably established on its growth curve; and conditions — both in the market and at its works — are such that it is bound to do well. Soda ash, a major alkali, is the company's main product to date, and it has generally been in short supply. Early this year, government decided to import 6,000 tonnes to relieve the shortage. In its attempt to disperse production geographically and from the point of ownership — since Tata Chemicals and Saurashtra Chemicals of Birlas between them account for some 85 per cent of output — a number of licences had been issued, but implementation of these had made no progress. Later, Tata's expansion scheme which had been pending before the Monopolies Commission was hurriedly cleared to cover part of the persistent gap.

It will be yet some time, however, before self-sufficiency is achieved in the growing market. Nor will self-sufficiency ensure soda ash at prices comparable to international levels. Only competition, as J R D Tata would himself recognise, can ensure the cheapest price possible by efficiency criteria. And here there is no sign of progress. It is interesting that, over the past six years, all three major units (the third largest is Dhrangadhra Chemicals accounting for 10 per cent of output) have raised prices about three times — more or less in alignment. The last time prices were raised by all three was early this year (Tatas were the last to follow in May), when the shortage was acute and when it became quite clear that no newcomers would tread this long-gestation, capital-intensive field although the market prices — reflecting the room for additional production—were 100 per cent higher than those charged by producers.

Nor is there external pressure for lowering prices. While protection was formally withdrawn with decontrol in the mid-sixties, indigenous soda ash still enjoys a completely protected market because of import control and because the price of such small imports as are occasionally allowed is higher than indigenous prices after all the duties have been paid. Soda ash thus sells in a highly protected market and is evidently highly profitable for the two well-established units, even when their ex-works prices are far below the open market prices. Tatas also have a more diversified base in chemicals manufacture and fabrication at Mithapur, which should give them a head-start in the economies of joint costing once an element of competition is induced. But, as yet, this has not been materially relevant. Tata Chemicals' price, ex-works exclusive of excise duty, is of course 11 per cent lower than Saurashtra Chemicals', while Dhrangadhra's price is marginally the highest.

Tata Chemicals is also on the way to diversifying into complex fertilisers. Their scaled-down, Rs 50-crore project, aims at process innovations — including one for by-passing the use of imported sulphur, supplies of which have been less than stable in the past. Immediate use of Rajasthan's newly established rock phosphates, in place of temporary phosphoric acid imports, required by government is objected to on grounds both of their high-cost unreliable availability and of the import of sulphur which will be entailed at

this stage if phosphoric acid is produced by the older process.

Dyestuffs

Crying Wolf

THERE have been scary reports suggesting that the dyestuff industry is heading towards a financial crisis due to a slump in prices following lower offtake from the major consumer of dyes — the textile industry. The small-scale units in the industry are being forced to resort to distress sales, according to these reports.

Closer examination of the structure of the industry would, however, suggest that this is yet another instance of an industry crying wolf. The fall in prices is reported to be of the order of 15 to 20 per cent in certain varieties as a result of some pruning of inventories by the crisis-laden textile industry. But this is nothing to get alarmed about. After all, the dyestuff industry, more particularly its dealer network, is known to have exploited the market during times of shortages in the past — as witness the spate of complaints before the Tariff Commission.

The reported decline in prices is, if anything, to be welcomed. The dyes industry has grown in size and range on the strength of the dual protection of import restrictions and tariffs (on intermediates) for well over sixteen years now. Selling prices of most of the dyes have generally moved in only one direction in the past — upward — and, as a result, profits in the industry have been way above the general levels attained by the industrial sector as a whole.

Even during the current year the performance of the major units in the industry is understood to be highly satisfactory. The alarums and excursions about the industry moving towards a crisis are apparently completely false. One suspects that this is but another attempt by some interested parties in the trade to raise prices. It is only to be hoped that the Standing Committee appointed by the Tariff Panel to look into the problems of the industry will examine this matter in detail.

Hindustan Shipyard

Late Coming of Age

THIS year Hindustan Shipyard ('Scindia Shipbuilding Yard' prior to Government takeover in 1951) completes 25 years of shipbuilding. Although HSY's Chairman does not refer this fact in his address to the annual general meeting, it deserves mention because it was owing to the foresight and pioneering effort of the late Narottam Morarjee that India now has a shipyard worth the name. Between 1946 and 1971, the HSY has built a total of about 340,000 grt for Indian shipowners. It proposes in the near future to build 14,000/16,000 grt cargo liners/containerships as against the existing capacity for 9,000/12,000 grt vessels or the initial capacity for 5,000 grt ones.

Past achievements and promises of rapid progress in future do not, however, compensate for current pedestrian performance. From the point of view of the country's requirements for building up a powerful merchant navy, HSY's contribution is still minimal. Although Indian shipping has been adding about 2.3 lakh grt per year, HSY's capacity remains two ships of 9,000 grt each per year. Its Rs 8-crore development programme has gone haywire and, according to the Chairman, has slipped back by at least two years for want of particular types of cranes. The Chairman laments: "Even today we are not in a position to know when these cranes will be shipped and commissioned for effective use. This, indeed, is a sad story." HSY will not, therefore, be in a position to deliver six ships a year (aggregate 80,000 dwt) by 1974 as planned; whether it will be able to do so even by 1976 is anybody's guess.

During 1970-71 HSY seems to have effected some streamlining of its various operations such as materials handling, planning, etc, but there was no substantial improvement in financial performance. The yard's total production—including ship construction, repairs, miscellaneous jobs, capital works executed and stores manufactured departmentally—amounted to about Rs 851 lakhs in 1970-71 as against Rs 491 lakhs in 1966-67. Over the same period sales increased from Rs 284 lakhs to Rs 592 lakhs. The increase in value of output and sales was largely the result of a rise in rupee values rather than in physical output. Net profit, which accrues mainly on account of repair jobs, was up from Rs 3.08 lakhs in 1966-67 to Rs 5.70 lakhs in 1970-71. In relation to total capital employed, however, net profit showed a 50 per cent decline over this period. Although the capital formation has increased from about Rs 16 crores in 1966-67 to about Rs 30 crores in 1970-71, it is significant that current asset formation has contributed as much as Rs 9 crores to this. (An analysis of the structure of assets as at the end of 1970-71 shows that book debts accounted for Rs 4 crores and loans and advances for Rs 5 crores in a total asset value of Rs 22 crores.) The capital-turnover ratio is shown to be 5 : 1.

State subsidies to the extent of 15-20 per cent are common enough in most shipbuilding countries; taking this into account the yards the world over are expected to make a profit on ships sold. The HSY, however, has been operating on a no-profit-no-loss basis and budgetary allocations both for development programmes and for meeting its deficits have been a normal feature. The cumulative subsidies provided to the yard by the government increased from Rs 13 crores in 1966-67 to Rs 18 crores in 1970-71, though the annual subsidies seem to be gradually declining. Despite the subsidies, the yard's cash generation has been nominal over the period.

It is in this direction therefore that HSY appears to be making a determined bid to improve its operations. For the first time, the Yard's orderbook position was satisfactory and stood at 14 ships in 1971. It was not so long ago that the HSY was frantically searching for orders when the world shipbuilding industry was booming. There was even talk of exporting ships for want of domestic orders. It is common knowledge that now the Transport Ministry has made it obligatory—though informally—for Indian shipping companies to place an order with HSY for each ship ordered abroad. Simultaneously, efforts were made to arrive at a mutually acceptable pricing formula. The pricing policy announced in August 1971 adds up to an average of the international prices prevailing in selected countries plus a 5 per cent addition towards partial cost of import substitution and any escalation in prices from the date of placing the order. At the same time, the government would assist the yard to the extent of 5 per cent of the international price of the ship and would also compensate it for the price differential between major indigenous components used and the international cost of similar components. The new pricing formula would come into operation for ships delivered in 1973-74.

Sailing Strong

Hansavivek

GREAT EASTERN SHIPPING acquired, last year, two second-hand ships of 14,730 DWT and 14,801 DWT at a total cost of Rs 5.96 crores. The OBO carrier of 1,00,600 DWT, for which order was placed with the Swedish yard, is expected to be delivered in June 1972. The shipyard had run into serious financial difficulties which were overcome following negotiations between the shipowners of various countries who had placed orders, the shipyard, and the Swedish government. Under the reorganisation scheme, GES will have to pay a price higher by about 9.575 per cent and will have to bear some additional interest charges on a loan, repayment of which has been guaranteed by the Swedish government. When delivered, this vessel will be the largest OBO carrier on the Indian registry. GES has also placed an order for 4 ships of 21,610 DWT each with Hindustan Shipyard. These ships are expected to be delivered in 1973 and 1974. With the change in the accounting year, the latest set of figures covers a full 12-month period while that of the previous year relates to 9 months. The two sets of figures are, therefore, not strictly comparable, but even so both operating earnings and profits show visible improvement. GES carried out 58 overseas voyages but no coastal voyage during the 12 months ended March 1971, as compared with 51 overseas voyages and 2 coastal voyages during the preceding 9-month period. The voyage-days of vessels on time-charter with others were 1,323 days (759 days). Cargo carried amounted to 10,57,000 tonnes (9,40,000 tonnes). Freight earnings and charter hire brought in Rs 9.98 crores and Rs 2.55 crores (against Rs 6.91 crores and Rs 99 lakhs, respectively).

In the current year, there has been a fall in the freight rate and in the cargo availability in the international market. GES, however, has a long-term freight contract for the carriage of iron ore from India to Japan. But this cushion too is partially unreliable because export of iron ore from the east coast of India to Japan is at present considerably hampered by the various difficulties in MMTC. The strike by dock labour on the west coast of USA, moreover, has prevented ships from berthing for carriage of cargo from American ports to India. Meanwhile, some of the company's ships are being placed in the coastal and nearby trades. In view of these uncertainties, the directors are hesitant to forecast the current year's earnings. Commenting on government's proposal to abolish development rebate from 1974, the directors say that it would adversely affect Indian shipping in international competition.

BAGALKOT UDYOG (formerly Bagalkot Cement) appointed Shree Rishabh Investment, doing business in the name and style 'Shree Rishabh Vanijya', as sole selling agent for the sale and distribution of cement on a commission of Rs 1.25 per tonne for five years from July 1970. On a representation by the selling agent for a review of the rate of commission, the board entered into a supplementary agreement in March 1971, raising the rate of commission to Rs 2 per tonne retrospectively from July 1970. It is stated that none of the directors has any interest in the resolution for this purpose proposed at the company's annual meeting. The balance sheet, as at March 31, 1971, showed that, among its investments in shares, the company held as 'other than trade investment' 1,67,500 equity shares of Rs 10 each in Jaipur Udyog valued at Rs 17,31,601 (against Rs 12,49,501 a year ago). These shares were 'partly lodged as security as per contra'. One of the notes appended to the accounts discloses that delivery of the purchased shares had been carried forward on settlement dates on payment of charges as per the stock exchange rules and that such charges had been added to the cost in respect of the shares for which delivery had been taken. A sum of Rs 68,858 (previous year Rs 78,182) has been carried forward to be added to the delivery cost in respect of shares not taken delivery of upto March 31, 1971. Bagalkot produced 2,27,325 tonnes of clinker and 2,21,740 tonnes of cement in 1970-71, against 2,21,256 tonnes and 2,07,845 tonnes, respectively, in the preceding year. Cement despatches were also higher, at 2,21,499 tonnes (2,07,737 tonnes), but gross profit turned out to be lower. This outcome was attributed to the increase in manufacturing costs. The Union Government filed an appeal before the Division Bench of the Madras High Court against the judgment quashing the Cement Control (Amendment) Order 1969 which fixed the uniform retention price of Rs 100 per tonne payable to cement manufacturers. The appeal has since been disposed of in favour of government. The company's writ petition, filed before the Bombay High Court, challenging the validity of the Cement Control Order, 1967, has not yet come up for hearing; nor have the writ petitions filed by other companies at several High Courts yet been disposed of. The company has filed a writ petition before the Mysore High Court challenging the increase in royalty on limestone from 75 paise to 125 paise per tonne. The writ petition has been allowed, and the relevant notification of the Union Government quashed. The directors point out that increase in the current year in electricity tariff rate in Mysore, will entail an additional burden of about Rs 2 lakhs per annum.

ORIENT PAPER is setting up a research institute at Amlai for conducting research on various aspects of the paper industry, including research on plantation and utilisation of various fibrous materials. Initially, Rs one crore have been set aside for construction of buildings and procurement of machinery and equipment. The company has undertaken to supply technical knowhow for manufacture of paper in and outside the country. Work for setting up an integrated pulp and paper mill in Kenya by Panafrican Paper Mills (EA), in technical and financial collaboration with Orient, has started. The equipment in the pulp section and power plant at Brajrajnagar, being old, is to be renovated and modernised in stages — at a cost of about Rs four crores. During the year to March last, Orient maintained production of paper and board at around 1,39,000 tonnes. Exports of paper amounted to Rs 67 lakhs, against Rs 76 lakhs in the preceding year. Exports, the directors say, could have been better, had there been greater cash incentive to offset increase in cost of production. Although net sales looked up by Rs 128 lakhs, gross profit turned out to be Rs 48 lakhs lower than in the previous year, in spite of additional income of Rs 28 lakhs by way of knowhow and services fees. But the

latest profit figure has been arrived at after providing as much as Rs 143 lakhs for gratuity for the past years as also for 1970-71, whereas no amount had been provided previously for this purpose. Net profit is substantially lower compared to in the previous year, because of the provision for tax liability estimated at Rs 120 lakhs; there had been no tax liability for the past few years on account of the large amount of development rebate and depreciation in respect of capital assets of the paper mills at Amlai and equipment installed at the Brajrajnagar factory. The directors say that amenities and facilities for employees have been "considerably increased" and construction of quarters for workmen and staff, involving large expenditure, has been undertaken; but they complain that the Union has put up 'fantastic' demands including for increase in wages which is pending before conciliation authorities. During the current year, the power plant at Amlai remained shut for overhauling for over a month, and the factory could be run partially with power obtained from the Electricity Board at a 'much higher cost'.

ESTRELA BATTERIES is going ahead with its replacement and balancing of equipment and the 60-million cell expansion. Construction work is in progress and machinery has started to arrive. An agreement has been concluded with IFC for a loan of Rs one crore to finance the expansion. A rights issue of equity shares has already been made to raise part of the additional finance required for expansion. During the 32nd year, ended March 1971, Estrela's working results—with a trading deficit of Rs 2 lakhs against a surplus of Rs 40 lakhs previously, despite increase of Rs 20 lakhs in turnover at Rs 4.91 crores—made a dismal showing. This outcome has been blamed on increases in costs and on the restrictions on selling prices of products. It has been stated that the company suffered "very heavy loss" on exports. The report, however, does not mention the quantam of exports nor the loss suffered on it. In spite of the disappointing results, equity dividend is maintained at 12 per cent, which is also paid *pro rata* on the amount called up on the new equity shares.

GUEST KEEN WILLIAMS is increasing its shareholding in Sankey Wheels by purchasing 1,77,800 equity shares of Rs 10 each at Rs 6.88 per share from Commonwealth Development Finance Company of the UK. GKW already holds 21.4 per cent of the subscribed capital of Sankey Wheels. Besides, GKN Sankey — a wholly-owned subsidiary of Guest Keen and Nettlefolds of the UK — also holds 21.6 per cent of the subscribed capital of Sankey Wheels. Performance of Sankey Wheels has been much below expectations, so that GKW's investment in Sankey Wheels has become unproductive although it is felt that there is ample scope for improvement in the company's business. With its wide experience and technical knowhow in the engineering industry, GKW intends to assist in the development and growth of Sankey Wheels. At the close of its eighth year, ended January 2, 1971, Sankey Wheels had accumulated deficit of Rs 31 lakhs, against the subscribed capital of Rs 1.78 crores.

The Week's Companies

(Rs in Lakhs)

	Great Eastern Shipping		Bagalkot Udyog		Orient Paper		Estrela Batteries	
	Latest Year 31-3-71	Last Year 31-3-70	Latest Year 31-3-71	Last Year 31-3-70	Latest Year 31-3-71	Last Year 31-3-70	Latest Year 31-3-71	Last Year 31-3-70
Paid-up capital	479	479	100	100	562	562	45	35
Reserves	937	646	268	76	1314	1076	58	63
Borrowings	1350	788	126	90	682	1167	132	102
of which Term borrowings	1034	704	30	35	650	814	13	16
Gross fixed assets	3084	2582	563	324	3604	3528	116	109
Net fixed assets	2552	2113	379	162	1921	2053	60	55
Investments	24	25	18	13	96	45	—	—
Current liabilities	505	497	129	91	646	365	67	83
Current assets	1358	1109	217	177	1187	1072	241	229
Stocks	—	—	101	92	703	583	96	91
Book debts	784	564	104	83	362	342	89	92
Net sales	1262	795	286	263	2683	2555	491	471
Other income	84	63	5	2	101	70	—	19
Raw material costs	298	210	154	149	509	448	182	164
Wages	137	91	42	41	442	274	113	89
Interest	96	65	15	7	97	124	11	6
Gross profit(+)/loss(—)	529	269	46	50	620	668	—2	40
Depreciation provision	172	110	14	13	211	192	8	9
Tax provision	9	53	16	11	120	—	—	14
Net profit(+)/loss(—)	348	106	16	26	289	476	—10	17
Development rebate provision	89	—	1	5	55	300	—	1
Transfer to reserves	151	49	2	8	177	125	—15	12
Dividend								
Amount	108	57	E 13	E 13	E 44	E 38	E4	E3
					P 13	P 13	P1	P1
Rate (per cent)	22.50	12	12.50	12.50	E11.50	E10	E12	E12
					P7.86&5.50	P7.86&5.50	P7.14	P7.14
Cover (times)	2.40	1.86	1.15	1.61	5.02	4.55	—	5.00
Ratios (per cent)								
Gross profit/sales	41.91	35.09	16.08	19.01	23.11	26.14	—	8.49
Net profit/capital employed	12.59	5.54	3.24	9.77	11.29	10.97	—	8.50
Inventories/sales	—	—	35.32	35.00	26.20	22.82	19.55	19.11
Wages/sales	10.86	11.44	14.68	15.59	16.47	10.72	23.01	18.89

Industry Grinding to a Halt

Arthagnani

THE growth of industrial production has shown a marked tendency to slow down over the last two years. The rate of increase of the industrial production index (1960 = 100) which had been 7.1 per cent in 1969 declined to 4.5 per cent in 1970 and to 1.8 per cent in the first five months of 1971. Available indicators suggest that this slow-down has continued in the subsequent months of 1971.

*

Bad carpenters quarrel with their tools; the Minister for Industrial Development, Moinul Huq Chaudhury, (who is new to the job and may, therefore, feel that he need not take responsibility for the past) has been vigorously expounding the briefs handed to him by his bureaucrats to explain away (or rather, correct) the dismal statistics of industrial output. Thus the index does not reflect the true growth in production as the base of the index (1960) is outdated; also, the index does not reflect the country's industrial structure fully in that it does not cover the small-scale industry.

Let us take the second point first. It was the Economic Survey, 1970-71, which first referred to an impressive growth in production in the small-scale industry sector. "The Reserve Bank of India has estimated that output in the small-scale sector registered an impressive increase of 11.2 per cent in 1969-70 as compared to 8.2 per cent in the previous year" (para 48). Attempts to trace the basis of this particular figure have, however, shown that it does not relate to production at all but to *registration* of small units with the Government and that the present figure is only a convenient bureaucratic extrapolation of much earlier data.

It is unfortunate that the Ministry of Finance and the Reserve Bank should have given currency to such suspect data. Purely on *a priori* reasoning, it is obvious that there are no specific factors making for a much faster growth of small industry, particularly as between two consecutive years. In any case, now that banks claim to be providing finance to more than 2 lakh small units, it should be possible to determine, on the basis of data from these units, the actual growth of production of small units. This is assuming that banks call for monthly returns of production from their borrowers. Or is it now the case that, as in the old days when they used to lend to large industry on the strength of their commercial judgment (a euphemism for decision by hunch) without any data, banks now lend to small industry without asking for any data, purely on the basis of RBI directives?

We are then left with Moinul Huq Chaudhury's first excuse, regarding the weights in the index. It is true that considerable capacity was established, particularly in non-traditional industries, in the sixties and the index weights do not reflect this. Yet significantly, as will be shown later, it is exactly in this sector that the index is lagging; in other words, if the index truly reflected to-day's industrial capacity, the lag would be equally well marked. For example, if the weight of 21.18 points currently given to cotton textile were redistributed to the extent of 12 to 13 points for cotton textiles and the balance for basic metals, engineering, chemicals and so on, the final outcome is unlikely to be much different from the present figure.

In any case, are we really concerned with esoteric arguments such as those relating to coverage and weights of a statistical index? The matter to ponder over is the existence of considerable unutilised capacity, particularly in the newer industries, and changes in policy needed to activate this capacity. Irrespective of what is happening in the small-scale sector and the weights attached to different industry groups, we are faced with the facts that production could be much larger in the organised sector and that the existing idle capacity reflects a waste of invested resources.

*

The industrial production situation is markedly uneven. The 1.8 per cent rate of growth in the first five months of the year is a composite result of two trends: a lower output (negative growth) in some industries counterbalanced by more rapid growth in other sectors. The two main sectors in which output has been lower are iron and steel and cotton textiles; these need to be examined in greater detail.

Output of steel has hovered around 4.8 mn tonnes for the last four years. The roof collapse at the Rourkela plant in May is expected to have reduced the figure still further, though this is expected to be set right by December 1971. Steel output is likely to have declined by 4 to 5 per cent in the first 9 months of 1971 as compared to the corresponding period in 1970.

The Government has sought to make good the deficiency in steel supply by increased imports. The estimate of the value of likely steel imports in 1971-72 is Rs 190 crores which should enable almost 2 mn tonnes of steel to come in. Moreover, steel from arc furnaces is available to make good some of the shortfall in the output of the large plants. However, imported steel is much more expensive and steel from arc furnaces also costs almost 25 to 30 per cent more than steel from the large plants.

The shortfall in supply of steel from the large plants is thus sought to be made good by imports and by domestic supplies from arc furnaces, though at a price. None of the user industries has reported cut-back in output due to steel shortage. In a shortage situation there is a tendency to exaggerate the shortage and to over-stock raw materials and it is not certain that increase in steel supplies would necessarily lead to growth in the output of steel-using industries.

Steel price is an important factor in the working of engineering units. At international prices plus import and excise duties, imported steel costs almost 50 to 60 per cent more than local steel. It is evident that if the Government is to ensure equity between users of local steel and imported steel, it will be necessary to operate a price equalising scheme or to ensure proportional supplies of local and imported steel to all users. The Government does not seem to have woken up still to this need.

The rush for setting up electric arc furnaces and concast units has continued in the meanwhile. Such steel production is based on availability of cheap scrap (or sponge iron) and a high (scarcity) price for the final product. Under pressure of demand, prices of scrap have been rising and, typically, there has been a demand for control (or even ban) on scrap exports. Arc furnaces would become uneconomic at a steel price of Rs 900/1,000 per tonne. Once HSL gets back on its feet and Bokaro supplies begin to come on the market, the arc furnaces would, therefore, have to shift over to special compositions of steel to

survive in the market.

Steel and engineering account for a total of 24.09 points of weightage in the industrial production index. The largest extent of unutilised capacity exists, significantly, in steel-using industries, mainly castings, structurals, machine-tools, transport equipment (railway wagons) and diesel engines, among others. Among the major engineering industries which have shown declines in output so far in 1971 (as compared to the corresponding period of 1970) are steel pipes and tubes, steel castings, diesel engines and power-driven pumps, electric motors and cranes.

Cotton textiles is the second category in which the index of production has shown a decline — of perhaps 7.8 per cent in the first nine months of 1971. Significantly, while both cotton and cotton prices have risen, the market absorption of cotton textiles has slowed down, with a consequential impact on cotton prices. The duty on cotton, imported to make up for the supposed shortfall in cotton supplies, has had to be reduced from Rs 450 a bale to Rs 250 a bale to improve the offtake of cotton by the mills. In the meanwhile cotton mills' profitability is being squeezed by high cotton prices, low production and a sluggish market for products. Even the buoyant sector of the textile market, that for artificial fibres, has begun to lose its lustre. As in most other cases, there is likely to be a glut when the new polyester units go into production during the next two years.

As against these two groups, production in the other groups is patchy, with only a few industries being buoyant. As the working of Hindustan Machine Tools shows, demand for machine-tools is picking up, though production still remains much below established capacity. This is also the position with machine-tool manufacturers in the private sector.

In aluminium, both Hindustan Aluminium and Indian Aluminium have recently increased their capacity; yet imports continue to be made, showing the strong demand for the metal. Some capacity expansion (particularly by Aluminium Corporation and Madras Aluminium) is now under way. Meanwhile, the Government-owned Korba aluminium project continues to make its somnambulistic progress towards completion.

The demand for electrical goods seems to be faltering again, after an upsurge in the last two years. The two heavy electrical units in the public sector have to put up with the erratic ordering procedures of state electricity authorities. Demand for power cables and electric meters has also slackened, and meter manufacturers are trying to maintain high prices by uniform tendering practices.

In the road transport equipment field, the picture is again uneven. Cars and scooters remain in short supply and these shortages will continue till the promised capacity, in the public and private sectors, materialises. On the other hand, in commercial vehicles, while Telco and Ashok Leyland face a strong demand situation, Premier Automobiles and Hindustan Motors still have excess capacity, thanks to their neglect of quality in the past. In the meanwhile, Telco's application for expansion seems to have got bogged down in the Monopolies Commission's inquiries.

The buoyant demand for automotive vehicles has created demand for automobile tyres and State Industrial Development Corporations have emerged as entrepreneurs in this field. The buoyancy in tyre demand has been felt in markets such as those for carbon black and rubber chemicals, capacity for which is now being increased.

Chemicals, which had withstood the recession, seem to have been less buoyant in recent months. Fertiliser growth has slowed down during the last three years. Caustic soda demand has benefited from a buoyant paper industry, and soda ash continues to be allocated by producers. Paper, recovering from the stagnation caused by price control, is enjoying a sellers' market. The Government has sought to prevent the buoyant demand for caustic soda, soda ash and paper from being reflected in their prices by formal or informal control. The result has been a flourishing grey market in all these goods, leading to tax-evasion and black money.

Price control is leading to an exactly similar situation in cement. Reimposition of price control has led to a pruning of cement expansion programmes, with consequent slack in capacity utilisation by cement-plant manufacturers. Yet on present indications, it is likely that a shortage of cement will occur within a year or two. At the same time, some big houses, fearing possible blocking by the Monopolies Commission, are attempting to obtain cement licences under the 'carrying on business' category, on the ground that they had taken 'effective steps' during the de-licensed phase.

*

In the five years between 1966 and 1970 the index of industrial production increased by 20 per cent, from 152.4 in 1966 to 180.2 in 1970. This is approximately the same rate of growth as in agriculture. It is evident that the slight push given to the economy four years ago by rising agricultural production has worked itself off, and there are no inherent factors operating to replace the initial momentum. The question to ask then is: what is needed to resume industrial expansion and to give it sustained stimulus? This is the question which the Planning Commission needs to ask. Unfortunately, the Planning Commission's work priorities appear to be as inverted as the Plan priorities.

[For statistics of industrial production please see pp 2366-8.]

HARDWAR

Abodes for the Almighty

WHO says that the taxes in the country are driving the rich to step up consumption rather than save for purposes more conducive to the nation's health? For people to whom He has been exceedingly kind, God, in His infinite wisdom, has provided a way of repaying His kindness — a way which, besides assuring them a place in the upper echelons of the other world, also saves the fruits of His bounty from the odium attaching to 'consumption' as well as from the taxman's evil eye. If you are in doubt, visit holy Hardwar for enlightenment.

To the north of the ancient town, a stretch of over 10 kilometres of the right bank of the Ganges, which till recently had seen no masonry, is now marked with lofty structures in an almost unbroken chain. They are all abodes for the Almighty — marbled monuments to His munificence.

Temples are by no means new to Hardwar. From Kankhal in the south to Har-ki-Piyari in the north, this sprawling haunt of pilgrims is literally dotted with shrines, both big and small. From Vishnu to Manasa, there is scarcely a divinity of any consequence in the Hindu pantheon who does not have a structure in his or her honour in Hardwar. Of course, Mother Ganga and Lord Siva receive somewhat special attention — which is but natural. To Ganga, the place owes its spiritual pre-

eminence as also its other name Gangadwar ('Gateway of the Ganges') as in the coiled locks of Siva she nestles before descending to the earth. Moreover, it was here that Sati, the devoted wife of Siva, had renounced her life in protest against his humiliation by her father, King Daksha.

Brahmkund alone, the flowing pool at Har-ki-Piyari, is ringed by more than a dozen shrines, dedicated to a number of major godheads like, Ganga, Gayatri, Lakshmi and her consort. Of course, the Kund possesses unique qualities. Its holy water, wide waterfront and fearless fishes attract bathers and tourists — and, inevitably, beggars and vendors. Localities of lesser charms, too, have not been overlooked. Every mahalla, indeed every lane and by-lane, is hallowed by His visible presence in one form or another.

Despite the pilgrims' generous patronage, however, the shrines in the town show signs of age. By contrast, the temples beyond its northern limits wear a distinctive look of glossy newness. Most of them, in fact, have burgeoned in the last one decade or so. Next to newness, what strikes most is their number which is growing. Some of these have yet to throw off their scaffolding. Quite a few are in clusters, though commanding spacious compounds. Some are dedicated to a whole line of a god's incarnations — e g, Vishnu's—each in an immaculate glass case with its legend elaborately inscribed in stone, while some others salute the Sapta Rishis — the seven sages who embody the seven streams into which the Ganges splits itself after entering the plains to re-unite soon after. To delight the devotees, some have panels of parallel mirrors on their sanctum walls such that the idol's image appears reflected in an infinite array.

Naturally, attending to the daily and, on some days, hourly chores, is no easy task. A large retinue of priests with apprentices to assist them is, therefore, provided for.

Visiting worshippers are looked after too. Many establishments have suites for them, with the best ones being reserved for the establishment's own dignitaries. In fact, in some instances, the residential part predominates with its imposing size and modern layout. Away from the din and dirt of the town, 'guests' here can contemplate Divine Grace in idyllic peace and airconditioned comfort, while the mute idol witnesses from a corner of the precincts. Nearly all proclaim to be 'ashramas', centres for practising austerity and, often, yoga — and not merely the mundane variety which helps keep fit, but the real discipline. Some are attempting to teach Sanskrit or to run schools for the blind; but those are exceptions.

All this obviously means money, and a lot of it. Ask any tongawallah or teastall owner, and they will tell you where it all comes from. But that is beside the point. Construction, whether of temples or of towers, is an activity that economists could not hesitate to bless, as long as it sets off 'the multiplier' and 'the accelerator'. Expression of piety, in any case, needs no apology — nor does the source of its sustenance require one. It would be sheer heresy to be sceptical on that score.

Just one nagging doubt. The wide choice open to Him notwithstanding, is the Almighty comfortable in His new abodes?

Priorities in Higher Education

(From a Correspondent)

IN the present times of unrest on the university campuses, it is rare indeed to see a retiring university official being given a warm send-off by the university community. In fact, in the first instance, one does not even very often see a vice-chancellor completing his term of office. What with the current fashion of appointing superannuated politicians or judges or civil servants as vice-chancellors, the mortality rate amongst them is pretty high. Then there is another tribe of vice-chancellors, those who take on the job only so that they can rub shoulders with the mightiest in the land. As soon as they find another berth higher up in the establishment, preferably in New Delhi, they quit the university "to serve the nation in a wider sphere". Finally, with student power manifesting itself on many campuses, and the faculty power too on some, it is not very rare to see some vice-chancellors ignominiously being forced to resign by agitations and strikes.

Certainly, this last event comes about more frequently than a public eulogy on a vice-chancellor. But when one looks at the situation closely, more often than not, it is found that the abuse heaped upon him is generally undeserved. Often, the campus activists hold him responsible for the situation over which the poor soul has little control. Further, even if he leaves, the change-over to another equally hapless individual does not improve the situation one bit.

However, when even a section of a university community acclaims an outgoing vice-chancellor for dynamic leadership and for being instrumental in recording significant progress and so on, such claims certainly deserve very careful scrutiny. In almost all such cases, it is found that the kind words of praise are even less deserved than the more usual bitter parting between the vice-chancellor and the university. For one thing, a person has to be an incurable optimist to believe that much can be done in the present situation to improve the working of our universities significantly. But actually, even in universities, one encounters far too many persons living in a Panglossian world where everything is best in this best of all worlds. They are not even prepared to concede that anything is wrong in the present set-up. It is, therefore, worthwhile to first of all define what are the foremost priorities in higher education today and then judge this or that individual against them before either praising him or debunking him.

As was said a moment earlier, it is futile to expect any revolutionary changes in the universities in the present context. But even within the existing set-up, some significant improvements can be made by an honest and capable leadership. Thus, for example, take the question of reforms in the system of examinations. Practically everyone is agreed upon its importance and also its urgency. The Education Commission, in its thousand page wisdom, says that "what is lacking is not the knowledge [of the necessity for reforms and the methods of improvement] but will, courage and perseverance to work out its implementation". However, although all universities and state governments formally swear by the report of the Education Commission, not one university has so far implemented its suggestions for reform in this vital matter. In this respect, it is interesting to note that almost all universities have enhanced the pay of the faculty as per the recommendations of the Commission, one reason for which was the loss of the remuneration from examinerships envisaged by the reforms.

It is not necessary to plead once again for the reforms in the system of

examinations because in theory everyone concerned is convinced of their necessity. It is the first step towards checking truancy on the part of the majority of our students and teachers. Moreover, the situation has deteriorated very much even in the past few years after the publication of the report of the Education Commission.

Examination Games

Even if the present rules and procedures regarding examinations are applied honestly, it will mean a considerable change for the better. As it is, the scandals and malpractices connected with every stage of the examinations, from the setting of the question-papers to the final declaration of the results, are enough to put even the worst department in the government to shame. And if a university does not hit the headlines in this respect, almost always it only means that either its officials have good relations with the press, or that the press has grown *blase* about the scandals in universities. Having former judges or civil servants as vice-chancellors has not made any difference even in this respect, although the least one would expect of them is to try and enforce the existing rules honestly.

As in the case of examination reforms, the case for reforms in the syllabi and the organisation of the various courses is equally pressing, if less obvious at first glance. What passes for education in most courses of study in our universities has no relevance either to the cultural or intellectual enrichment of the student or to his ability to land a job later. Thus, for example, even though almost all bachelors of arts study English for at least a couple of years, very few of them can write out a proper application for a job, let alone handle routine correspondence on their own in an office. The teaching of other languages is no better.

Recent work in subjects such as economics, psychology, sociology makes extensive use of mathematical methods, but our students studying these subjects are still exposed to a very minimal amount of mathematics, with the result that they start with a built-in handicap when they try to understand modern work in these subjects. As future research workers, this handicap is even more serious for them in the long run. While studying economics or politics or sociology, very little effort is made to study any theories other than those fashionable in Western liberal circles two or three generations ago. In fact, the social sciences which our universities generally teach are not at all what a country like India needs.

In the scientific and technical subjects, the situation is no better. In many subjects, the syllabi have not been revised for decades, so that what a student learns in his university has first to be unlearnt if he goes to a good post-graduate or research school. If he starts working, his firm has to arrange a training course for him which runs to two or three years in some cases.

Very few universities provide facilities for inter-disciplinary studies, such as bio-chemistry, geo-physics, mathematical physics or mathematical economics and so on. Nor is there any worthwhile effort towards organising comprehensive studies of a region or of a country. In fact, hardly any university has shown a penchant for developing any novel sphere of activity by itself, nor does any one have plans to be particularly daring in any respect. This failure is at least as much that of the leadership of the university as that of its faculty.

Perhaps, it is not even worthwhile to write about the administrative inefficiency and the general indifference to the students and teachers endemic in all our universities. It is unrealistic to expect any more efficiency in a university than in say the postal service, even though the university community is supposed to be more sophisticated than the public at large. But it is worth noting that students have to go on a strike in some universities for getting books in the library or equipment in the laboratory or a teacher in the classroom. One would think that a university would at least look after these basic requirements. If there is any attempt to find out how the students live and work on the campus, it is well concealed from the public. It was claimed recently on behalf of a retiring vice-chancellor that he and 'his' students lived as one community on the campus; he in an air-conditioned house furnished by the university and the students three to a room in the hostel. In his term of over five years, there was not one instance of his sharing 'potluck' with the students in their mess.

No great perspicacity is needed to spot any of the shortcomings listed above. What is needed is only a common awareness of the normal functions of a university and particularly of its leadership and a will to do one's job honestly and well. In fact, in a university of even moderate academic attainments, these problems ought not to arise at all in the first place. The tragedy of Indian universities is that without even attempting to tackle such problems, a vice-chancellor is apt to claim a place in the academic sun on the strength of having organised a brotherhood camp or a peace padyatra or for collecting funds for a worthy cause or two.

In the present times, when practically everyone is eager to establish his socialist bonafides or, at the very least, exhibit his smooth felicity in mouthing socialist slogans, one need not be surprised too much if someone claims to have brought a university "out of its proverbial ivory tower" and made it conscious of its social responsibilities. As remarked earlier, such a claim would have some justification if the university at least tailored its courses and the training programmes to meet the needs of the country. But our universities do not even have a vague idea as to how many students may seek admission next year to their various courses; nor have they any inkling as to how many jobs in various categories are likely to be available in their vicinity in the next few years.

No Attempt at Integration

There is no attempt to integrate work and study in the curricula, a procedure which is being tried out more and more often in both the liberal and the socialist countries. In China, for example, an engineering college works as an integral part of some industrial undertaking. Medical colleges and public hospitals work as an integrated unit even in India but the obvious moral of this is lost upon our planners. In this country which is desperately short of teachers in the countryside, there is everything to be said for making teaching in a school for a year or two an integral part of the curriculum in arts and science courses. But apart from desultory declarations every now and then about the need for introducing a year of social service in colleges, nothing is being done about it.

Not many of our universities have studied the problems of their neighbourhoods, whether they be of economic development or of the best use of natural resources or of housing or of clean air and water. What is even worse, no university has a perspective plan for the next five or twenty-five years of its own development. Presumably the University Grants Commission is expected to do the thinking for them and also provide the funds. Even in a rich city like Bombay, with

a string of well known public figures as the vice-chancellors of its university, there has been no attempt to collect funds for development by any other way than waiting for the UGC and the state government to dole out the money.

Change within the System

The various shortcomings discussed above can all be remedied within the existing framework of the universities and of society. The same is true of the few innovations suggested above. A person who has a strong interest in the preservation of the existing order, and a typical vice-chancellor is precisely that, ought to realise that a system has a better chance of survival if it works at least moderately well. So our liberal, socially conscious bourgeoisie, for the survival of their own values and mores, should strive to end the shabby state of affairs in our universities. It is true that to attempt to change the universities in isolation from the rest of the nation would be the height of naivete. But if one has to make a beginning at some place, universities form the best starting point. A university is reasonably isolated from the mainstream of our public life and is also sufficiently big an institution to have an impact on society in the long run.

But it is futile to hope for any such action with the kind of vice-chancellors and deans we continue to find for our universities. In nine cases out of ten, by the time a person assumes a vice-chancellorship, he is so old and of such meagre accomplishment in his life till then, that he has time only for devising a way to create at least an illusion of some long-lasting achievement on the campus, since he has neither the imagination nor the energy actually to accomplish anything significant. So he looks for a quick and easy way to achieve a permanent place of honour on the campus. If he is one of the crasser ones, he goes in for erecting his own statue or a building named after himself on the campus, while one with a veneer of sophistication collects LI Ds from his fellow vice-chancellors or gets his cohorts to start an endowment or a scholarship in his name. Meanwhile, if with luck and fortuitous circumstance, he lasts out the course, he, like Talleyrand when asked after the French revolution, what was his achievement, can always reply, "I survived".

Export Processing Zones: Gains at the Margin

Angus Hone

EXPORT processing zones (EPZ) have worked remarkably well in a number of small countries which have followed flexible economic policies designed to give maximum assistance to their exports and their exporters. Often, the conditions inside the processing zone and outside of it have not been very different: import of raw materials for subsequent export is freely allowed, capital goods do not require licensing, repatriation of profits and capital is comparatively uncomplicated. The main difference is that bureaucratic procedures, within the zone, are kept to a minimum and decisions from government on zone investment are usually quicker.

What, in fact, are the possible advantages and disadvantages of such zones? What are the underlying theoretical and administrative causes of their success or failure? What possible contribution can they make to India's export development? An attempt is made here to examine these questions and to set out a rational development scheme for export processing zones in India.

The great success of the export processing zone in Kaohsiung in Southern Taiwan is well known. The first products from Kaohsiung were exported in early 1967 — two years after the Statute for Establishment and Management of Export Processing Zones was passed in January 1965. By the end of 1970, Kaohsiung had 162 factories, representing a total investment of $ 40.9 million; exports in 1970 were $ 109 million; and 40,800 workers were employed at the end of the year. All the land at Kaohsiung had been exhausted and two new EPZ were being established at Nantze and Taichung. Similar developments have been going on since 1967 in bonded warehouse areas around Seoul in Korea and at the new free port of Masan. The government of Singapore has been actively promoting similar industrial investment on the Jurong estate. (Tatas have firm plans to establish a tool room to service the needs of the Singapore precision industries and to export throughout the region; production is to start in 1973.) In the Philippines, the Marieles free trade zone has been established, although very little investment has actually taken place. There are recurrent rumours that Malaysia, Thailand, Indonesia, and Ceylon, all plan to establish export processing zones or free trade zones as part of their efforts to attract foreign investment in export industries.

Indian discussion of processing zones starts from — and also suffers from — the fact that India' only example of EPZ, Kandla in Gujarat state, has been a disastrous failure. Though investment there has picked up since 1969, Kandla has not had any impact on exports, it has not attracted 'high technology' industries to India, and it has not provided significant employment. Why did it fail? First, it was in the wrong place: far from Bombay, far from any international airport, and it suffered from very bad communications and port living conditions. Second, there was no international campaign to promote the concept. Third, the Indian exchange rate at the time of Kandla's establishment (Rs 4.76= US $ 1) meant that India was extremely uncompetitive in all the likely manufactures from such a zone such as electrical and electronic goods, garments, wigs, plastics, rubber products, and toys. Finally, procedures for investment, capital goods import, raw material imports, capital remittance and sale of second-quality goods in India, were still hopelessly complicated. It is hardly surprising that the concept failed given these disadvantages.

Recently, the processing zone concept has been revived in the Airport Electronics Scheme sponsored by the Trade Development Authority, which would allow foreign investors and their Indian collaborators to import raw materials and to export finished electronic components freely from a bonded site near Santa Cruz, and there is the possible development of a more substantial zone in the Twin City plans for Bombay.

It is important, however, to recognise at the very outset that export processing zones do not, and cannot, act as a major stimulus to the export economy. Kaohsiung in 1970 contributed less than 5 per cent in gross terms to Taiwan's exports. Masan and other zones contributed even less. It is advisable to calculate the net contribution as only 2/3 per cent; imported raw materials and components often run as high as 50 per cent of gross exports. Also, EPZ in Taiwan, Korea, and Singapore, could not have been a significant at-

traction had not the basic atmosphere there been strongly biased in favour of free trade and free entry of foreign private capital — even though location of zone, air freight, packaging and shipping facilities, all contribute their share to success. The bulk of investment is American and Japanese, and the US and Japanese markets are the target markets. (All the zones have thus been badly hit in the late summer and autumn of 1971, by the US west and east dock strikes, the 10 per cent surcharge, and finally the 'voluntary' textile quotas.) Finally, even the marginal gains to the export economy from any new zones are bound to be smaller because the earlier zones have pre-empted the more heavy investments from the large international companies who will have by now planned their long-term sourcing of components; these companies will not want to scatter management time on a number of small units spread around the Bay of Bengal.

Nevertheless, the contribution of processing zones in India could be worthwhile. A zone would allow certain industries — which are crippled by high material costs and inappropriate local machinery — to develop. The obvious industries are the garments, electrical fittings, electronics, plastics, toys, precision instruments, and preserved fruits and vegetable industries. All these industries are plagued by high cost of polymers, synthetic fibres, packing materials, etc. Yet, Indian labour costs and — far more important — Indian inspection, supervisory and management costs, are highly competitive. Moreover, such a zone would give foreign investors a chance to use the most modern and productive machinery freely. This would act as a "demonstration of new processes" to Indian producers outside the zone. And the zone might attract international companies otherwise kept at a distance by the usual bureaucratic tangles. A series of such zones could make a *net* contribution of $ 50 million by 1980. Admittedly, this would be only 2 per cent of Rs 2,000 crores or more of exports anticipated by then, but it might still be worthwhile for the 'high technology' products which, without such zones, would not be produced in India and are excellent for India's product image in world markets. The processing zones can also provide employment to labour, particularly semi-skilled labour, which is usually abundant near major airport and seaport cities where the zones would be most satisfactorily located. The zone wage rates can be set by the government, but should certainly not exceed the local (non-zone) average for similar grades of labour.

The legitimate concern of government authorities about the dangers of smuggling as a result of EPZ can be administratively minimised. The area could, of course, be policed and enclosed, but a far more potent weapon lies in the free zone's concentration on producing goods that are largely unsaleable in the domestic market, being usually produced as components for foreign products and to foreign designs and specifications. The items most commonly smuggled in India — synthetic yarns, special steels, automotive parts, consumer durables, gold, pharmaceuticals and garments — are rarely produced in free trade zones. Garments are the obvious exception but, usually, stringent rules for legitimate sale of 'rejects' can conveniently take care of this — such as that 'rejects' should not exceed 5 per cent of production.

India has some endowments for leading in exports from export processing zones in the 1970s, which are closely allied to excellent air communications and reasonable sea freight opportunities. The labour and management skill base here is substantial too; in addition, the local engineering supply base in terms of dies, jigs, tools, fixtures, and design and drawing office ability, is the most sophisticated in Asia outside Japan and is certainly the lowest in cost. The other essential ingredients of a successful zone could be established, once Government of India is convinced that such zones are worthwhile — wihtout radically altering the domestic economic policy options.

There is, in fact, a host of facilities required if a zone is to compete successfully with other zones located elsewhere in Asia for international company sourcing and export production. The zone would probably have to offer a liberal tax holiday (3 to 7 years). Repatriation of capital profits and interest would have to be free (for foreign companies) although domestic taxes and rules on capital retention may be applied to local company investments in the zone. There should be ready supplies of low cost labour subject to whatever productivity adjustment is required to bring local wages into line with those in Taiwan, Korea, Singapore, etc. Water and power supplies have to be *regularly* available at internationally competitive prices. It has to be made extremely easy and quick for a new investor to be able to acquire industrial land with access to drainage, roads, power and water. The country would have to attempt to provide standardised factory buildings designed for the industries the zone is supposed to attract. Import/export procedures would have to be adjusted to approximate to those of Hong Kong and Singapore. The system of transport within the zone must be simple and there should be adequate warehousing for finished products awaiting shipment. Finally, the international air and sea transport links should be regular, relatively cheap, and able to move the goods produced quickly to their markets. These conditions were not satisfied in the old free ports of Hong Kong, Singapore, Penang and Aden. Above all, the stress during the operation should be on accommodating the problem of the exporter rather than on strictly applying the letter of the law.

India could develop four major bonded zones close to the international airports at Delhi, Bombay, Madras, and Calcutta — although the Calcutta zone might be located at Haldia. At the same time, the government could examine the possibility of establishing subsidiary zones in Goa, Mangalore, Cochin and Trivandrum, to take advantage of the female labour force and the educated unemployed in these areas. Industries would include: electronics, electrical fittings, tools, dies, jigs and fixtures, plastics and garments as well as precision instruments, toys, jewellery, sporting goods and a number of other items, all of which could be manufactured most efficiently using imported machinery, techniques, fittings and components. In some areas, foreign investment or collaboration could be required and the import and export of capital and the repatriation of profits freely allowed. In other areas only domestic investors would be involved, but with permission to freely import machinery and raw materials (after furnishing satisfactory export guarantees). India would thus gain foreign exchange earnings at the margin, provide employment in or near the metropolitan cities and in Goa, Mysore and Kerala, and gain from the spread of advanced technology and advanced management and labour skills. The Airport Electronics Scheme at Santa Cruz might indicate the beginning of a re-examination by Government of its policy options and might produce a further detailed examination of the feasibility of export processing zones.

* The views expressed here are the author's and not those of the organisations for which he works. The author acknowledges an immense debt to Fredie Mehta without whose sharp arguments over the last two years this article could not have been written, and to M V Bhatawdekar on whose mimeographed paper on the subject he has drawn.

Our fleet of seventeen modern freighters offers fast, regular and dependable service between

INDIA—U. K. & THE CONTINENT • INDIA/EAST PAKISTAN—SOUTH AMERICA
INDIA—BLACK SEA & EASTERN MEDITERRANEAN PORTS
INDIA—POLAND Also around the INDIAN COAST

INDIA STEAMSHIP CO., LTD.
"INDIA STEAMSHIP HOUSE", 21, OLD COURT HOUSE STREET, CALCUTTA-1

India's Trade Prospects in Latin America

Mohan Ram

INDIA and Peru signed a three-year trade and economic co-operation agreement on November 4 at Lima. The two countries will double their trade every year and extend most favoured nation treatment to each other immediately. Though India signed an agreement with Colombia last year, the one with Peru is the first of its kind and regarded as a major breakthrough towards similar agreements with other Latin American countries in coming months.

But it is undecided whether India will re-establish trade relations with Cuba, an underdeveloped, socialist country and the first Latin American one to have taken up a 'Third World position'. India's reluctance to trade with Cuba can be connected with the United States' attitude to such relations. Countries getting certain types of US 'aid' are barred from trading with countries like North Vietnam and Cuba. Worse, the United States has imposed an open embargo on all products which have Cuban nickel as one of their components. The US government has also imposed a boycott on ships trading with Cuba and at least two Indian ships were recently blacklisted for touching Cuban ports but their names were removed from the list after an assurance that they would henceforth not handle any cargo to or from Cuba. The United States has also arbitrarily refused even to recognise an indisputable fact—that Cuba is among the world's main sugar producing countries. It barred Cuba from the Fourteenth Congress of the International Association of Sugar Cane Technicians held in New Orleans earlier this month.

New Peruvian Trends

The breakthrough in Indo-Peruvian trade has been possible largely because of three new coherent trends in Peru's foreign policy, reflecting the changed correlation of forces in Latin America. Peru has been sharp in its criticism of the International Monetary Fund and has favoured calling an international monetary conference which may eventually reorganise the agency now serving the policies of the ten dominant countries, especially the United States. Peru, along with Chile and Ecuador, greatly influenced the Latin American vote in favour of China's admission to the United Nations. Peru voted against the United States move to declare the entry of China an "important matter" so that the decision could be put off by a year. Peru's vote in a sense proved decisive for the explusion of Taiwan and admission of China to the United Nations.

The Peruvian delegate to the UN focused attention on the problem of underdeveloped countries and their evident dependence on the United States and called for liberation efforts to be begun from those countries themselves. Above all, he called for a change in the attitude of these countries: no more denunciations nor pleas for aid.

The three trends emerged in the midst of a total change in the world scene and in the framework of challenging the imperialist power forms in the 'Third World'. This no doubt would

Expansion in Public Sector Oil Refining and Marketing

Indianoil Chairman M. Rama Brahmam's Statement

Gentlemen,

On the occasion of the 12th Annual General Meeting of the Indian Oil Corporation it gives me great pleasure to welcome you and utilise the opportunity to recapitulate the performance of your organisation for the year 1970-71. The report of your Directors and the Audited statement of accounts are already in your hands. With your permission I propose to take them as read.

I took over as the Chairman of your Corporation only a few months ago. But I am emboldened by the feeling that I am no stranger to the organisation or to the oil industry with which I have been intimately connected for over a decade. My association with the Corporation had a brief break when I was called upon to head a modern, sensitive and sophisticated refinery in the South in which considerable Indian technical skills and expertise had gone in to bring about the fruition of another enterprise with Government participation.

It gives me great happiness to lay before you the steady and phenomenal growth of your company, which, unmindful of the severe competition from established foreign oil companies, has come to be reckoned as the biggest oil refining and marketing organisation both in private and public sectors. The commissioning of the first public sector refinery in Gauhati in Assam in 1962 followed by a chain of public sector refineries, modern pipeline transportation of petroleum products and the nation-wide marketing net work to undertake distribution of vital petroleum products to far flung corners had all acted as catalysts in India's economic life over the past decade.

During the year, your refineries processed 6.34 million tonnes of crude oil. The turnover of the Corporation for the year amounted to Rs. 720.01 crores as against Rs. 634.41 crores during the last year resulting in an increase of 13.49% over the previous year. In terms of quantity, the total sales of your Corporation during the year was 11.61 million kls as against 10.64 million kls during the last year; thus recording an increase of about 9.1% over the previous year.

This brings the all India market participation to 51.6%. Both on the refining and on the marketing side your company has improved its position of leadership in the industry.

Your Corporation has laid a lot of emphasis on the service aspect of its operations. Provision has been made for trained staff to provide technical and sales service to the Corporation's vast body of Government and other customers spread throughout the length and breadth of the country.

Profit during the year before providing for depreciation and interest amounts to Rs. 31.32 crores as against Rs. 36.20 crores for the previous year. Profit after depreciation and interest amounts to Rs. 15.77 crores during the year as against Rs. 20.41 crores during the previous year. In spite of the higher production and highest turnover, the profits of your Corporation were reduced from Rs. 20.41 crores in the previous year to Rs. 15.77 crores during the year showing a reduction of Rs. 4.64 crores.

Prior years expenses increased from Rs. 2.06 crores to Rs. 4.55 crores showing an increase of Rs. 2.49 crores. Whole of this amount is on account of the retrospective increase in the price of crude oil since the inception of Gujarat Refinery, in respect of crude oil supplied by Oil and Natural Gas Commission; there is also an element of a higher rate for crude oil payable to Oil India for the period of January/March 1970.

The cost of crude oil as compared to the basis on which the payments were made in the earlier years was higher by Rs. 2.5 crores for the financial year 1970-71.

Thus the cost of raw materials accounted for reduction in the profit by about Rs. 5 crores.

The Corporation had to pay devaluation duty amounting to Rs. 97 lakhs which resulted in an additional burden during the year under review. There were also unavoidable losses totalling Rs. 2.89 crores resulting from under-recoveries of Inland Freight (Rs. 0.40 crores), Sales Tax (1.39 crores) and coastal transportation cost (Rs. 1.10 crores).

The foregoing reductions aggregate to a sum of Rs. 8.86 crores which would otherwise have been added to the over-all profitability of your Corporation. The outlook for the next year 1971-72 is promising and the Corporation will undoubtedly show better results.

Although the paid-up capital of your company is Rs. 71.18 crores, your Corporation has earned net profits aggregating to about Rs. 73.5 crores since the amalgamation of Indian Refineries Limited with Indian Oil Company in the year 1964. Your Corporation has also generated internal resources totalling about Rs. 119.88 crores and has repaid about Rs. 9.58 crores loan to the Government—thus reducing the loan capital to Rs. 44.15 crores. You will be pleased to know that the Haldia Refinery project estimated to cost Rs. 68 crores is being financed to a very large extent out of Corporation's own internal resources. Outstandings were substantially reduced and amounted to Rs. 33.57 crores as against Rs. 39.71 crores at the end of the last year. Outstandings at the end of the year represented 15 days' sale as compared to 22 days' sale during the previous year.

Your Directors have recommended to you to maintain the dividend at 7% on the paid-up capital of the Corporation. This will be the fifth consecutive year during which the dividend is being paid—the total amount of dividend paid during these years will be Rs. 23.87 crores, representing well over 33% of the paid-up capital of the Corporation, i.e. Rs. 71.18 crores.

May I now bring to your notice a few distinctive features of your Corporation?

In addition to the three operating refineries—which are working very satisfactorily—construction of Haldia Refinery is progressing satisfactorily and it is expected that the fuel part of the refinery will go on stream in the first quarter of 1973 and the lube complex in mid 1973. The three existing refineries at Gauhati, Barauni and Jawaharnagar achieved crude throughput of 6.34 million tonnes. While your refineries at Gujarat and Barauni continued to operate at levels higher than their designed capacities, there was a slight shortfall in the throughput of Gauhati Refinery mainly on account of frequent interruptions in the unit operation due to failure and unsteady power supply and the difficulties of uplifting of products of Siliguri and restricted availability of crude.



Shri M. Rama Brahmam

At the request of the Ministry of Petroleum & Chemicals, your Corporation has prepared feasibility reports for two new grass-root refineries, one at Bongaigaon in Assam and the other in North-West Region of India.

It is a matter of satisfaction to all of us to note that a start was made to produce LPG in Gauhati Refinery for the first time in March 1971 and the production will be stepped up accordingly as the demand for LPG in Assam develops. Again the Coking Unit of that refinery achieved a record run of 132 days, the highest so for achieved. In the matter of product recoveries in that refinery, a percentage of 90.1 was achieved against the anticipated recovery of 89.2%. The performance of Gujarat Refinery also continued to be impressive. During the year, 17,981 MT of LPG as against 11,087 MT in the previous year were marketed. Likewise, the Barauni Refinery has also recorded production above the installed capacity and the improved maintenance techniques has enabled the Phenol Extraction Unit of that refinery to achieve a record run of 327 days during the year which is the highest so far.

The performance of the Pipeline Projects has been equally impressive. The Barauni-Kanpur Section of the Pipelines achieved a record throughput of 1,03,318 MT of white oil products in the month of March 1971. For the first time, black oil product, i.e. LDO was also transported alongwith the white oil products through this sector of pipeline in April 1971. All the four major pipelines together account for the movement of 2.62 million tonnes of petroleum products during the year. In addition, two feasibility studies for laying pipelines, i.e. a product pipeline from Haldia to Rajbandh and a crude oil pipeline from a suitable port on the Western Coast to the proposed refinery in North-West Region together with off-shore facilities were prepared and submitted to the Government. The latter pipeline is expected to cost about Rs. 75 crores for transportation of imported crude to the proposed refinery in the North-West Region.

The foregoing programme impose a very heavy responsibility on your Corporation but I have every confidence that your staff and engineers who have now acquired adequate experience in handling new projects will live up to discharge these responsibilities in the most efficient and economical manner.

At the close of the year, your Corporation owned distribution facilities at 24 port and pipeline installations, 1 inland installation, 359 upcountry depots of all kinds, 68 aviation refuelling stations and 3004 retail outlets.

The Corporation has now developed sophisticated air refuelling facilities at 68 air fields and during the year the Corporation handled about 70% aviation fuel business in the country. During the year, the Corporation added 323 retail outlets-thus raising the number of retail outlets to 3004. The number of retail outlets, according to the planned target will be substantially increased by the end of 1974 which is the last year of the Fourth Plan. Indane marketing was extended to 13 additional towns during the year and presently the requirements of about 3.33 lakh Indane consumers are being met through 102 distributors in over 54 towns. It is also planned to extend marketing of Indane to about 100 additional towns during the course of next 18 to 20 months; thereby making available approximately 3.5 lakh additional Indane connections to customers. Your Corporation also continued export promotion and the value of products exported during the year amounted to Rs. 353 lakhs.

Alongside the development and growth of refining and marketing operations, attention has also been devoted to research and development in these spheres. Accordingly it has been decided to establish a Research and Development Centre at Faridabad at an estimated cost of Rs. 250 lakhs. This Centre will undertake the work of product development especially in the sphere of lubricants and will also render technical services to our esteemed customers. The Centre is expected to be operative by the beginning of 1974.

The phenomenal growth in the all-round activities of your Corporation has underlined the need for manpower development and training in productivity, inventory control and controls over revenue expenditure, working capital, etc. During the year, 119 training courses were conducted at your Corporation's training centre at which training was imparted to 984 officers and 716 other employees as well as 167 Defence Services Personnel. The Corporation also organised seminars for customers such as Railways, Steel Plants, etc. in the sphere of optimum utilisation of fuel and lubricants. Training Departments in the three operating refineries at Gauhati, Barauni and Gujarat continue to keep the refinery engineers and operators up to date with the refining and maintenance techniques.

It is gratifying to note that your Corporation has, by and large, maintained harmonious relations with the trade unions consequent upon which it was able to avoid any serious industrial strife. Your Corporation has also evolved a system of communications with staff at all levels to keep them informed of the Corporation's programmes and policies.

Your Corporation's investment in Indian Oil Blending Limited yielded a dividend of 20% whereas the Corporation received a dividend of Rs. 1.70 per share from Indo-Burma Petroleum Co. Ltd., a subsidiary of the Corporation. The return of your Corporation on the investment of Rs. 75 lakhs in IBP was 8.8%. Indian Oil International Limited, a wholly-owned subsidiary of IOC started its trading activities from 1st November 1970 in Nepal.

The Corporation's scheme introduced during 1969-70 for giving dealerships and agencies to unemployed graduates belonging to low income groups is being implemented with determination despite the hurdles being encountered in finding finances and sites for the selected dealers. In order to achieve the social objectives underlying this scheme, your Board of Directors have relaxed certain conditions in the selection of dealers and sanctioned extra funds to facilitate establishment of more and more retail outlets. Under this scheme 69 Indane distributorships, 275 retail outlet dealerships and 86 kerosene dealerships have been awarded so far. The Corporation also helped to rehabilitate ex-servicemen and their widows by granting dealerships and distributorships to them.

In the world today, oil is a source of power particularly for mobile units on land, water and air and has become the most important factor to keep the communications alive. It is, therefore, a matter of special importance to us, both during the normal times where economic development has to be speeded up and during the critical days such as the period which the country is passing through now, that every effort is made to keep the supplies adequate and available at various locations with the least possible delay. In this, the efforts made by your company assume special significance and it is hoped that with the cooperation of the officers and staff we shall continue to keep the line of communications in tact and efficient.

One of the essential efforts of Indianoil has been to reach a stage of self-sufficiency, particularly in the refining field. The progress made so far has amply demonstrated the ability of your company to deal with the rise in demands. However, the years ahead of us are likely to see greater and greater demands on our ability to cater to the needs of a rapidly developing economy. It is my hope that building on the experience gained during the last decade and keeping our technology abreast of modern developments abroad, we shall progress in the years to come with greater speed and efficiency and thereby serve the needs of our country and the society.

We are about to evolve a National Fuel Policy. Oil will continue to remain an important element in any such policy. To the extent that the increased use of petroleum products involves a drain on our scarce foreign exchange resources there is bound to be a constraint on our development. We can only hope that the intensified efforts being made for exploration both on-shore and off-shore will soon yield adequate quantities of crude oil to meet our growing needs. We on our side should press on with our efforts at expanding our refining and marketing activities so that your company will fulfil its role in the National Fuel Policy.

Exodus of refugees from Bangla Desh has caused a tremendous strain on the Nation's resources. Your Corporation, realizing the need for helping the refugees, contributed a sum of Rs. 5 lakhs to the Prime Minister's Relief Fund earmarked for refugees from Bangla Desh. Your Corporation also made contributions for the relief of flood affected people in the country.

In conclusion, I would like to thank all the employees, who by their sustained efforts and hard work, have contributed to the development and success of the Corporation.

With these observations, I now move that the accounts be adopted.

Dattaram-IOC-17

This is the speech delivered by the Chairman Shri M. Rama Brahmam at the 12th Annual General Meeting of the Company held on the 16th November, 1[illegible] at the Registered Office of the Company at Bombay. *This does not purport to be a record of the proceedings of the 12th Annual General Meeting of the Company.*

Attitudinising Galore

Nireekshak

INDIRA Gandhi's tour of Europe and the United States was probably the best publicised of all such journeys undertaken so far by any Indian Prime Minister or President. The press party which accompanied her from Delhi seems to have been a small one, consisting of a special correspondent of All India Radio and another of *Amrita Bazar Patrika* — and possibly a third of PTI as well. But this party was considerably reinforced on the road, as every resident Indian correspondent in Europe and in the US was ready and waiting to receive her. They kept a close watch on her movements, read the comments in the local newspapers, and filed thousands of words home. All this, buttressed by editorial comments on the progress of the tour, created the impression of high drama — which is probably what they were intended to create.

It must be said, though, that after the Prime Minister reached Washington, reporters and editorial writers allowed themselves a brief pause for reflection. And the only doubts about the 'success' of the tour that the press permitted itself to entertain were reserved for this occasion. Krishan Bhatia of *Hindustan Times* carefully noted, for example, that while "Mrs Gandhi admittedly made a good impression ... most of those who came to hear her were either Indians or friends of India who did not need to be convinced". If, however, "while wishing to clarify India's stand the Prime Minister had also hoped to prod Mr Nixon into a more meaningful role in Islamabad than what his administration has hitherto played", he added, "the visit seems, on the basis of available indications, to have been markedly barren".

And according to T V Parasuram of *Indian Express*, "the next few days will show whether the 'special relationship' and 'sunshine of Indo-American friendship' which President Nixon spoke of ... will last". Parasuram also noted that "in public speeches, at any rate, President Nixon and Mrs Gandhi seemed perpetually to be on different wavelengths ... (and) they seemed to be speaking to their own audiences and not to each other." An editorial in the *Express* on the same day even went a step further, dismissing as inconsequential or insubstantial the US decision to stop arms supplies to Pakistan. "Why wasn't it done earlier?", it asked. "With the clumsy obtuseness of which they have often shown themselves capable, the State Department and the White House presumably calculated on first confronting our Prime Minister with an olive branch carefully contrived between Washington and Islamabad, and then proceeding to twist her arms .... The lady reportedly stood up to the collective masculine arm-twisting." As for Nixon's reference to the "sunshine of Indo-American relations", *Express* retorted, "he would have been more correct had he referred to it as a lot of moonshine".

For many newspapers, the end of the Prime Minister's Washington visit signified not just the high-watermark of the tour, but the end of the tour itself. *Free Press Journal*, for example, thought it fit to sum up the tour after the conclusion of the US part of it. In Europe, said the paper, the Prime Minister had "one advantage, *viz*, that she was taking India's message to those who had been more or less converted to it already .... In the US, however, the Prime Minister was expected to face a more difficult task [and] it is difficult to say to what extent she has been able to make a dent in [the] wall of anti-Indian and pro-Pakistani prejudice" there. Anyhow, it added, "in the final analysis India must do what its national interest demands it to do ... irrespective of whether India's interests coincide with the interests of all its friends abroad."

As *Times of India* saw it, there was "no sign yet of any marked change in the approach of the US administration despite all the sunshine sentiments expressed by Mr Nixon". The US, the paper thought, "is not likely to deviate from the cynical policy it has pursued all these months". And as, in this manner, "few are willing to look at the issues in the broader context of democratic values", India will have to "make up its mind on how it can best avert the threat to its own integrity and sincerity, without recourse to subterfuge or make-believe .... Seen in this perspective, the task of mobilising the nation for the trying days ahead is far more urgent than that of canvassing international support."

Two other developments which attracted editorial attention during the period under review were Britain's decision to enter the European Common Market and the US Senate's vote against foreign aid. "The overwhelming vote in favour of Britain's entry into Europe", wrote *National Herald*, "signifies no more than acceptance of the principle and a long and hard road lies ahead of the Conservative Government before Britain is firmly inside the European Community". *Herald* then went on to analyse the prospect of the Common Market becoming a super power, wondering how this would affect the world power equation as well as the fortunes of developing nations. "Mr Heath is right when he says that the British Parliament's decision will vitally affect the balance of world forces in the modern world for years to come. Whether the effect will be good or bad remains to be seen", it pontificated.

The Tory decision was "right", commented *Mail*, and the "Labour dissidents were equally right to defy their party whip .... Undoubtedly Britain's future lies in Europe ... Fears that the Commonwealth may break up are probably unwarranted, but the British people ought to know that the Commonwealth is not what it was...." With the decision for entry, said *Searchlight*, "the centuries of its [Britain's] independent world power status seems to have ended .... So far as India is concerned, it now depends on our negotiators what favourable terms they can secure from the Common Market when the Commonwealth preferences disappear."

The US Senate's decision to end foreign aid was "unfortunate", said *Amrita Bazar Patrika*. And President Nixon is not "unreasonable" in describing the vote as "highly irresponsible." But, it added, "even if the programme is ultimately restored, it would be realistic for New Delhi to remain prepared for a drastic cut, in view of the current mood of the US Congress". It was a "rebuff to Nixon", commented *Hitavada*. "Although the Americans have continually talked of world peace, American foreign aid programme has been one of the most potent causes for disturbing world peace .... It augurs well if developing nations are required to think in terms of self-reliance as a result of the stoppage of American foreign aid.... There is the example of China which has gained strength through self-reliance ..."

Foreign Technology: Role and Control

Baldev Singh

Foreign Technology and Investment; National Council of Applied Economic Research, New Delhi, June 1971; pp 170; Rs 25.

THE task of any reviewer of this book would have been simpler if the purpose of the study commissioned by the Research Programmes Committee of the Planning Commission, on which the book is based, had been clearly stated. What are "the shrouds of conventional vision" (p v) that the study aims to remove? Was the study designed to evolve a more appropriate approach to imports of technology and foreign investment? Or was the Planning Commission's query how imports of foreign technology and foreign capital could be maximised to accelerate industrial and economic growth (irrespective of the country's political and economic objectives of self-dependence and self-reliance)? Divorced from a clear-cut objective, the study gives the impression of a rambling survey of a highly complicated field.

Planning in India has always suffered from a surfeit of economic wisdom and expertise in the abstract divorced from technological realities. This book goes one step further in the same direction, which only proves that in the field of technology the economist is a lost man unless he interacts with a technologist and the two as a team study the technological situation.

It is neither possible nor perhaps necessary to analyse the formulations of the authors chapter-wise or subject-wise. Most of them would not stand the scrutiny of anyone familiar with the evolution, growth and promotion of technological structures in an underdeveloped economy.

In the preface by Boothalingam it is well stated that "the main thrust of the policy of the Government has been towards keeping down the cost of imported technology ..." and that "the government's information base regarding the quality of technologies has been narrow" (p 4). One would have expected the authors to prescribe criteria on which to base judgments as to whether or not to import a particular technology and advise on a regulatory mechanism appropriate to these criteria. One would have also expected a positive recommendation to emerge on improving the competence of the government's information base. A chapter on the present role and function of the main technical advisers to the Government, *viz*, the Directorate General of Technical Development (DGTD), and how it could be made more effective as an instrument for selection of appropriate technologies for import would have been in order. As it is, DGTD is not even mentioned in the text of the book.

Side-stepping any measures for regulating import of technology based on technological scrutiny or evaluation, the authors end up by concluding that fiscal measures such as "taxation and capital issues control have been more effective in channelling investment as well as technology into directions desired by the Government than the control of collaborations" and that "we have tried to present a case for as well as outline the means of shifting emphasis from the latter to the former". At an administrative level the authors suggest that the "present requirement that all collaboration proposals must be approved by the Government should be removed, and replaced by changes in corporate taxes" (p 85). Further, proposals for technical collaboration without investment may be registered by the Reserve Bank of India according to predetermined conditions. Those involving import of capital within limits for capital participation could go to capital issues control. Only those where the capital participation is to exceed the general approved level would need the government's approval.

Simple Solution

The entire problem of regulation and control of foreign technology and investment has been reduced to a simple solution, *viz*, "shift the burden of policy implementation to automatically acting fiscal measures". This, in the opinion of the authors, "will attract the world's most advanced technology to India and induce Indian technology to rival it" (p 86). In the absence of a proper understanding of the growth of technology and its role in economic development in different countries, this recommendation, *viz*, technology import control through fiscal measures, suffers from the same lacuna as pointed out by Boothalingam, i e, absence of technological information and competence in the government's operations.

The method suggested in the study to enhance the role of foreign technology and investment in India is to dismantle the existing regulatory and control mechanisms (however limited) set up for purposes of making technological judgments, reduce development of indigenous R and D to the minimum and lower all barriers to a free inflow of foreign technology and investment. In short, India's philosophy in regard to foreign technology and investment should be that of open market and free trade with the traditional forces of demand and supply as the determinants of technological needs. The judgment on technological imports and their value should be exercised by the capital issues control authorities and Reserve Bank of India whose main field of specialisation is not technological but economic.

What is the role of foreign capital (and technology) in a country's political and economic policy? In India is foreign capital merely a neutral carrier of technology or has technology served as a channel for entry of foreign investment in areas of critical economic importance and maximum profitability? So far as the authors are concerned, they have reduced the role of foreign capital to a simple proposition, *viz*, "since proposals for foreign investment are mostly accompanied by technology imports, we have felt justified in treating foreign investment as a special form for payment for import of technology" (p 14). Using the same fiscal criteria the authors state that "investment represents the costliest form of payment for imports of technology". It would appear that the only objection to foreign investment or its quantum that a developing country may possibly have is that it costs more. One wonders if the implications of operation of foreign capital in developing economies could be reduced to so simple a formulation even by an ivory tower economist or technologist. The authors themselves should have noted to the contrary when they have stated elsewhere that Japanese policies of capital import are that "the liquid internal assets of the country must always be sufficient to pay off all liabilities which the country has undertaken to pay on demand" (p 11) and that the Japanese scrupulously avoid permitting control of technology through capital investment.

If control of technology is taboo in Japan, then import of technology with investment cannot be viewed simply in terms of cost and payments for India either.

A study of technology-based industry that generates the maximum amount of capital accumulation is one of the most fascinating fields for a techno-economist. The manner in which governments of developing countries can, through planned and deliberate measures, increase the technological content of their operations in administration, decision-making and policy-formulation is of vital importance to self-reliant economic growth. The attitude to foreign investment is to an extent a reflection of the political character and ideology of the host and recipient governments. The control on technology of a country through capital involvement can mean control of vital and important sectors of the economy itself. Thus the role of foreign capital investment, for which technology serves as a vehicle, cannot be discussed or accepted as innocent of political and economic implications and without relationship to the national goals and policies of the donor and recipient countries.

Several Erroneous Conclusions

The abstract treatment of technology transfer by the authors has led to several erroneous conclusions. Thus in the very first chapter, on the basis of "royalty payments" it is declared that "India is a minor buyer of declining importance in world market for goods as well as technology" (p 4), ignoring the fact that heavy imports of machinery and capital goods and increasing recurring expenditure on maintenance imports represent inbuilt payments for technology. Similarly, it is stated that India's share in capital imports and royalty payments is smaller (only 1.5 and 1.2 per cent) and that India receives only 3.2 per cent of the US investment in the developing countries (p 4). Since later in the study there is reference to "the increasing attractiveness of India for investment" (p 6) and it is a well known fact that the returns on foreign investment in India are amongst the highest in the world, the proportionately small share in investment is not explained. Among the motivations that determine the international movement of capital, political factors count for the most and profitability comes later. The governing principle is not different in regard to capital investments through the channel of technology. In considering the question of foreign investment, the social, political and economic goals of the country and their acceptability to the capital-exporting countries cannot be ignored.

A country has to make a policy choice on the manner, type and quantum of foreign investment and technology consistent with its socio-political and economic goals. If it desires to maintain directional control in its own hands, it would import capital only of a type which would not create compulsions in the economy and foreclose its political options. As stated earlier, the Japanese chose the path of self-reliance (despite pressures from USA and fellow OECD members) by permitting only such equity as did not adversely effect their economy. Japanese have permitted an influx of $ 4.4 billion of foreign capital investment but of this three-fourths was in the form of loan capital. Of the total equity, only one-third ($ 312 million out of $ 944 million) was with management participation (rigorously defined). Unlike India where upto 49 per cent is not considered as controlling equity, in Japan anything above 7 per cent for a foreign company or 20 per cent for unrestricted and 15 per cent of restricted indents are defined as constituting management participation.

In India by contrast subsidiaries of foreign companies accounted for 65 per cent of total foreign capital participation in 1963-64. Of the 432 firms in India which had foreign equity, 283 had equity above 30 per cent (Table 32). Thus by the Japanese definition, over 68 per cent of the firms were those with equity and management control in foreign hands. In the Indian industrial sector, major firms in significant sectors such as pulp and paper, chemicals, pharmaceuticals, glass, metal goods, machinery, electricals, automobiles and instruments are under foreign management control even today.

It is not only that investment is a costlier payment for imported technology but that technology imported into India has served as a vehicle for entry of foreign capital and for control of important sectors of the economy. This represents the hard reality of the role played by most of foreign equity investment and import of technology. A positive role of foreign investment would be to add to scarce resources of foreign exchange needed for capital goods import and to catalyse internal capital mobilisation for rapid industrial development. To what extent this role has been fulfilled by foreign investment in India is nowhere examined in the study. The authors are so much obsessed by the notion that foreign investments are only a form of payment of technology that this aspect is completely ignored.

False Argument

From foreign investment let us now turn to foreign technology. On the basis of interviews with some firms (names not mentioned) the authors come to the conclusion that import of technology is cheaper than indigenous effort at R and D (p 2). This statement may be acceptable within limits because it is not necessary to work out each technology *ab initio* in the country. However, when the authors apply this logic relentlessly to all aspects of import of technology, the picture becomes distorted and bizarre. The main orientation of the study, it appears, is that the progress of a country is directly related to its imports of technology. Japan and Germany are quoted as examples of outstanding successes in industrial progress because of their heavy imports of foreign technology (p 2). Flowing from this logic, every factor that stands in the way of import of technology is to be subjected to criticism. Figures are quoted of the number of agreements for import of technology during 1951-64 entered into by India (2,200) and Japan (6,400) to prove that India is backward, having entered into lesser number of agreements (p 8). This is a completely fallacious argument. For understandable reasons, frequency of transfers of technology is directly related to the industrial and technological level and sophistication of the countries involved. The frequency of transfer of technology between two developed countries is likely to be higher than between developed and developing countries. The study gives no consideration to factors such as the available industrial base, R and D potential, technological resources and character of industries in different fields in the concerned countries. Nor is the political factor of Japan's special relationship with US in the post-War period kept in view.

The argument that heavy imports of technology are a requirement for rapid growth runs as a refrain through all the subsequent formulations on the different aspects of the problem of import of technology. When discussing the question of quality of imported technology, the authors feel that there is no method of judging the quality of technology excepting by the cost per unit and the risk involved (p 18). The lower the cost per unit in production

the better the technology. Likewise, the lesser the risk, the better the technology. This over-simplification leads to the assumption that all you have to do is to study the cost per unit of production to arrive at a value judgment on quality. The cost per unit of production is related to capacity which in turn is determined by the available market. Thus a giant-sized unit in a developing country may be uneconomic though theoretically the cost per unit of production may be lower. It might be more correct to say that a technology will be more economic and hence superior if the cost per unit of production is lower for a specified capacity. In mentioning lesser risk as a determinant of quality, the study contradicts itself immediately afterwards when it says that all newer technologies which are likely to be more sophisticated are untried. Thus the criterion that a safer technology is superior is immediately rejected in the study itself. Still it is retained as a factor in assessment of quality, presumably because the authors would like India to import commercially tried technologies which by this judgment may be considered superior.

It would appear that the authors have not taken into account recent debates on the "appropriate technology" suited to the country's raw materials, level of technological culture, market capacity and needs. There is nothing like a superior or an inferior technology in the abstract. There is only an economic technology related to the conditions of the country or the market in which it operates. The judgment in regard to the selection of technology has to be techno-economic but the study merely quotes profitability as a factor to determine the type of technology to be imported. Since no techno-economic criteria are to be applied to evaluate the type of technology to be imported, the study comes to the conclusion that the only way in which a superior technology can be judged is on the basis of the price one has to pay for it. The better the technology, the higher the cost.

Taking cost as the criterion of quality has led the study to attack the ceiling fixed by government on royalty. It is critical of government's resistance to firms with majority foreign equity and subsidiaries of foreign companies. The authors consider this to be against the interests of import of better quality technology. At another place the study says that as an Indian industrial firm acquires better experience by negotiating a number of proposals for import of technology, it becomes better acquainted with the methodology of selecting the superior technology (p 37). This conclusion is drawn from data purporting to show that firms that have experience of negotiating collaboration agreements more than once (say, 5 or 6 times) have paid much higher royalties than firms with experience of negotiating fewer number of times (Tables 61-63). Thus the result of collaborative experience is payment of higher royalty!

Non-Technological Approach

One would agree with the authors that the government has no criteria on the basis of which to make value judgments on the quality of technology. The fixing of royalty product-wise and setting a ceiling of 3-5 per cent would normally result in the higher figure being accepted, particularly since it can be supplemented by negotiable lumpsum payments or payments through underhand methods as pointed out in the study. If the concerned departments of the Government of India have to function with any degree of technological competence and help industrial firms to acquire better quality technology, the information system of the government and the technological content of its administrative set-up would have to be substantially improved. However, this is not what the study recommends. It actually proposes to worsen the situation by eliminating the regulatory functions of the government altogether and leaving the judgment on quality of technology to the importing firms which are to be left free to pay any royalty they choose.

It is again this non-technological approach which is responsible for the suggestion made in the study that only the larger firms are capable of importing better types of technology. Since the majority of the firms that have imported technology in India belong to the small and medium scale sector, the conclusion drawn is that most of the technology imported is outdated, low in quality and cheap in price. It could not be a revelation to the authors of the study that a number of large firms and the monopoly houses have also sometimes imported outdated, low quality technology in the absence of competent technological personnel in their set-up. A number of small firms, particularly where they are engineer/technologist-run, have made valuable contracts for import of technology at lower cost by their ability to negotiate from a position of technological competence. The capacity to negotiate and pick up the best and the cheapest (the two are not necessarily contradictory) in technology comes not from the size of the firm or from its experience over a period in negotiating imports of technology but from its technological level and competence, its own R and D experience, etc, and its ability to offer technology in return. In short, it is factors such as availability of scientific and technical personnel in the firm, their own experience in developing technology and familiarity with the type of technology they want to acquire and their ability to appreciate the value of what they want to import which governs the quality factor in import of technology.

The authors' non-technological approach to import of technology goes to the extent of their becoming lyrical in praise of foreign subsidiaries in India which "plan their programmes" far ahead notwithstanding the vagaries of governmental rules and procedures. Subsidiaries maintain a uniform standard of quality linked with a trade name. They value their staff more and get better results out of their white-collar staff. What is perhaps not appreciated is that foreign subsidiaries are really responsible for creating islands of foreign technology mostly unrelated to the raw materials, market conditions and economic set-up of the country. The main link-up of the subsidiaries is with their foreign parent firms. Their planning is guided by the overall interest of their global investment of capital and their predetermined plans to move the capital from one country to another depending upon the policies of the foreign firms and the parent countries. Most of the time the subsidiaries do not enter into adaptive research and hence keep local R and D out of bounds. They are responsible for maintaining the standards and specifications of their parent companies and thus insist on import of raw materials and equipment even when they are locally available. It is their extra-national character and their estrangement from the mainstream of the national economy that is responsible for a country like Japan opting to keep out foreign investment to the extent possible.

One of the strangest contradictions in the study is that while in the very first chapter it holds out Japan as an outstanding example in respect of the methodology of import of technology, it later rules out this methodology as inapplicable to India. The study spells out the criteria laid down by Japan, i e,

UBI NOW INTRODUCES

Monthly Income Fixed Deposit Scheme

ENJOY INTEREST INCOME EVERY MONTH AT FIXED DEPOSIT RATES

All you have to do is to deposit with UBI Rs. 3,000/- or above for a minimum period of 3 years. You start getting the benefits from the very next month.

This is how it works

★ Draw interest every month ; no more waiting for longer periods.

★ Ensure regular income month after month...

★ Supplement your income.

★ Enjoy fixed monthly income keeping your principal intact.

DEPOSITS	MONTHLY INCOME ON DEPOSITS FOR		FIXED DEPOSIT INTEREST RATES	
	3 YEARS	ABOVE 5 YEARS		
Rs. 3,000	Rs. 16.25	Rs. 18.12	3 years...	6 1/2 % p.a.
Rs. 10,000	Rs. 54.17	Rs. 60.42	3-5 years...	7% p.a.
Rs. 50,000	Rs. 270.83	Rs. 302.08	Above 5 years.	7 1/4 % p.a.

United Bank of India
(A Government of India Undertaking)

UBF-30-71

TABLE 1: DEMAND FOR CURRENT DEPOSITS DEPENDENT VARIABLE: CD

Equation Number	Co-efficient (and t-Ratio) of							R^2	SEE
	Constant	Y	Y_{na}	Y_a	i_S	i_3	B		
1.1	1428.85	.0332 (3.01) ***				—572.78 (3.31) ***	.4450 (1.07)	.94	474.9
1.2	1641.45	.0442 (11.56) ***				—575.32 (3.31) ***		.94	477.0
1.3	816.35	.0218 (1.62) *			—326.05 (.51)		.7411 (.97)	.90	611.1
1.4	1427.05		.0885 (1.85) **	.0141 (.65)	—117.02 (.19)	—815.78 (3.34) ***		.94	467.3
1.5	1552.86		.0804 (3.70) ***	.0166 (.99)		—794.25 (3.78) ***		.94	453.0

hypothesise that the demand for deposits would vary directly with the maximum rate on deposits as fixed by the Agreement.

Since the deposits are supplied by banks, their demand must also depend upon the availability of banks. This factor is of great significance in a country like India, which has about 5.7 lakh villages, most of which do not yet have any banking offices. Not even all the towns are covered by banks. A study made by the Reserve Bank of India revealed that, in 1962, 1017 towns in India were unbanked. For the inhabitants of unbanked areas deposits are not accessible as a means for holding a part of their wealth. In such a situation, opening a branch or a new bank in a bank-lacking area would encourage its inhabitants to transfer a part of their wealth from other forms of assets (including idle cash balances) to deposits. Thus, it is postulated that the demand for deposits is a positive function of the availability of banks, which will be measured here by the number of banking offices in the country.

The ownership and regional distribution of deposits in India suggest that most deposits are held by urban and semi-urban areas and by non-agriculturists. Accordingly, we hypothesise that non-agricultural income would have a larger impact on the demand for deposits than would agricultural income. In order to test this hypothesis statistically, and in order to evaluate the separate contributions of the increase in non-agricultural income (Y_{na}) and of the increase in agricultural income (Y_a) on deposit growth, in a few regressions we shall use Y_{na} and Y_a separately instead of using their sum, viz, national income (Y), in our demand function.

Putting all the hitherto advanced hypotheses together, we have the following function for the demand for deposits:

(A) $D = f$ (Y or Y_{na} and Y_a, i_D, ig, iI, B)

$f_1, f_2, f_3, f_4, f_7 > 0 > f_5, f_6$

Where D = deposits of all scheduled commercial banks

Y = national income at current prices

Y_{na} = non-agricultural income at current prices

Y_a = agricultural income at current prices

i_D = interest rate on deposits

i_g = yield on government securities

i_I = yield on variable dividend industrial securities

B = number of offices of all scheduled commercial banks

f denotes an unspecified function and may be read as "a function of" or "depends on"

f_i denotes partial derivative of f with respect to the ith argument in f

Similar notation will hold for g, h, j, g_i, h_i, and j_i.

At this point, it is pertinent to recall that in India there are three kinds of deposits, viz, current, savings, and fixed. Current deposits are withdrawable on demand through cheques, but they earn no interest. They are, therefore, held largely to satisfy the liquidity motive and to ease the payments, and not for savings purposes. Corporations, whose business involves large sums of daily cash transactions, own the bulk of these deposits.

Like current deposits, most of the savings deposits are also withdrawable on demand through cheques—but, unlike the former, savings deposits yield positive interest. For this reason the number of withdrawals within a given period, which is unlimited for current deposits, is limited for savings deposits. Savings deposits thus serve both as a means of payment and as a store of value. Holding of assets in this form is appropriate for individuals whose cash needs are not foreseeable (or are foreseeable but are for short periods during which fixed deposits will not pay any more) and are not frequent.

Fixed deposits are illiquid, in that, they can be withdrawn only on the expiry of the stipulated period for which these deposits are made. They earn an interest rate, which varies positively with the length of their maturity.

These three kinds of deposits, therefore, are not perfect substitutes for each other. However, since each one of them constitutes an alternative form in which an individual or a corporation can hold wealth, we hypothesise a competitive relationship between

TABLE 2 : DEMAND FOR SAVINGS DEPOSITS, DEPENDENT VARIABLE : SD

Equation Number	Co-efficient (and t-Ratio) of						R^2	SEE
	Constant	Y +	Y_{na} +	Y_a +	is +	i_3 —		
2.1	—2588.12	.0387 (7.58)***			525.11 (2.07)**	—176.39 (1.42)*	.99	324.0
2.2	—2731.97	.0376 (7.24)***			418.07 (1.67)*		.98	333.8
2.3	—3018.08		.0753 (2.26)**	.0230 (1.53)*	122.06 (0.87)	—297.68 (1.81)**	.99	321.9
2.4	—2689.03		.0346 (1.32)	.0389 (2.98)***	456.79 (1.07)		.98	343.9

TABLE 3: DEMAND FOR FIXED DEPOSITS, DEPENDENT VARIABLE : FD

Equation Number	Co-efficient (and t-Ratio) of									R^2	SEE
	Constant	Y_{na}	Y	Y_a	i_3	i_g	i_I	i_M	B		
3.1	—7441.41		.0873 (8.24)*		659.94 (1.79)**		—1082.18 (3.55)*	1791.79 (1.67)*	.1956 (.86)	.98	947.4
3.2	—8250.22		.0889 (8.60)***		611.36 (1.69)*	—1012.63 (3.48)***		2073.13 (2.05)**		.98	939.0
3.3	—9981.40		.0863 (6.43)***		433.42 (.93)			1176.90 (.93)		.96	1222.0
3.4	—7096.79	.1055 (1.28)		.0755 (1.39)*	567.55 (1.01)		—1018.80 (2.40)**	1525.94 (.94)	.2017 (.85)	.98	981.3
3.5	—8071.76	.0991 (1.22)		.0823 (1.55)*	558.87 (1.00)		—975.99 (2.34)**	1929.49 (1.25)		.98	971.4
3.6	—3553.65		.0970 (10.30)***		826.19 (2.20)**		—1004.24 (3.15)***		.3125 (1.26)	.98	1003.0
3.7	—3903.37		.1025 (11.78)***		786.57 (2.04)**		—860.03 (2.78)**			.97	1029.1
3.8	—7229.50		.0932 (7.99)***		556.32 (1.22)				.0720 (.27)	.96	1251.8
3.9	—7183.35		.0948 (9.71)***		556.10 (1.25)					.96	1217.0
3.10	—4501.87	.1656 (3.19)***		.0428 (1.03)	348.06 (.68)		—792.59 (2.28)**		.2667 (1.18)	.98	977.0
3.11	—4919.11	.1793 (3.49)***		.0403 (.96)	251.67 (.49)		—644.31 (1.96)**			.98	989.4

them. In other words, we postulate that the demand for current deposits varies inversely with the interest rates on savings and fixed deposits, that the demand for savings deposits varies inversely with the yield on fixed deposits, and that the demand for fixed deposits varies inversely with the interest rate on savings deposits.[1] Of course, the demand for each of these kinds of deposits is hypothesised to vary positively with its own yield.

In view of the problems associated with multicollinearity and data limitation, we shall consider only one maximum interest rate on deposits as fixed by the Inter-Bank Agreement, i e, that on fixed deposits. Changes in it, as argued above, will produce direct changes in the demand for fixed deposits. Since current, savings, and fixed deposits are postulated to be substitutes for each other, the maximum interest rate on fixed deposits will have negative effect on the demand for current and savings deposits. However, in order not to aggravate the multicollinearity problem, we do not allow the maximum interest rate on fixed deposits as an explanatory variable in the demand functions for current and savings deposits.

Because current deposits are largely held to satisfy the liquidity demand, government bonds and industrial securities can at best be only poor substitutes for them. Furthermore, since savings deposits are usually short-term, while government bonds are of a long-term nature, the two are not significantly substitutes to each other. Therefore, the yield on government bonds will be omitted from the functions for the demand for current and savings deposits. And the yield on industrial dividend securities will be considered to be irrelevant in the function for the demand for current deposits.

Incorporating all these hypotheses in function A, we have the following three demand functions:

(1) CD = g (Y or Y_{na} and Y_a, is, i_F, B)
$g_1, g_2, g_3, g_6 > 0 > g_4, g_5$

(2) SD = h (Y or Y_{na} and Y_a, i_S, i_F i_I, B)
$h_1, h_2, h_3, h_4, h_7 > 0 > h_5, h_6$

(3) FD = j (Y or Y_{na} and Y_a, i_S, i_F, i_g, i_I, i_M, B)
$j_1, j_2, j_3, j_5, j_8, j_9 > 0 > j_4, j_6, j_7$

Where CD = Current deposits of all scheduled commercial banks
SD = Savings deposits of all scheduled commercial banks
FD = Fixed deposits of all scheduled commercial banks
i_S = Interest rate on savings deposits
i_F = Interest rate on fixed deposits

The other notations have the same meaning as before.

In order to evaluate the interest sensitiveness of deposits, we need to estimate the demand for deposits functions (1), (2), and (3). The necessary data on all the pertinent variables are available in RBI and Central Statistical Organisation's (CSO) publications.

A few specific points may be noted: First, we are studying the deposits of all scheduled commercial banks, which include those of all Indian scheduled commercial banks and of all foreign banks. Second, there are more than one interest rates on deposits, depending upon the type of deposits and the period of maturity. On savings deposits there is only one interest rate and so there is no problem of choosing one out of more than one. The situation is not the same in respect of fixed deposits: there are interest rates on one month's deposits, on two months' deposits, on three months' deposits, on six months' deposits, and on deposits of 12 months and more. The maturity distribution of deposits is not published, and so it is not possible to arrive at a weighted average interest rate on fixed deposits. However, it is known that most fixed deposits are of three to six months' duration, so that it is perhaps reasonable to use either the interest rate on three months' deposits (i_3) or the interest rate on six months' deposits (i_6), as the representative interest rate on fixed deposits. We have estimated several regressions using i_3 and several others using i_6, and have obtained approximately the same results. To save space and not to overload the readers with regressions, only the results with i_3 are included in Tables 1, 2 and 3. Third, the Inter-Bank Agreement

TABLE 4: MEAN ELASTICITIES

Equation Number	Mean Elasticity of Demand for	With Respect to								
		Y.	Y_{na}	Y_a	i_S	i_3	i_g	i_I	i_M	B
1.1	CD	0.75				—.27				.28
1.2	,,	1.00				—.27				
1.3	,,	0.49			.10					.47
1.4	,,		1.03	.14	.04	—.38				
1.5	,,		0.94	.18		—.37				
2.1	SD	1.63			.30	—.15				
2.2	,,	1.58			.24					
2.3	,,		1.63	.46	.07	—.26				
2.4	,,		0.75	.79	.26					
3.1	FD	1.59				.25		—.82	0.86	.10
3.2	,,	1.62				.23	—.55		1.00	
3.3	,,	1.57				.16			0.56	
3.4	,,		0.99	.67		.22		—.77	0.73	.10
3.5	,,		0.93	.73		.21		—.74	0.93	
3.6	,,	1.77				.31		—.76		.16
3.7	,,	1.87				.30		—.65		
3.8	,,	1.70				.21				.04
3.9	,,	1.73				.21				
3.10	,,		1.55	.38		.13		—.60		.14
3.11	,,		1.68	.36		.10		—.49		

on maximum interest rates on deposits came into force only from October 1, 1958. The highest interest rate on three months' time deposits, which has prevailed before this date, is assumed to represent the maximum interest rate on time deposits (i_M) for all periods before October 1, 1958. The actual i_M is taken for the later periods. This device will allow us to evaluate the effectiveness of the Inter-Bank Agreement with respect to the demand for fixed deposits.

All rupee-valued variables are denominated in millions of rupees and all interest rates are measured in percentages. The number of banking offices is in absolute numbers. All the regressions below are based on 20 annual observations, i e, from 1948-49 to 1967-68.

Only linear regressions have been attempted. Several slightly different combinations of the hitherto hypothesised explanatory variables were used to explain the demand for current, savings and for fixed deposits. The results of the successful regressions are reported in Tables 1, 2 and 3.

The format of Tables 1, 2 and 3 is standardised, so as to show the results of the ordinary least squares (OLS) estimates of alternative forms of one equation in one table, and of one equation form in one line of each table. The name of the equation and of the dependent variable appear at the top of each table. The first column contains the number assigned to the particular form of the equation. The last two columns give the co-efficient of determination (R^2) and the standard error of estimate (SEE). And each of the columns between the first and the last two columns contains the estimated co-efficient of the independent variable appearing at the head of the column, together with (in parenthesis) the t-ratio of the estimate to its standard error. A blank space in any independent variable's column means that the variable was not included in that equation form. The signs of the estimated co-efficient are given as if the dependent variable is on the left side of the equality symbol and all other terms, including the constant, are on the right side. The t-value of a co-efficient is marked by *, **, and *** if the co-efficient is statistically significantly different from zero at the 10, 5 and 1 per cent levels and beyond, respectively by the usual t-test.[2]

The results of the regressions are very encouraging. The explanatory variables in each and every form of all the three equations explain almost all the variations in the corresponding dependent variable. This suggests that any of these forms can be used to forecast the corresponding dependent variables with good results. Furthermore, as is evident from the t-values, the co-efficients of the important arguments are significantly different from zero at the different levels of significance by the t-test. Of course there are no *a priori* wrong signs.

The regression co-efficients, which represent the impact of a unit change in the corresponding independent variable on the corresponding dependent variable, have been translated into elasticities computed at the point of the sample means.[3] The so computed elasticities are reported in Table 4.

An example should suffice on how to read Table 4. In equation 1.1 the elasticity of demand for current deposits with respect to national income (Y) is 0.75. The various elasticities are different with different equation form. In these equations, the lowest and highest elasticities of demand for current deposits with respect to Y are 0.49 and 1.00; with respect to Y_{na} they are 0.94 and 1.03; with respect to Y_a they are 0.14 and 0.18; with respect to i_S they are 0.04 and 0.10; with respect to i_3 they are —0.27 and —0.38; and with respect to B they are 0.28 and 0.47, respectively.

The lowest and the highest elasticities of demand for savings deposits, with respect to Y, are 1.58 and 1.63; with respect to Y_{na} they are 0.75 and 1.63; with respect to Y_a they are 0.46 and 0.79; with respect to i_S they are 0.07 and 0.30; and with respect to i_3 they are —0.15 and —0.26, respectively.

The lowest and the highest elasticities of demand for fixed deposits with respect to Y are 1.59 and 1.87; with respect to Y_{na} they are 0.93 and 1.68; with respect to Y_a they are 0.36 and 0.73; with respect to i_3 they are 0.10 and 0.31; with respect to i_I they are —0.49 and —0.82; with respect to i_M they are 0.56 and 1.00; and with respect to B they are 0.04 and 0.16, respectively. They yield on government bonds appears only in one equation (3.2), where elasticity of demand for fixed deposits with respect to i_3 is —0.55.

Until we rationalise the choice of one form for each of the three demand equations, it is not possible to give one value to each of these various elasticities. However, these results do suggest that, in India, current, savings, and

fixed deposits are sensitive to interest rate changes.

Our experience with several alternative forms of the three equations has indicated that i_I and B are not useful arguments in the demand for savings deposits function; and that i_S is of no importance in explaining the demand for fixed deposits. Therefore, these variables do not appear in the selected equations.

Both on theoretical and statistical grounds, we choose equation 1.1 to represent the demand for current deposits, equation 2.1 to represent the demand for savings deposits, and equation 3.1 to represent the demand for fixed deposits. If we were interested in evaluating the individual impacts of changes in Y_{na} and Y_a on CD, SD and FD, we would have preferred equations 1.4, 2.3 and 3.4 — instead of equations 1.1, 2.1 and 3.1, respectively.

For easy reference, let us rewrite the selected equations 1.1, 2.1, and 3.1 in a more convenient form:

(1.1) $CD = 1428.85 + .0332\ Y$
$(3.01)^{***}$
$-572.78\ i_s + .4450\ B$
$(3.31)^{***} \quad (1.07)$
$R^2 = .94,\ SEE = 474.9$

(2.1) $SD = -2588.12 + .0387\ Y$
$(7.58)^{***}$
$+525.11\ i_S - 176.39\ i_s$
$(2.07)^{**} \quad (1.42)^{**}$
$R^2 = .99,\ SEE = 324.0$

(3.1) $FD = -7441.41 + .0873\ Y$
$(8.24)^{***}$
$+659.94\ i_s - 1082.18\ i_I$
$(1.79)^{**} \quad (3.55)^{***}$
$+1791.79\ i_M + .1956\ B$
$(1.67)^{**} \quad (0.86)$
$R^2 = .98,\ SEE = 947.4$

All the co-efficients in the above three regressions, except the co-efficients of variable B, are statistically significantly different from zero at the different levels of significance. Of course, these three regressions contain no *a priori* wrong signs. The equations indicate that

(a) a Rs 1 million increase in national income leads to a Rs 0.0332 million increase in the demand for current deposits, a Rs 0.0387 million increase in the demand for savings deposits, and a Rs 0.0873 million increase in the demand for fixed deposits;

(b) a 1 per cent increase in the interest rate on 3-months' time deposits causes a Rs 572.78 million decrease in the demand for current deposits, a Rs 176.39 million decrease in the demand for savings deposits, and a Rs 659.94 million increase in the demand for fixed deposits;

(c) an increase in all scheduled commercial banking offices by one, brings an increase in the demand for current deposits by Rs 0.4450 million and an increase in the demand for fixed deposits by Rs 0.1956 million;

(d) a 1 per cent increase in the interest rate on savings deposits causes a Rs 525.11 million increase in the demand for savings deposits;

(e) a 1 per cent increase in the yield on variable dividend industrial securities brings about a Rs 1082.18 million decrease in the demand for fixed deposits; and

(f) a 1 per cent increase in the maximum permissible interest rate on 3-months' deposits leads to a Rs 1791.79 million increase in the demand for fixed deposits.

DO YOU KNOW?



Rs. 5000/- Deposited for 37 months under

SOCIAL SECURITY DEPOSIT Scheme

will fetch you Rs. 29.15 every month for 37 months and the same amount deposited for 61 months will bring you Rs. 30.20 every month for 61 months.

PLUS YOUR Rs. 5000/- INTACT

For details, contact any one of our over 498 Branches

EVERY MAN'S BANK FOR EVERY BANKING NEED

FAITHFUL SB FRIENDLY

SYNDICATE BANK

Head Office: MANIPAL (Mysore State)

K. K. PAI *Custodian*

In terms of elasticities (mean), the quantity of current deposits increases by 0.75 per cent and 0.28 per cent as a consequence of a 1 per cent increase in national income and the number of scheduled commercial banking offices, respectively, and decreases by 0.27 per cent as a result of a 1 per cent increase in interest rate on 3-months' time deposits. The quantity of savings deposits increases by 1.63 per cent and 0.30 per cent as a result of a 1 per cent increase in national income and interest rate on savings deposits, respectively, and decreases by 0.15 per cent as a result of a 1 per cent increase in the interest rate on 3-months' time deposits. The quantity of fixed deposits increases by 1.59 per cent, 0.25 per cent, 0.86 per cent, and 0.10 per cent, as a consequence of a 1 per cent increase in national income, interest rate on 3-months' time deposits, maximum permissible interest rate on 3-months' time deposits, and the number of scheduled commercial banking offices, respectively, and decreases by 0.82 per cent as a result of a 1 per cent increase in the yield on variable dividend industrial securities.

These results indicate not only interest sensitiveness of deposits but also the effectiveness of the Inter-Bank Agreement on maximum interest rates with respect to its impact on the demand for fixed deposits. Needless to say, the estimates do suffer from the simultaneous equation bias, because we have overlooked the supply side of deposits and hence have relied on single equation estimates.

Forecasting Deposits

Selected equations 1.1, 2.1 and 3.1 can be used to forecast current, savings, and fixed deposits, respectively. By calculating the average growth rates of each of the explanatory variables and adjusting them for the expected changes in the years for which the forecast is to be made, we can first give values to these explanatory variables for the years for which the deposits are to be forecast and then, by plugging these values in equations 1.1, 2.1 and 3.1, we can obtain the forecasts for current, savings and fixed deposits, respectively. However, we leave this for the future work.

Notes

1 Recall that the interest rate on current deposits is zero.

2 One-tail rather than two-tail t-test is used to test the significance of the regression co-efficient because the algebraic sign of the co-efficient is presumed to be known if it is not zero.

3 Mean elasticity of X with respect to Y is given by $\partial X / \partial Y \cdot \overline{Y}/\overline{X}$, where $\partial X / \partial Y$ is the partial derivative of X with respect to Y and $\overline{X}$ and $\overline{Y}$ are the mean values of variables X and Y, respectively.

Impact of Green Revolution on Landless Labour

A Note

Partap C Aggarwal

Studies have shown that thus far the demand for labour per hectare has not been significantly curtailed by the so-called Green Revolution. This is because increased use of farm machinery has also led to multicropping and more intensive agriculture. However, the nature of labour demand has changed. For instance, more talented labourers are sought after for year-round employment. Also, at peak periods, such as harvesting, labour demand has become more critical because of the need quickly to clear the land and prepare it for the next crop. This has resulted in high wages at harvest times, and in fact throughout the year. The farmers consequently are seeking harvesting combines and other machines to replace slow and increasingly expensive manual labour. It seems fairly clear that demand for labour will diminish as agriculture becomes more mechanised.

Large landowning farmers are becoming prosperous with the help of government agencies, banks, and co-operative societies. They are investing in capital intensive equipment in order to enhance their direct control over agriculture and also their income. The small cultivators and the landless labourers, on the other hand, are losing out in several ways. For instance, the demand for their traditional services has diminished, availability of land on crop-sharing basis is reduced, inflation has kept their real wages almost constant, and alternate employment opportunities have lagged behind need. Consequently, the two classes are becoming polarised and increasingly antagonistic to each other. At this early stage, the problem may not be difficult to solve. But before it deteriorates further, the situation must be carefully analysed and effectively remedied.

THE dictionary definition of the word "revolution" is abrupt and fundamental change. The phenomenon called Green Revolution has both these characteristics. For example, in less than a decade peasants in many parts of India have been transformed into farmers. They no longer carry on agriculture for subsistence with tools dating back three thousand years or more. Their aim now is maximum profits in the form of money, and to achieve their objective they employ tools and techniques of the industrial age.

Judging by examples of similar developments in Europe and America about the turn of the country, the change in India has come about with startling speed. So much so that even the most optimistic of the social scientists are taken by surprise, and their efforts fully to explain the phenomenon have not yet succeeded. In fact, most scholars, particularly those who characteristically examine agriculture at the all-India level, are yet to be convinced that something unusual has happened. This is quite understandable, for the Green Revolution has occurred only in small pockets in different parts of India. At

विद्याविनियोगाद्विकासः
IIM
AHMEDABAD

INDIAN INSTITUTE OF MANAGEMENT
AHMEDABAD

ANNOUNCES
the 9th (1972) session of the

3-TIER PROGRAMME FOR MANAGEMENT DEVELOPMENT

Tier I: **Middle Management Course (4 weeks) January 9 — February 5, 1972**
For executives in late 20s or early 30s with a minimum of 5 years work experience.

Tier II: **Senior Executives Seminar (2 weeks) February 6-19, 1972**
For executives around 40 with about 10 years of work experience, and preferably supervising the activities of executives attending Tier I.

Tier III: **Top Management Conference (2 weeks) February 20 — March 4, 1972**
For top management executives, such as managing directors, full-time functional directors or technical directors, general managers, and executives in positions of similar responsibilities. They should be over 40 years of age with about 15 years or more of work experience.

Course Content

Tier I: Marketing, Finance and Control, Manufacturing and Production, Organizational Behaviour, Procurement and Materials Management, Management Science, and Business Policy — aimed at the development of the participants as effective managers in their respective positions.

Tier II: Marketing Planning, Industrial Relations, Development of Control and Information Systems, Managerial Economics, Financial Assessment and Planning, and Business Policy — aimed at enabling participants to acquire necessary knowledge, skills, and attitudes involved with the management of managers.

Tier III: Will provide the top management executives with a forum to share their views on environmental and operational problems affecting their managerial performance and leadership styles. The theme for discussions will be "Planning for Corporate Growth in the Uncertain 70s." The potentials and limitations of recent concepts and techniques in management in the specific Indian context will also be discussed.

Faculty: Professors R. Balachandra, S. K. Bhattacharyya, Kamla Chowdhry, S. C. Kuchhal, G. R. Kulkarni, Ravi J. Matthai, S. C. Mehta, V. L. Mote, C. N. S. Nambudiri, Samuel Paul, Keshav Prasad, Suresh A. Seshan, Baldev R. Sharma, and N. R. Sheth.

Sponsorship: An organization may nominate one or more candidates for each tier. An organization's participation at all levels, while not a requirement, is exceedingly useful.

Fee: Tier I: Rs. 4,000; Tier II: Rs. 2,500; Tier III: Rs. 2,500.
The fee covers tuition, room, board, and case materials.

Location: Hotel Clarks-Shiraz, Agra.

Last Date for Applications: December 9, 1971.

Application & Enquiries: Please write to Programmes Co-ordinator, IIM, Vastrapur, Ahmedabad - 15.

best only 20 per cent of the total cultivated area in the country is affected. Gains in total national output of agricultural products are still modest and no one can say when the remaining 80 per cent of the cultivated area will be revolutionised. The power of Green Revolution can be best felt by closely examining a district such as Ludhiana, Punjab. Here, wheat production has quadrupled in six years, and many farmers produce 60 quintals per hectare — highest in the world. Other statistics are equally impressive; for example, 23-fold increase in fertiliser use in a decade, 15 times more tractors and tubewells in six years, 100 per cent adoption of HYV seed, all threshing by machine, 73 per cent area irrigated, and so forth. Farmers are now asking for harvesting combines, sprinkler systems and aerial spraying. Most scholars think that it all began with the 'miracle' seed combined with guaranteed minimum price. Also a great deal of credit is given to IADP for its sensible approach in providing a complete package of necessary inputs in selected districts. Obviously, the HYV seed, the price incentive, as well as the 'package' programme have been very helpful, but there is a great deal more to the story. For we know that before Borlaug developed the miracle seed Danish farmers produced 5 times as such wheat per hectare as their Indian counterparts. Furthermore, several non-IADP districts in Punjab, Haryana, UP, Gujarat, Tamil Nadu, and other states have done as well or better than the IADP districts, and many IADP areas have failed.

Economic, Social, and Political Changes

In my judgment the phenomenon of Green Revolution can be explained only by carefully examining the slow, but steadily cumulative developments in India since Independence. And in doing this we must consider economic, social, as well as political changes. For together they have brought about an environment suitable for a transformation. For example, the poor and illiterate Indian peasant who was powerless in relation to the traders and moneylenders before 1947, has since then gained considerable political power, financial support, and knowledge through education and mass media. Naturally, in the sixties he entered the market with confidence to take advantage of minimum guaranteed price offered by the government. With regard to the adoption of improved farming methods also it is the indigenisation of technology and establishment of infrastructure in the last 20 years that has made the crucial difference. Before Independence the peasant did not invest in modern inputs because their supply and maintenance facilities were meagre and undependable. A diesel engine gave the peasant more trouble than service because of lack of knowledge on his part and non-availability of spares, service, fuel and lubricants. But now, in an area such as Ludhiana farm machinery is manufactured, most sophisticated equipment easily repaired, and spares as well as fuel available even in some of the villages. Naturally, in districts where power relationship between various status groups has been equalised, and at the same time technology indigenised, Green Revolution has occured even without the IADP.

Impact on Landless Labour

In an Indian peasant village barring exceptions, the bulk of the land was owned by 10-15 per cent of the high caste families in relatively large, although often fragmented, holdings. A few small cultivators carried out agriculture on tiny holdings supplemented with land rented from big landowners on a flat rental, or more often, crop-sharing basis. The landless labourers, usually belonging to various castes, provided specialised economic and ritual services to the landowners in exchange for a fixed payment in grain at each harvest, under a system known as *jajmani*. In addition many of them worked as agricultural labourers for extra earnings. At periods of peak labour demand, such as harvesting, every adult in the village worked for compensation in kind.

With the advent of Green Revolution all this is changing. The first casualty seems to be the *jajmani* system. As market orientation increases, the demand for traditional services on barter terms is quickly eliminated. Price of land and rents shoot up. Landlords become reluctant to trust tenants with valuable land, and try to manage it themselves with the help of tractors. Small landowners are less able to extend their meagre holdings by renting. Furthermore, as they are less able to afford and economically employ modern technology, their viability as farmers is reduced.

Studies have shown that thus far the demand for labour per hectare has not been significantly curtailed. This is because increased use of farm machinery has also led to multicropping and more intensive agriculture. However, the nature of labour demand has changed. For instance, more talented labourers are sought after for year-round employment. Also, at peak periods, such as harvesting, labour demand has become more critical because of the need quickly to clear the land and prepare it for the next crop. This has resulted in high wages at harvest times, and in fact throughout the year. The farmers consequently are seeking harvesting combines and other machines to replace slow and increasingly expensive manual labour. It seems fairly clear that demand for labour will diminish as agriculture becomes more mechanised.

Still a Distant Dream

The socialistic bent of the prevailing government policy, and democratic decentralisation of political power since Independence have raised the aspirations and expectations of landless labourers. In the Green Revolution areas these aspirations are concretised by the demonstration effect of the rising consumption levels of the new-rich farmers. But in spite of some increase in wages, the purchasing power of labourers has not significantly improved. In any case, equitable sharing of newly generated incomes still remains a distant dream. The farmers have a tendency quickly to adjust to elevated levels of living for themselves and they begrudge the labourers even a modest wage increase. Some relief is provided by increasing opportunities for non-agricultural jobs, but not nearly enough to solve the problem of rural unemployment.

Apparently, large landowning farmers are becoming prosperous with the help of government agencies, banks, and co-operative societies. They are investing in capital intensive equipment in order to enhance their direct control over agriculture and also their income. The small cultivators and the landless labourers, on the other hand, are losing out in several ways. For instance, the demand for their traditional services has diminished, availability of land on crop-sharing basis is reduced, inflation has kept their real wages almost constant, and alternate employment opportunities have lagged behind need. Consequently, the two classes are becoming polarised and increasingly antagonistic to each other. At this early stage, the problem may not be difficult to solve. But before it deteriorates further, the situation must be carefully analysed and effectively remedied.

Production of Selected Industries

Serial No	Industry	Unit	1968	1969	1970	Jan-July 1970	Jan-July 1971 (Provisional)	Percentage Change: 1969 over 1968	1970 over 1969	Jan-July 71 over Jan-July 70
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
I	**Mining and Quarrying**									
	Coal (including lignite)	Mn Tns	74.9	79.6	76.7	45.6	42.4	+ 6.3	— 3.5	— 7.0
	Iron ore	Mn Tns	28.0	29.6	31.4	18.0	19.1	+ 5.7	+ 6.1	+ 6.1
II	**Food Manufacturing Industries**									
	Flour milling	Th Tns	1371	1736	2429	1407	1576	+26.6	+39.9	+12.0
	Sugar	Th Tns	2185	3868	4267	3260	2785	+77.0	+10.3	—14.6
	Vanaspati	Th Tns	474	482	521	299	340	+ 1.7	+ 8.1	+13.7
	Tea	Mn Kgs	402	395	420	187	190	— 1.7	+ 6.3	+ 1.6
	Coffee	Th Tns	58.9	70.1	66.5	56.5	75.8	+19.5	— 5.5	+34.2
	Salt	Th Tns	4944	5174	5651	4766	4413	+ 4.7	+ 9.2	— 7.4
III	**Tobacco Industries**									
	Cigarettes	Mn Pcs	60415	59714	62930	36913	38165	— 1.2	+ 5.4	+ 3.4
IV	**Manufactures of Textiles**									
	Cotton yarn	Mn Kgs	961	951	965	572	509	— 1.0	+ 1.5	—11.0
	Cotton cloth (mill-made)	Mn Mtrs	4366	4168	4157	2478	2296	— 4.5	— 0.3	— 7.3
	Man-made fibres	Mn Mtrs	993	894	933	149*	151*	—10.0	+ 4.4	+ 1.3*
	Rayon									
	Viscose yarn	Th Tns	36.3	36.8	36.1	21.5	21.7	+ 1.4	— 1.9	+ 0.9
	Staple fibre	Th Tns	58.0	58.4	63.3	38.0	40.1	+ 0.7	+ 8.4	+ 5.5
	Acetate yarn	Tns	1965	1987	1959	1139	1122	+ 1.1	— 1.4	— 1.5
	Jute manufactures	Th Tns	1085	894	954	593	625	—17.6	+6.7	+ 5.4
V	**Apparel**									
	Footwear (Western type)	Th Prs	9601	8630	7711	4292	4629	—10.1	—20.6	+ 7.9
	Footwear (Indigenous type)	Th Prs	8558	7839	7739	4475	4536	— 8.4	— 1.3	+ 1.4
VI	**Manufacture of Wood and Cork**									
	Plywood									
	Tea chests	Th Sq Mtrs	11585	5910	4605	3301	2544	—49.0	—32.0	—22.9
	Commercial	Th Sq Mtrs	16836	18085	18967	10792	11876	+ 7.4	+ 4.9	+10.0
VII	**Paper and Paper Board**									
	Paper and paper board	Th Tns	646	706	740	435	424	+ 9.3	+ 4.8	— 2.5
	Newsprint	Th Tns	30.8	35.3	37.3	22.8	23.3	+14.6	+ 5.7	+ 2.2
VIII	**Leather and Fur Products**									
	Tanned hides									
	Chrome	Th Nos	810	789	1315	795	710	— 2.6	+66.7	—10.7
	Vegetable	Th Nos	2848	2384	969	533	567	—16.3	—59.4	+ 6.4
	Leather cloth	Th Mtrs	12142	11526	10037	6303	5565	— 5.1	—12.9	—11.9
IX	**Rubber Products**									
	Rubber footwear	Th Prs	57235	49289	44780	30225	23463	—13.9	— 9.1	—22.4
	Tyres									
	Automobiles	Th Nos	3125	3631	3661	2026	2233	+16.2	+ 0.8	+10.2
	Bicycles	Th Nos	24620	21611	20989	12184	9518	—12.2	— 2.9	—21.9
	Tractors	Th Nos	149	178	186	112	122	+19.5	+ 4.5	+ 8.9
	Tubes									
	Automobiles	Th Nos	2988	2879	3245	1809	2254	— 3.6	+12.7	+24.6
	Bicycles	Th Nos	18190	17064	15841	9919	5863	— 6.2	— 7.2	—40.9
	Tractors	Th Nos	148	160	181	104	121	+ 8.1	+13.1	+16.3
X	**Chemical Products**									
	Sulphuric acid	Th Tns	994	1160	1209	696	633	+16.7	+ 4.2	— 9.1
	Caustic soda	Th Tns	305.9	346.8	361.5	207.7	213.2	+13.4	+ 4.2	+ 2.6
	Soda ash	Th Tns	396.2	421.9	446.4	256.5	275.3	+ 6.5	+ 5.8	+ 7.3
	Liquid chlorine	Th Tns	100.0	129.4	147.1	81.6	93.2	+29.4	+13.7	+14.2
	Bleaching powder	Th Tns	10.5	15.7	13.7	7.3	9.0	+19.5	—12.7	+23.3
	Bichromates	Th Tns	7.9	8.4	10.8	6.4	4.1	+ 6.3	+28.6	—35.9

(Continued

Production of Selected Industries (continued)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
	Nitrogenous fertilisers (N content)	Th Tns	506.7	671.9	760.7	393.7	496.3	+32.6	+13.2	+26.1
	Phosphatic fertilisers (P_2O_5 content)	Th Tns	219.9	216.8	212.0	114.9	140.1	— 1.4	— 2.2	+21.9
	Alum	Tns	490	591	412	213	196	+20.6	—30.3	— 8.0
	Copper sulphate	Tns	1797	2107	2168	1192	1471	+17.3	+ 2.9	+23.4
	Glue	Tns	1861	2074	2160	1275	1482	+11.4	+ 4.1	+16.2
	Glycerine (refined)	Tns	10017	11000	9841	5701	5996	+ 9.8	—10.5	+ 5.2
	Soap	Th Tns	216.5	237.5	232.4	135.7	140.8	+ 9.7	— 2.1	+ 3.8
	Matches	Mn Boxes of 50 sticks	6116	6139	4757	2854	2672	+ 0.4	—22.5	— 6.4
	Paints	Th Tns	64.7	62.1	65.2	38.4	37.9	— 4.0	+ 5.0	— 1.3
	Power alcohol	K/L	649	793	641	256	271	+22.2	—19.2	+ 5.9
	Industrial alcohol (rectified spirit)	Mn Ltrs	180.9	199.8	253.4	150.2	150.9	+10.4	+26.8	+ 0.5
	Welding gases									
	Oxygen gas	Mn Mtrs	34.5	37.6	44.9	25.6	30.7	+ 9.0	+19.4	+19.9
	Acetylene gas	Th Cu Mtrs	5646	6638	6117	3441	3850	+17.6	— 7.8	+11.9
	Calcium carbide	Th Tns	58.6	65.6	69.7	39.5	40.3	+11.9	+ 6.3	+ 2.0
	Vat dyes	Tns	1041	1283	1234	680	569	+23.2	— 3.8	—16.3
	Azo dyes	Tns	1678	1543	1400	543	1384	— 8.0	— 9.3	+154.9
	Stabilised azoics	Tns	185	134	98	53	162	—27.6	—45.9	+205.7
	Stabilised vats	Tns	107	112	124	63	65	+ 4.7	+10.7	+ 3.2
	Sulphur black	Tns	1501	1547	1476	875	941	+ 3.1	— 4.6	+ 7.5
	Nanthol	Tns	893	873	986	606	769	— 2.4	+12.9	+26.9
	PF moulding powder	Tns	4619	2643	3246	1908	1379	—42.8	+22.8	—27.7
	UF moulding powder	Tns	1479	1540	1680	918	1084	+ 4.1	+ 9.1	+18.1
	Activated bleaching earth	Tns	2224	2666	2809	1663	1324	+19.9	+ 5.4	—20.4
XI	**Petroleum Refinery Products**	Th Tns	14948	15975	17552	9890	10243	+ 6.9	+ 9.9	+ 3.6
XII	**Manufacture of Non-Metallic Mineral Products**									
	Refractories	Th Tns	657	646	743	425	456	— 1.7	+15.0	+ 7.3
	Insulators									
	HT	Th Tns	13.3	15.4	17.9	10.1	10.0	+15.8	+16.2	— 1.0
	LT	Th Tns	1240	1842	2259	1246	1190	+48.5	+22.6	— 4.5
	Cement	Th Tns	11943	13624	13955	9008	8728	+14.1	+ 2.4	+ 9.0
	Asbestos cement sheets	Th Tns	256.8	295.3	361.1	210.1	227.5	+15.0	+22.3	+ 8.3
	Grinding wheels	Tns	3730	4577	6062	3568	4011	+22.7	+32.4	+12.4
	Coated abrasives	Th Reams	147	156	162	87	110	+ 6.1	+ 3.8	+26.4
	Glazed tiles	Tns	14080	18672	19639	11497	11467	+32.6	+ 5.2	— 9.3
	Sheet glass	Th Sq Mtrs	14859	17260	14713	9824	9757	+16.2	—14.3	— 0.7
XIII	**Basic Metal Industries**									
	Steel ingots	Th Tns	6449	6476	6232	3508**	3378**	+ 0.4	— 3.9	— 3.7**
	Finished steel	Th Tns	4476	5072	4931	2739	2673	+13.3	— 2.8	— 2.4
	Aluminium	Th Tns	120.1	132.6	161.1	86.9	102.1	+10.4	+21.5	+17.5
	Copper	Tns	9286	9751	9311	5645	5615	+ 5.0	— 4.5	— 0.5
	Lead	Tns	1647	1958	1861	1109	767	+18.9	— 5.0	—30.8
	Steel casting	Th Tns	47.2	45.9	52.3	31.0	29.0	— 2.8	+13.9	— 6.5
	Antimony	Tns	821	637	526	292	312	—22.4	—17.4	+ 6.8
	Zinc	Th Tns	20.5	23.9	21.3	13.1	9.6	+16.6	—20.9	—26.7
	Steel pipes and tubes	Th Tns	256.5	298.6	216.7	145.6	115.2	+16.4	—27.4	—20.9

(Continued)

Production of Selected Industries (concluded)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
XIV	**Manufacture of Metal Products**									
	Screws									
	Wood	Mn Nos	1364	1302	1453	840	881	— 4.5	+11.6	+ 4.9
	Machine	Mn Nos	417	444	435	220	316	+ 6.5	— 2.0	+43.6
	Razor blades	Mn Nos	758	846	957	557	251	+11.6	+13.1	—54.9
	Hurricane lanterns	Th Nos	3210	3906	3564	2241	1729	+21.7	— 8.8	—22.8
	Crown corks	Mn Nos	1141	1489	1225	846	1023	+30.5	—17.7	+20.9
	Thermos flasks	Th Nos	1987	4260	11597	6744	5070	+114.4	+172.2	—24.8
	Wire ropes	Tns	13372	17432	19261	11275	11873	+30.4	+10.5	+ 5.3
	Bright bars	Th Tns	34.8	44.3	47.5	29.6	29.9	+27.3	+ 7.2	+ 1.0
XV	**Manufacture of Machinery**									
	Tractors	Nos	13838	18093	19931	10448	9049	+30.7	+10.2	—13.4
	Diesel engines									
	Stationary	Th Nos	116.4	141.9	68.1	43.5	54.3	+21.9	—52.0	+24.8
	Vehicular	Nos	2434	2666	3299	1975	1695	+ 9.5	+23.7	—14.2
	Power driven pumps	Th Nos	339	382	279	164	112	+12.7	—27.0	—31.7
	Machine-tools	Rs Lakhs	2529	3167	4220	2532	3081	+25.2	+33.2	+21.7
	Ball bearings	Mn Nos	12.1	13.4	18.1	9.8	10.9	+10.7	+35.1	+11.2
	Sewing machines	Th Nos	423	406	178	54.0	211.4	— 4.3	—56.2	+291.5
	Typewriters	Th Nos	45.7	28.4	38.5	22.7	26.0	—37.9	+35.6	+14.5
	Twist drills	Th Nos	8463	9835	10074	5788	5305	+16.2	+ 2.4	— 8.3
	Sugar mill machinery	Rs Lakhs	1141	1256	1456	815	791	+10.1	+15.9	— 2.9
	Tea processing machinery	Rs Lakhs	148	149	119	79	64	+ 0.7	—20.1	—19.0
	Cement mill machinery	Rs Lakhs	819	980	814	667	211	+19.7	—16.9	—68.4
XVI	**Manufacture of Electrical Machinery**									
	Power transformers	Th kva	4850	5042	7609	4428	5235	+ 4.0	+50.9	+18.2
	Electric motors	Th HP	1910	2076	2844	1790	1449	+ 8.7	+37.0	—19.1
	Dry batteries	Mn Nos	409	477	491	279	320	+16.6	+ 2.9	+14.7
	Storage batteries	Th Nos	870	1157	1158	670	654	+33.0	—	— 2.4
	Electric lamps									
	GLS and others	Mn Nos	84.5	90.3	103.9	58.5	65.4	+ 6.9	+15.1	+11.8
	Fluorescent tubes	Th Nos	7690	10240	10483	6083	6216	+33.2	+ 2.4	+ 2.2
	Electric fans	Th Nos	1466	1554	1574	834	1184	+ 6.0	+ 1.3	+42.0
	Radio receivers	Th Nos	1360	1735	1771	951	1059	+27.6	+ 2.1	+11.4
	House service meters	Th Nos	1063	1793	1844	1048	1242	+68.7	+ 2.8	+18.5
	Domestic refrigerators	Th Nos	49.9	48.6	65.4	37.0	50.1	— 2.6	+34.6	+35.4
	Room airconditioners	Th Nos	12.9	12.9	17.0	10.6	15.6	—	+31.8	+47.2
	Cables and wires									
	Bare copper conductors	Tns	1007	2242	735	464	450	+122.6	—67.2	— 3.0
	ACSR and AAC	Th Tns	64.9	59.5	65.0	37.5	41.1	— 8.3	+ 9.2	+ 9.6
	Winding wire	Th Tns	8.9	14.6	16.2	9.7	11.5	+64.0	+11.0	+18.6
	VIR and PVA	Mn Mtrs	368	372	430	245	298	+ 1.1	+15.6	+21.6
XVII	**Non-Electrical Machinery**									
	Lifts	Nos	402	523	476	238	370	+30.1	— 9.0	+55.5
	Cranes (other than mobile)	Tns	6000	5705	7101	4045	3600	— 4.1	+24.5	—11.0
	Weighing machinery	Rs Lakhs	165	163	225	130	150	— 1.2	+38.0	+15.0
XVIII	**Transport Equipment**									
	Automobiles	Th Nos	79.5	75.7	82.2	47.3	51.5	— 4.8	+ 8.6	+ 8.0
	Motor cycles	Th Nos	29.4	34.5	43.0	27.1	19.9	+17.3	+24.6	—26.0
	Scooters	Th Nos	36.0	49.3	58.4	35.3	40.4	+36.9	+18.5	+14.0
	Three wheelers	Nos	4317	5072	4229	2300	2961	+17.5	—16.6	+28.0
	Bicycles	Th Nos	1952	1933	2049	1226	1193	— 1.0	+ 6.0	— 2.0
	Railway wagons	Nos	15248	13214	8597	6151	5232	—13.3	—34.9	—14.0
	3 and 4 wheelers	Nos	1041	2578	3497	2066	1875	+57.1	+35.6	— 9.0

* Figures relate to Jan-Feb only.

** Figures relate to main producers only.

Source : Ministry of Industrial Development, Government of India.

REVIEW OF MANAGEMENT

November 1971

Training Is Not All
Ishwar Dayal

For the Eager Manager
S Srinivasan

Materials Management
N K Jaiswal

Market Price, Shadow Price and All That
Ranjit K Sau

Evaluating Planning and Control Systems
S K Bhattacharyya

Net Present Value versus Internal Rate of Return
C Rangarajan
Paul Mampilly

Bonus Share Issues
L C Gupta

Foreign Collaboration
V N Balasubramanyam

Recruitment and Promotion in Banks
V V Bhatt

Corporate R and D
K K Subrahmanian

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.

Licensing Plus

CURRENT criticisms of industrial licensing have chosen such diverse targets that they might easily lead away from the main sights set for licensing. Generally, they have stressed the need for liberalisation and cutting of 'delays'; concessions for entering backward areas; easing licensing for projects below a certain size or not requiring significant foreign exchange; freeing expansion which is not substantial or is in non-core sectors; making entry easier for big houses to give rein to growth, etc. The most pointed expression of the approach underlying all these came recently in the rejoinder that industrial licensing needed overhauling because it had 'failed to take market forces into account'.

If the government were as committed to and clear on the purpose of industrial licensing as industry seems to be on what it would like from it, we might not perhaps have come to the high-cost slack in industrial growth that we have entered. If allocation of resources into certain lines of production is one of the principal aims of planning, then industrial licensing is a necessary tool. But it is, admittedly, a largely negative tool. It can, hopefully, stop the flow of investment into low priority activities, but it cannot ensure optimum levels of investment in the required purposes (for example, in paper of late or in fertilisers in the mid-sixties). Moreover, it acts on such proposals as may be available when the supply gaps become apparent. This has led in the past to handing out of licences in a hurry to the most obviously 'trustworthy' applicant who seems capable of quick execution—meaning, invariably, the already established producers, such as Tatas and Birlas in soda ash.

Partly as a consequence of such stop-go licensing, the aims of providing adequate production at lowest cost have not been achieved. But not for that reason only. As part of the effort to set up an industrial base, the Indian manufacturer has enjoyed built-in protection which, together with irrational cost-plus price control, has fostered a vested interest in high-cost operations in a marginally shortage situation. Indeed, it should be evident by now that neither of the two alternatives, of competition and of price control of the sort that has been practised, can be brought into play. External competition is conclusively ruled out by import control and internal competition is minimised by licensing. In fact, as has been indicated above, licensing could lead to further imperfection by consolidating the monopolistic hold of already established producers—and for good technical reasons, too, such as economies of scale and well-diversified manufacturing bases. The idea, tried out in the early sixties (in paper, for instance), that competition could be fostered by splitting licensed capacity among a number of claimants exposed the high costs of small-scale production. The earlier idea of the public sector offering competition or setting the norms—as in aluminium or in cement—has also foundered.

At the same time, price control has failed all round. In cement, where price has long been controlled, it simply meant mutually managed prices by a large cartel that prevented fresh entry by allowing shortages and having expansion programmes ready on the right occasions. In some of the major chemicals whose prices have not been controlled, it has meant pegging of prices such that entry is not attractive to new entrepreneurs even while profit margins are comfortably wide for the handful of existing manufacturers. Since such price control as has existed to date has been based on costs as given by industry and has fixed prices high enough to accommodate even the marginal producers, it has meant acceptance of existing levels of efficiency, non-elimination of the inefficient, and profiteering by the relatively efficient. Cost-control, reflecting itself in lower prices, may finally be a management function, but there has been precious little pressure, economic or other, for management to cut costs.

In the circumstances, rather than get into a slanging match with private industrialists over the frills of licensing, government needs to concern itself with the means of more purposive and specific control over capacity utilisation, expansion of capacity, costs and prices. In the Bureau of Industrial Costs and Prices the government has the instrument to keep continuing track of data on capacity and its utilisation, growth of demand, costs and prices in the major industries. This would make it possible for the government to have a more studied assessment of the evolving situation in particular industries and also to arrive at a more conclusive point of view on the many 'efficient' solutions suggested by the private sector.

Training Is Not All

Ishwar Dayal

Management Gap in a Developing Economy by M S Gosavi; Progressive Corporation, Bombay, 1971; pp 140; Rs 16.

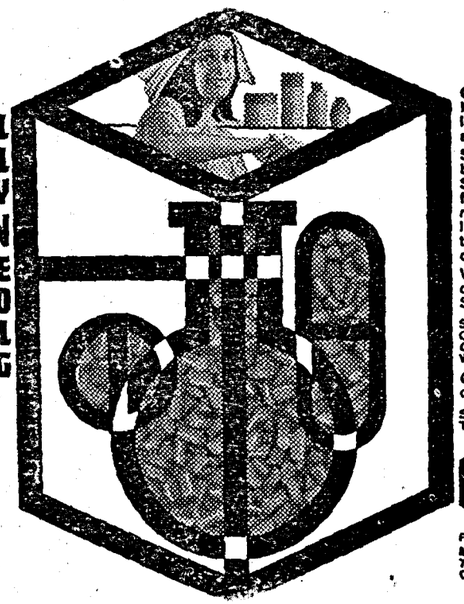
FINISHING the last page of the book left me both gratified and dismayed. Gratified that an educator had undertaken to write 13 chapters on a wide range of subjects from management of co-operatives, small and large industry, to education, planning and the emerging social and economic order. Dismayed because the superior capabilities of the author do not show up to full advantage in the treatment of the subjects. The objective of the book, which is to examine the management gap in the developing economy in order to benefit managements, educational institutions, etc, remains unfulfilled.

There is a sad lack of opportunity in India for interaction with peers who can comment effectively on the initial draft of a book. This lack prevents many of us from improving upon our technical writing for publication. It seems obvious that the publishers of this book have failed to provide the author with a pre-publication review. Perhaps these are the reasons why Gosavi's book starts with an interesting promise but then indulges mainly in general statements found often in newspaper reports, lacking academic analysis and diagnosis.

An academic's contribution to the understanding of business in India cannot be based on statements of oughtness. It becomes valid when it is based on a rigorous system of analysis through which emerge the action choices. Gosavi's book seems to say that good management for economic growth being important, there should be more funds for education, more training for managerial jobs and more interaction between the educators and the people in industry. In the words of the author (p 130): "In a developing economy like India [therefore] the task is to create conditions in which living standards are kept reasonably high and all citizens have full and equal opportunity for growth and service. The economy has, therefore, not only to build up a productive machine but also to create social conditions for vigorous cultural advance." And later, "Education, knowledge, understanding and co-operation will constitute a prime force in all schemes of its development for their success."

There are very few people who would quarrel with these wishes. Indeed, speeches in chambers of commerce, press releases, letters in company newsletters, all echo these thoughts. The questions are: Why are these objectives not achieved? What prevents organisations or Government administration from achieving efficiency and growth of activities and persons? What is the dynamics of failure, or success, in Indian organisations? What processes, systems, patterns of organisational politics, etc, do we need to achieve what we often say we want to?

The academic may sometimes wish to summarise what the people in industry state, or do; but, for him, this can be justified only if it is the beginning and not the end of his inquiry. The search for solutions is composed of scrupulous analysis of



FOR THE VITAL PHARMACEUTICAL INDUSTRY
STYRON PROVIDES THE ANSWER TO PRACTICAL PACKAGING

Containers made from Styron Polystyrene have many advantages over conventional glass—less weight, fewer breakages, a more attractive appearance and shape.

Styron containers also score over metal because it eliminates the danger of corrosion. Styron is lighter in weight and offers greater freedom in design. Medicines packed in Styron retain the highest possible degree of purity for long prescribed periods. Important factors all—to an industry dedicated to the dispensing of good health.

With Styron, you have higher production output and lower transport expenses. Thus, Styron ensures higher profits.

STYRON IS MANUFACTURED IN THE FIRST PLANT OF ITS KIND EVER SET UP IN INDIA, WITH THE COLLABORATION OF THE DOW CHEMICAL COMPANY—WORLD LEADERS IN THEIR FIELD.

Our technicians will be glad to give you more detailed information about STYRON.

STYRON—THE FIRST PLASTIC MOULDING MATERIAL THAT STILL REMAINS UNMATCHED!

POLYCHEM LIMITED,
7, Jamshedji Tata Road,
Churchgate Reclamation, Bombay 20.

For trade inquiries:
M/s. INDIAN COMMERCIAL CO. PVT. LTD.,
7, Jamshedji Tata Road,
Churchgate Reclamation, Bombay 20.

data, rigorous methodology for diagnosing problem situations and a set of concepts and theories to understand the situation and to derive action choices. The academic's contribution needs to be substantially different from the manager's. Many managers satisfy themselves by deriding theory, and explain away the ills of industry by pointing out how inhibiting is the environment or how frustrating are Government's policies; but the academic must seek out the reality in more systematic ways. Sometimes these factors become compelling constraints to action at unit level, at other times they become convenient rationalisation for avoiding hard choices.

In these terms, Gosavi's book makes little contribution to the understanding of the business situation. It appears to make a naive assumption that training would by itself solve the problems that beset management in India. I am reminded of the chief executive who seriously worried that the efficiency of his managers had hardly improved even after 40 per cent of them had been sent to one training course or the other, perhaps implying that training equals efficient management. This fallacy had best not be perpetuated. Management cannot improve unless they can answer why they do what they do by examining the total system including their own behaviour. Training is useful only if the top management have done their homework and found out what ails their organisation.

In my personal experience I have found that success and failure of a project depends on the willingness of the top management to examine their own behaviour and administrative systems as on the ability of a consultant to diagnose the situation. In one company, a new general manager readily accepted the diagnosis of the ailments of the organisation because they related to his predecessor but failed to accept the need to understand his own leadership style and how it was defeating his stated purpose of building team-work in the head office.

Without effort by the top management and a shared desire to improve organisational performance, training has limited use. I cannot share with the author the hope that more management training would improve the management of either the private or the public sector, or of Government administration. In many organisations, training seems to become a peg on which to hang the management's inability to diagnose the system's ills.

My comments so far refer to what I see as the author's main contention. Coming to more specific aspects, the data collected by the author in his research have not been shown, even though he mentions that the writing is based on a questionnaire survey. Nor does Gosavi indicate what his survey is all about, or where the survey was conducted. He provides no information about the sample, or the nature of the questionnaire, while saying that it contained a few open-ended questions. There is no reference to the results of the survey. There are passing references to what people in industry feel but these instances are not backed by data. In Chapter 5, for example, writing about personnel policies in public enterprises, there is brief reference to the kinds of work persons in personnel departments do. This cannot be said to provide survey data.

Not Hypotheses

In the introduction, on page xii, the author lists the important findings of his study. I quote at random from the book to illustrate the nature of these findings:

No 1: "Development in developing economies is a challenge to the social scientists and the planners, which must be accepted."

No 7: "The industrial relations problem, in a developing economy, can be solved if the management can really change the worker economically, mentally and socially."

No 15: "Expansion of management training facilities is necessary in all developing economies to bridge the management gap at different levels."

In the absence of data, or even a description of the nature of the survey, the 16 findings listed by the author are no more than statements of what the author considers necessary in the Indian business situation. These are not hypotheses for research, because they are not stated in terms that lend themselves to testing, nor is there discussion of previous data to support these statements.

Vague and general statements in the book leave me confused about the recommendations. Suggesting a positive role for the State in respect of integrated growth of co-operatives, the author says (p 6):

> "The role of the State for the success of 'co-operation' in this regard must be properly defined. The State should endeavour by all possible means to make co-operation based on an effort which must be integrated, co-ordinated and organic; and State assistance, participation and partnership must be so adjusted as to retain the essential character of the co-operation movement as the people's movement, making the movement, at the same time, sound, strong and effective in its action and results."

Surely the co-operator or the Government would not disagree with the sentiment; what should they, however, do to achieve this result? Similar statements occur with singular consistency in most chapters.

The 13 chapters of the book are written in the style of a text-book. It is hard immediately to see the rationale of their sequence. The author has not explained the sequence. Three chapters on different subjects provide partial information to those who need it: chapter 4 describes the major financial institutions in India and, broadly, their structure. Chapters 8 and 9 give some information about educational institutions in India and abroad. Since there is no indication of the dates on which these chapters were written, the information in the present context is incomplete. There are some careless errors which should have been avoided. Under the shoulder-heading Europe, a mention is made of institutions in USA although a separate section is later given for USA. There are also spelling mistakes: Harvard is spelt Harward.

Contrary to writing conventions, the author has referred to the works of other authors without providing book references; general references and index have also been omitted.

Like several others in India the publishers of this volume have been negligent. There are proofing errors on many pages (pp 17, 61, 71, 74, 75, 77 and 85, to list out a few). On page 100, the spacing of lines is wider than elsewhere. Throughout the book types are not uniform; spacing of lines and many little slips are evident that distinguish between good and poor production. Altogether the book suffers in the quality of its production.

The overall impression is that the value of the book either as a basic text or for other purposes is doubtful. Gosavi's competence is well known. Surely, a review prior to publication may have substantially increased the value of the book for its readers. Perhaps a revised version of the present volume could supply the omissions.



For the Eager Manager

S Srinivasan

New Techniques for Effective Sales Management by George B Wright, Rs 18; **Effective Management Techniques for Getting Things Done** by Lynn W Whiteside, Rs 16; **The Successful Manager's Guide** by William Wachs, Rs 16. All published by Vikas Publications, New Delhi.

THESE three books are in the nature of a 'do-it-all-yourself' kit, complete with check lists, for the manager who is eager to be more effective. The authors have naturally drawn on the American scene for illustrations for some of which it will be difficult to find parallel situations in the Indian experience.

"New Techniques for Effective Sales Management" is a ready reference manual for the sales manager on recruiting and training of salesmen, evaluating salesmen's performance, field supervision of salesmen, effective territory structuring, remuneration plans for sales staff, planning and conducting sales meetings, records, routing and reporting, etc. The author has also taken care to include charts, graphs, reports, routing forms, systems and techniques.

In applying the techniques and practices Wright has outlined in his book, the sales manager in India needs to do a bit of adaptation as well. In re-aligning sales territories, for example, the author has advocated the use of Buying Power Index (the BPI measures market strength for each county in the USA based on many factors like the number of telephones, retail sales by product category, population age 16 and over, family buying income, etc, and determining each country's percentage to the USA total. The most widely used BPI is that produced by "Sales Management Magazine"). In India we do not have such an index to help out the sales manager. The latter has to work out his estimates from past sales of his firm as well as that of the competitors and his own knowledge of the market, official census figures, etc.

Again, whether a sales contest organised on American lines which says, "Six weeks contest begins Monday April 6. Earn the vacation of your dreams for yourself and family", will have the same motivational impact in the Indian milieu is a debatable point. For all that he dreams, the Indian salesman might not be able to avail himself of a holiday with his wife because of the illness his sister's child.

These are, however, minor aspects that do not detract from the intensely practical character of the plans and methods outlined by the author. He has some perceptive observations on how not to waste the salesman's time by asking him to do espionage work on the competitor's activities. There is a tendency among our managements to use the salesman as an odd job man cum trouble-shooter cum collector of miscellaneous data. The practice not only affects the sales but also provides the salesman with a plausible alibi for not achieving the targets assigned to him.

The chapter on how to plan and conduct a sales conference deserves to become the bible of every sales executive in India. Far too many of our sales conferences tend to become expensive *tamashas*, a purposeless get-together where everyone meets everyone else without achieving results commensurate with the expenditure of precious managerial hours.

The other two books may be described as a cross between a TWI instruction pamphlet and Dale Carnegie's "How to Win Friends and Influence People", without the latter's flair for holding the reader's attention. Written in typical Americanese, these two books are, for the most part, a string of aphorisms with which everyone is familiar. "Work at being a better salesman", says Whiteside, "by (a) preparing yourself, (b) making the best use of your thoughts, (c) practise being a better persuader, (d) learn how to handle the handicapping difficulties", and so on.

In similar strain Wachs enumerates a number of success capsules that could be applied to given situations. Do you want consistently-high profitable productivity from your subordinates? Wachs would like you to see to it that they (subordinates) know exactly what is expected of them; know how to do this well; have all the facilities they need for this; really *want* to do the best and the most of which they are capable.

The publishers could have been more selective in re-printing American publications. Our managers and students working for a degree in management studies can do without catalogues of copy book maxims and that too at Rs 16 apiece.

Materials Management

N K Jaiswal

Essentials of Materials Management by P R Gokarn; Somaiya Publications, Bombay; pp 160; Rs 20.

THE concept of centralising all those functions of industrial management which affect the flow, conservation, quality and cost of materials under 'materials management', is of very recent origin. Some of these functions are materials planning and programming, purchasing, inventory control, receiving and warehousing, transportation, disposal of scrap and surplus. The main purpose of bringing these functions under a materials manager is to provide co-ordination and control. Since material costs form the bulk of the total cost of a manufactured product, efficient use of materials management techniques helps to reduce costs and thus increase profits.

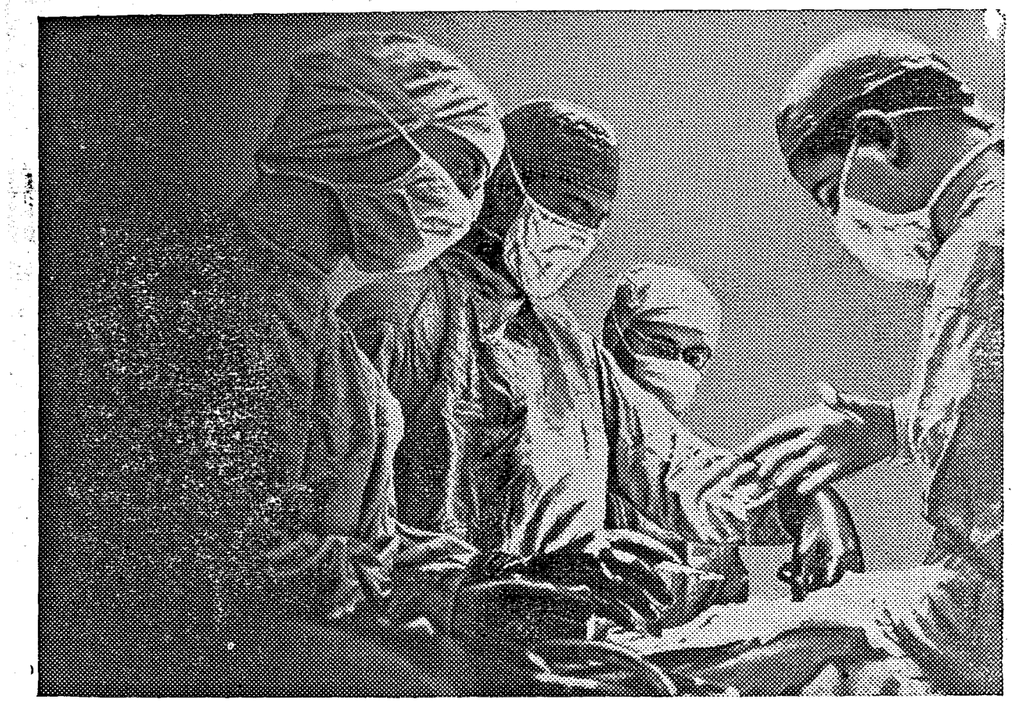
The need for the application of modern concepts of materials management to Indian industries has been repeatedly emphasised, including by the ARC report on public sector undertakings, submitted in June 1967.

The first three chapters of the book under review discuss the scope, importance and benefits of materials management, the organisation of materials department and its relationship with other functional departments such as marketing, sales, design, etc. The remaining seven chapters explain various techniques and concepts. These include A-B-C analysis, value analysis, standardisation and variety reduction, inventory control, wastage control and materials handling.

While the book is of considerable interest, a little more emphasis on quantitative aspects of materials management would have enhanced its value. In particular, the chapter on inventory control should have included more discussion on the evaluation of various inventory operating policies. In its present form, this chapter goes very little beyond the classical EOQ formula. The bibliography at the end of the book is also too short and non-specialised.

The book will be primarily of interest to students of management and managers interested in making themselves *familiar* with materials management.

India Foils at work



The Safest Packaging For Vital Pharmaceuticals

Today, more than ever before, the pharmaceutical industry is making a greater number of products to protect a larger number of people. And protecting these products in turn is tamper-proof and moisture-proof foil packaging.

With the rapidly increasing demand for pharmaceuticals, the pharmaceutical industry's need for aluminium foil is also on the way up. That's where India Foils comes in, in a big way. Supplying foil for hygienically sealed packs for tablets, dragees and capsules. Foil not only keeps out dirt and dust, and preserves original medicinal properties, but also offers convenience in presentation. Foil packaging is light, easy to open and tamper-proof. Continuously fighting disease and ill-health—that's the pharmaceutical industry. Helping the pharmaceutical industry—that's India Foils.





India Foils Limited

(Incorporated in Great Britain)
4 Mangoe Lane, Calcutta 1.
Calcutta Bombay New Delhi
Madras Baroda Cochin

India Foils-the innovators

FOC-120

Market Price, Shadow Price and All That

Ranjit K Sau

Despite all the suspicions that have been cast on its theoretical soundness and practical usefulness, the concept of 'shadow price' still lingers on in cost-benefit analyses.

In this paper it is argued that shadow prices as computed from linear programming models of development planning are far from satisfactory as an instrument of planning. Apart from the question of feasibility of solving a sufficiently large size programming problem, there are doubts whether the dual solution would be comparatively consistent, robust and stable. Besides, there are reservations as to the validity of the simplifying assumptions of economic relations implied in a programming model.

IT has been called impractical, indeterminate, circular, and *ad hoc*. Its very existence and stability have been open to doubt. Its operational usefulness has been questioned. All the same, in the literature of cost-benefit analysis, the so-called 'shadow price' still lingers on, much like the disembodied smile of the cheshire cat.

That the ruling market price as it exists in the Indian economy, for instance, does not have much normative significance for resource allocation is fairly well-established. The imperfection of the market mechanism in this respect is due to various reasons, such as monopoly elements, external economies and diseconomies, tax and subsidy, 'isolation paradox', and so on. Hence the ruling market price of a commodity does not necessarily measure its social cost or social usefulness.

That is why Jan Tinbergen, in 1958, emphasised the need to use a set of hypothetical prices, rather than the market prices, in evaluating investment projects. In his words: "A number of market prices, particularly those of the 'factors of production' (capital, labour, foreign exchange) often diverge from the 'intrinsic value' or 'accounting prices' that would prevail if (i) the investment pattern under discussion were actually carried out, and (ii) equilibrium existed in the market just mentioned".[1] To put it differently, 'accounting prices' in Tinbergen's view are the equilibrium prices "if the law of supply and demand operated freely, under perfect competitive conditions, with full employment of all resources and complete mobility of all factors".[2]

Recently, the concept of accounting price has been modified in several ways. Now, the determination of accounting prices does not necessarily relate to full employment of labour; nor does it fully accept prices as obtained under competitive market conditions. At the current stage of discussion, accounting prices are defined, in general, as indicators of social costs or social usefulness of commodities. Formally, these prices may be identified in the mathematical problem of maximising or minimising, subject to constraints, as the increase in the optimum value of the maximand (or decrease in the optimum value of the minimand) made possible by a unit change in a constrained variable.[3] Thus the accounting price is the Lagrange multiplier of the calculus or the value of the 'dual' solution to a programming problem.[4] This definition appears to be identical with that given by Tinbergen. But there is a fundamental difference between the two, especially when the rate of saving in the economy is suboptimal.[5] Then, it has special bearing upon the accounting prices of capital and labour in particular.[6]

Now a word on semantics. Occasionally, the terms 'accounting price' and 'shadow price' are used as synonyms.[7] Also, 'accounting prices' are sometimes defined as "better or worse approximations to shadow prices"[8], while the term 'shadow price' is reserved for what we have called 'accounting price' in the above paragraphs. By contrast, Little and Mirrlees use the two terms in completely different senses.[9] According to them, 'accounting prices' are the prices of "goods and services which *do* reflect their real costs to society (when they are inputs, i e, used up) and their benefits (when they are outputs, i e, produced)", whereas only the 'accounting price' of labour is given the special title 'shadow price' of labour, or simply 'shadow wage rate', because "in this important case, unlike in all other cases, the accounting price is not supposed to make the demand and supply equal".

For simplicity, we shall here use the two terms, 'shadow price' and 'accounting price', synonymously.

I

Shadow Prices of What?

A project uses up inputs such as coal, cement, machinery, and labour; and produces output, say, tractors. Labour is a very special type of input; its supply being abundant. Inputs and output, *viz*, coal, cement, machinery, tractors, etc, are, on the other hand, a different category of commodities compared to labour. Besides, if this project in any way involves foreign exchange, it deserves special consideration. Finally, the rate of saving and investment in the economy being suboptimal, the project's effects on capital formation should also be carefully evaluated. That is to say, we have to determine *four* sets of shadow prices corresponding to (a) inputs and outputs like coal, steel, cement, tractors etc; (b) labour, (c) capital, and (d) foreign exchange.

We have already dealt with the shadow prices of capital and labour elsewhere.[10] In this paper, we shall not go into the shadow price of foreign exchange, either; we shall take it to be given as a datum. Here our main object is to determine the shadow prices of *commodities* which are either used up in the project or are produced by it.

Evidently, shadow prices are relative to the objectives of the investment programme. Aggregate consumption, more equitable distribution, national self-sufficiency, and full employment, are usually considered to be the basic aims of economic development. Shadow prices are called upon to reflect these aims one way or another. However, the relative importance to be attached to these objectives is a matter in which a high degree of latitude may prevail. In other words, opinions may differ widely as to how much of one objective should be sacrificed, if need be, to gain one unit of another objective. In such circumstances, shadow prices would be devoid of operational significance unless they have what we shall term as the property of *consistency*—i e, unless there is some degree of invariance of the shadow prices in response to changes in the objective function of an investment programme.

An attempt to compute shadow prices from an overall programming model in a developing economy may founder on the rock of insufficient and inreliable data. Hence, another desirable property of shadow prices is what may be called *robustness*. That is to

say, shadow prices should not be too sensitive to small changes in the basic data—apart from the parameters of the objective function.

Thirdly, shadow prices should be relatively *stable* over time. If they change erratically through time, one has to recognise the possibility that the managers would indulge in arbitrage operations on their own between different time periods, and thereby upset all the calculations of the planners.[11]

These three properties—consistency, robustness, and inter-temporal stability—are desirable in shadow prices if these are to be meaningful as an instrument of planning.

II

Programming and the Dual Solution

In a path-breaking article in 1958, Chenery showed how linear programming can be used in selecting development projects. One of his interesting findings is that the simplex criterion of linear programming is logically equivalent to the criterion of social marginal productivity (SMP).[12] Since then, a long series of programming models have been constructed for development planning. Indeed, the dual solution to such a model is the set of shadow prices of inputs and outputs.

Highly illuminating in this context are the experiments conducted in Hungary around 1965. The deviations of shadow prices from the respective market prices are in most cases in the same *direction* when the following three alternative objective functions are tried:

(i) maximisation of final domestic consumption with 1959 foreign exchange prices;
(ii) maximisation of the balance of foreign exchange with capitalist countries, with 1959 foreign exchange prices;
(iii) maximisation of the balance of foreign exchange with capitalist countries, with 1963 foreign exchange prices.

In fact, the shadow prices with objectives (i) and (iii) turn out to be more or less identical. The differences between shadow prices thus derived and the actual market prices of 1959 were, on the other hand, about 19.5 per cent.[13]

Thus it seems that the shadow prices computed through a programming model are likely to be *consistent* in our sense. That is, they would remain relatively insensitive to a change in the objective function. But as yet the evidence on this score is rather inconclusive. Because an important deficiency in this Hungarian exercise was that the underlying technology matrix did not contain alternative processes, the scope of choice was severely restricted, from the very beginning.[14]

More recent experiments with two-level planning models, under the guidance of Kornai in Hungary, reveal that the shadow prices are a highly sensitive part of the model.[15] In fact, there is a theoretically well-founded suspicion that, the shadow price system in linear programming—being a discontinuous, non-analytical function of the preliminary data—will behave in a somewhat erratic manner. In other words, in response to a slight and common-sense change in the underlying data, shadow prices may answer with jumps of an unpredictable order.[16] Certain empirical works also tend to confirm this suspicion of what we have called the lack of robustness of shadow prices.[17]

Apart from all this, the sheer number of items for which shadow prices are to be computed is simply too large. There are so many commodities—and of such immense varieties in the various parts of the country. To compute the shadow price for each and every one of them is a herculean task.[18] Even the elaborate model of Eckaus and Parikh, for example, could give shadow prices for only a very broad category of goods which are of little help for evaluating investment projects.[19]

III

Market Price and First Approximation

In view of the above-mentioned limitations of a full-scale optimising model by programming to derive shadow prices, recourse is usually made to certain *ad hoc* adjustments of market prices—presumably to bring them in line with the social costs or usefulness of the commodities in question. Note that, in such exercises, a multiplicity of objectives such as aggregate consumption, distribution, employment, and national self-sufficiency, are *not* taken into account. Instead, the efficiency and Pareto-optimality of resource allocation are the sole concern. In the following, we shall examine some of these suggested corrections on the market prices, intended to bring about a first approximation to the shadow price.

We shall begin with the output that is being produced by the project, and then pass on to the inputs used by it. The case of inputs will be considered under two alternative market conditions, *viz*, perfectly competitive and imperfectly competitive.

Project Output: The shadow prices of the output of the project is supposed to measure its social usefulness. What does the ruling market price reveal about the benefit from the good derived by purchasers? If it is a consumer good, clearly the price measures the marginal usefulness of the commodity to the consumer; i e, it measures the marginal consumption benefit. The area under the demand curve, therefore, gives the sum total of consumption benefit derived from the marginal as well as the intra-marginal units. Hence it also indicates the consumers' willingness to pay for all those units together.[20]

Now take the case of an intermediate consumption good like irrigation water, or a capital good like a tractor or machine-tool. The demand for such goods is a derived demand—derived, in the last analysis, from the demand for ultimate consumer goods. As such, the producers' willingness to pay for such goods can be taken as a measure of their value to the ultimate consumers.[21] So, here also, the area under the demand curve represents the total consumption benefit.[22]

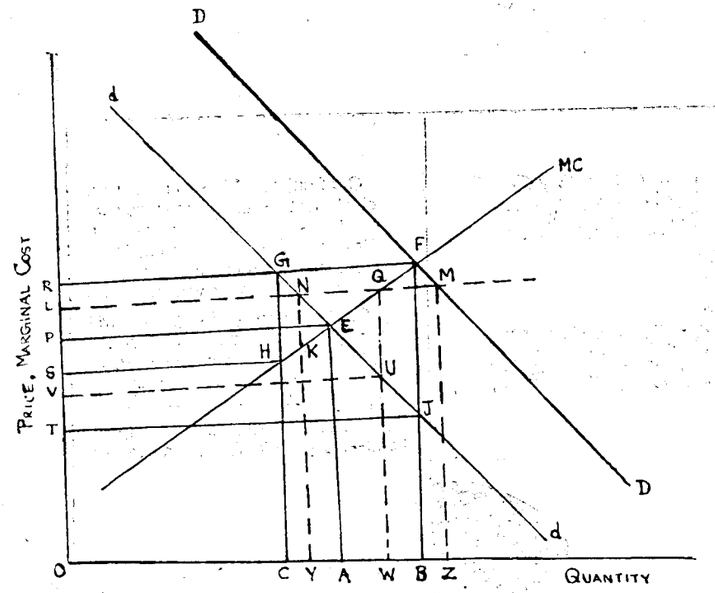
An investment project, in effect, adds to the existing market supply of its output. The relevant area under the demand curve for the product represents, therefore, the total consumption benefit generated by the project. Hence, the arithmetic mean of the market price of the product *with* the project and of the market price of the product *without* the project, is a first approximation to the shadow price of the product—provided the demand curve is linear.[23]

Project Input: The shadow price of an input of the project under review is to measure the opportunity cost of using it here rather than elsewhere in the economy. As we shall see below, market prices can hardly be of any help in this respect.

Industries which supply inputs for the project must be working under conditions of either increasing, or decreasing, or constant, unit costs. Here we shall examine the case of increasing unit costs only; the logic, however, can be applied to the other two situations as well.[24]

To begin with, it will be assumed that the industry which supplies an input is perfectly competitive; the assumption will be relaxed in due course. For convenience, demand and cost curves will be drawn as linear; but this

FIGURE 1



is not an essential part of the argument.

(A) Input industry competitive: Unit cost rising. Under competitive conditions, the marginal cost curve, MC in Figure 1, is also the market supply curve. Let dd be the demand curve for the input *without* the project. In equilibrium, price is OP and quantity is OA.

Suppose the project requires a certain amount of the input, measured by x The demand curve for the input then shifts to the right by a horizontal distance of x everywhere. In equilibrium *with* the project in operation, the price now is OR and quantity OB.

In this new situation, the quantity of the input engaged outside this project then shrinks to OC from OA of the previous equilibrium. The magnitude of this fall obviously depends upon the slopes of the demand and supply curves, and the amount x which is being used for the project.

The total cost of producing the required amount of input for the project is measured by area HCBF, which is the area under the marginal cost curve between C and B, in Figure 1. If the marginal cost curve is linear in the relevant range, then the unit cost of the input of the project is given by an average of OR and OS. So one possible candidate for the shadow price is:

½ (OR + OS) ... (1)

Now consider the opportunity cost of the input of amount BC; this cost is equal to the productivity of this input elsewhere in the economy, which is being sacrified by virtue of its use in this project. Referring to the demand curve dd, it is found that the productivity of BC outside the project is given by the area GCBJ, or the area under demand curve dd between B and C.

Again, if demand curve dd is linear within the relevant range, then the opportunity cost per unit of BC is measured by the average of OR and OT, in Figure 1. Thus another possible candidate for the shadow price of the input is:

½ (OR + OT) ... (2)

To be sure, candidate (1) measures the social cost of resources which go into the production of the input, while candidate (2) measures the productivity of the input elsewhere in the economy outside the project. Which one is the correct shadow price? In principle, the larger of the two is the shadow price.[25]

However, OP is the market price without the project, and OR is that with the project in operation. Clearly, OR overstates the shadow price of the input; so does OP as well, but to a lesser extent. In the circumstances, taking an average of OR and OP does not help in any way. Interestingly, the ruling market price of the input in the absence of the project is a better approximation to the shadow price, rather than either the market price with the project, or an average of the two market prices—while, of course, the larger between (1) and (2) remains the best approximation.

Now suppose that the input can be imported at price OL reckoned at the shadow price of foreign exchange. Again, the use of the input outside the project under review shrinks from OA to OY in Figure 1. The supply of the input to the project partly comes from domestic source (YW), and partly from import (WZ). The shadow price of the imported part is clearly OL. For the domestic part, the shadow price is given by the larger of the following two expressions.

(area YKQW)/YW ... (3)
and (area YNUW)/YW ... (4)

The shadow price of YZ as a whole is, therefore, a weighted average of OL on the one hand, and the larger between (3) and (4) on the other.

(B) Input industry imperfectly competitive: unit cost rising. Under imperfect competition, the marginal cost is no longer the market supply curve. For, the firms under such market conditions equate marginal cost to marginal revenue, rather than to the price. As such, the geometry would now get a little more complicated.

The demand curve is dd without the project. Suppose that the marginal revenue curve (not drawn in Figure 2) intersects the marginal cost curve at L, so that the equilibrium price and quantity are OP and OA, respectively.

Now the project is introduced; it requires an amount x of this input. Consequently, the demand curve shifts to the right to DD by a horizontal distance of x.[26] The marginal revenue curve (not drawn) now intersects the marginal cost curve at J. Hence the equilibrium price and quantity are OR and OB, respectively.

Again, the amount BC is engaged in the project; and the use of the input elsewhere in the economy declines from OA to OC. In any event, the cost of producing BC is measured by area HCBJ, i e, the area under the marginal cost curve between B and C. If the segment HJ is linear, then the unit cost of production of BC amounts to:

½ (OS + OT) ... (5)

On the other hand, the foregone productivity of BC elsewhere in the economy is similarly measured by:

½ (OU + OR) ... (6)

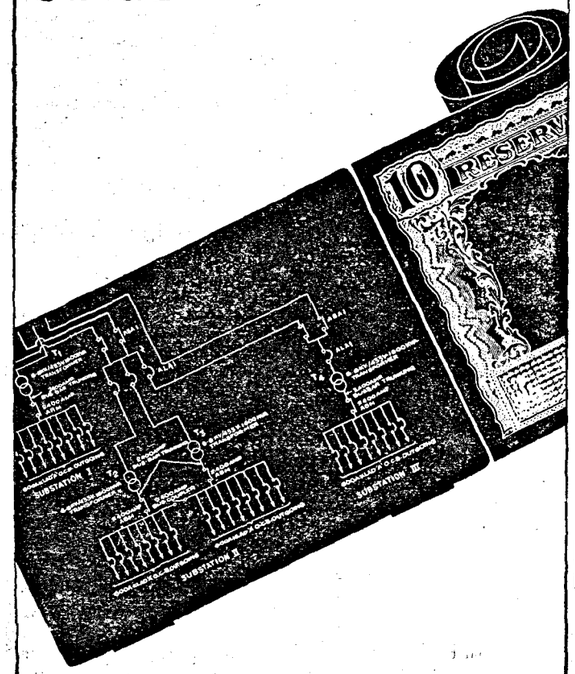
What can be said about the relative magnitude of (5) and (6)? Of course, OR is always greater than OT, since

YOU START MAKING A PROFIT AT THE DRAWING BOARD STAGE

Our Contracts Division plans your electrification scheme to make sure there are no hold-ups or losses. We ensure the optimum in efficiency and plan ahead for any expansion programme you may have.

Our team of project engineers will study your requirements, co-ordinate supplies and plan a complete no-worry electrification for your project.

Leave your turnkey electrification to someone who will give you a helping hand—leave it with Crompton Greaves.



WHEN YOU HAND OVER YOUR ELECTRIFICATION JOB TO Crompton Greaves LIMITED

Crompton Greaves Ltd., Contracts Division, Bombay • Calcutta • Delhi • Madras

M-142

corresponding to quantity OB, OR is the price with demand curve DD, and OT is the marginal revenue to which marginal cost is equated in equilibrium. But the relationship between OS and OU varies with the elasticities of the demand and supply, and the amount of input required for the project. So (6) may be greater than, smaller than, or equal to, (5) in magnitude. The larger of the two is the first approximation to the input's shadow price.

The ruling market price of the input with the project denoted by OR in Figure 2 obviously by itself overstates the shadow price as given by (5) or (6). The market price OP without the project, on the other hand, is definitely lower than OR,[27] but it is not known as to how it compares with (5) or (6). Hence, the arithmetic average of the two market prices, with and without the project, is of no significance whatsoever in relation to the shadow price.[28]

IV

Indirect Tax and Subsidy

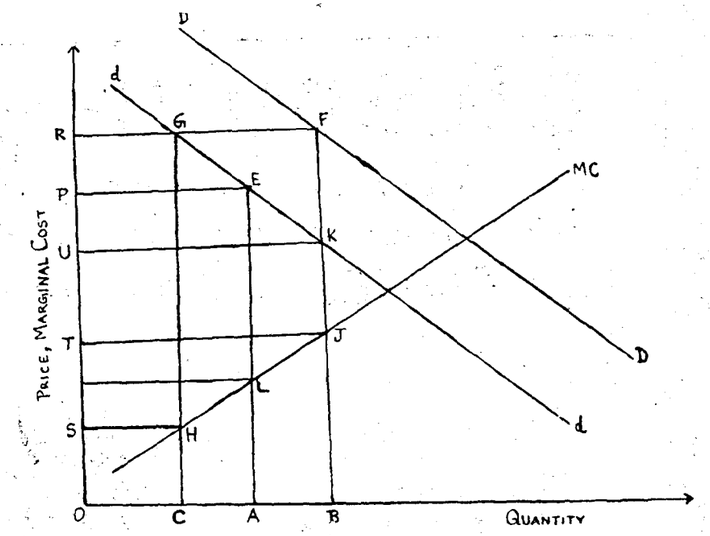
In connection with whether or not taxes and subsidies should be eliminated from the market price, one finds two opposite conclusions in the existing literature. According to one school, indirect taxes and subsidies affect market prices; but they are unrelated to the productive effort involved. They are transfer payments, not factor costs. It is argued, therefore, that indirect taxes such as sales tax and customs duties and subsidies if any, should be excluded from market price to arrive at the accounting prices.[29]

To be sure, such corrections of market prices do not imply disregard of the fact that the community must pay taxes for financing government activities. What it implies is that the comparative appraisal of projects should not be affected by the manner in which the tax burden is distributed.

The other school opposes the above view with the following argument. Since the commodity is being bought by people at the market price including taxes, it follows that the marginal usefulness or productivity of the commodity in the economy is commensurate with the market price including taxes. The uncorrected market price, therefore, correctly measures the opportunity cost of the commodity.[30]

The root of the controversy obviously lies in the fact that the two schools are looking at two different things. One considers the social cost of producing the commodity, while the other

FIGURE 2



counts its productivity or usefulness; one, so to speak, examines the commodity at its origin, the other at its destination.

For a clearer understanding of the issue, let us apply the method which we have developed in the preceding section. And let us confine our analysis to the case of perfect competition, with increasing unit cost.

In Figure 3, dd is the demand curve for a certain input without the project; and DD is that with the project in operation. The horizontal distance between them is x units, which is the requirement for the project. MC is the marginal cost curve which is also the industry supply curve under competitive conditions. Now, suppose that an *ad valorem* indirect tax at the rate of 100z per cent is imposed on the commodity. As a result, the supply curve then shifts up to MC'. The vertical distance between MC and MC' curves is: z (the marginal cost); FG, for instance, is equal to: z.BG.

Then E is the initial equilibrium point with price OP and quantity OA; in the wake of the project, it moves to F with price OR and quantity OB. Here, BC is the amount which is consumed by the project, leaving OC for the rest of the economy. The productivity of BC outside the project can be read off from demand curve dd; it is the area under dd between B and C. The opportunity cost per unit of BC, in this sense, is given by:

$$\tfrac{1}{2}\,(OR + OU) \qquad \ldots \quad (7)$$

The cost of producing BC amounts to area CKGB, or the area under the marginal cost curve between B and C. The cost of production per unit of BC then works out to be:

$$\tfrac{1}{2}\,(OS + OT) \qquad \ldots \quad (8)$$

Between (7) and (8), the larger is the shadow price of the input BC Note that (8) does not include indirect taxes in any way, whereas in (7), OR is the market price including tax.[31]

Let it be noted that, if for the sake of argument the shadow price is identified with the ruling market price without the project, corrected for indirect tax, then it is given by OV in Figure 3. It would be a pure coincidence if OV happens to be equal to (7) or (8).[32]

The above discussion specifically relates to an input used in the project. As for the project's output, its shadow price can be approximated on the basis of the demand curve, as shown in section III above. Whether or not the market price includes tax or subsidy is quite irrelevant in that case.

V

Concluding Remarks

Once the inputs and outputs of a project are identified and measured in physical terms, the next step is to express their values in monetary terms. For this, we need shadow prices of commodities.

The time stream of costs and benefits having been thus estimated, the

20,000 Years of

Combined battery manufacturing experience of the men at AMCO — your GUARANTEE of a superb battery

There is an

AMCO

Power Plus



battery for every purpose -

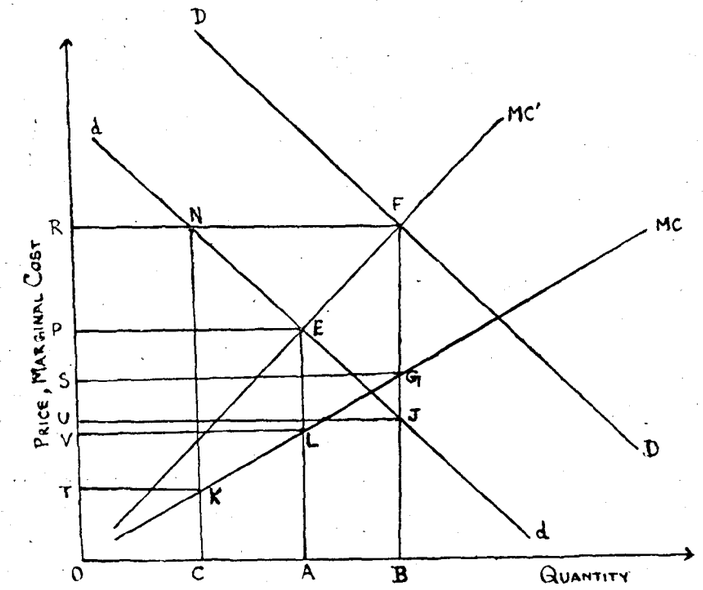
to get you off to a fine start, to lift your load with ease and economy, to communicate with the world whenever you want, to travel in comfort and with speed

Insist on Amco - Tried and Trusted for nearly 40 years.

AMCO BATTERIES LTD. BANGALORE 26, INDIA.

AM-MAC(B) 84

FIGURE 3



contributions of the project to capital formation deserve a special premium, so long as the saving and investment rate in the economy remains sub-optimal. Hence the need for finding the shadow price of capital which in turn is related to that of labour.[33] However, if the consumption benefit is the only objective, the shadow prices of capital and labour can be subsumed in the so-called synthetic discount rate itself.[34]

Intuitively, it seems that, if the commodity prices ensure the static efficiency and Pareto-optimality of resource allocation, and the synthetic discount rate brings about dynamic, inter-temporal efficiency, the entire investment programme consisting of projects evaluated with these parameters will be Allais-optimal.[35] This proposition still remains only a conjecture which can be rigorously scrutinised, we hope.

In any case, foreign exchange is a particularly scarce commodity in a developing country like India. And the official exchange rate does not necessarily reflect its shadow price. This shadow price is then another important parameter for project evaluation.

In the above discussion, we have seen that the shadow prices as computed from linear programming models of development planning are far from satisfactory as an instrument of planning. Apart from the question of feasibility of solving a sufficiently large size programming problem, there are doubts whether the dual solution would be comparatively consistent, robust and stable. Besides, there is some reservation as to the validity of the simplifying assumptions of economic relations as implied in a programming model.[36]

If a full-blown optimisation model cannot be solved to give us the shadow prices, the other extreme alternative is to use rule of thumbs without any explicit use of optimising methods or concepts. There is, of course, a cross between these two opposite approaches. One can take the position that while market prices have some extremely serious drawbacks, they do provide a useful starting point for calculating the shadow prices.[37] Accordingly, certain corrections are to be made to the market prices, and the prices thus adjusted are considered to be fair approximations to the respective shadow prices.

First of all, market prices in a partially planned economy like India's are determined by a number of factors, among which the consideration for static or dynamic efficiency of resource allocation is one of the least important elements.[38] Furthermore, it can be shown *a priori* that the very existence of monopolistic firms destroys the conditions of Pareto-optimality.[39]

Even if we ignore all these aspects, and even if it is granted that the ruling market prices are so determined as to allocate the resources efficiently, we have seen above that under imperfectly competitive conditions the market prices or any simple combinations thereof have no systematic relation whatsoever with the respective shadow prices.

Finally, as we have seen above, there are so far two approaches to the determination of shadow prices of commodities. One is a 'general' approach in the sense that it comprises a grand, economy-wide programming model. The other is a 'partial' model which seeks to correct the market price of an individual commodity on an *ad hoc* basis. Both approaches are deficient, in principle and in practice. As such, how to compute operationally meaningful and effectively optimising shadow prices of commodities still remains very much an open question.[40]

Notes

1 Tinbergen [28], p 39.
2 UN [31], p 203.
3 Flemming and Feldstein [9], p 163.
4 *Ibid*, pp 163-64; Ostrowski and Sadowski [19]; pp 150-51.
5 See Sen [25], pp xiii-xxix.
6 See Sau [23].
7 Sen [24], p 59.
8 Ostrowski and Sadowski [19], p 149; also Flemming and Feldstein [9], p 164.
9 Little and Mirrlees [13], pp 37, 86, 114 and 116.
10 Sau [23].
11 Bagchi [2], p 28.
12 Chenery [5]; and Chenery [6], pp 143-44.
13 Simon [27].
14 Chandra [4].
15 UN [33]. See also the review of this report by the present author in *Economic and Political Weekly* (August 14, 1971).
16 Brody [3].
17 Chandra [4]; Raiman [20].
18 Sen [26].
19 Eckaus and Parikh [7].
20 For a consumer good, the area under the demand curve may be a bad approximation to consumers' willingness to pay if the latter is a large fraction of their total income. See Friedman [10], pp 47-99; Hicks [12], pp 38-41; and Marglin [17], pp 42-44.
In the case of an intermediate consumption good or capital good, however, the area under the demand curve of a profit maximising producer is approximately equal to his willingness to pay. See Marglin [16], pp 20-27; and Marglin [17], p 42.
21 Marglin [17], p 40. For an interesting empirical calculation of consumers' and producers' surplus of fertiliser in India, see Tintner and Patel [30].
22 "Under full employment condi-

tions, with the marginal utility of income the same for all individuals, and with perfect markets and no external economies or diseconomies in production and consumption, prices are perfect measures of benefit. If a project is so large as to affect the prices of its outputs, a simple result is obtainable if the marginal utility of income is assumed not only the same for all individuals, but *also constant* over the range of variation. The area under the output's demand curve then constitutes a measure of benefits, and if the curves are assumed linear, an arithmetic average of old and new prices multiplied by the number of units will measure benefit. Another interesting case is the following: if the underlying individual indifference curves are assumed hyperbolic, Fischer's 'ideal' index number constitutes an indicator of benefit". Eckstein [8], p 226.

Note the conditions to be satisfied for the validity of the 'simple' *results*!

23 Flemming and Feldstein [9], p 166; and McKean [14], pp 168-70.

Incidentally, in national income accounting the entire project output would be valued at the new, lower market price, which clearly ignores the so-called consumers' surplus.

24 However, for the asymmetry between rising and falling cost situations see Flemming and Feldstein [9], pp 169-70.

25 See Flemming and Feldstein [9], p 170. The magnitude of the difference between (1) and (2), however, depends upon the slopes of the demand and supply curves in the neighbourhood of point E in Figure 1. If demand is more elastic than supply, OT is greater than OS; hence (2) is greater than (1). If supply is more elastic than demand, OT is less than OS; therefore, (2) is smaller than (1). If the elasticities are equal, (1) and (2) are numerically equivalent. The elasticity of demand around the equilibrium point E is measured by (BC/RT) . (OP/OA); and that of supply by (BC/RS) . (OP/OA).

26 Let Q=a—b. P be the demand function without the project; then Q=(a + x) — bP is that with the project. For any given price P, the quantities demanded are (a—bP) and (a + x — bP), respectively. Hence, the horizontal distance of the demand curves is x. To find the vertical distance, consider a given quantity Q. So we get Q = a — bP, and Q = a + x — bP' from the two demand functions; therefore, (P' — P) = x/b, which gives the vertical distance.

The marginal revenue curve also shifts up by x/b vertically. For with Q = a — bP, the marginal revenue, is (a—2Q)/b; while with Q = a + x — bP it is (a + x — 2Q)/b. The horizonal displacement is again by x. In order to have the same marginal revenue, we must have (a — 2Q)/b = (2 + x—2Q')/b; or Q=Q' — x.

Briefly, both the demand and marginal revenue curves are displaced by x horizontally and x/b vertically upwards, as a result of the project's demand for the input.

27 Given the displacements of demand and marginal revenue curves as shown in footnote 26, the market price would be unaffected if the marginal cost were constant. However, if the marginal cost is rising then the price will go up.

28 The impact of the possibility of importing the input can be analysed in terms of the method as developed in the earlier case.

29 See, for example, Little and Mirrlees [13], p 28; UN [31], p 203.

30 See Flemming and Feldstein [9], p 170; and Harberger [11], pp 242-43.

31 If the demand and cost curves are linear, then in view of results obtained in footnote 26, expression (7) can be computed as follows. The vertical distance between dd and DD being x/b, we get:
½ (OR+OU) =½ (OR + OR — x/b) = OR — BC/2b.
where x = BC and b is the slope of the linear demand curve.

32 Hence the blanket rule of eliminating taxes from the market price is without logical foundation. For example, see Adler [1], p 39; and UN [31], p 203.

As drawn in Figure 3, OV is definitely less than expression (7).

33 Sen [25].

34 Sau [23].

35 See E Malinrand, "The Analogy between Atemporal and Intertemporal Theories of Resource Allocation," *Review of Economic Studies* (June 1961), reprinted in J E Stiglitz and H Uzawa (editors), *Readings in the Modern Theory of Economic Growth* (1969).

36 Harberger [11], p 243.

37 Sen [24], p 55.

38 See Bagchi [2], p 22; and Sau [22] for the conflicting objectives of pricing policy.

39 Sau [21].

40 No wonder, the originator of the concept of shadow prices, Tinbergen himself now believes that such prices are largely arbitrary. See Tinbergen [29]; also McKean [15] and Myrdal [18], pp 2031-39.

Little and Mirrlees [13] recommend that world prices, with appropriate adjustment for transport costs etc, be taken as shadow prices of commodities. This proposition has not at all been taken into account in this essay. We may return to it on another occasion.

References

[1] H A Adler, "Sector and Project Planning in Transportation" (1967).

[2] A K Bagchi, 'Shadow Prices, Controls and Tariff Protection in India', *Indian Economic Review* (April 1966).

[3] A Brody, 'Three Types of Price Systems', "Economics of Planning" (1965).

[4] N K Chandra, 'Theory and Practice of Soviet Price Reforms', in *Yearbook of East European Economics* (1970).

[5] H B Chenery, 'Development Policies and Programmes', *Economic Bulletin for Latin America* (1958).

[6] H B Chenery, 'Comparative Advantage and Development Policy', in *Surveys of Economic Theory*, Volume II.

[7] R S Eckaus and K S Parikh, "Planning for Growth" (1968).

[8] O Eckstein, 'A Survey of the Theory of Public Expenditure Criteria', in *Public Finance* (1970).

[9] J S Flemming and M E Feldstein, 'Shadow Prices in Industrial Project Evaluation', in UN [32].

[10] M Friedman, "Essays in Positive Economics" (1963).

[11] A C Harberger, 'Survey of Literature on Cost Benefit Analysis for Industrial Project Evaluation', in UN [32].

[12] J R Hicks, "Value and Capital" (1946).

[13] I M D Little and J A Mirrlees, "Social Cost Benefit Analysis" (1969).

[14] R N McKean, "Efficiency in Government through Systems Analysis" (1958).

[15] R N McKean, 'The Use of Shadow Prices' in S B Chase (editor) "Problems in Public Expenditure Analysis" (1968).

[16] S A Marglin, 'Objectives of Water-Resource Development: A General Statement', in A Maass and others, "Design of Water-Resource Systems" (1962).

[17] S A Marglin, "Public Investment Criteria" (1967).

[18] G Myrdal, "Asian Drama", Volume III (1968).

[19] M Ostrowski and Z Sadowski, 'Pricing Problems in Industrial Project Evaluation', in UN [32].

[20] J Raiman, 'A Study of Prices in a Planning Model', D C Hague (editor), "Price Formation in Various Economics" (1966).

[21] R K Sau, 'Monopoly, General Equilibrium and the Theory of Second Best', *Australian Economic Papers* (June 1971).

[22] R K Sau, 'Land Tenancy Rent and the Optimal Terms of Trade Between Industry and Agriculture', *Oxford Economic Papers* (July 1971).

[23] R K Sau, 'Approaches to Project Evaluation', *Economic and Political Weekly*, Review of Management, August 1971.

[24] A K Sen, 'General Criteria of Industrial Project Evaluation', in UN [32].

[25] A K Sen "Choice of Technique", third edition (1968).

[26] A K Sen, "Profit Maximisation and the Public Sector" (mimeo), 1970.

[27] G Simon, 'Ex Post Examination of Macro-economic Shadow Prices', "Economics of Planning" (1965).

[28] J Tinbergen, "The Design of Development" (1968).

[29] J Tinbergen, 'International, National, Regional and Local Industries' in R E Baldwin and others, "Trade, Growth and the Balance of Payments" (1965).

[30] G Tintner and M Patel, 'Evaluation of Indian Fertiliser Projects: An Application of Consumer's and Producer's Surplus', *Journal of Farm Economics* (1966 and 1967).

[31] UN, ECLA, *Manual on Economic Development Projects* (1958).

[32] UN, *Evaluation of Industrial Projects* (1968).

[33] UN, ECE, *Multi-level Planning and Decision-Making* (1970).

Evaluating the Effectiveness of Management Planning and Control Systems

S K Bhattacharyya

This article attempts to relate the framework for management control and reporting systems developed by the author in two earlier articles to a planning and control system in use in an Indian system and, in the process, to evolve guidelines for the effectiveness of such systems.

The critical requirements for the effectiveness of a management planning and control system must finally relate to the following questions:

(a) Is the organisational structure such that it defines authority and responsibility in terms of jobs to be accomplished, the costs and revenues of which are controlled by the responsibility centre concerned?

(b) Are the corporate goals and objectives translated into time-phased statement of unit targets based on the input-output relationship prevalent in the unit operations?

(c) Is the reporting system such that it can quickly diagnose deviations from the desired results, particularly in those areas which represent key variables in operations?

(d) Is the follow-up mechanism such that it ensures prompt remedial action by proper analysis, review and co-ordinated action?

A management planning and control system must answer all these questions in the affirmative before it can be truly effective.

THE previous two articles in this series set out in some details the framework for management control[1] and reporting systems.[2] This article concluding the series will attempt to relate the framework developed to a planning and control system in use in an Indian company and, in the process, to evolve guidelines for the effectiveness of such systems.

The company operates a plant which uses imported as well as indigenous raw material for further processing leading to an intermediate product, which is thereafter transferred for further processing to two sub-plants — one producing packaging material while the other produces raw material for the textile and allied industries. The company's operations in relation to the packaging product have been extremely successful leading to generation of high profits while the performance of the textile-family product produced in the older plant has been relatively disappointing, as it has operated almost at a break-even point, except for periods of relative profitability due to price rises generated by periodic scarcities. The company operates two small ancillary plants producing chemicals required in its operations — sulphuric acid and carbon disulphide. The steam and electricity required for operations are produced by the company's boiler and power house. The company has also the usual supporting service departments like engineering and maintenance, laboratory, purchases, stores, transportation, etc, as well as staff departments like personnel, accounts, industrial engineering, general administration, etc. The plant is operated under the overall managerial supervision of a general manager with departmental managers heading the production, service and staff departments. The administrative and sales office of the company is located in a metropolitan city some 500 miles away from the plant. The administrative office is in the charge of the Managing Director supported by a Commercial Manager who has the overall responsibility for sales and distribution for both the products.

Prior to the initiation of a formal management planning and control system the administrative office relied on periodic, usually monthly, returns from the plant furnishing separately data relating to actual plant performance (quantities produced/technical operating efficiency/wastage, etc) as well as despatches from the plant to the sales office or to dealers. In addition to these returns, the plant accounting office prepared from the financial accounting records monthly profit and loss accounts which essentially set out the traditional income statement items like aggregate sales, costs and profits. The corporate management felt that the system then in operation did not provide for the required information relating to:

(a) assessment of relative profitabilities of the two product lines and the individual products in the two product lines;

(b) the effectiveness or otherwise of

A dream today, a reality tomorrow

Today at Mithapur, young India, conscious of the past, urged on by the present, confidently dreams of a glorious tomorrow.

Their immediate dream is of a new complex—massive, self-sustaining, long-range and innovative—harnessing the sea, the sun and ultimately the atom to banish hunger from their land and to generate greater economic self-sufficiency, more and more independence.

There is a beginning but there is no end to the work of bringing purposeful prosperity to the people of India. Harness the sea, the sun, the atom and from Okhamandal—the land of salt—fertility will flow to the entire country.

TATA CHEMICALS LIMITED

CMTC-10-254

the operations of the various departments — production, service and staff departments — for purposes of performance evaluation;

(c) bench-marks of desirable level of performance for the departments as well as the corporation as a whole; and,

(d) a basis for future planning and action.

Initially, the management was keen that a new management planning and control system should be designed and that it should have the limited objective of providing information to the top management alone. The thought was that the system should be essentially built around financial parameters, as the top management was primarily concerned with the profitability of the entire operation.

In 1967, after a series of meetings with the top management and the heads of operating departments, the systems designer was able to convince the top management that any attempt at building an effective planning and control system should take into account the following:

(a) The necessity of improvement in the performance of the company as a whole as well as identification of those units whose performance was not up to the desired level of achievement.

(b) The needs of information at operating levels for planning, decision making and remedial action (which was as critical as that of the top management, though the content, frequency and format of providing information would necessarily differ from one management level to another).

(c) The delineation of managerial responsibility broken up in terms of responsibility centres based on the following tests:

(1) significant size of operations,

(2) distinct input-output,

(3) demarcation of managerial boundary, by way of decision-making authority and responsibility for achievement of results, and

(4) uniqueness of operation, differentiated by technologies used or markets served or raw materials used or skills required, etc.

(d) The classification of responsibility centres into *cost of expense centres* (all staff and service departments which produced services or products entirely for the use of internal production departments and had no economic opportunities by way of sales to outside markets); *profit centres* (the production departments as well as the two ancillary departments producing sulphuric acid and carbon disulphide, which had distinct revenues measured in terms of sales volume and prices — or transfer prices for internal transfer — and variable cost of production, as well as distinct departmental overheads including salaries, wages, etc); and *investment centre* (the operations of the company as a whole analysed by way of profit — arrived at by aggregating the margins or surpluses of profit centres and deducting the costs of the cost or expenses centres as well as corporate overheads — as a percentage of investments).

(e) The introduction of an annual budgetary control system which was built up from targets of sales — based on past historical performance trends, the likely state of competition in future and the projection of the operations of end-users of the products of the company — followed up by development of targets of production, inventory, costs, profit and return on investment. These targets were then broken up in terms of monthly targets, appropriate to the profit or the cost centres, spelled out in terms of production and sales volume/quality mix/delivery schedules/variable costs based on consumption standards of raw material and stores/departmental and corporate overheads.

(f) The development of a management information system which monitored actual achievements in relation to the monthly budgets and threw up the extent of shortfall and highlighted the problem areas responsible for the shortfall (for instance, sales volume/price/production quantity/quality/standard variable costs of production/departmental or corporate overheads, etc, as the case may be). The system would require to be built from the operating departments upwards culminating in aggregate profitability statements for top management. The "mix" of the financial and non-financial information at various management levels would have to be tailored to the nature of operation. For example, there should be greater emphasis on operating efficiency indicators based on technical performance at the departmental level while the emphasis should be in terms of financial and econometric information for top management.

(g) The classification of revenues and costs in the reporting formats consistent with the needs of decision-making and evaluation of performance, e g, at the operating unit level, the relevant costs were product margins — based on product sales revenue and standard variable cost — while for departmental performance evaluation it was the aggregate departmental margins adjusted for identifiable departmental overheads.

The formulation of standards, identification of responsibility centres and their linkage with managerial authorities and responsibilities, the development of budgeting procedure integrating sales, production, purchase and personnel functions in an aggregate planning framework and the setting up of a management control cell manned by an industrial engineer supported by two cost accountants, took considerable effort and time. There were initial problems of compilation of departmental data, their collation and analysis, the follow up of shortfalls from budget but once the system was operational, it was recognised by all levels of management that the system significantly contributed to better planning, decision making, measurement of performance and remedial action.

The system designed was in many ways similar to the Anthony framework which distinguishes between strategic planning, management control and operational control and sets out the relative functions and objectives of each,[3] except that organisation structure was assumed to be a design variable. Furthermore, it emphasised the mechanics of systems implementation and administration as a key variable. The Anthony model has found substantial acceptance by control system designers in the last several years and has been critically acclaimed as providing new insights in the management planning and control process. A subsequent research study was conducted by Robert H Deming at the Harvard Business School in 1968 which analysed the management control system in operation in an US industrial organisation with a view to search for the characteristics of an effective management control system. The Deming study adopted the Anthony model as a frame of reference. Deming concluded in his research study[4] that the elements which provided for effectiveness in a management control system were as follows:

"a *Corporate Objectives*: Planning is facilitated where organisational objectives are carefully thought out, agreed to by members of top management, and explicitly stated in measurable terms... Once an objective is established it must be the focus of reports to top management and division management and it must be an important consideration in all decisions requiring investment of corporate funds.,

b *Long-Range Planning*: The planning process...is most useful when it includes fairly specific implementation

strategy for attaining the long-range plan.

c *Capital Budgeting*: The capital budget should be developed on the basis of an explicit examination of current investment opportunities and should not be based on a rule of thumb using historical ratios.

Economics of the Management Control System

d *Profit Plan*: A profit plan or budget emanating from the corporate objective and long-range plan is essential to effective management control of each organisational unit.

e *Planned Profit Improvement*: A planned profit improvement programme is an essential economic element of management control. One important part of the plan is the logical development of the profit plan and its continuous budgetary control process... A second major part of the plan is the systematic assignment of annual cost reduction.

f *Cost-Price-Volume Relationship*: These relationships underlie a profit plan or reporting system and must be understood and used by the appropriate personnel if management control is to be effective.

g *Flexible Budgets*: A flexible budget is essential; otherwise a change in the job to be done creates variances that destroy budgetary control.

h *Direct Costs*: The cost system should be designed so as to provide management with cost information as required in any of the types of decisions which it will have to make.

i *Profit Centre Control*: Measurement of costs and profits should be pushed to the lowest meaningful level in order to facilitate decisions that would maximise profit. It is desirable to treat a unit as a profit and/or investment centre whenever prices, costs and profits can be meaningfully determined and controlled by a given manager. When this is not feasible, control of costs through cost centres leads to more effective management control.

j *Budget Commitment*: To be effective, an approved budget must represent a commitment by the people who must carry it out, and unless they play a large role in setting it, there will be no such commitment.

k *Management Information System*: The main purpose of an information reporting system is to provide management with a framework within which the decision makers have the proper facts to cause them to react in a direction that will maximise profit... In such a system reports would be tied into one another as information flowed up through the organisation, and there would be a clear identification of the significant differences between actual and planned performance, with the reasons for these differences clearly discernible and with the responsibility pinpointed wherever feasible.

l *Zero Level Reporting*: [The data must be] captured at its most elemental stage... [otherwise] lower levels of management may not be able to answer questions asked by top management or provide the reports required.

m *Responsibility Centre Reporting*: The reporting system must reflect the responsibility assignment that allow the management to measure the performance against the assigned role.

n *Reporting by Exception*: A reporting system should bring to its (management's) attention only those things about which it should be concerned.

o *Reporting against a Standard*: In order to make reported information useful, some standards for comparison must exist. The two standards... useful are the budget and the last year's performance."

The Deming study suffers from the severe limitation of a collection of "motherhood" like statements, even though it had the benefit of the supervision by some of the most distinguished practising controllers, *viz*, Marshall K Evans of Westinghouse, R Burt Gookin of H J Heinz Company, Edmund Pugh of Columbia Broadcasting System, and Arjay Miller of Fords, and of course Anthony himself, who at that time was the Assistant Secretary of Defence (Comptroller) at Washington. Specifically, while the study substantiates criticality of already well-established components of the management planning and control process, it fails to develop an integrating framework of the principles listed in terms of effectiveness, particularly by way of design and implementation. It does not provide definitive answers in relation to two major issues relating to the planning and control process which have substantial bearing on the effectiveness of the management control systems:

(a) the criticality of the organisation structure variable in the design process, i e, the need for relating the management control and planning system to an optimal organisational structure tailored to corporate goals and objectives taking into account the desired "mix" between profitability and growth, technology and operating cost characteristics, economic characteristics of the market served by the products, values of the people in the organisation and the managerial climate in which the organisation operates. In other words, the Anthony model as well as the Deming study assume the organisational structure as a "given" and proceed to list the components that optimise the management planning and control process, though conceivably they might result in a system suboptimal in its totality due to dysfunctionality, arising out of the imbalance between the system and the organisational structure.

(b) The interrelationship of the implementation and administration process with the design framework of management control systems. The Deming study provides no insight regarding this relationship even though it is critical in determining the effectiveness of the system. (In recent years thinkers in the planning and control field like John Dearden have emphasised that the effectiveness of management control system is substantially dependent on the insights in the systems administration and implementation area.)

These limitations are dramatically highlighted in relation to the management planning and control system of the company described earlier. It was readily acknowledged by the company that the management control system introduced had resulted in many benefits to the company. Specifically, the company recognised that:

(1) For the first time, the expected levels of performance of the company as well as the operating units, including staff and service units, have been predetermined for annual and monthly performance evaluation. The actual results have been compared with expected targets highlighting the areas of deficiency which would require remedial action.

(2) It has been possible to accumulate individual unit and aggregate cost more significantly on the basis of standards developed, with the result that any departures from standards of consumption of raw materials and chemicals or non-utilisation of capacity or deterioration in the level of quality and cost performance, has been highlighted by the reports leading to appropriate managerial action.

(3) It is now possible to integrate the results of individual operating units with the total company performance in a significant manner in terms of the critical elements of managerial decision-making relating to allocation of resources, determination of product-mix, correlation of cost-profit-volume relationship for profit optimisation.

(4) The management have the required data for planning, performance evaluation and remedial action necessary for overcoming shortfalls from desired levels of performance.

However, in the opinion of the company the management control system has been less than optimal for the following reasons:

(a) Excessive detail leading to "too finely tuned" financial anlysis of performance (as distinct from managerial analysis for remedial action);

(b) Delay in completion of the reports for the use of various operating units;

(c) Organisational structure problems creating bottlenecks in planning, decision making and remedial action; and,

(d) Inadequacy of the follow-up mechanism in relation to shortfalls from desired performance thrown up by the management reporting system.

In 1971, a review of the system was undertaken by the designer, which indicated that the problem areas related primarily to the following designing deficiencies, notwithstanding the fact that it had all the technical components highlighted by the Deming study:

(a) In preparing the budget or the profit plan, the purchase department was not involved with the result that there were considerable problems of co-ordination, particularly relating to delivery schedule, quality of material, sources from which material had to be obtained and the quantity to be stocked, in spite of the fact that the total consumption of raw material had earlier been agreed upon and incorporated in the budget. The Purchase Manager used to report to the Administrative Manager, who was transferred to the head office subsequent to the introduction of the system to take up the job of the Commercial Manager. Thereafter, the Purchase Manager reported to the General Manager at the plant leading to two problems:

(i) the linkage of purchase function in the budget setting process was cut off with the departure of the Administrative Manager as the Purchase Manager was not asked to take his place in the Budget Committee.

(ii) Since the Purchase Manager was of lower managerial status and reported to the General Manager, co-ordination between the production and purchase functions required several "up-down-up" hierarchial references to ensure co-ordination between consumption of raw materals and chemicals and their purchase and storage.

(b) The Chief Engineer who was concerned with the maintenance function (which included preventive maintenance, renovation and installation) had the cost responsibility while the decision-making authority relating to what was to be repaired and when, was largely left with the production departments. The delineation of the authority for decision-making and responsibility for cost were not clear with the result that there was constant bickering about the reasonableness of maintenance costs, particularly "crash" maintenance jobs (which involved overtime activity and acquisition of the stores and material on an emergency basis). The problem was further aggravated by the fact that the Chief Engineer reported directly to the General Manager while the operating units were under the administrative control of the Works Manager.

(c) The demarcation of the responsi- about corporate policies, e g, whether of "distinct inputs-outputs" alone was excessively narrow resulting in generation of separate data relating to activities which had technological and process links with another department and was managed by a common manager. For instance, the maintenance department and the electric engineering department were set up as separate responsibility centres as was the case with carbon disulphide, water purification and sulphuric acid departments even though they were the common managerial responsibilities of the Chief Engineer and the Assistant Works Manager respectively. The incorrect delineation of the responsibility centres, emphasising distinction in terms of input-output rather than managerial boundaries, led to generation of overlapping data which defeated their use for purposes of managerial planning, decision making and remedial action.

(d) There was considerable haziness about corporate policies, e g, whether the packaging product was to be substantially exported or the company should consider continuous internal generation of power to prevent damage to machinery and deterioration in quality resulting from frequent stoppage of supply of power purchased from the State Electricity Board or whether in relation to the textile-family product, the company should continue to serve the lower quality spectrum rather than market premium products. The corporate policies in this regard were unclear resulting in problem areas for determination of the optimal revenue/cost/profit targets.

(e) The data generated by the management control system was made available only to the top management and the departmental heads. As a result first-line supervisory managers were not provided with data in respect of shortfalls in their operations and how such shortfalls tended to reduce total corporate profitability even though there was constant pressure on supervisory management to achieve budgeted results. This insistence on budget performance by supervisory management without participation in the management control process led to considerable problems of motivation as the control system was perceived by the first-line supervisors as essentially one for regulating their activities rather than providing help and support for optimising their own performance.

(f) The shortfalls in performances highlighted by the management control system were followed up by addressing memos to the departments concerned asking for their comments and communication of steps to be taken for remedial action. They tended to explain away such deficiencies on factors controlled by other departments, e g, when the solvent extraction efficiency was found to be going down from month to month, the reduction in operating efficiency was attributed to the lack of availability of imported activated charcoal, which according to the purchase department was not available because of import licensing policy of the government. The Purchase Manager and the Assistant Works Manager concerned reported to two different authorities, with the result that the exchange of memos between the management control cell and the operating department did not highlight the necessity of co-ordinating the purchase and production activities. In formulating remedial action, there was reluctance to discontinue protracted departmental memo writing between the management control section and the concerned departments by a "confrontation" of concerned managers for co-ordinating remedial action involving more than one management function.

(g) The staffing of the management control cell by executvies who had lower managerial status resulted in the lack of required "muscle" for follow-up action. This was also partly attributable to the fact that while the Managing Director paid a lot of attention to the reports, his comments were not recycled to the operating departments for purposes of analysis, review and remedial action.

On the basis of the systems review,

several recommendations were made by the designer. Some of these recommendations were:

(i) Re-delineation of the responsibility centres and merger of performance evaluation reports to reflect such re-demarcation of managerial boundaries,

(ii) Streamlining of the planning mechanism, ensuring that the organisational structure was in line with the sub-tasks requiring managerial effort. The structure now defined authority and responsibility levels in such a manner that budget accountability was limited to actions which were controllable by the managers of the responsibility centres,

(iii) Reporting formats were streamlined by merging data in respect of common managerial boundaries. Their content was substantially changed by altering the "mix' in favour of technical and operating information (as against financial information) at the operating levels,

(iv) Wherever corporate policies were hazy, the goals and objectives to be achieved were re-examined and the revised formulations were broken up in terms of departmental targets highlighting sub-tasks to be achieved and were integrated in the departmental budgets,

(v) Wherever remedial action involved co-ordination between different managerial functions it was stipulated that the management control cell would arrange for meetings for evolving joint remedial action rather than "up-down-up" references along the managerial hierarchy resulting in delayed decision making, and

(vi) Provision was made for communication of management control information to first-line supervisors, leading to their participation in the planning and control process and resulting in their acceptance of the system as a tool for better self-management.

In conclusion then it can be generalised that while the technical components of planning and control identified in the Deming study are correct, the critical requirements for the effectiveness of a management planning and control system must finally be related to the following questions:

(a) Is the organisational structure such that it defines authority and responsibility in terms of jobs to be accomplished, the costs and revenues of which are controlled by the responsibility centre concerned?

(b) Are the corporate goals and objectives translated into time-phased statement of unit targets based on the input-output relationship prevalent in the unit operations?

(c) Is the reporting system such that it can quickly diagnose deviations from the desired results, particularly in those areas which represent key variables in operations, and

(d) Whether the follow-up mechanism is such that it ensures prompt remedial action by proper analysis, review and co-ordinated action?

A management planning and control system must answer all these questions in the affirmative before it can be truly effective.

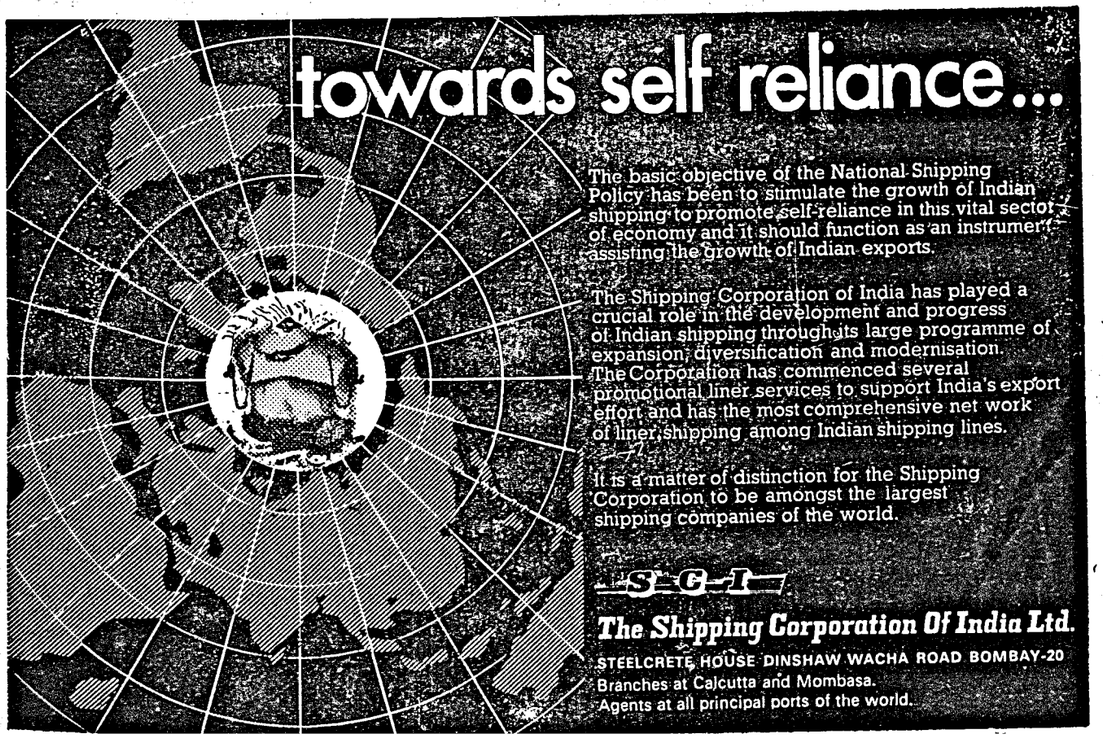
Notes

1 S K Bhattacharyya: "Considerations in Designing Management Control Systems" *(Economic and Political Weekly,* February 27, 1971).

2 S K Bhattacharyya: "Management Reporting Systems — Structure and Design" *(Economic and Political Weekly,* May 29, 1971).

3 Robert N Anthony: "Planning and Control Systems—A Framework for Analysis" (Division of Research, Harvard Business School, Boston, 1965).

4 Robert H Deming: "Characteristics of an Effective Management Control System in an Industrial Organisation", (Harvard Business School, Boston, 1968).



Net Present Value versus Internal Rate of Return

C Rangarajan

Paul Mampilly

As the net cash inflow generated during the lifetime of a project can be re-employed to earn further as and when they are realised, the exact point of time of occurrence of cash flows together with the size thereof becomes important in the process of evaluating the profitability of an investment project.

Net Present Value and Internal Rate of Return were evolved as tools to give proper weightage to these factors in making capital budgeting decisions. However, in evaluating projects, these two tools of analysis do not always lead to the same conclusion. The purpose of this note is to examine the circumstances in which divergent conclusions are reached and also to indicate which technique is to be preferred.

TRADITIONALLY both in India and abroad investment decisions have been taken on the basis of one or more of the following criteria: (a) pay-back period of the initial sums employed, (b) the average annual rate of return on the investment, and (c) net surplus in absolute amount generated by the project during its life-time. These measures are not considered satisfactory because they fail either to consider the entire life of the investment or to give adequate attention to the timing of the future cash proceeds. For example, the pay-back period method treats all proceeds received before the pay-back period as equal and ignores completely the proceeds received after the period. As the net cash inflow generated during the life-time of a project can be re-employed to earn further as and when they are realised, the exact point of time of occurrence of cash flows together with the size thereof becomes important in the process of evaluating the profitability of an investment project. It was to give proper weightage to these factors that the Net Present Value and Internal Rate of Return were evolved as tools to aid capital budgeting decisions. However, in evaluating projects, these two tools of analysis do not always lead to the same conclusion. The purpose of this note is to examine the circumstances under which divergent conclusions are reached and also to indicate which technique is to be preferred.

I

Meaning of Present Value and Yield

(a) *Present Value*

It is best to bring out the meaning of the net present value by means of two examples. Project A calls for an initial investment of Rs 100 and is expected to generate net cash inflows of Rs 80 at the end of year 1, Rs 30 at the end of year 2 and Rs 30 at the end of year 3, and nothing thereafter. Project B, however, yields Rs 30 at the end of each of the first two years and Rs 80 at the end of the third year with the same initial outlay of Rs 100. The situation may be tabulated as under:

	Initial Outlay	Cash Flow at End of			NPV	IRR	NTS
		Year 1	Year 2	Year 3			
Project A	Rs 100	Rs 80	Rs 30	Rs 30	Rs 20.03	17%	Rs 26.7
Project B	Rs 100	Rs 30	Rs 30	Rs 80	Rs 12.13	14%	Rs 16.2

Conventional accounting would suggest that either project generates the same cash flow (Rs 140) in the span of 3 years, and may accordingly treat both as equally profitable. Assume now that cash realised may be employed to generate income (earnings or avoidance of interest payments) at 10 per cent per annum. Then, under Project A, Rs 80 may be put to generate further income for 2 years more while Project B could provide only Rs 30. Thus at the end of the third year, the accounts of the two projects would look as shown in Table A.

The profitability of either Project is distinctly seen when the earning capacity of the flows generated during the life of the project is also taken into account. With Project A, the investor attains a Net Terminal Surplus (NTS) of Rs 26.7 while in the case of Project B, the NTS is only Rs 16.2. In this case, we made the comparisons by taking the cumulative effect of the flows to the terminal point. In like manner, we can bring down the flows to the initial point of time also. The principle applied is the same. The cash flow of Rs 80 at the end of the first year and the one at the end of the third year have, as we have observed, different connotations. Rs 80 received at the end of year 1 is as good as receiving Rs 96.8 at the end of year 3 or Rs 80 at the end of year 3 is as good as only Rs 16.12 at the end of year 1, for Rs 66.12 will appreciate to Rs 80 at the end of year 3. Thus, if we look at the flows generated by Project A, in terms of its present day equivalence, we find that it amounts to present day net surplus of Rs 20.03 while that of Project B is Rs 12.13. In other words, Rs 20.03 today is as good as Rs 26.7 at the close of year 3 and Rs 12.13 today is as good as Rs 16.2 at the end of year 3. Thus, Project A provides an opportunity to buy Rs 120.03 for Rs 100 and Project B to buy Rs 112.13 for Rs 100. This method then provides a meaningful way to analyse investment problems and is known in business economics as the NPV (Net Present Value) approach. The intrinsic assumption is that the flows generated are re-investible at a certain rate.

(b) *Internal Rate of Return*

Another way of looking at the profitability of the Project is by estimating what rate of return the flows generated over time effectively yields. We found that both in respect of Project A and Project B, there is a positive surplus at the terminal point (Rs 26.7 and Rs 16.2) under the assumption that the flows are re-investible at 10 per cent. Thus, if the investor were to borrow the initial outlay at 10 per cent, he would profit by the venture by Rs 26.7 or Rs 16.2, as the case may be, at the end, after retiring the debt with interest. In other words, the return from the investment is more than 10 per cent. We can see that at 17 per cent and 14 per cent rates of interest, respectively for Project A and Project

TABLE A (Rs)

	Project A	Project B
Year 1		
Initial outlay	(—) 100	(—) 100
Interest @ 10%	(—) 10	(—) 10
Total	(—) 110	(—) 110
Cash inflow at the close of year 1	80	30
Net to be carried over to year 2	(—) 30	(—) 80
Year 2		
Opening balance	(—) 30	(—) 80
Interest @ 10%	(—) 3	(—) 8
Total	(—) 33	(—) 88
Cash inflow for the year	30	30
Net to be carried over to year 3	(—) 3	(—) 58
Year 3		
Opening balance	(—) 3	(—) 58
Interest @ 10%	(—) 0.3	(—) 5.8
Total	(—) 3.3	(—) 63.8
Cash inflow at the close of year 3	30.0	80.0
Surplus at the end of the Project	26.7	16.2

B, the investor will be left with nil surplus at the end. At these rates, the net present value of projects will also be equal to zero. The yield can therefore be defined as the *rate of interest* that will make the present value of the cash proceeds expected from an investment equal to the present value of the cash proceeds required by the investment, and represent the maximum rate of interest that may be paid on the outlays. In business economics, this rate which equalises the cash flows to the present value of a project is called Internal Rate of Return (IRR), Discounted Cash Flow (DCF) return, yield, etc. This was termed as 'marginal efficiency of capital' by Keynes. In the present example Project A is adjusted superior in terms of NPV, NTS and IRR. The assumptions for estimating the IRR are worth repeating. Thus:

(i) The flows generated are re-investible at the particular value of the IRR, and

(ii) The borrowing rate or the rate at which funds are obtained is the same as the rate at which funds generated during the life of the project can be re-invested.

II

Cases of Conflict

(a) *Types of Decision Problems*

Broadly speaking, the following categories of decision problems involve application of either technique.

(i) To accept or reject a particular investment opportunity;

(ii) To select one or more from a given set of investment opportunities, where capital rationing is not called for, and

(iii) To ration capital among competing alternatives.

In an 'accept or reject' kind of situation, the Net Present Value would indicate the same decision as the Internal Rate of Return. For, if the NPV at a given re-investment rate (say 10 per cent) is positive, the rate at which the discounted net cash flow would be equal to zero must obviously be greater than that re-investment rate (10 per cent). Similarly when NPV is negative at a given rate, the IRR must be less than that rate. Thus in 'accept or reject' situations there cannot be a case where the two methods of evaluating project profitability will throw up conflicting decisions.

As far as rationing capital (item iii) among competing projects is concerned, either technique cannot conclusively spell out the optimum set of projects that need to be accepted. This, according to us, is a problem which calls for the application of integer or dynamic programming in addition to the NPV technique.

Conflicts, however, do arise in the case of item (ii) where selection is called for between two mutually exclusive projects. These conflicts, which we would see as we go along, arise directly out of the assumptions built in either method spelt out earlier.

(b) *Some Conflict Situations*

There can be a number of situations where the decisions indicated by the NPV approach is contradicted by the IRR approach. In order to bring out the differences effectively we take two such situations and discuss them in detail.

(i) Case I:

Where two mutually exclusive projects of the same economic life involve the same initial cash outlay.

Consider the following two projects

	Initial Outlay	Cash Flow at End of Year 1	Year 2	NPV @ 5%	NTS @ 5%	IRR
Project A	Rs 100	20	120	27.8	30.75	20%
Project B	Rs 100	100	31.25	23.58	26.00	25%

In terms of NPV/NTS, estimated at 5 per cent opportunity (reinvestment) rate of return, Project A is superior to Project B. In terms, however, of IRR Project B ensures a higher return. Which one is to be chosen then? The NPV/NTS method assumes that the outlays have an opportunity cost of 5 per cent and the flows generated by the outlay are reinvestible at that rate. If these assumptions are valid, nothing more than the figures shown under NTS should be left over with the investor when the projects are worked through to the end. The IRR of 20 per cent or 25 per cent assumes that the initial outlay has an opportunity cost of 20 per cent or 25 per cent and that the flows are reinvestible at that rate. The assumptions under NPV/NTS and the ones under IRR are thus incompatible.

The reinvestment or opportunity rate at which cash flows are discounted should depend on one or more of the following:

(a) the rate at which funds are borrowed, for to the extent of borrowing the surplus generated could be utilised to avoid interest payments;

(b) the shareholder's expectations rate or the cost of capital; and,

(c) specific alternate investment opportunities expected to arise from period to period.

Under Indian conditions, borrowing rates are fixed, and one could not imagine the existence of even a single firm which might not have outstanding borrowings. Therefore, the explicit re-investment rate may be taken as the one charged by the credit institutions for their lendings as the surpluses with the firm could always be utilised to reduce borrowing and save costs. If the IRR connotes a rate different from the established reinvestment rate, it loses its practical significance. In that situation the IRR cannot overrule the results obtained under NPV/NTS. At best the IRR indicates the theoretically maximum rate at which funds can be borrowed to finance a project. However, it would be incorrect to treat that rate automatically as the reinvestment rate.

Case II: where two mutually exclusive projects involving the same cash outlay have different economic lives:

Consider the following two projects:

	Initial Outlay	Cash Flow at End of Year 1	Year 2	Year 3	Year 4	NPV @ 5%	NTS @ 5%	IRR
Project A	(—) 1000	500	800	—	—	201.8	241	18%
Project B	(—) 1000	360	360	360	360	278.0	385	16%

Project A has an economic life of 2 years while Project B runs through 4 years. The NPV/NTS approach shows that Project B is more attractive while the IRR index chooses Project A. Some recent writers have observed that the NPV approach is biased in favour of projects of longer economic life, as the process ignores the possible utilisation of the surpluses at the end of the short run economic life. To be more precise they argue that the surpluses made available by Project A in a period of 2 years, viz, Rs 500 at the end of year 1 and Rs 800 at the end of year 2, could be put to earn further for two years or more which the NPV approach does not take into consideration.

When IRR approach indicates that Project A yields 18 per cent, it implicitly assumes that (a) at the end of the second year the funds can be re-employed on a project of equivalent profitability and (b) that the flows during the period of two years could earn at 18 per cent. Both these assumptions are questionable. If both the assumptions were true, then the NPV itself should be calculated at that rate in which case both methods will yield the same result. Further the assumption (b) would render the IRR of 16 per cent in respect of Project B meaningless.

It is not true to suggest that the NPV approach ignores what happens to the surplus at the end of the second year in the case of Project A. On the other hand it implicitly assumes that the funds left over at the end of the project's life are reinvestible at the same (discount) rate (5 per cent) at which the flows are brought to a common point in time.

The issue then is as to which assumption is true — 18 per cent/16 per cent or 5 per cent as appropriate reinvestment rate. Apparently only one could be true in which case either method would yield identical results.

The same issue arises when we compare projects of unequal initial outlays. The question that needs to be determined in such cases is at what rate the excess initial outlay of one project over another can be allowed to accumulate. The crux of the analysis in all these situations is therefore the determinations of reinvestment rate.

(c) *Multiple Rates of Return*

The Internal Rate of Return, as conceived in the earlier part of this discussion, is that rate at which the flows generated by the project and the initial outlay accumulate to the same sum at the end of the project's life. Alternatively it is the rate at which the discounted value of the flows generated equals the initial outlay. This method of computation leads to multiple rates of return in certain types of situations. Mathematically such a situation should arise whenever the stream of cash flow carries alternative signs, i e, some periods contributing positive flows and some others negative. Under Descartes' rule of signs, there can be as many solutions to such series of cash flow. Theoretically, therefore, the problem exists. Does this, however, have any economic significance or does this phenomenon disqualify once for all the application of IRR technique for capital investment decisions? We shall examine this issue by citing an example used by Ezra Solomon in his paper on 'Arithmetic of Capital Budgeting'.

An incremental investment of Rs 1,600 today is expected to yield a cash flow of Rs 10,000 at the end of first year with an attendant cash outflow of Rs 10,000 at the end of second year.

Initial Outlay (—) Rs 1600

Cash Flow

At the end of year 1 Rs 10000

At the end of year 2 Rs 10000

In this case the cash flow stream alternates in sign twice, and there could be two solutions, i e, two rates of return under Descartes' rule of signs.

At 25 per cent, the initial outlay accumulates to Rs 2,500 at the end of second year. The cash flow cumulates also to Rs 2,500 at the end of second year (10000+10000 x .25 —10000=2500) Similarly the present value of the cash inflow at the end of the first year and the outflow at the end of the second year discounted at 25 per cent come to Rs 1,600.

In like manner at 400 per cent IRR, the initial outlay and the cash flows generated accumulate to Rs 40,000 at the end of the second year. The present value of the flows discounted at 400 per cent come to Rs 1,600.

A conflict then arises as to which of these two rates is the correct measure of the investment value. Solomon answers this by stating that "neither of these rates is a measure of the investment worth", for, according to him, "any definition of profitability that leads to these absurd results must itself be in error. He, of course, does not waste time in locating what this error is. He solves the problem by arguing that the investment of Rs 1,600 helps only in preponing the cash flow of Rs 10,000 from the end of second year to the end of first year, and that the return of the investment of Rs 1,600 today should be linked to what the preponement of Rs 10,000 by a year could gain. If it is assumed that the earning rate of funds is 23 per cent, then the preponement of Rs 10,000 would mean an extra earning at the end of year 2 of Rs 2,300. This implies investing Rs 1,600 today to earn Rs 2,300 at the end of year 2, and is as good as earning 20 per cent, cumulative, on Rs 1,600. Solomon therefore concludes by saying that the right IRR is neither 25 per cent nor 400 per cent, but only 20 per cent.

In effect, Solomon solved the problem of the alternating signs (leading to the mathematical possibility of dual solutions), by putting a price on the flow at 23 per cent, and thus recasting it as:

Invest Initially (—) Rs 1600

Year 1 —

Year 2 2300

In such a case, of course, there is only one change of sign, and there cannot be more than one solution. But in the process of normalising the flow as one of single sign change, Solomon

TABLE B

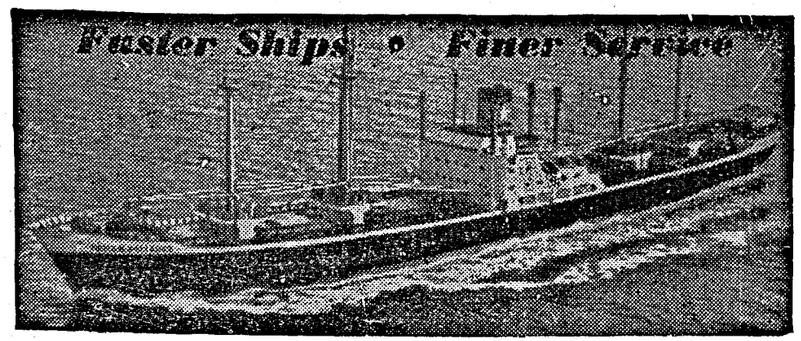
	@ 10%	@ 15%	@ 23%	@ 25%	@ 400%
(1) Flow at the end of year 1	10000	10000	10000	10000	10000
(2) Return on funds at item 1 for the second year	1000	1500	2300	2500	40000
(3) Total	11000	11500	12300	12500	50000
(4) Deduct outflow at the end of year 2	10000	10000	10000	10000	10000
(5) Total cash at the end of year 2	1000	1600	2300	2500	40000
(6) Cumulative rate of return (IRR) at initial outlay of Rs 1600	—21%	0%	20%	25%	400%

made all the difference—namely, that the funds could be reinvested only at 23 per cent. If this assumption were right, it did not require any calculation to suggest that neither 25 per cent nor 400 per cent is correct. For, the assumptions under which the IRR is arrived at is that funds are reinvestible at that rate. If, instead of 23 per cent, Solomon had assumed 25 per cent as the possible opportunity rate of funds generated, then IRR will work out to be 25 per cent. Table B shows the IRR that results from assuming different reinvestment rates.

Therefore, it is the basic assumption built into the process of arriving at the IRR that makes the mistake. The solution of 25 per cent has the assumption that the flow at the end of year 1 could earn at that rate. This is invalid if Solomon's 23 per cent is true. And so, too, the solution of 400 per cent. Thus, if the investor is certain that the utilisation of the surpluses generated by the project is possible only at a specific rate, then any solution different from the rate must be wrong.

Viewed slightly differently, the profitability of any project is accounted by (a) the cash surpluses directly arising out of the activities under the project and (b) the financial gain accruing as a result of subsequent utilisation (reinvestment) of these surpluses. It is in respect of the second category of flow that more careful prediction may have to be made. To the extent of borrowings outstanding, the rate on these financial gains could be the same as the rate of interest paid on such borrowings. Theoretically, then, if the initial outlay (say Rs 1,600) is borrowed at 400 per cent, the reinvestment also could be 400 per cent, but such opportunity would have a ceiling determined by the amount of borrowing itself. Thus, Rs 1,600 becomes at 400 per cent Rs 8,000 at the end of one year which is fully paid out of the inflow of Rs 10,000 at the end of year 1 leaving a balance of Rs 2,000. In a uniform series of cash flows, the cash inflows at the end of each year never exceed the outstanding amount. But when the flows alternate in signs, the possibility of lending also makes its appearance and it is the dual possibility of repaying as well as lending that results in multiple yields. However, the critical question in our example is whether the balance of Rs 2,000 left at the end of the first year can earn 400 per cent. If this can fetch only 23 per cent, the terminal cash would amount only to Rs 2,460 against an outflow of Rs 10,000.

The conflict between internal rate of return and the net present value methods arises only where a choice has to be made between mutually exclusive projects. But different conclusions are reached primarily because of the differing assumptions relating to the rate at which the cash generated in the course of the life of the projects can be reinvested. If, however, a common assumption is made regarding the reinvestment rate, both methods will lead to the same conclusion. Since the rate used in computing the net present value is likely to be close to the feasible reinvestment rate, the net present value method is usually a better guide in the choice of mutually exclusive projects.



Our fleet of seventeen modern freighters offers fast, regular and dependable service between

INDIA—U. K. & THE CONTINENT • INDIA/EAST PAKISTAN—SOUTH AMERICA
INDIA—BLACK SEA & EASTERN MEDITERRANEAN PORTS
INDIA—POLAND Also around the INDIAN COAST

INDIA STEAMSHIP CO., LTD.
"INDIA STEAMSHIP HOUSE", 21, OLD COURT HOUSE STREET, CALCUTTA-1

Corporate Policies on Bonus Share Issues in India

L C Gupta

Bonus issues in India are in the nature of 'stock-splits' rather than 'stock-dividends'. Increases in the total quantum of dividend distribution do not follow bonus issues quite as universally or automatically as is generally assumed. In fact, where dividend distribution has been increased, the quantum of increase has been usually less than in proportion to the bonus issue.

This paper is based on the findings of a specific inquiry. It argues from its findings that both to counteract the tendency towards laxity and wastefulness in the investment of retained earnings and to check undesirable speculation, a policy of an annual 'stock-dividend' paid concurrently with the retention of profits has distinct advantages over the present practice in India. The current practice amounts to capitalising past accumulations at infrequent and irregular intervals according to the whim of managements.

[The study was sponsored by the Research Programmes Committee of the Planning Commission. The responsibility for the views expressed is entirely that of the author.]

THE object of this article is to examine certain aspects of the practice of issuing bonus shares by Indian companies. The discussion is based on the findings of a specific inquiry.

Perhaps the most interesting fact brought to light by our inquiry is that bonus issues in India are in the nature of what the Americans call 'stock-splits' as distinguished from 'stock-dividends'. It was found that increases in the total quantum of dividend distribution did not follow bonus issues quite as universally and automatically as is commonly believed, and that in those cases where the dividend distribution was increased the quantum of increase was usually less than in proportion to the bonus issue.

We analysed the ratios of bonus issues for 919 cases of bonus issues made by quoted Indian companies, i e, companies whose shares were listed on any of the stock exchanges in India at the time of the bonus issue. The study covered the 20-year period, 1948-67. Table 1 shows the relative importance of the different ratios of bonus issues. It reveals that certain bonus ratios tended to be popular with corporate managements in India. The four most typical ratios, together with the percentage of the total number of bonus issues accounted for by each of these ratios, were as follows:

Bonus Ratios	Per Cent of All Bonus Issues	
	1948 to 1967	1966 and 1967
(a) 1:1 (100 per cent)	25.1	20.9
(b) 1:2 (50 per cent)	17.2	17.7
(c) 1:4 (25 per cent)	10.3	12.2
(d) 1:5 (20 per cent)	9.5	12.5
	62.1	63.3

For the period 1948-67 as a whole, the largest proportion (25.1 per cent) of bonus issues was in the ratio of 1:1, followed by the ratio 1:2 which accounted for 17.2 per cent of all bonus issues. The ratios of 1:4 and 1:5 were, between them, of about equal importance.

Bonus ratios over the period 1948-67 have generally moved down. The largest proportion (24.7 per cent) of bonus issues during the two years, 1966 and 1967, was in the ratios of 1:4 and 1:5 which may be taken together because they are close to each other.

A striking feature of this prevalent Indian corporate practice of issuing bonus shares is that bonus issues in the low ratios of less than 1:10 (i e, 10 per cent) have throughout been of negligible importance, forming only 1.8 per cent of the total number of bonus issues during 1948-67. The bulk (90 per cent) of bonus issues in India are in relatively high ratios, of 20 per cent and above, and are made by companies at irregular intervals without any consistent policy. This is an important departure from the practice among American companies. The ratios of bonus issues, or to use the American term, 'stock-dividends' to stock outstanding, are set in the United States typically at 2 per cent, 3 per cent or 5 per cent. An overwhelming majority of stock-dividends by American companies are of less than 10 per cent; slightly over half of them are of less than 5 per cent.[1]

A detailed examination was undertaken of the actual behaviour of dividends after an issue of bonus shares. The analysis of dividends covered 496 cases of bonus issues by Indian companies over the 18-year period, 1950 to 1967. The quantum of dividend distribution after a bonus issue did show an increase in the majority (two-thirds) of the cases examined for the period in question. At the same time, the proportion of cases in which no dividend increase occurred was also quite large (one-third of the total number examined). Further, the increase in dividend distribution was found to occur more in the case of low bonus ratios than in the case of high ratios. Thus, in the case of non-plantation companies, only 57 per cent of the bonus issues in ratios of 1:1 and over

TABLE 1: FREQUENCY DISTRIBUTION OF BONUS ISSUE RATIOS, 1948-67

Ratio of Bonus Issue to Outstanding Equity	No of Bonus Issues	Per Cent of Total
1:10	38(17)	4.1(4.9)
1:8	7(2)	0.8(0.6)
1:6	24(10)	2.6(2.9)
1:5	87(43)	9.5(12.5)
1:4	95(42)	10.3(12.2)
1:3	59(20)	6.4(5.8)
2:5	46(21)	5.0(6.1)
1:2	158(61)	17.2(17.7)
3:5	16(8)	1.7(2.3)
2:3	20(7)	2.2(2.0)
1:1	231(72)	25.1(20.9)
3:2	9(2)	1.0(0.6)
2:1	28(9)	3.0(2.6)
3:1	7(2)	0.8(0.6)
4:1	2(—)	0.2(—)
5:1	1(1)	0.1(0.3)
6:1	1(—)	0.1(—)
7:1	2(2)	0.2(0.6)
8:1	2(1)	0.2(0.3)
9:1	1(—)	0.1(—)
Sub-total	834(320)	90.8(92.8)
Ratios other than above	85(25)	9.2(7.2)
Total	919(345)	100.0(100.0)

Note: Figures within brackets give separately the data for the two years 1966 and 1967.

were followed by an increase in the quantum of dividend distribution. The corresponding percentage for low bonus ratios, of 1:6 and below, was 85. This finding too is contrary to the general belief among the public that the dividend increases would usually be more common and larger in the case of large bonus issues than in the case of small bonus issues.

The average percentage increase in the quantum of dividend for the year of bonus issue, as compared to the preceding year, worked out to approximately 18 per cent for bonus issues made during the period 1954 to 1964 and 14 per cent for those made during 1966 and 1967. However, a detailed analysis of the percentage changes in dividend distribution following a bonus issue shows a bewildering diversity of policy among corporate managements, so that, the average figures mentioned above cannot be regarded as representative. In roughly one-third of the cases examined, the increase in dividend following a bonus issue ranged between 10 and 30 per cent over the preceding year. In about one-fifth of the cases, the quantum of dividend distribution actually dropped after the bonus issue. The magnitude of increase in the dividend quantum had a wide range from a nominal increase of less than 5 per cent to very substantial increases of over 50 per cent.

Our findings indicate that it is misleading to consider bonus issues by Indian companies to be stock-dividends. Whereas the distribution of stock-dividends by American companies, in most cases, amounts to capitalisation of the retained profits *concurrently* (i e, in the year of retention), the issue of bonus shares by Indian companies in the great majority of cases represents capitalisation of the past accumulation of retained profits over a number of years. This is suggested not only by the low ratios of stock-dividends in the US compared to the generally high ratios of bonus issues in India, but also by the fact that stock-dividend in the case of a large number of American companies is a regular annual feature and is paid alongside the cash dividend while bonus shares by Indian companies are issued infrequently and at irregular intervals. The maximum number of bonus issues made by any Indian company over the 20 years 1948-67 was 10 and only one Indian company, *viz*, Arvind Mills, was found to have made 10 bonus issues. In all other cases, the number of bonus issues during the 20-year period was seven or less.

A policy of an annual stock-dividend along with a regular cash dividend, implies a gradually rising total cash distribution and places on the corporate management a kind of obligation to re-invest the retained profits remuneratively. Thus, a 3 per cent stock-dividend paid annually in addition to a uniform rate of annual cash dividend means a 3 per cent annual growth in total cash distribution. The distribution of a stock-dividend in these circumstances becomes an effective method of conveying to the stockholders an assurance about the profitable re-investment of retained profits. The stock-dividend represents a certificate indicating the amount of re-investment made on behalf of each shareholder. However, the practice among Indian companies — of giving bonus shares at infrequent and irregular intervals out of past accumulations — places no obligation at all on the managements to ensure that re-investment of profits yields a reasonable return.

Investment financed from external sources is subject to screening by outside agencies as to its relative profitability, but investment financed from internally generated funds is subject to no such check. Serious doubts have been expressed about the efficacy with which retained profits are invested by corporate managements. Some factual research investigations into this problem yield disturbing conclusions. Thus, I M D Little, inquiring about United Kingdom companies, arrived at the following conclusion:

> One seems to be left with the conclusion that these [companies] which retain a relatively high proportion of profits select relatively unprofitable investments. The present results, therefore, seem to lend some weak support to the view that institutional or fiscal arrangements which limit dividends are a relatively inefficient method of increasing investment.[2]

The position in India is likely to be certainly worse than in the UK because of the general lack of a professional bias among Indian corporate managements. Most investors entertain doubts about the retained profits being taken at their face value or being invested in sufficiently remunerative schemes. Witness the following observation by A J Merrett and Allen Sykes in a recent book:

> Moreover, unless there are special tax considerations (e g, an exceptionally high proportion of the shareholders are surtax payers hence making retained earnings especially advantageous) shareholders may be justifiably suspicious of companies which retain an exceptionally high proportion of earnings and thus decline to submit to the financial scrutiny and discipline involved in raising external equity.[3]

It is at least partly for the above reason that the market assigns several times more weight to dividends than to retained income.

The present practice of issuing bonus shares at irregular intervals in relatively high ratios also leads indirectly to unwarranted price fluctuations and undesirable speculation in the share market. Company managements usually give no indication to the public as to their dividend intentions after the bonus issue. Our data on dividend changes after bonus issues reveals an extremely erratic behaviour on the part of company managements. Bonus issues have generally been regarded by the share market as signals for a dividend increase in the immediate future, but very frequently, as our data showed, the signal proved to be false. Large bonus issues at irregular intervals thus cause unnecessary disturbance to the share market. They also provide opportunities to the 'insiders' to make large private profits by share-trading on the basis of inside information.

A practical objection against the policy of an annual stock-dividend at a low rate may be raised, however, on administrative grounds, *viz*, that it would require allotment of fractional shares, would create a lot of paper work, and would involve considerable postal expense. But these objections cannot be regarded as weighty. Fractional shares arise even now in most cases and cannot be said to give rise to any serious problem. The amount of paper work and postal expense can be minimised if the cash dividend and the stock dividend are declared together and are posted together. This will incidentally also have the advantage of minimising the occasions of disturbance to share prices.

Hence, both from the point of view of counteracting the tendency towards laxity and wastefulness in the investment of retained earnings and from the point of view of checking undesirable speculation which causes violent price fluctuations in the share market, a policy of an annual 'stock-dividend' paid concurrently with the retention of profits has distinct advantages over the present practice in India of capitalising past accumulations at infrequent and irregular intervals according to the whim of the management.

Notes

1. James E Walter, "Dividend Policy and Enterprise Valuation", Belmont, 1967, pp 14-16.
2. I M D Little, 'Higgledy Piggledy Growth' *Bulletin of Oxford Institute of Statistics*, November 1961, p 412.
3. A J Merrett and Allen Sykes, "Capital Budgeting and Company Finance", London, 1966, p 46.

Foreign Collaboration in Indian Industry

V N Balasubramanyam

What has been the impact of imported technology and investment on Indian industrial productivity, exports and growth? As the Reserve Bank of India study on the subject puts it, "the major problem in this field is, for instance, whether, on balance, foreign collaboration arrangements have resulted in, or can be relied on to result in, a net gain to the country? Have those firms and industries which have relied more on technology fared better relative to the others in terms of productivity and growth?"

Central to the same theme are questions such as what exactly is the nature of knowledge imported under the technical collaboration agreements? Is the knowledge imported suited to Indian conditions and prevailing factor proportions? Has the implementation of foreign techniques resulted in a higher capital-labour ratio? Is the imported knowledge restructured to suit Indian factor and product market conditions? What has been the cost of such restructuring? How best to assess the quality of knowledge imported? Is the market for knowledge a perfect one? If not, what are the costs and benefits of operating in an imperfect market for knowledge?

Questions such as these are easily raised, but answers are hard to find, mainly because of the lack of reliable and comprehensive factual and statistical data on the subject.

A benefit-cost analysis of foreign technology requires much more comprehensive information than is available from published sources. A sector-by-sector analysis of the problems or even micro case studies of selected individual firms with foreign collaboration in each of the industrial sectors would be a more fruitful avenue of approach than overall macro studies.

[The author wishes to thank A I MacBean and R Whittaker for comments on this paper.]

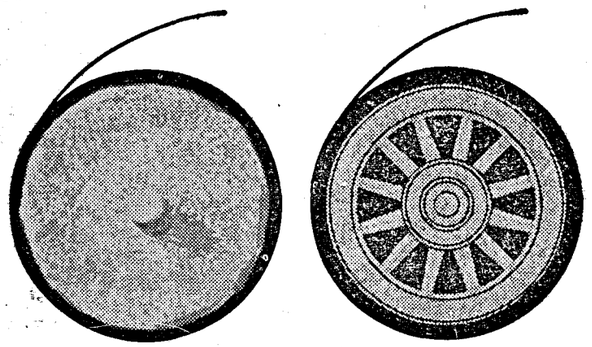
A NUMBER of studies differing in approach content and conclusions on the multi-faceted problem of the role of foreign technology and investment in Indian industry have appeared recently.[1] These studies have cast their net wide, employing the questionnaire method and interview techniques, to cull out information on a subject on which secondary data are scanty. The Reserve Bank of India study, based on replies to a comprehensive questionnaire sent to Indian firms with foreign collaboration, provides valuable data on dividends, royalties and technical fees paid by Indian firms to their foreign collaborators. It also reports on the contractual clauses embodying various types of restrictions that govern Indo-foreign technical and financial collaboration agreements. Kidron's study, a result of painstaking empirical investigations, besides providing an excellent annotated account of the evolution of Indian official policy on foreign capital also presents valuable insights into the aspects of control and restrictions that foreign collaborators exercise over their Indian partners. The study by Tomlinson approaches the problem from the viewpoint of the British partners and attempts to delineate the factors influencing their decision in entering into joint ventures with Indian and Pakistani firms. The recent study of the National Council of Applied Economic Research emphasises the link between imported and indigenous technology, analyses the implications of governmental policy for imports of technology and in general, presents a brief for a liberal policy towards imports of technology.

Crucial Questions Unanswered

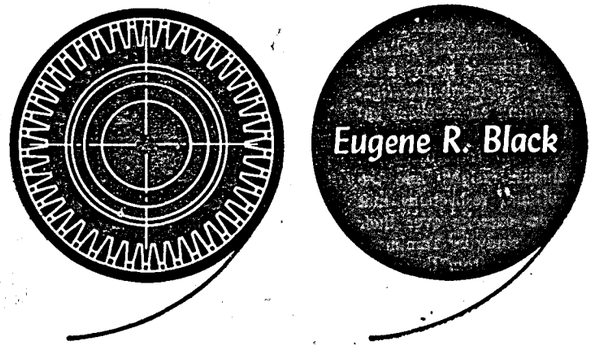
The role of foreign capital and technology in the development process is a controversial one. Besides the thorny economic questions it raises, political factors permeate the subject and render the analyst's task doubly difficult. In assessing the net contribution of foreign investment and technology to the growth process, the actual and potential control and monopolistic power that foreign investors can wield over the economy have to be posited against the technological and other benefits that flow from foreign participation. Hirschman's[2] comment that foreign investment in developing countries shares the "very high degree of ambiguity of most human inventions and institutions; it has considerable potential for both good and evil" aptly summarises the position. The studies cited earlier have tackled a difficult terrain and provided hard-to-find information and insights on a timely and controversial subject. Yet, these studies leave crucial questions unanswered.

What has been the impact of imported technology and investment on Indian industrial productivity, exports and growth? As the Reserve Bank of India study puts it, "the major problem in this field, is, for instance, whether, on balance, foreign collaboration arrangements have resulted in, or can be relied on to result in, a net gain to the country? Have those firms and industries which have relied more on technology fared better relative to the others in terms of productivity and growth?"[3] Central to the same theme are questions such as what exactly is the nature of knowledge imported under the technical collaboration agreements? Is the knowledge imported suited to Indian conditions and prevailing factor proportions? Has the implementation of foreign techniques resulted in a higher capital-labour ratio? Is the imported knowledge restructured to suit Indian factor and product market conditions? What has been the cost of such restructuring? How best to assess the quality of knowledge imported? Is the market for knowledge a perfect one? If not, what are the costs and benefits of operating in an imperfect market for knowledge?

Questions are easily raised, but answers are hard to find, mainly because of the lack of reliable and comprehensive factual and statistical data on the subject.[4] The studies cited previously do dwell on some of these questions, but fail to provide any clear-cut quantitative estimates of the impact of imported knowledge on Indian industrialisation. The Reserve Bank of India study absolves itself of any such objectives by stating in the introduction to the study, "clearly an answer to this question cannot be given on the basis of just the factual data regarding dividends, royalties, technical fees and the like brought together in this report, since the problem involves, among other things, an assessment of what progress



Development is proceeding in spite of the cultural attitudes, social institutions and political conflicts which sometimes seem to be such immovable barriers. It is not a smooth, uninterrupted progression, to be sure; rather, growth appears more as a series of fits and starts. "And yet," as Galileo is supposed to have said, "it moves!"



MAHINDRA & MAHINDRA LTD.
BOMBAY CALCUTTA DELHI MADRAS

PRESYN

in production, employment, exports and the advance of technology in general and import substitution in particular would have been made in the absence of these arrangements for import of capital and knowhow—a different kind of terrain altogether".[5] Despite this disclaimer it must be pointed out that the Bank is in an enviable position as far as access to data and information and ability to muster and deploy the necessary administrative and research skills needed for the job are concerned. Though the factual data presented by the survey report provides data on the extent of payments made to the foreign collaborators, the various kinds of restrictive clauses stipulated in the agreements and the nature of foreign financial participation, the data are not adequate enough to make any quantitative assessment of the impact of foreign collaboration on Indian industry.[6]

Insufficient Empirical Evidence

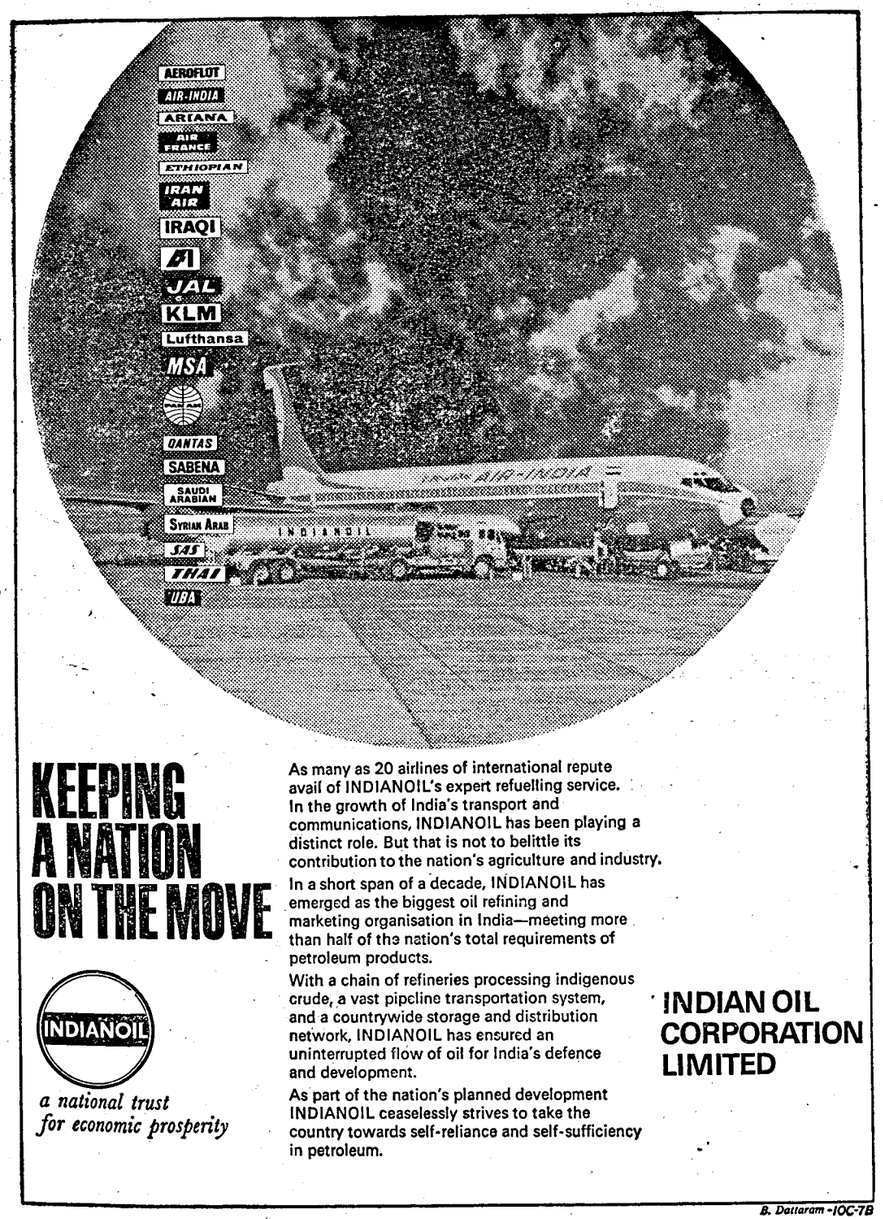
The main thesis of Kidron's study is that there has been an excessive import of technology and capital into the country imposing a net burden on the economy. At the end of the book, he attempts to assess the cost of foreign capital and technology to the Indian economy.[7] On the basis of available published data on outflows of profits, dividends and royalties and the supporting cases of particular industries he cites, Kidron concludes that there has been an excessive dependence on foreign capital and technology, resulting in a net burden to the economy. By comparing the inflows of foreign exchange with the outflows generated by foreign private investment, he concludes that in the fourteen-year period ending in 1961 foreign investors had taken out of the general currency reserve three times as much as they contributed directly.[8] Though it is plausible that foreign investment has been a net drain on the foreign exchange reserves Kidron's conclusion is not supported by sufficient empirical evidence. A comparison of the fresh inflows of foreign capital with the outflows by way of royalties and dividends, with the latter being in excess of the former, alone does not justify the conclusion. The effects of imported technology and investment on productivity, savings in foreign exchange occurring due to import substitution, the impetus it provides to exports and the other external effects of imported knowledge and investment on the economy need to be considered in arriving at such a conclusion.[9] Some of the indirect effects of foreign investment are hard to quantify and are in the nature of imponderables. Kidron dismisses such indirect effects too lightly by citing stray cases to the contrary.

Kidron's admittedly uncorroborated thesis on the deleterious effects of imported capital and technology on employment also calls for empirical testing.[10] The thesis that foreign investment competes for labour with other sectors rendering these occupations redundant seems theoretically appropriate for a fully employed economy. It is also argued that foreign investments are relatively capital intensive and hence displace labour. This again is an oft-debated knotty question with wide theoretical and empirical ramifications. Apart from opening up the issue of choice of techniques with a bearing on the question of short run maximisation of employment versus long run efficiency and productivity, it poses pertinent empirical questions. Firstly, is there a wide spectrum of techniques in the kinds of activities and industries that foreign investors are operating? Secondly, are the less developed countries with their endowment of entrepreneurial and labour skills able to perfect them and what are the opportunity costs of investing in research to design and perfect labour intensive techniques as opposed to importing technology from abroad? Finally, it is too often unquestioningly accepted that foreign firms operating in less developed countries necessarily adopt capital intensive techniques. Empirical evidence is scant on this question. Theoretical conjectures however suggest that one of the factors attracting foreign investors to the less developed countries may be the availability of low cost labour.[11] Foreign investors may be concentrating on sectors producing highly standardised products requiring significant amounts of labour in the production process.[12] Another important finding of Kidron in the labour field is that foreign firms in India pay higher wage rates relative to other firms in the economy.[13] But it is debatable whether and to what extent this can be construed as a criticism of foreign investment. The relatively higher wages may be efficiency wages commensurate with the higher standards of work efficiency and discipline that foreign firms are known to impose. Further, in judging the labour policies of foreign firms, the spread effects in terms of education and technical training that they impart to the economy also need to be considered. Many of the new breed of young engineer-entrepreneurs that are branching out on their own by establishing small-scale firms, specially in metal products and textile machinery that one encounters in India these days are ex-employees of foreign firms.[14]

The import of the foregoing is not to deny categorically the validity of Kidron's conclusions, but to point out that they emerge from hypothesis unsupported by sufficiently rigorous empirical evidence and hence are in the nature of reasoned conjectures rather than conclusions.

National Council Study

The study by the National Council of Applied Economic Research cited earlier is in a sense at the other end of the spectrum to that of Kidron's work. Arguing from the premise that for the individual firm the cost of imported technology is much less than that of indigenous research and development effort, the study states "Hence we find no reason to doubt that the comparative costs of research and development justify most of the imports of technology that do take place".[15] The individual businessman's view that indigenous research is more expensive relative to imports of technology may be basically correct. But would this permit the conclusion that for the economy as a whole imported technology is cheaper relative to indigenous research and development? An individual firm operating in competitive markets for final products is not likely to perceive the gains from a unit of resources devoted to research and development. This is specially so when the social rate of return to a unit of resources devoted to research and development exceeds the private rate of return. Research efforts are likely to generate substantial external economies. Individual firms producing a narrow range of products may not be able to capture all the benefits of their research effort. Individual firms looking at only the private rate of return to investment in research and development are not likely to invest substantially in such activities. As the Council Study itself acknowledges returns to scale are important in research and development. Individual firms perceiving only private profit opportunities may not be investing enough to reap such returns. It is because of this cleavage between the private rate of return and the social rate of return to research effort that the socially desirable amount of resources may not be drawn into indigenous research activities by private firms.[16] It is to be expected, under these circumstances, that individual businessmen



and firms should opt to import technology rather than devote resources to indigenous research and development. But, looking at the question from the viewpoint of the economy as a whole, it does not necessarily follow that technological imports are a relatively inexpensive alternative to indigenous research and development.[17]

In the absence of incentives to individual private firms to engage in research and development activity, positive public policy may be called for to foster such activity. But it is debatable whether non-profit-making government sponsored institutions would be the means to achieve this end. Private businessmen have often pointed out the shortcomings of such effort. Lack of initiative and enterprise on the part of these institutions, the non-applicability and/or non-usability of laboratory scale research designs and process to the scale demanded by industry and the absence of communication between industrialists and research scientists are often voiced complaints. Establishment of co-operative research organisations, supported and financed by all or a large number of firms in the relevant industries to undertake basic research and design suitable techniques may be an alternative to publicly supported research. Private industrialists, however may be reluctant to accept such a solution on the ground that it would eschew competition and eliminate incentives to growth, and that some firms would be able to capture the gains from research, whether or not they pay for it. But if co-operation among firms is ruled out, little research would be undertaken at all.

Nature of Market for Technology

It can hardly be denied that the market for knowledge is far from perfect. In a perfect market, the price facing the different buyers of a particular stream of technology would be the same. But the very nature of the factor being traded and the substantial disparities in size between the buying and selling firms renders the market imperfect. Technology is a collective input where more than one resource is involved. Even for a particular industry or product, there may be several streams of technology available involving differing combinations of the resources mix that make up a package called technology. Lack of information about
luct they are buying on the
the recipients would be a ma-
or rendering the market for
ge imperfect. Education and/
or information is required to cognise, decode, compare and negotiate for the acquisition of foreign knowledge. In the absence of such comprehensive information, monopolistic price discrimination becomes possible. It is price discrimination in the sense that either for the same stream of technology, different buyers may be paying different prices or for the same price, different buyers may be geting differing kinds of technology. As Constantine Vaitsos elegantly puts it a hypothesis can be formulated to the effect that a recipient's cognisance or information with respect to and for the acquisition of knowhow is inversely related to a monopolistic rent paid to the supplier under imperfect market conditions. More simply, the payments for receiving knowhow would be an increasing function of the recipient's relative ignorance.[18]

If there was a perfect market for knowledge, import of obsolete equipment and techniques unsuited to Indian conditions would be penalised by market forces. As Bhagwati and Desai state, the firm which bought inefficient technology would lose out to the smarter firm. But an imperfect market for knowledge, coupled with inefficient tariff and exchange rate policies, renders import of inefficient knowhow feasible.[19] The choice of the right foreign associate, both in the case of joint ventures and technical collaboration, is a hard one to make. There are no standard prices quoted for technologies on the international markets nor are there any information-disseminating bodies. More often than not, the decision regarding the choice of a foreign partner is made on subjective grounds and not on objective economic criteria. Favourable past associations, mainly previous trading contacts, are often cited as one of the main factors influencing the choice of a particular partner.[20] The decision is often made by a single influential individual in the organisation and is not the result of a collective decision made by the firm.[21] It is possible that bigger firms would have wider training contacts. But this does not ensure that they also possess the requisite knowledge about knowledge to be imported. Again, the size of the Indian firm relative to other firms in the economy does not ensure that it would be in a better bargaining position with the foreign firm. What is important is the size of the recipient firm relative to the other Indian firms. Larger Indian firms might have been approached with more proposals to supply knowledge, but this does not ensure that they have always been able to choose the best. Indeed, it is possible that previous trading contacts with foreign firms might be a factor acting against the recipient firms in their role as buyers of knowledge. Syed Ahmad has theoretically demonstrated that if a particular country supplies to another a good, and also the means of producing that good, it is likely to supply less of, and charge a higher price for the means of production.[22] This is because the supply of means of producing that good may be affected by the loss of profit resulting from a reduction in the demand for the good the country supplies.

Ceiling on Royalty Payments

In the absence of a perfect market for knowledge, the question as to whether imports of technology should be left to the free market forces becomes relevant. Is the overall ceiling imposed by the Government on the royalty rates to be paid on technology imports justified? The National Council Study, as well as many industrialists, think that it inhibits the buyers in choosing the best technology available and renders the supply of technology inelastic. Ceilings on royalties raises questions of both efficiency and equity. The absence of ceiling on royalties paid does not necessarily ensure that bigger firms with larger financial resources would be able to buy superior technology. This is because of lack of information and imperfections in the market for knowledge. Even if the market were perfect and the highest bidder could get the best, social policy objectives of catering to the needs of the smaller firms would get the axe in the process. It can, indeed, be argued that a ceiling on royalties may have some beneficial effects on both imports of technology and indigenous research and development. Insofar as royalty ceilings are specified as percentages of value added or sales, it may provide an incentive to the technology supplying firms to enhance these magnitudes. In other words, the supplying firms are motivated to be more concerned about the efficiency in operations on the part of the recipient firms. The larger firms, because of the limits placed on the royalties to be paid to the foreign firms, may divert some of their resources and energies to indigenous research effort, directed either at designing techniques of their own or perfecting the imported techniques to suit their needs. Further, such ceilings on royalties can easily be evaded. One means



of doing so is to pay marked up prices for components and equipment imported from the collaborators. Where the foreign firm acts as an export agent for the exports of the Indian firm, inflated commissions can also be paid for the services rendered by the collaborator.[23]

Under these circumstances, even the policy of levying a ceiling on royalties to ensure that such payments do not place an excessive burden on the balance of payments, seems to be self-defeating. If technology imports are deemed necessary, a more efficient set of policies designed to disseminate knowledge about knowledge to the prospective recipients would be necessary. The setting up of a centralised agency in the nature of a data bank, manned by experts in different fields, charged with the function of collecting and disseminating information about the various types and sources of knowledge available, may be a solution. This body could also arbitrate in the fixation of royalty rates. Private entrepreneurs, however, may be averse to such an idea on the ground that it eliminates competition. But in an imperfect market for knowledge such objections hardly arise. In any case, such a centralised body would be a better alternative to the present bureaucratic supervising of applications for technical collaboration.

Export Restriction Clauses

Another facet of the problem that has attracted attention is the various kinds of restrictions on exports imposed by the foreign firms on their Indian partners in some of the technical collaboration agreements.[24] Some agreements specify that the permission of the foreign partner is needed to export, some specify areas to which exports are allowed and some others stipulate a total ban on exports for a specified duration. One of the important criticisms of foreign collaboration made by Kidron relates to these restrictive clauses. But the National Council study makes a clean sweep of these objections by noting that such clauses are only in a minority of the agreements and that there are other important factors like exchange rates and trade policies that inhibit exports. Two points need to be considered in this context. First, the fact that such formal clauses are in a minority does not, in itself, mean that such restrictions are not actually being exercised. Business executives acknowledge that though such clauses are not actually written into the agreements in [illegible] to Government stipulations, they do have informal and gentlemen's agreements with foreign firms not to export to certain areas. Second, it is not so much the loss of exports in the initial years of manufacturing that matters, but the apathy and lack of effort in exploring export markets that such restrictions may induce that is serious. The effects of these restrictions on exports is a factor that needs to be considered in assessing the impact of foreign collaboration on Indian industry.

Japanese firms have been significant importers of foreign technology in recent years. Imported technology is reported to have contributed significantly to the growth in productivity and exports of Japanese industry.[25] It is however extremely doubtful whether the Japanese success story in the field of technological imports can be used as an argument for liberalising imports of technology into India. The two countries are at markedly different stages of development. They differ in the basic infrastructure available to absorb and adapt imported technology. The R and D activities of Japanese firms have enabled them to absorb foreign technologies and develop new techniques suited to Japanese conditions. The following example, of the shipbuilding industry cited by the *Economist*, London, attests to the creative and adaptive abilities of the Japanese. "They built the best foreign machinery under licence and quickly applied the most advanced techniques with strong Government support — the Ship Research Institute is a part of the Ministry of Transport — since the shipbuilders have improved on many of the designs they previously built under licence and now offer the rest of the world the highly effective result of their own original research".[26] Apart from the adaptive and creative abilities of the Japanese nurtured by indigenous research and development activities, the presence of a well integrated sector of small sub-contractors that can produce according to prescribed engineering standards and under tight production schedules also explains the Japanese success in the field of technological imports.[27] These basic ingredients are yet to take shape in India. Appeal to the Japanese success story hardly justifies the plea for more liberal import of technology. It only underlines the need to develop the capacity to absorb imported technology by means of broad based research and development activity within the country.

This essay has mainly taken an agnostic stand on the role of foreign collaboration in Indian industry. Although the available literature on the subject presents many insights into the problem, it does not provide a quantitative empirical estimate of the impact of foreign technology and investment on Indian industrialisation. The complex nature of the subject is compounded by data problems. A benefit-cost analysis of the problem requires much more comprehensive information than is available from published sources. A sector by sector analysis of the problems or even micro case studies of selected individual firms with foreign collaboration in each of the industrial sectors would be a more fruitful avenue of approach than overall macro studies. Inter-firm efficiency comparisons between the firms with foreign collaboration and those without, in each of the major industrial sectors needs to be done.[28] But here again the researcher is faced with problems of data and definition. The firms selected for comparison need to be producing identifiably similar products and must be publishing comprehensive data on capital structure, employment, sales and profits and their wage bill. Comparisons of performance as far as possible should relate to the same time period for the two groups of firms.

Magnitude and Quality

Further, there is the problem of measuring the magnitude and quality of knowhow imported by firms with foreign collaboration agreements. The number of agreements, entered into by these firms may not be an adequate measure of the knowhow imported. The number of agreements need to be weighted by the size of firms.[29] Instead of measuring the magnitude of imported knowhow by the number of agreements, the value of royalty and technical fee payments made by the various industrial groups could be used as a measure of the magnitude of knowledge imported by the firms. But, apart from the non-availability of such data in sufficiently disaggregated detail by industries and firms, the use of such a measure poses other problems. Acceptance of such a measure presupposes the presence of a perfect market for knowledge, where all buyers pay the same price for a specific technology. Though the problems are formidable, an attempt, at inter-firm efficiency comparisons can be made by piecing together available information and using both the number of agreements and royalty payments as proxies for the

nowledge imported.[30] The debate on ıe pros and cons of foreign collaboraon in Indian industry will be sterile ntil case studies and empirical research ın shed more light on the problem.

Notes

1 Foreign Collaboration in Indian Industry: A Survey Report, Reserve Bank of India, 1968. M Kidron: "Foreign Investments in India", Oxford University Press, 1965. J W C Tomlinson: "The Joint Venture Process in International Business: India and Pakistan", MIT Press, 1970. "Foreign Technology and Investment: A Study of Their Role in India's Industrialisation", National Council of Applied Economic Research, New Delhi, 1971.

2 A O Hirschman "How to Divest in Latin America, and Why", *Essays in International Finance*, No 76, Princeton University, November 1969.

3 Reserve Bank of India, *op cit*, p viii.

4 The technical collaboration agreements are deemed secret and are not available to private researchers. Detailed information from the official and semi-official organisations dealing with the subject are not made available to private researchers. Only the lists of Indo-foreign technical and financial collaboration agreements citing the names of the Indian and foreign firms and the products manufactured under the agreements are available in profusion.

5 Reserve Bank of India, *op cit*, p viii.

6 Indeed the Bank itself acknowledges the fact in the introduction to the study. Data on the number of skilled and unskilled workers employed by the firms with foreign collaboration, the wage bill, the value of imported and indigenous equipment employed by the collaborating firms, the prices paid for the imported equipment, etc, are some of the data needed for a quantitative exercise.

7 M Kidron, *op cit*, pp 299-321.

8 *Ibid*, p 310.

9 This point is often made. See e g: Pearson Commission Report, "Partners in Development", Pall Mall Press, 1969.

10 Kidron, *op cit*, pp 313-314.

11 Kidron himself states that wages in India are very low compared to British wage rates — one sixth or one seventh at the lower end of the manufacturing scale ... at the level of a semi-skilled machine minder (p 248).

12 For an elaboration of this thesis see, R Vernon "International Investment and International Trade in the Product Cycle", *Quarterly Journal of Economics*, May 1966.

13 Kidron, *op cit*, p 248. Such behaviour of foreign firms is also corroborated by the experience of other countries: See E J Berg "Wage Structure in Less Developed Countries" in "Wage Policy Issues In Less-Developed Countries", International Institute for Labour Studies; and Koji Taira "Wage Differentials in Developing Countries", *International Labour Review*, March 1966.

14 Some of these engineers turned entrepreneurs that the author interviewed in the course of a brief survey on 'Foreign Collaboration in Indian Industry', had also been trained in the parent plants of the foreign firms before being recruited to their joint venture operations in India.

15 National Council of Applied Economic Research, *op cit*, p 2.

16 For an elaboration of this thesis, see R Nelson 'The Simple Economics of Basic Scientific Research', *Journal of Political Economy*, June 1959.

17 For an interesting argument that Research and Development expenses impose a lighter burden on developing countries than on developed countries based on a comparison of expenses per scientist with that of essential commodities in developed and developing countries, see Kamalesh Ray, 'Research in the Third World', *New Scientist*, May 23, 1969.

18 Constantine V Vaitsos: "Transfer of Resources and Preservation of Monopoly Rents", Development Advisory Service, Centre for International Affairs, Harvard University.

19 J Bhagwati and P Desai: "India Planning for Industrialisation", Oxford University Press, 1970, p 226.

20 This is also found to be true in the case of British firms seeking Indian associates. J W Tomlinson, *op cit*.

21 The usual reply to questions seeking information on the decision regarding the choice of an associate is "our managing director during his travels in Europe met so and so and started *negotiations*". In certain cases dealers supplying components and spares to particular firms have suggested foreign associates.

22 Syed Ahmad, 'On the International Supply of Capital Goods', *Indian Economic Review*, 1960-61.

23 In some technical collaboration agreements the foreign firms stipulate that all exports should be channelled through their marketing channels. Some of the agreements stipulate that the knowhow be transmitted to the Indian firms in the country of origin of the foreign firm, thus avoiding tax problems. Private information supplied to the author.

24 Reserve Bank of India, *op cit*, provides a summary of the nature and extent of such restrictions imposed on the firms surveyed by the study. Also see Kidron, pp 282-285.

25 T Ozawa: 'Imitation, Innovation and Japanese Exports' in "Open Economy", ed P B Kenen and Lawrence, Columbia University Press, 1968.

26 Quoted by T Ozawa, *ibid*.

27 J Baranson: "The Transfer of Technical Knowledge by International Corporations to Developing Economies", *American Economic Review*, Papers and Proceedings, May 1966.

28 For a discussion of the problems involved in making such a study. see D C Rowan and J H Dunning "Inter-firm Efficiency Comparisons: US and UK Manufacturing Enterprises In Britain", *Banca Nazionale del Lavaro Quarterly Review*, June 1968.

29 An attempt to assess the impact of imported knowledge on Japanese exports using the number of agreements weighted by value added of each industrial sector is made by T Ozawa, *op cit*.

30 A study incorporating such an analysis is under preparation by the author, 'International Transfers of Technical Knowledge to India', forthcoming in the Praeger series on special studies in International Economics and Development.

Gladstone Lyall

GLADSTONE Lyall's fibreglass reinforced plastics boat fabricating factory at Mangalore, the first in the country, is to go on stream by the end of this year. Set up in technical collaboration with Watercraft of the UK, the factory has an annual capacity to produce 150-200 boats. At present, fishing trawlers in the country are built of wood and steel, which have certain drawbacks. Fibreglass reinforced plastic is impervious to marine borers and it is claimed that it gives the trawler a life-span three times that of a wooden boat. Fibreglass reinforcement, the raw material, is manufactured by Fibreglass Pilkington.

Recruitment and Promotion Policies in Commercial Banks

V V Bhatt

The present procedures for recruitment and p·omotion in banks have evolved over the years in an ad hoc *manner. Yet a proper solution to these prob'ems is crucial for evolving a set of banking practices that are efficient and tuned to the attainment of nat·onal objectives.*

Recruitment is generally based on merit tested through competitive examinations for applicants drawn from all over the country. This method may be suitable for services such as the civil service and the judiciary, but for non-officer jobs in district bran·hes of banks which require local knowledge and trust and a modicum of accounting ability and reportive cl·rity, it would be far better to recruit from among local persons who have passed the school-leaving certificate examination. Such persons could even qualify for the officer cadre through a special banking examination. The branches could then be entrusted with greater responsibility and operate like subsidiaries of the lead banks.

THE present procedures with regard to recruitment and promotion in the banks have evolved over a period of years in an *ad hoc* manner. It is surprising that, on these crucial questions, not much creative thought is spent nor is there any general public discussion. It sometimes appears as though the intellectuals in this country are devoting their attention either to purely theoretical questions divorced from reality or to such problems as interest their peers in the UK or the US. While on the one hand, we have this intellectual tradition, on the other, persons in the field are far too obsessed with past precedents and with routine to rise above these and reflect on the challenge of the present. These two clearly defined traditions probably operate in all fields of national endeavour, and have created a rigid caste system which by its very nature cannot stimulate creative and efficient responses to emerging problems. The result has been that we by and large react to situations and problems as they arise rather than act now to eliminate problems of tomorrow.

Classic Recruitment Model

Our ideas on recruitment are governed largely by the classic model, evolved in Confucian China and adapted by the British in the UK as well as in India. The basic idea in this model is to tap the country-wide talents, for selection on the basis of merit tested through a competitive examination. The subjective element and various forms of nepotism in the selection process are to be, thus, minimised.

This model works well in services — such as the Civil Service and the Judiciary — in which merit can be easily recognised through an examination and where a certain degree of aloofness from the local environment is essential. Of course, even so, diversity of language and cultural characteristics may require some emphasis on regional recruitment for the lower category posts.

But services like banking are on a different footing. For the non-officers' jobs, all that is required is a minimum qualification relating to accounting and language. A basic qualification, similar to the School Leaving Certificate, should therefore suffice. Further, in these services, local contact and influence are essential for results; aloofness, which is a virtue for administering law and order, is likely to be a handicap for these tasks. Further, it is somewhat difficult to devise a competitive examination for the types of functions that are to be performed. Aptitude tests are known to favour only smart persons, and those really able to do the tasks are thus likely to get discarded.

A Model for the Banking System

In view of these characteristics of the banking service, it would be essential to restrict recruitment of non-officer staff — for the branch offices for which recruitment is being made — to persons in the relevant region or district. The maximum qualification to be insisted on should be the SSC. At present, for the jobs for which SSC qualification is good enough, there are applications from overly qualified persons such as graduates and post-graduates in various fields. Selection of such overqualified persons is detrimental to the interests of the institution as well as of the nation. From the point of view of the institution, such persons are less adaptable, more ambitious, and less disciplined, than those who have completed the SSC examination. From the point of view of the nation, recruitment of over-qualified persons involves a national waste. It induces persons to take to advanced education merely in order to qualify for a job and thus causes waste of the individual's time, money, and energy, which can be spent more effectively on other purposes. This waste is reflected in the growing numbers of university colleges, which the nation can ill afford to maintain.

The national waste could be avoided by restricting recruitment for non-officer jobs to matriculates only. For the officer cadre, it may be necessary to insist on a banking examination rather than on a graduate degree. At present, only bank employees can appear for these banking examinations (CAIIB); this needs to be changed so that all persons aspiring to a career in the banks can appear for these examinations. And the officer cadre should be recruited from such persons. Such a step would give a functional bias to their training right from the start and prevent persons from wasting their time in taking up university careers, in which they are not basically interested. This course of action would thus also contribute to the evolution of an appropriate educational system, if such measures of functional training are taken in the other fields also.

Ideal Solution

Regional/district recruitment has other advantages too. What is required of a bank in a lead district is the capacity to play a catalytic role in initiating a process of economic development. It has to function as a development bank *par excellence*. It is doubtful if the present branch banking would be adequate for this purpose. The ideal solution would be to have a

district bank. Since, however, it is too late in the day to reverse the evolution in the field, what one can do is to evolve a system combining the advantages of branch banking with those of small unit banks.

Towards Implementing the Lead Bank Concept

This can be easily done by the nationalised banks, if they establish wholly-owned subsidiaries in the lead districts.* Such a wholly-owned subsidiary should function as a full-fledged bank with initiative for policy changes resting with it; since it would be attached to the parent bank, it would thus have the advantage of its research results as well as its financial backing. Thus a system would be evolved, adapted for the purposes in view and combining the advantages of both systems.

One of the basic reasons why lead banks in districts have not been able so far to play any creative developmental role is that they are subservient to the head office in all policy matters. The head office cannot be in such direct vital touch with the local scene and would never be able to induce its branches, under the present system, to play the creative role envisaged for them. A branch manager in this system becomes a passive recipient of orders and does not initiate any new policies; it is common to hear from branch managers that they cannot do a certain thing because they have no orders from the head office. This system thus does not train people for developing initiative and for having the creative ability to introduce innovations in banking practice. The suggested system of wholly-owned subsidiary of a bank at a district level appears to be the ideal solution for the purpose.

District Recruitment, Salary Grades and Bonus

If such a development is to be initiated, regional/district recruitment would be essential. It would have the further advantage of demonstrating the employment effects of banking development in a district. Whenever a branch of a subsidiary is opened in a district, the people there would then see the advantage of this measure from the employment point of view also. There could be a tie-up, then, between the subsidiary and all schools in a district; the SSCs from the schools would know that they have this employment outlet. Further, they could even be recruited to the officer cadre if they pass the banking examinations (CAIIB).

The development of such subsidiaries and of local recruitment would simplify the problem of salary-grades. If the suggested solution is adopted, the salary grade would be fixed for a district and it would vary from district to district in relation to the local environment. It would thus be possible to keep within limits the wage-salary bill, and village branches could become much more viable than they are at present. The labour problem, too, would become manageable. For the bonus problem, a simplified equitable formula can be devised; this is very essential even under the present system, as recent experience has demonstrated. All post-tax profits should be equally distributed among their claimants — government, bank and employees.

Thus, all gross profits (GP)
=Net Profits (NP) + Tax (T)
=Bonus (B) + Share of Government (G) + Share of Bank (P) + Tax (T).

Now, since NP=f (B) and since B=1/3 NP, it would not be difficult to calculate the shares of each claimant. Some such formula is necessary to develop healthy industrial relations and a climate of equity, peace, and efficiency. This formula would apply to subsidiaries separately as it would to other accounting units.

Lead Bank Concept and Reorganisation of the Banking Structure

This system of district banks, as subsidiaries of the lead bank, will also help in the task of reorganisation of the banking system. If the suggested system is adopted, there is no case for creating either one or several banking corporations by an appropriate merging of the nationalised banks. The identity of each bank would be maintained in order to evolve a competitive spirit of innovations and to exploit the pride of belonging to a certain recognised institution. However, for each district, the lead bank would create a wholly-owned subsidiary to function as a full-fledged bank; and the non-lead banks would continue to operate their branches as they do now. The reorganisation of the banking structure that will then take place would be purposive and in line with historical development and with the national objectives set for the banking system. This task would be easier, more rational, less destructive of traditions, and more efficient than the present system or any other proposal for reorganisation of the banking structure on the lines of the LIC.

Promotion Policy: Problems

It has been generally accepted as a principle that promotion should be strictly on the basis of merit. But, in practice, it has been found difficult to measure merit; promotions, by and large, have been taking place on the basis of seniority. In some cases where promotions have taken place on the basis of merit, there has been some sort of a suspicion among employees as to the objective assessment made. In any case, it is true that a greater part of the employees prefer the seniority criterion to the merit criterion, and this is quite understandable as the really meritorious would form only about 10 per cent or less of the total employees in a given category. It is a case of the multitude against the meritorious. But that, at any rate, is a fact. And the insistence would continue to be on the seniority criterion for all jobs other than the top few jobs. One has, therefore, to reckon with this aspect of reality.

Dilemma Relating to Promotion Policy

The problem that arises then, is this: how to put really efficient people to do the appropriate jobs, while still adhering to the seniority principle for promotion. This is the dilemma. Strict adherence to the seniority criterion would result in complacency and inefficiency and would kill the initiative of the really able and efficient; on the other hand, the seniority criterion seems to be generally acceptable.

Elements of a Sound Promotion Policy

This dilemma can be resolved if the seniority-wise promotion in a salary grade is divorced from functional promotion. For example, a person would be promoted salary-wise and grade-wise on the basis of seniority — provided there are no consecutive adverse reports on his efficiency. However, such promotions would not mean that he would get a more responsible functional assignment. Any bright person can thus be put in a responsible position, without affecting *adversely* the salary-wise promotion of others and without affecting *favourably* his own salary grade. Much of the discontent now is due to supercession salary-wise; this discontent would disappear with the suggested solution. Further, a functional promotion would be a type of reward for the really deserving and he would be satisfied in being given more responsible work. For the top few jobs, which would be on a pure selection basis, the bank would have a choice from among the persons who would be really competent rather than from among those who have reached, on the basis of seniority, a certain scale.

The suggested promotion policy has been in operation as a historical accident in the Syndicate Bank. Such a policy can be purposively formulated in the light of present problems and challenges in the field.

Concluding Observation

A proper solution to these two problems — that of recruitment and that of promotion — is crucial for evolving a set of banking practices that are efficient and tuned to the attainment of national objectives. It is crucial in the other fields also. A constructive and creative discussion of the relevant issues is very essential in the search for a proper solution. It probably is a reflection of the poverty in the capacity for relevant thought that these and other such problems of vital significance are not discussed freely and creatively.

And such problems cannot be tackled in a creative way by committees and commissions. As John Updike has put it: "Intelligence is a function of the individual, and groups of persons are intelligent in inverse proportion to their size. Nations have the brains of an amoeba, whereas a committee approaches the condition of a trainable moron". The task is essentially for those individuals who occupy strategic positions and yet remain creative innovators and thinkers.

* In this connection, please see V V Bhatt, 'Lead Banks: Action-Oriented Approach', in *Economic and Political Weekly*, October 3, 1970.

Determinants of Corporative R and D

K K Subrahmanian

The R and D record of Indian companies is mostly depressing. In this context the question what factors influence the scale of R and D activity by firms is of great relevance for analytical as well as policy purposes.

This paper reports the findings of a cross-section regression analysis of a number of determinants of R and D by firms in the chemical industry.

WHILE corporate R and D is an important source of technological progress of industry, the poor R and D record[1] of companies in Indian industries is depressing. In this context the question what factors influence the scale of R and D activity by firms is of great relevance for analytical as well as policy purposes. Surprisingly, very little work seems to have been done on an empirical plane to investigate statistically the differences in and the determinants of the scale of R and D activity among firms in Indian industries. In a paper dealing with "Market Structure and R and D Activity"[2] the author has analysed the differences in R and D intensities of a sample of firms in the Indian chemical industry in an attempt to seek empirical evidence for the Schumpeterian market-structure hypothesis; but size of the firm *per se* (both absolute and relative) was not found to be a significant factor explaining the R and D scale differences or the progressiveness of firms in even a technology-oriented industry in Indian conditions. This paper goes a step further and reports the results of a cross-section regression analysis of number of determinants of R and D by firms in the Indian chemical industry.

Model and Hypothesis

What motivates a firm to undertake R and D? How does a firm determine its R and D expenditure and achieve an equilibrium situation? These are the relevant questions. As economic motives seem important in the behaviour of a firm, it should be possible to explain and predict the rate of inventive (R and D) activity of firms in terms of economic variables. We make the traditional assumption of profit-maximisation as the goal of all business decisions. The profit maximising behaviour of a firm with respect to R and D may then first be explained in terms of the effect of R and D on its demand and supply functions. The expenditure on R and D can be regarded as analogous to advertisement expenditure aimed to shift the firm's demand curve to the right and also make it less elastic. R and D also affects the supply curve in a similar fashion. The results of R and D are generally cost-reducing and the reduced per unit cost of output can be expected to increase output-sales and thus cause the supply curve of the firm also to shift. The interaction of demand and supply curves puts the firm in a higher equilibrium situation.

Within the framework of the theory of the firm, we may thus introduce R and D expenditure into the firm's sales function as a shift parameter. We assume that profits are a residual function of sales revenue. Normal conditions for profit maximisation can then be explained in the conventional method of the theory of firm. Let the profit function of our firm be:

P(S, R)=F(S, R) — O(S) — C(R)
R(S, R)=total revenue as a function of sales (S) and R and D (R) introduced as a shift parameter
O(S) =cost of producing and selling each unit of sales
C(R) =cost as a function of the scale of R and D

As a profit maximiser the firm will vary its R and D expenditure in such a way so that P (S, R) is maximum. The equilibrium conditions will be:

PS=FS — O'(S)=0;
PSS=RSS — O"(S) <0
PR=FR — O'(R)=0;
PRR=FRR — O"(R) <0

In more general terms, it can be said that both the 'demand pull' and 'cost pull' hypotheses working together may be important to explain how a firm determines its R and D expenditure and achieves an equilibrium situation. In deciding upon the current expenditure scale for R and D, a profit maximising firm can therefore be expected to make some forecast of the revenue and costs associated with the expected results of R and D activity. The decision by a firm on the scale of R and D expenditure will be influenced by the magnitude of this net gain.

Sales

Prima facie, the scale of current R

and D expenditure by a firm can be said to be dependent on its 'willingness' as well as 'capacity' to engage in R and D. The firm's willingness seems to hinge upon its sales, current or immediate past. Sales should therefore be an important explanatory variable in a statistical model for R and D. To be more precise, it is the expected net increase in sales revenue as a result of R and D expenditure that influences the readiness or willingness of firms to allocate resources for R and D. Higher the expectation, higher will be the scale of current R and D. The expectation is normally built around past experience. In deciding upon the current levels of R and D the firm makes some forecast of the increment in sales revenue due to increment in R and D by projecting into the future on the basis of the past trend in the relationship between R and D and sales. We may say that

$$R_t = f(S^*_t),$$

$$S^*_t = w_1 (S_{t-1}) + w_2 (S_{t-2}) + w_3 (S_{t-3}) \ \ldots \quad \sum_{i=1} w_i = 1$$

where, R_t is current R and D expenditure, S^*_t is expected rate of increment in sales revenue due to R and D, S_t is realised increase in sales.

In the statistical model employed in this paper, however, we have considered current sales as the explanatory variable rather than expected incremental sales. This has been done because introduction of expected net sales due to R and D as a variable requires distributed time series data on R and D, sales and other variables which were not readily available. As an alternative, we have employed a cross-section analysis of the data on current sales and R and D of firms. We assume that realised sales in a given year approximate the sales expected by the firm and therefore should show up its relationship with R and D scale in that year. We thus postulate that R and D tends to be positively associated with sales; such association has been demonstrated in many studies.[3]

Although we have postulated the relationship between current R and D and sales as positive, there is nothing in theory to suggest that it could not be negative. A fall in the sales may motivate a dynamic firm to raise its R and D expenditure as a defensive measure to recoup its market. The fact that R and D departments of most companies concentrate on improvements to existing products or processes aimed at protecting the market[4] rather than on basic research or developing new products suggests the possibility of a negative relationship as a practical proposition. On the analytical plane also it can be shown that a negative relationship between R and D and sales is not inconsistent with the profit maximisation assumption of the theory of the firm.[5] In the statistical model, therefore, we have included sales as an independent variable representing the willingness of firms to spend on R and D as determining the current R and D expenditure with the expectation of either positive or negative sign for the co-efficient of the variable in the R and D regression equation.

Internal Funds

Another variable included in the model is the profit of the firm. Profit influences current R and D scale of a firm or its willingness to spend on R and D in the same way as sales do. Thus when profits are high a firm may expand its current R and D expenditure in anticipation of higher profits. It is also plausible that a falling profit may motivate firms to spend more on R and D as a defensive measure to increase sales and thereby to recoup the losses. Profit functions not only as an indicator of future profitability but, more significantly in the form of retained earning, as a source of finance and hence as a determinant of the capacity of firms to undertake R and D. Given the willingness of the firm to spend on R and D as reflected in sales, the scale of current expenditure is constrained by the adequacy of funds. The relevant factor is the internal sources of funds because firms are unlikely to receive or use borrowed funds to finance R and D activity, which is characterised by conditions of uncertainties. The internal funds of the firms comprise mainly (i) depreciation allowances and (2) undistributed profits (retained earnings). From the viewpoint of the capacity of firms to undertake R and D activity, these two variables can be regarded as influencing the current scale of R and D. The relationship between R and D and these financial variables invariably will be positive, for, higher the size of internal funds, higher will be the current scale of R and D and vice versa.

R and D expenditure is in fact an investment expenditure made with the expectation of pay-offs within a reasonable time period analogous to fixed investment expenditure on machinery and equipment. Both these investments in a sense can therefore be regarded as competitors for allocation from the firm's internal funds and thus stand in a substitutability relationship. It can also be argued that successful R and D generally stimulates fixed investment in future years so that the relationship is that of complementarity. A substitutability relationship between current R and D expenditure and current expenditure on fixed investment nevertheless seems plausible within the context of a budget constraint. It follows that current fixed investment outlays can be regarded as a variable influencing current scale of R and D with the expectation of a minus sign for the co-efficient of the variable in the regression model.

Past Scale of R and D

Finally, research is a continuous activity and has a tendency to feed upon itself. It follows that the current R and D scale will be strongly influenced by past R and D scale. Past R and D may tend to raise future R and D activity because R and D projects may be ongoing and have to be continued for fruition and past R and D opens up fields for new exploration. Some element of continuity and stability in expenditure outlay is a precondition for successful R and D programming; at the least, the stability consideration will place an approximate but somewhat elastic floor beneath current scale of R and D. In the statistical model, therefore, it has been postulated that past R and D represented by lagged R and D expenditure influences the current scale of R and D activity by firms and the sign of the coefficient in the R and D regression model can be expected to be positive.

On these *a priori* considerations, our hypothesis will be that R and D tends to be a continuous activity and business firms adjust their current scale of R and D in accordance with their willingness as reflected in sales and their capacity as indicated by the internal sources of funds and the competing demand for funds for fixed investment. For statistical investigation we postulate that

$$R = f(S, P, D, U, I, R'),$$

where R is current R and D expenditure, S is net sales, P is net profit, D is current depreciation, U is undistributed profit (retained earnings), I is gross investment and R' is one year lagged R and D expenditure. The attempt that follows is to give an empirical test to this statistical model on the basis of cross-section data of sample companies in the Indian chemical industry.

The Data

Initially, 45 companies with R and D as inter-mural activity from ICMA Survey[6] and used in our earlier study[7] on market structure and R and D were included in the sample. The relevant financial variables in respect of these companies were then collected from the Stock Exchange Directory in which process the original sample of 45 firms had to be reduced in number to 21. The scale of R and D was measured in terms of the current expenditure of R and D departments of the companies as reported in the ICMA survey. The data on sales were for net sales. The profit variable used in the analysis was profit after tax. The net concept was found to be the relevant one because net profit, which accounted for a sizeable part of cash flow, could as well be regarded as a financial variable. For other financial variables data on current depreciation provision were used. As for data on gross investment, the choice was the difference between the book values of plant and equipment between two points of time.

Invariably, large sized firms would tend to have large sales, profits, depreciation and other variables with the result that it would be difficult to regress a firm's R and D on the explanatory variables of the model. In order to minimise the difficulties created by heteroscadasticity, we adopted the conventional procedure of deflating the data by size variables (K) lagged one year in each case. In line with this procedure, the following models were specified for multiple least square regression:

$$\frac{R}{K}_{1968} = f\left\{\frac{S}{K}_{1967}, \frac{P}{K}_{1967}, \frac{D}{K}_{1967}, \frac{U}{K}_{1967}, \frac{I}{K}_{1967}, \frac{R}{K}_{1967}\right\}$$

The zero order correlation matrix of the variables[8] suggested multi-collinearity between two independent variables, viz, profit (P) and retained earnings (U). This was quite obvious for retained earning constituted a significant part of net profit. We therefore dropped retained earnings (U) as a variable from the model and took profit (P) as the variable relevant to our analysis. As between profit and sales variables, however, correlation of any significance was not observed to suspect otherwise plausible multi-collinearity problem. Introduction of profit as a variable in the model was aimed to represent both the willingness as well as the capacity of firms, in the sense of an indicator of future profitability and the availability of internal funds, to undertake R and D activity.

Empirical Results

Eliminating retained profit as a variable from the equation, we fitted empirical data on the other five variables by the method of least-squares. The estimated equation was:

(1) $R = -0.0432 + \underset{(0.0071895)}{0.024885S} + \underset{(0.05000)}{0.070110P} + \underset{(0.108347)}{0.483591{*}D} - \underset{(0.060116)}{0.129368I} + \underset{(0.061798)}{0.916664{**}R'}$

($R^2 = 0.96$)

* Significant at 0.05 level

** Significant at 0.01 level

Because there was nothing on a theoretical level to choose between sales and profit as a variable influencing the willingness of firm to undertake R and D, and further since profit could also function as a financial variable, we estimated least square regression with sales and profit as separate variables. The estimated equations were

(2) $R = -0.0409 + \underset{(0.00709)}{0.025285{*}S} + \underset{(0.111476)}{0.522764{*}D} - \underset{(0.063600)}{0.1267971} + \underset{(0.066174)}{0.922003{**}R'}$

($R^2 = 0.92$)

(3) $R = -0.0277 + \underset{(0.073708)}{0.078410P} + \underset{(0.14462)}{0.521377{*}D} - \underset{(0.078803)}{0.0954261} + \underset{(0.075226)}{1.006496{**}R'}$

($R^2 = 0.92$)

* Significant at 0.05 level

** Significant at 0.01 level

Conclusion

Throughout the analysis, sales, depreciation and past R and D appeared as three significant factors influencing the current R and D expenditure by the firms. Empirical results thus prove our hypothesis that R and D is a continuous activity and that business firms adjust their current R and D outlays in accordance with their willingness as indicated by sales and capacity as indicated by internal funds. The results of the lagged R and D variable have shown plus sign and suggest remarkably strong influence of past R and D on current R and D outlays. This emphasises the importance of continuity and stability considerations for R and D programming. The co-efficient of financial variable *per se*, namely, depreciation, has been positive as expected and is found statistically significant in all the three equations. In none of them, however, is profit found to be statistically a significant variable, although the sign of the co-efficient is consistent with our hypothesis. Nevertheless, the fact that the depreciation allowance has shown up significantly in all the equations suggests that in a given industry the financial variable (internal funds) influences strongly the scale of R and D by business firms.

Notes

1 The poor record of corporate R and D in India has been documented by many writers on the subject. See, for example, (1) A Rahmen, *et al*, "Research and Development in Indian Drugs and Pharmaceutical Industry", *Lok Udyog*, July and August, 1970. (2) ICMA "Preliminary Survey on the Status of R and D in Chemical Industry", Calcutta, 1970.

2 K K Subrahmanian: "Market Structure and R and D Activity: A Case Study of Indian Chemical Industry", *Economic and Political Weekly*, Vol VI, No 5, Review of Management, August 1971.

3 See for example, National Science Foundation, "Science and Engineering in American Industry", Washington DC, US Government Printing Press, 1956, pp 43-48.

4 See W S Comanor: "Research and Competitive Product Differentiation in the Pharmaceutical Industry in the United States", *Economica*, November 1964.

5 See Danmuel Hamberg: "R and D: Essays on Economics of Research and Development", Random House, New York, 1966 (ch 6).

6 ICMA, *op cit.*

7 K K Subrahmanian, *op cit.*

8 Zero Order Correlation Matrix was:

	R	S	P	D	U	I	R'
R	1.00	0.60	0.23	0.90	0.21	0.22	0.92
S		1.00	0.16	0.05	0.05	0.33	0.46
P			1.00	0.31	0.99	0.26	0.09
D				1.00	0.27	0.12	0.19
U					1.00	0.03	0.08
I						1.00	0.26
R'							1.00

86%
of the
supervisory staff
at INDIA PISTONS
are men
who have come up
from the ranks

At India Pistons, the employees have the widest scope for individual growth.

By providing each member maximum opportunities and facilities for planned development, we have indeed accelerated our own growth — a creditable 24% annually — over the past one decade.

INDIA PISTONS LIMITED.
Sembiam, Madras-11

IP 179

M-172

ECONOMIC AND POLITICAL WEEKLY

Founder-Editor: Sachin Chaudhuri

Vol VI No 48 November 27, 1971

True to Form — Starvation amidst Plenty—CPI(M)'s Miscalculations —The Arrangement 2370
Business 2372
Companies 2375
From Our Correspondents
New Delhi: New Deal for Coking Coal 2377
Economic Policy-Making by the Judiciary 2379
South: Loosening in Andhra —Mohit Sen 2381
Maharashtra: Election Salvoes 2382
Confusion and Contradictions 2383
Bonn: *Indira's Ostpolitik—and* Brandt's —Aswini K Ray 2384
Saigon: Distribution Centre for US Arms —Harish Chandola 2385
Philippines: Democracy Asserts Itself —T J S George 2387
The Fourth Estate 2389

REVIEW OF MANAGEMENT
M-133 - M-172

Reviews 2391
Special Articles
What Did Fail? : Loop (IUCD) as a Contraceptive? Administrators of Loop Programme? Or, Our *Ill-Conceived Expectations?* —Kumudini Dandekar Surekha Nikam 2392
For Whom the Engineer Toils —Richard F Devon 2395
Differential Interest Rates: Another View —A Bagchi 2405
Defence: A Socio-Economic Problem —B V Rangarao 2497

ECONOMIC AND POLITICAL WEEKLY
Skylark 284 Frere Road Bombay 1
Phones 266072, 260566, 260192
Editor
KRISHNA RAJ
Assistant Editors
Rajani X Desai, Jawid Laiq
Business Manager: A Fernandes
Circulation Manager: Shiv Patil
Editorial Staff
Colin de Souza, Haresh M Advani
Shireen Heerjee, Ashok Rao

Yahya's Options

SUPERFICIALLY it does appear that the friendship of the People's Republic of China is a much sought after commodity just now on the Indian subcontinent. There was President Yahya Khan toasting a visiting Chinese delegation with the proclamation: "Let this be heard to the anguish of others — loud and clear — that we here have found always a friend in China." And in New Delhi Foreign Minister Swaran Singh was telling the Rajya Sabha that "our own interest itself demands that we should make distinct moves for normalising relations" with China and further informing the House that there was a possibility of India unilaterally sending an ambassador to China.

Of course, there is a world of difference between our approach to China and that of Pakistan. Pakistan is hoping against hope that in the event of a war with India it can count on something more than verbal support from China. The Government of India is, so to say, approaching China from a position of strength — having first secured its friendship with the Soviet Union with a twenty-year treaty of peace and friendship. We cannot even be trying to achieve a reduction in the warmth of Sino-Pakistan friendship with our diplomatic overtures since to expect that would be too simple-minded. What seems most plausible is that we are taking the opportunity to improve our relations with China at a time when this move would appear, to the people of this country as well as to other countries, the least like a retreat from positions we had taken in the past — at a time when the people's attention is focused on Pakistan as the arch villain and the country's main enemy and when otherwise the Government's foreign policy wears a confident look, after the Prime Minister's supposedly successful tour of Western countries. That our military superiority over Pakistan has been universally acknowledged also helps.

And yet does its diplomacy towards China tell us anything about what the Government of India might have in mind *vis-a-vis* Bangla Desh and Pakistan? China may have by and large maintained a non-committal attitude on Bangla Desh and it has made no special effort to pull Yahya Khan's chestnuts out of the fire there, but on one point it has made its position clear publicly on more than one occasion: it has made known that it would regard an attack on Pakistan by India, either in the east or the west, as aggression against a friend. Of course, there are valid doubts about China's willingness and even its ability to effectively come to the help of its friend in such an eventuality, but the fact remains that an armed action by India to liberate Bangla Desh would constitute a public affront to China. Would the Government of India be pursuing its efforts to improve relations with China so strenuously if it were planning to administer such an affront?

This is a point of some significance in analysing the likely course of events in Bangla Desh. Recently the newspapers have been full of reports of the successes of the Mukti Bahini, very often in pitched set-piece battles with the Pakistani army. These reports evidently have a greater basis in reality than similar reports of successes which were given currency earlier this year. And yet the fact has to be faced that guerillas with just a few weeks of military training, even if with a stiffening provided by the regulars of the former East Pakistan Rifles and even if armed with relatively modern weapons, cannot defeat a well trained and well armed professional army — such as that Pakistan has in Bangla Desh — in a matter of weeks or even months. Take, for instance, Jessore which is reported to be currently one of the major objectives of the Mukti Bahini, Jessore is one of the three major cantonments in East Bengal and is said to be defended by a brigade, well fortified and with the requisite artillery and armour support and with the possibility of calling in air support. It is plainly unrealistic to expect such a position to fall to the irregulars of the Mukti Bahini in a matter of days or weeks.

The point is that a *quick* military defeat for the Pakistani forces can be administered only by the open and full-fledged intervention of the Indian army on the side of the Mukti Bahini. If it is suggested, as has been done above, that for the present the Government of India does not seem to be considering such an intervention, the question may be asked as to what it is aiming at in Bangla Desh. Negatively speaking, it may be said that one thing is definitely not among the Government's objectives: the encouragement and support of a guerilla war in Bangla Desh which will wrest independence from the Pakistani army after a relatively long struggle. Now, if neither a quick liberation by the Indian army nor a long guerilla struggle is among the Government's objectives, then it would leave only one possibility: the Government sees the fighting by the Mukti Bahini with vastly enlarged support from the Indian army as well as the limited but bloody encounters between the Indian and Pakistani armies as still part of the effort to bring pressure to bear on

Pakistan to agree to a political settlement which will satisfy the two conditions which it has been insisting on — that the political settlement should be with the elected representatives of the East Bengali people and that it should lead to the return of the refugees now in India.

It is significant in this context that propagandist statements apart, even Pakistan has reacted with circumspection to the recent developments in Bangla Desh. There have been no desperate moves to raise the issue in the UN and also no evidence of anxiety to start a war in the west. Is it then likely that Pakistan as well as the other countries who could influence the course of events are aware of the limited nature of the military developments of the last two weeks in Bangla Desh? Of course, the major powers have promptly called upon India and Pakistan stay off each other's throats and asked Pakistan to redouble its efforts for a political settlement; this is precisely the kind of pressure which India is hoping will still work. In other words, war can still be avoided, as far as the Government of India is concerned, if Yahya Khan can get his army to swallow a political settlement with the Awami League — giving the East Bengalis autonomy just short of total independence. At this stage, when Yahya's options have more or less narrowed to a choice between such a settlement and a war with India, he might just choose the former, in spite of all his bombast, because as a military man he would know that a hopeless war with India would almost definitely result in the liberation of Bangla Desh by the Indian army.

Britain and Rhodesia

True to Form

WHEN Ian Smith, the Rhodesian Prime Minister, and his Rhodesian Front coterie declared independence in November 1965, they knew full well the tribal fellow-feelings of their brethren in Britain. Even before this declaration, Harold Wilson, with his ears close to the ground listening to the rumblings of domestic opinion, had found it expeditious to blurt out that no British Government could countenance the suppression of the white minority in Rhodesia by the British army, thus encouraging the trust of the white Rhodesians in the 'good sense' of their 'kith and kin'. But to buttress British investments in black Africa (in the circumstances, a pointless precaution, since most of these governments were and are tied too intimately to the apron-strings of the West to attempt anything as drastic as expropriation of Western holdings), to quieten the mandatory Afro-Asian uproar in the UN and to placate moralistic backbenchers and liberal opinion at home, the British Government in good Labour Party style thought up the economic sanctions game.

Although the British did stick to the rules a bit more than the logical French or Japanese and did impose a well-publicised blockade of the hapless Portuguese colonial port of Beira in Mozambique, sanctions were a gimmick right from their inception, since it is inconceivable that any British government could cut off commercial ties with one of Britain's most important trading partners, South Africa, which is also, of course, Rhodesia's main prop. So the symbolic sanctions continued; Britain did experience marginal losses in its total exports, but the main loser was Zambia. However, the British Government soon tired of the irritating and what is more important, unpopular (in Britain) tension with Rhodesia, and tried most conscientiously to arrange an agreement with the Rhodesian regime aboard a variety of naval cruisers and assault ships with pugnacious names. Wilson's terms for agreement were particularly generous at the talks held on board *Fearless* in November 1968. Principles pledged to the Commonwealth prime ministers and the UN were easily brushed aside —including the crucial 'no independence before majority African rule' (NIBMAR) pledge. Ian Smith was then in a comfortable enough position to ward off such overtures.

Douglas-Home, the British Foreign Secretary, and Smith have now agreed upon an intricate constitutional formula which bears a remarkable resemblance to Wilson's *Fearless* concoction, envisaging a parity of African seats with the number of European seats in Rhodesia's lower house of parliament in thirty to fifty years time or more, all depending on the good faith of the while colonists in Rhodesia. Smith has presently found it worthwhile to agree to this three-year old formula as the Rhodesian economy in order to maintain the living standards of the white ruling class requires more Western capital investment than it is at present getting. The mantle of respectability bestowed by the British is likely to increase, to some extent, the level of investment. Rhodesia's tobacco landlords, who are a vociferous group in Smith's Rhodesian Front party, are also demanding wider outlets for their crop, most of which is for export. The endir of sanctions is likely to benefit th group. As for Edward Heath and tl Conservative Party, the successful co clusion of the Rhodesian negotiatio will enhance his image and that of h party at a time when at home tl Conservatives have been coming und increasing attack for instituting me sures which have led to an unemplo ment figure of almost a million. Th dismissal of the Rhodesian problem wi also facilitate a closer rapport wit Europe.

The Africans in Rhodesia are unlike ly to wait upon the good faith of th white colonists to hand over powe after half a century or more. There ar signs that the hitherto ineffectual Afri can nationalist parties (ZANU an ZAPU) will be replaced by an ideo logically motivated liberation movemen Such a movement will take years t fructify, but the Anglo-Rhodesian agree ment will have accelerated the proces of liberation.

Andhra

Starvation amidst Plenty

A Correspondent writes:

THE price of paddy has nearly doubled in many parts of Andhra Pradesh compared to what it was at this time a year ago. In the villages I visited in Nuzvid, Gannavaram and Chintalapudi talukas I found several agricultural labour households facing semi-starvation conditions. In Chintalavalli village of Nuzvid taluk, for example, I was told that more than half the agricultural labour households had been having food only every alternate day.

Nor are the harvest prospects good. Due to the delay in the monsoon much of the land dependent on rainfall could not be cultivated. The untimely rains have also caused damage to substitute crops like maize. As a result, much of the labour force has remained unemployed even during the peak seasons, which partly explains why labourers are facing such hard times.

The harvest has just started, but this would not provide much relief as the area sown is small. Only a small portion of the labour force would find employment even in this peak season. Reflecting the low demand for labour, the real wage rate has dropped dramatically. While an adult labourer commanded a wage rate of nearly 2 kilos of rice during the harvest season last year, the rate now is only 1.25 kilos —a fall of about 37 per cent. This shows perhaps that, contrary to academic assumptions, the rural wage rate is neither fixed nor is perhaps even at subsistence levels.

The present famine also brings out the brutal relationship between nutrition, work-performance and wage rate. I am told that many labourers are coming to reap the harvest on empty stomachs—sometimes without having eaten anything for one or two days. This naturally affects their ability to work. A farmer told me that in place of 8-10 workers last year he now has to employ 10-12 workers to cut the paddy crop on one acre. I wonder in what sense we can measure underemployment in this context!

The government has initiated some famine relief (or, more accurately, post-famine relief) works but these are obviously not enough. In fact, there is a growing feeling that the government is partly responsible for the acute scarcity of food in this traditionally rice surplus state. Firstly, the government has stored a large quantity of foodgrains—I believe, somewhere near 10 to 11 lakh tons of rice—which it is not releasing in spite of the famine conditions. I suppose the government does not consider the present situation bad enough! Secondly, it is rumoured that a large quantity of rice has been taken surreptitiously across the borders with the connivance of high officials and to the benefit of millers and ministers. While there may be much to be said for free movement of foodgrains, the surreptitious movement that is taking place is not helping the farmer to get a high price; it is the millers and the corrupt ministers who are pocketing the profit. Their tactics have been to announce that price would be stabilised at a fairly low level and then induce farmers to sell their produce at that price. After this mopping up operation, they transport the rice outside the state—thus driving up the price and pocketing the profit.

Kerala

CPI(M)'s Miscalculations

THE CPI(M) in Kerala has again been made aware that there are limits to the success of policies based almost entirely on exploiting differences among the parties constituting the ruling coalition. It did appear at one stage that the party might be able to pose a fairly serious threat to the government with the agitations over, first, the demand of the teachers in private colleges for payment of salaries directly by the government; second, the state government non-gazetted officers' demand for withdrawal of orders which they felt interfered with their trade union rights; and, third, the raising of passenger fares by the government-owned state transport services. The CPI(M) had hoped to build up the momentum of the agitations on these issues so as to make possible an impressive Kerala 'bundh' on November 10. The party's calculations about the support it was likely to get from other quarters, however, went wrong and when the date for the 'bundh' arrived, it was left with only the weakest of the three issues, the bus fare increase.

The strike of the teachers of private colleges was to begin with supported by the youth wing of the state Congress which actively participated in the teachers' strike as well as in the sympathetic strike by students. The main issue involved in the agitation was a serious enough one. It is a well known fact that teachers in a large number of private colleges in the state (the bulk of whose recurring expenses is met by the government) do not receive their salaries on time; nor do they receive what they are entitled to and what they are on paper shown to be paid. The difference is siphoned away by the college managements. Of course, unemployment among the educated is so acute in the state that even given these and other forms of exploitation, college managements are often able to extract as much as Rs 10,000 from an aspirant for a lecturership. In the past the CPI always feigned sympathy for the fate of teachers employed in the private colleges, but now that it is heading a coalition which includes the representatives of the very interests which run the bulk of these colleges it had to sing a different tune. In a bid to evade the issue, Chief Minister Achutha Menon took the position that the government would be prepared to pay the teachers' salaries directly provided that it was also given control over appointment of teachers and admission of students — knowing very well that the college managements were hardly waiting to offer such control to the government on a platter! With this the CPI again proved that it would go to any lengths to placate other parties — Congress(R) and Muslim League, particularly — to cling to power.

The support that the teachers' strike initially received from the youth wing of the state Congress was an extension of the tussle within the Congress party which had earlier manifested itself in the youth wing's opposition to the party joining the communist-led ministry. From the youth wing's point of view its participation in the agitation was a success since it refurbished its radical, extra-establishment image. But clearly it had no intention of carrying on the agitation to the point where it posed a threat to the government. So it was not too difficult for the Chief Minister to appear to make some concessions which were grasped by the Congress youth wing to withdraw from the agitation and to dub the CPI(M)'s efforts to continue the agitation as being "politically motivated". Much the same sequence of events was repeated in the case of the agitation of the state government's non-gazetted officers. The non-CPI(M) Joint Council of state government servants' organisations withdrew its strike call, forcing the CPI(M) Non-Gazetted Officers' Union also to back out. Here again the government was able to prevail upon the non-CPI(M) Joint Council with largely formal promises including one for setting up machinery for redress of grievances and safeguarding the "freedom of organisation" of government employees.

Clearly, CPI(M)'s recent experience in Kerala (and also in West Bengal) should be cause for some rethinking on the party's basic policies at the forthcoming party congress.

Pakistan

The Arrangement

A Correspondent writes:

IT is obvious that Yahya Khan is trying to stage a Hamlet in Pakistan without the Prince of Denmark. His current efforts are to create a bipolar situation in the National Assembly with Bhutto and his People's Party pitted against a combination of Right-wing groups. The parity between the two poles is even arithmetically complete. The newly formed United Front of seven Rightist parties claims the loyalty of exactly 89 members of the National Assembly just as Bhutto has his 89 men. It is only the Awami League which finds no place in the Pakistan President's calculations. That creates some problem because neither the people of East Bengal nor the international community can have any use for a political set-up in Pakistan which totally ignores the party that won 167 seats in a 313-member National Assembly through straight electoral contests. Apparently, this is not the problem that Yahya Khan hopes to re-

solve through his new political manoeuvres. His entire purpose is to create a facade of some form of civilian rule in order to confuse domestic opinion in West Pakistan.

The seven-party front includes all the Right-wing forces from East Bengal and West Pakistan. The Jamaat-e-Islami is obviously the strongest component of this new United Front; others are the PDP, the three quarrelling factions of the Muslim League, the Nizam-e-Islam and the Jamiat-ul-Ulema-e-Pakistan. Not even Yahya Khan can hope that all these parties can remain united for any reasonable length of time if they are permitted to interact freely. But if the army can enforce some discipline on these groupings, it can be cleverly used to balance the party of Bhutto and to convince him that total power in Pakistan is not yet a legitimate objective for him to pursue. Nurul Amin lost no time after Bhutto's return from Peking to make it clear that he should not be made the country's Prime Minister. And Bhutto himself has now agreed that he may work under an East Bengali Prime Minister.

Bhutto perhaps calculates that no East Bengali who comes to Islamabad now will have any authority over his people. Power will in essence belong to him, no matter what permutation and combination is brought about by Yahya Khan. The General, however, may have other ideas; he is not bothered by the possible lack of moral and political authority of an East Bengali Prime Minister. What is vital for him is the retention of his own rule and the right to dismiss governments in Pakistan on the basis of his own judgment of political trends in the country. Thus, a Nurul Amin-Bhutto combination may well be brought about. Amin will accept it because he has nothing to lose in East Bengal but his life. Bhutto will welcome it because all others are discredited in Pakistan and this is bound to become a stop-gap arrangement before he finally takes over the Central Government. Yahya will arrange it because thus alone will he be able to transfer power to such civilians as are sure to hand it back to the army after a period of hectic quarrels among themselves.

[This was written before the declaration of a state of emergency in Pakistan on Tuesday. *Ed.*]

BUSINESS

Time for Discrimination

IT might suit the Minister for Foreign Trade to exaggerate the odds facing Indian exports if only because they help to throw into relief the successes in export performance. But at the fourth meeting of the Export Advisory Council recently, his underscoring of the adverse effects of the West's protectionist measures and his stress on the larger role for the public sector in exports as a corollary to the new need for trade expansion with the East European countries, was simply misleading as to the inhibitive factors in India's exports and the direction of effort required.

The problem areas in exports lie elsewhere and stem primarily from the indiscriminate way in which exports are sought to be promoted — so much so that, at the Advisory Council meeting, some members even ventured to suggest that the volume of export and not the value of foreign exchange earned should form the base of fixing incentives.

Traditional items still account for some 70 per cent of our exports and they are subject to fluctuations consequent to raw material supplies and world demand. Jute, tea and cotton textiles, which between them account for over 30 per cent of earnings, are moreover ridden with technological difficulties: the jute and cotton textile industry badly requires modernising, and the tea plantations replanting. Raw jute and cotton have yet to see a breakthrough. An export policy aimed at achieving these twin objectives has to be an essential ingredient of any long-term export strategy. At the same time, iron ore — exports of which have been shortsightedly undertaken under contracts with Japan, committing us to parting with a low-value raw material — shows signs of losing out against competition from new world sources of supply; besides Japan might cut its steel production targets.

True, we need to explore possibilities of pushing non-traditional exports — particularly engineering goods for which we now have a diversified base. But these account for about as much as cotton textile exports, their import component is large and the expansion in their exports has been largely directed to markets in Asia. What are we getting in return for these exports? The Minister for Foreign Trade hopes to have an idea soon of the scope for trade within Asia and with Africa. But he also would promote East European markets, "which have immeasurably assisted us on the realisation of our export objectives". For all the careful nurturing, bilateral trade with these countries accounts for less than a fifth of our foreign trade. Recently, it has also encountered the hurdle of trade balances, insofar as items cannot be found for trade. On occasion, therefore, we have had to import hard currency items for re-export after processing. What, then, is the special merit of indiscriminately promoting this outlet for export?

Much of our irrationality in the exports field arises from the fact that often we lose sight of the purpose of export, which must be to find markets abroad for items for the production of which we have special endowments, with the ultimate aim of finding the wherewithal for internal economic development. Where calculations down this entire line do not take place, where export promotion does not correspond to a pattern of priorities for internal supplies, exports tend to be uneconomic and effected at any cost. Schemes to allow industries to come up if they will undertake to export part of their production, to give incentives for export to a whole range of industries whose costs are otherwise out of alignment with international levels, and to promise scarce and imported raw materials to exporters without considering the net cost and benefit of the measures, reflect an *ad hoc* and undiscriminating approach to foreign trade which does not amount to any 'strategy'.

Indian Oil

Refining Priorities

THE new chairman of Indian Oil, M Rama Brahmam, describes the corporation's growth as 'phenomenal'; it could with almost equal accuracy be described as inevitable. So long as it is the government's policy not to allow the foreign owned refineries to expand, Indian Oil's share of the market for petroleum products will continue to go up. In 1970-71 it was 51.6 per cent. However, 1970-71 was not among the best years that Indian Oil has had recently.

The throughput of crude at its three refineries was only marginally higher than in 1968-70 (6.34 mn tonnes against 6.25 mn tonnes). Sales rose by about 9 per cent (from 10.64 mn kls to 11.65 mn kls), the result of larger production at the (public-sector, but non-Indian Oil) Cochin and Madras refineries and somewhat larger imports. Profit after depreciation was noticeably lower at Rs 15.77 crores compared to Rs 20.41 crores in 1969-70. This is attributed by the corporation to increase in the price of crude which raised crude costs in 1970-71 by Rs 5 crores (Rs 2.5 crores on account of crude processed during the year and the balance retrospectively for earlier years). Against this the change to refinery-based pricing of petroleum products recommended by the Shantilal Shah Committee saved Indian Oil Rs 3.9 crores by way of reduction in under-recoveries on various counts. The director's report claims, however, that this entire saving was wiped out by the reduction effected by the Committee in selling margins. The dividend on capital payable to the government is being maintained at 7 per cent. While this is a higher rate of return than what the government gets on most of its investment in public sector enterprises, it is still low not only by the standards of the petroleum industry but also in relation to the minimum return on capital prescribed by the Planning Commission for public enterprises. The chairman, however, points out that the corporation has generated internal resources totalling almost Rs 120 crores and that the Haldia refinery, estimated to cost Rs 68 crores, is being financed "to a very large extent" out of the corporation's resources.

The chairman's statement makes particular mention of Indian Oil's success in bringing down its outstandings to Rs 33.57 crores from Rs 39.71 crores at the end of 1969-70 (or from the equivalent of 22 days' sales to 15 days' sales). While this is all to the good, one wishes that the corporation would show some, if not as much, concern for what it owes to others. The schedules to its accounts reveal that sundry creditors have gone up to Rs 63.24 crores at the end of 1970-71 from Rs 48.50 crores. While it may not be altogether fair to single out Indian Oil for criticism in this respect, there must be some way of preventing large companies from using brute economic force to escape any sort of discipline in the matter of settlement of trade dues.

Indian Oil's plans for expansion of refining capacity raise one of two questions. The Haldia refinery has fallen behind schedule and is now expected to be commissioned by the end of the first quarter of 1973 (fuel part) and mid-1973 (lube complex). The impact of this is bound to be felt in an increase in import of oil products in the current year and in 1972-73. Second, it is clear enough that production of crude from the Assam oilfields is not enough to meet the demands of the two existing Indian Oil refineries at Gauhati and Barauni. Shortage of crude has necessitated a cut in the throughput of the Gauhati refinery as well as expensive modifications in the equipment of the Barauni refinery and in the network of pipelines serving it so as to enable the refinery to run partly on imported crude. And yet Indian Oil is going ahead with plans for setting up another 1 mn-tonne toy refinery in Assam, at Bongaigaon, and what is more this project appears to be taking precedence over the long talked-of refinery in the north-west the exact location of which has still to be decided upon.

Indian Oil will also have to decide what it wants to do with Indo-Burma Petroleum Company in which it acquired (at a cost of about Rs 75 lakhs) a majority interest early last year. Unlike Indian Oil Blending (a 50:50 venture of Indian Oil and Mobil Petroleum) or Indian Oil International (a wholly-owned subsidiary), there is no functional *raison d'etre* for Indo-Burma Petroleum which simply markets petroleum products acquired from Indian Oil and so is in effect a marketing subsidiary of a marketing company!

Taxation

Hunt for Incentives

A Correspondent writes:

OVER 350 tax executives from all over the country assembled at Vigyan Bhavan from November 18 to 20 to participate in the Sixth All-India Conference of Tax Executives organised by the Federation of Indian Chambers of Commerce and Industry. Apart from exchanging views and focusing attention on current tax problems, this annual event is also an occasion for some useful dialogue between the tax-payer and the tax-gatherer inasmuch as senior officials of the Ministry of Finance also participate in the proceedings. As a matter of fact, two of the sessions this year were chaired by the Chairmen of the Central Boards of Direct and Indirect Taxes. Although government has recognised the importance of this periodical dialogue, nothing concrete seems to have been done in this regard. At the last conference in November 1970 the then Minister of State for Finance, V C Shukla, had told the tax executives that a Tax Institute would be set up to provide an effective forum for such dialogue. Shukla has since been switched to defence production and one wonders what his successor, K R Ganesh, has to say in this regard.

Two of the more interesting subjects discussed this year were: (i) fiscal policy and industrial growth; and (2) taxation and new entrepreneurs. On fiscal policy and industrial growth, as expected, delegates were unanimous that the withdrawal of the development rebate after May 1974 would retard industrial growth. But surprisingly, except in one paper, there were no concrete suggestions about a possible alternative to the development rebate which would have the virtues of the development rebate without its vices. Some original contribution in this regard should have come from the tax executives, particularly since government thinking also appears to be in terms of introducing some alternative incentive in place of the development rebate so that the desired industrial growth rate can be attained.

The discussion on taxation and new entrepreneurs aroused a lot of interest among the participants. When one speaks about new entrepreneurs, one must be clear as to who can rightly be called new entrepreneurs. Since the objective of encouraging new entrepreneurs is to widen the entrepreneurial base, this group has to be necessarily carved out of those who are presently not entrepreneurs. A good hunting ground for such people is among the professionally qualified and trained managers. But at present levels of taxation this group has very little savings left for the nucleus capital required to start a new enterprise. In this context, the suggestion of an entrepreneurial allowance to be given to a professionally qualified person from his total income for a period of five years or so with a view to enabling him to build up the nucleus capital deserves attention. In view of the fact that a new entrepreneur has to necessarily start with a small enterprise, some of the suggestions such as that priority and basic industries be given preferential tax treatment or that the ceiling of Rs 5,000 for salary income be removed, etc, are really out of context so far as the nurturing of new entrepreneurs is concerned.



Trying Many Alleys

Hansavivek

TATA CHEMICALS received industrial licence to expand soda ash capacity from 600 to 1,000 tonnes a day, about two years after it had applied for it. Even so, the industrial licence, the MRTP clearance, and the import licences, are "ridden with some onerous conditions" which the company had to accept "if its growth and the country's and consumers' interests were to be safeguarded". In view of the acute shortage of soda ash resulting in a "flourishing black market" and need for import, the company is taking steps to implement the expansion programme as rapidly as possible. Meanwhile, in response to the government's notification, inviting applications for the creation of additional capacity, the company applied for permission to further expand capacity from 360,000 tonnes to 500,000 tonnes per annum. If the application is cleared quickly, the company will be able get the further expansion integrated into the current programme. The company has also applied for expansion of its chlor-caustic facility at Mithapur to 50 tonnes per day of caustic soda (equivalent), and has proposed to utilise the co-produced chlorine in a manner that will lead to the manufacture of phosphoric acid and phosphates of sodium.

The revised fertiliser project, for which a 'letter of intent' had been issued in July 1970, continues to be bogged down. The chairman, J R D Tata, complains of "frustrating delays" at the government end. Even four years after it was submitted — in response to government's invitation to the private sector to help raise fertiliser production—the fertiliser project remains undecided. After two-and-a-half years of procrastination, the company was compelled to reduce the project to about a third of its original size. Thereafter, a fresh objection was raised to the import, in the initial years, of phosphoric acid. According to the company, the import of phosphoric acid in the initial period was a fundamental element in the project, which was aimed, insofar as the manufacture of phosphatic fertilisers was concerned, at the total elimination of sulphur through a process—still under development abroad and at Mithapur—that would use hydrochloric acid instead of sulpuric acid. Tata asserts that the proposed change in the 'letter of intent' effects a "fundamental and unacceptable change" in the project and that, if it is insisted upon, "we would prefer to abandon altogether the phosphatic part of our project until it can be undertaken without importing sulphur".

The proposed scheme of merger of the Bank of Baroda Ltd into Tata Chemicals could not be finalised because of objections raised by institutional shareholders of the bank. The management has recently sought to revive the scheme with some alterations that are expected to overcome the objections raised by the institutions. The Argentine soda ash project, for which the Tata bid was rated as the best, could also not be finalised, because the validity period of the bids having expired the Argentinian government decided to annul the tender and to enter into direct negotiations with the bidders for determining the terms and conditions of the contract for Solvay soda complex in that country. Owing to changes in the government, and for other reasons, the matter has made little progress since then.

Last year, Tata Chemicals installed plant and machinery worth Rs 307 lakhs—by far the largest additions to the assets in any one year. The delivery of the topping turbo-generator set, on order with Bharat Heavy Electricals, has suffered "numerous" delays, aggregating about 12 months. Expansion of the benzene hexachloride plant, to 7,200 tonnes per annum, was completed last year. The company also installed further facilities for the formulation of benzene hexachloride (technical) and copper oxychloride (technical) and has since been granted COB licence in respect of these two products.

GLAXO LABORATORIES (INDIA) spent, last year, Rs 1.5 crores on planned projects, including establishment of a new research and development centre at Thana comprising 4 separate units devoted to research in chemicals, pharmacy and food, and to analytical control. A new indigenous process for producing betamethasone has been developed to effect significant saving in foreign exchange. The programme of expansion and diversification was also continued by the company. Industrial licences have been received to effect substantial expansion in the production of vitamin 'A' and to "carry on business" in the diversification of the range of laboratory chemicals. Permission has also been received for increasing output of calcium sennosides and beta-ionone. Glaxo increased its exports by 22 per cent, but "at a considerable loss to itself". The main item of export, beta-ionone, accounted for nearly a quarter of the country's exports of pharmaceutical intermediates and raw materials. Reviewing the company's working during last year, James S Raj, chairman, says that for most of the year the company was obliged to accept a number of downward price revisions and that it was not until January 1971 that it was able to implement a small number of "very necessary price increases". He attributes erosion of profits mainly to the sharp increase in material costs. The canalisation of imports of bulk drugs through STC and the system of "pooled prices" for many essential materials, he observes, have taken heavy toll of the company's resources. He points to the sharp increase in costs of raw materials bought from STC, IDPL, and The National Dairy Corporation. Higher duties on packing materials, notably tin-plate, also account for a sizeable increase in costs. He believes, however, that demand for the company's products will continue to increase and looks forward with a measure of confidence to the future.

BOMBAY BURMAH TRADING is investigating a few large-scale projects for diversification. A small electronics research section has been set up and six applications for 'letters of intent' have been submitted for manufacture of various items of electronic equipment. Some of the applications have been approved. An application has also been made for a 'letter of intent' to set up a soda ash plant, and negotiations are going on for collaboration with a state government for establishing a plant to produce cresol. Meanwhile, the directors are examining ways by which further finance could be found from self-generated sources within the group. Dental Products, a subsidiary, has received permission to import additional plant which will enable the factory to utilise cheaper raw materials and reduce foreign exchange requirements. Formica India, the associated company, is also engaged in re-

search and development on new and allied projects. The subsidiaries' shipping interests have brought into service their second log-carrying vessel and contracts were signed for the construction during 1972 of the third and fourth vessels, each of 13,500 tonnes. Negotiations with various government departments are still going on in Malaysia, Thailand and Indonesia; it is hoped that timber concessions may be secured which would supplement North Borneo Timber Berhad's existing operations. The managing consultants are also assisting in the development of investment in Australia and New Zealand, which offer good long-term prospects of growth. Commenting on the current year's prospects, Pratapsinh M Vissanji, chairman, says that Sabah subsidiary companies are under a recession following slackening demand for plywood and allied timber products. Prices have fallen appreciably, and demand for the lower grades of logs has weakened. But he is confident that the companies will have another profitable year—unless the situation deteriorates further. The South Indian estates, he feels, are unlikely to repeat their 1970-71 profitability. Since the Bangalore branch was closed last year, the South Indian properties should, in the overall results, do "reasonably well", provided prices can be maintained. Summing up, the chairman views the current year's prospects as "fair" and the long-term outlook "promising".

BLUNDELL EOMITE PAINTS' good results for the year to June last, in spite of "continuously rising prices" of all raw materials and containers and higher labour costs, are attributed to the efforts to be more selective in the range of products. Export performance was also further improved upon, with exports of about Rs 19 lakhs. Though exports were effected at a loss, benefits in the form of import licences are being received. The total dividend of 14 per cent, including the interim of 4 per cent already disbursed, is expected to be exempt from tax. The dividends paid for the last 5 years will also be wholly or partly exempt from tax in accordance with a supplementary certificate furnished to shareholders. Last year, the company raised Rs 30 lakhs by issue of 15-year debentures carrying interest at 8.5 per cent per annum, which were privately placed with LIC and UTI. The proceeds were used to repay the term loans obtained for acquisition of capital assets of the Thana factories.

DEEPAK NITRITE made a public issue of equity shares of Rs 22.50 lakhs and preference shares of Rs 15 lakhs in July last. The former was oversubscribed over 19 times, but the latter was "substantially" subscribed for by the underwriters. The construction of the factory buildings is in progress and is expected to be ready by January next. The company has started receiving consignments of equipment and machinery. The technical knowhow pertaining to the manufacture of sodium nitrite and sodium nitrate has been obtained from Fertiliser Corporation of India.

The Week's Companies

(Rs in Lakhs)

	Tata Chemicals		Glaxo		Bombay Burmah		Blundell' Eomite	
	Latest Year 30-6-71	Last Year 30-6-70	Latest Year 30-6-71	Last Year 30-6-70	Latest Year 31-5-71	Last Year 31-5-70	Latest Year 30-6-71	Last Year 30-6-70
Paid-up capital	579	492	800	798	369	369	55	55
Reserves	443	428	649	599	235	209	77	59
Borrowings	400	243	—	—	36	67	61	93
of which Term borrowings	187	163	—	—	—	—	30	40
Gross fixed assets	1748	1468	1102	907	541	542	106	105
Net fixed assets	1050	859	752	646	302	304	64	70
Investments	36	36	6	6	153	169	—	—
Current liabilities	911	734	729	722	338	284	67	54
Current assets	1240	996	1415	1462	521	451	196	189
Stocks	301	256	894	828	90	126	87	95
Book debts	911	735	458	520	374	194	108	92
Net sales	1338	1223	2819	2582	484	477	351	322
Other income	24	30	95	79	126	110	10	15
Raw material costs	244	225	1373	1343	—	—	159	152
Wages	168	155	670	582	200	195	50	45
Interest	16	11	—	—	6	9	9	9
Gross profit(+)/loss(—)	360	335	349	428	182	126	32	30
Depreciation provision	87	75	42	42	17	18	7	8
Tax provision	104	117	158	231	87	47	12	11
Net profit(+)/loss(—)	169	143	149	155	84	61	13	11
Development rebate provision	55	20	14	5	2	2	—	—
Transfer to reserves	32	54	27	49	19	4	5	6
Dividend								
Amount	E78	E65	E101	E94				
	P4	P4	P7	P7	63	55	8	5
Rate (per cent)	E15	E15			17	15	14	10
	P7.14	P7.14						
Cover (times)	1.41	1.83	1.26	1.52	1.31	1.07	1.62	2.20
Ratios (per cent)								
Gross profit/sales	26.90	27.39	12.38	16.57	37.60	26.42	9.12	9.32
Net profit/capital employed	11.88	12.29	10.28	11.09	13.12	9.45	6.73	5.31
Inventories/sales	22.49	20.93	31.71	32.06	18.58	26.42	24.79	29.50
Wages/sales	12.55	12.67	23.76	22.54	41.32	40.88	14.24	13.97

SWADESHI POYYTEX, which is setting up a polyester fibre plant at Ghaziabad in UP, expects to put its product on the market by early 1973—or even earlier than that. One batch of engineers has already been trained by the collaborator, Vickers Zimmer, in Germany and the second batch is due to leave shortly. A senior engineer of the collaborating firm is posted full-time at Ghaziabad. Of the total estimated project cost of Rs 12.72 crores, including the foreign exchange component of Rs 2.29 crores, the company is getting rupee loans of Rs 4.20 crores from official financial institutions —IDBI (Rs 2.20 crores), IFC (Rs 50 lakhs), LIC (Rs 1.00 crores) and UTI (Rs 50 lakhs in 8.5 per cent privately placed debentures). It has been agreed that IDBI will have a right to convert into equity at par upto Rs 31.43 lakhs out of its loan, LIC upto Rs 14.29 lakhs of its loan, IFCI upto Rs 7.14 lakhs of its loan, and UTI upto Rs 7.14 lakhs out of its debentures. This right of conversion is to be exercised during the calendar years 1976 and 1977. The foreign currency loans have been secured from ICICI and LIC. SPL's total paid-up capital is Rs 2.40 crores. The first call to the shareholders is expected to be made in the near future. The company will use the 'continuous process' for its manufacture of polyester fibre.

METTUR CHEMICAL has applied for increase in caustic soda capacity at its plant number one by 10 tonnes a day and also for expansion of capacity of rayon caustic soda plant by 50 tonnes a day. There is a rising demand. Reviewing his company's results for the year ended March 1971, chairman P S Lokanathan observes that the company had to bear increased costs of raw materials, both indigenous and imported, and encounter shortages in some of the essential raw materials. The increase in freight rate on salt — the main raw material — added to the unit cost. He also points out that items imported by STC and MMTC are not only more expensive but their delivery schedules are irregular — though the channelling through the state trading agencies is ostensibly to exploit the advantages that accrue from large purchases and savings in transport costs. Commenting on the excise duty at 10 per cent *ad valorem* on chlorine, the chairman feels that the resultant rise in the price would affect demand for the product and its gainful utilisation which had recently gone up from 65 per cent in 1968 to around 86 per cent. The company has applied for actual user licence for import of chlorine containers, as shortage of containers has hampered exploitation of a growing export market.

FROM OUR CORRESPONDENTS

NEW DELHI

New Deal for Coking Coal

IT had been appreciated, when the decision to take-over the management of the coking coal mines was taken preparatory to their eventual nationalisation, that this would have to be done in an entirely different manner from the take-over of the larger banks or insurance companies. Barring a few organised companies, coal mining in the private sector has existed in a state of jungle law. This was true not only in respect of mining practices, but also in respect of management procedures and labour relations.

A whole host of statutory obligations exist for the mining industry, but in practice they have achieved nothing worthwhile. Collieries employed qualified managers only to satisfy the legal requirements; in most cases these managers have not been allowed to run the mines according to the norms and standards of modern mining or of the law. A wage board award for workers has been in operation for the last several years, conferring substantial benefits upon the miners. However, only a fraction of the mine workers have in fact enjoyed these benefits, though on paper the industry's labour costs have been shown to have gone up—a large part of the additional 'costs' being syphoned off by mine owners, contractors and even so-called labour leaders. The decision, after the take-over of coking coal mines, to make wage payments directly to the individual worker on the wage board scale, therefore, created a great impression on the workers and generated much enthusiasm among them for the take-over. A large number of managers have also taken a positive view of the government's decision, though many of them have to accept the fact that their own salary scales will probably be revised downwards.

It was thus that a new organisation for the take-over had to be created almost overnight—taking into account the realities of the situation in coal mining. The existing mine managers could not be relied upon to take up the functions of the custodians as was done when the banks were taken over. The Chief Technical Adviser in the Mines Department of the Ministry of Steel and Mines was, therefore, made the Custodian-General of the 214 coking coal mines taken over under the Coking Coal Mines (Emergency Provisions) Ordinance promulgated in the middle of October and was invested with all the powers of the government to carry out his functions. He brought under his wings 25 custodians, drawn from the National Coal Development Corporation. The office of the Custodian General at Dhanbad, in the heart of the Jharia-Raniganj coalfields, where the coking coal reserves of the country are mainly located, has been implementing the take-over of the mines in a manner somewhat similar to the conduct of war operations. After a couple of weeks of confusion and hectic activity, the situation began to settle down. The fact that production of coking coal has not suffered and was in fact marginally higher in the first month after the take-over should be a matter for some satisfaction. The first reports about sabotage, removal of machinery and equipment by the old owners and non-cooperation by managers were obviously exaggerated.

The installation of the custodians even as the existing managers remained in position and continued to be responsible for production and running of the mines certainly threw up many problems. The custodians and the Custodian-General himself are in most cases, professionally and otherwise, less experienced than and junior to the managers of the mines taken over by the government. This was probably the biggest cause of confusion in the first few weeks. The situation was aggravated in several cases by the tendency of the custodians to throw their weight about more than was necessary. On the whole, however, the custodians have done their work with enthusiasm and competence. Now that the position has stabilised, the custodians will go back to their old places

of work on the completion of their mission and the existing professional staff and managers will be given their proper places in the management set-up of the mines.

The work of the custodians is confined to bringing the records and properties of the mines under the custody of the public authority and to bring the records uptodate. This will enable proper valuation of assets and liabilities to determine the compensation to be paid to the owners, which is bound to be a tricky affair considering the many layers of claimants. Besides the fact that mining rights in many cases do not necessarily include surface rights in long-term leases, there is the widespread practice of managing contractors actually running the mines on short-term sub-leases taken from the main lease-holders. Once the problem of compensation is settled and full nationalisation is carried through, the real purpose of the take-over will begin to be attended to. It is proposed to set up an altogether new public sector corporation for coking coal mining and the professionally trained personnel in the coking coal mines will get their due place in this organisation. To begin with, till nationalisation is effected, there will be a board of management to be later replaced by a regularly constituted board of directors. The present Custodian General is tipped as the chief executive and Chairman in the first year of the new organisation. It is something to be grateful for that a civil service bureaucrat has not been chosen for the post.

The question of nationalisation of coal mining, in particular coking coal mining, has been pending since the mid-fifties. It was being actively canvassed in the Mines Ministry for the last three years at least. What was lacking was the political courage to take the decision. After the failure of the scheme for voluntary amalgamation of collieries, the government for some time toyed with the idea of compulsory amalgamation. Together with this, laborious exercises were carried out on the pros and cons of setting up joint sector enterprises in coking coal mining, since the joint sector concept had become a fashion of sorts in government thinking for some time. All this has now been cut short by the decisive action at the political plane, though there was no immediate compulsion for taking such action. As things stand, thanks to the large lags in the steel development programme, coking coal production exceeds the requirements of the steel plants and other users. The established capacity for coking coal production is around 18 million tonnes per year while production in the last few years has ranged between 15 and 16 million tonnes. The offtake of the steel plants, on the other hand, has been of the order of only 11 million tonnes; the rest of the coking coal has been consumed by railways, or used in brick burning and other similar activities involving waste of a national resource reserves of which are certainly not plentiful. Considering the present state of the coke ovens of the steel plants and the possibility of import of coke, the demand for coking coal may actually face a further decline in the immediate future. This will give some breathing space to the proposed public sector coking coal organisation to organise the industry on a sound basis instead of trying to maximise production in the short run. The new organisation will have to gear itself more for the tasks of the eighties rather than those of the present decade. This will be the case particularly if the steel development programme at last gets into its stride and the idea of a 2 million tonne steel plant being commissioned every year takes practical shape. From available indications, the thinking on the problem in the Mines Ministry is along these lines.

The most significant economic benefit of the take-over of coking coal mines is stated to be that it will make it possible to completely revise the earlier plan drawn up in the late fifties for the development of deep mines to meet the coking coal requirements of the economy. This will cut by nearly half the cost of development of coking coal reserves. According to the earlier plan, nine deep mines (on the pattern of the Sudamidih and Mundih mines being developed by the National Coal Development Corporation with Polish collaboration) were proposed to be established over a period of time. They were to be set up in the more difficult mining areas on the periphery of the main Jharia-Raniganj coking coal field. This programme would have required heavy capital expenditure, besides being time-consuming. The 400 metres deep Sudamidih mine project, for instance, began in 1962 and is expected to be completed only in 1975. The initial estimate of cost of Rs 19 crores is going to be exceeded by several crores of rupees. The deep mines plan, it is estimated, would have required more than Rs 120 of investment per tonne of coal-raising capacity. The economy would have been saddled with such high costs of exploiting its natural resources not because of any natural factors but entirely because of the fact that the main Jharia-Raniganj coking coal fields were parcelled out and held in private ownership which would not permit their scientific and economic exploitation.

After the nationalisation of these fields, it will no longer be necessary to go into difficult virgin areas; instead the development effort can concentrate in the coking coal fields proper. The idea is that the maximum should be got out of the proven reserves of coking coal which are capable of yielding upto 40 million tonnes of coking coal per year over a period of 40 to 75 years. This is proposed to be done by redrawing the boundaries of the Jharia-Raniganj fields on the basis of natural faults and barriers and by the development or mining on that basis. As a result, it is estimated that the investment costs will come down to Rs 60 per tonne as against Rs 120 per tonne in the case of the earlier deep mining plan. This will go together with modernisation of coal extraction in the existing mines. It is estimated that hardly Rs 20 crores will be required to pay compensation for the take-over of mines and another Rs 200 crores may be required by way of investment in coking coal mining over a period of 15 years to meet the requirements of the economy.

A team of Polish experts has been invited to prepare a detailed project report for the development of coking coal mining in the Jharia-Raniganj fields. The Poles are stated to have done good work in the post-War reconstruction of coal mining in their country and their assistance will be valuable for what is in a sense a similar venture. The implementation of the project report prepared by the Polish team will not require any particular foreign assistance since India has sufficient expertise in the field. The project report for the reconstruction of the coking coal mines will not be confined to coal mining only. It will also include development of pitted coal washeries for each of the mining zones together with facilities for selective crushing, preparation and blending of coking coal suitable for use by the steel plants. All this is to be viewed as an integrated operation to be carried out by the proposed coking coal organisation. It is in accordance with this line of thinking that it has been suggested that Hindustan Steel or Bokaro Steel need no longer bother about having captive mines and that they should give up the coal washeries now under their charge. Instead they should depend for their requirements of coking coal on the proposed coking coal organisation under long-term contracts.

Economic Policy-Making by the Judiciary

(From a Special Correspondent)

THE Supreme Court's judgment on automobile prices has implications for economic management which go far beyond the immediate case before the Court. Both — the Court's decision on automobile prices and the broader implications — need to be considered from the point of view of economic policy-making by the government.

As regards the immediate case before it, the Supreme Court has in effect ruled that the prices fixed by the Tariff Commission, and modified by the government, were not fair. It, therefore, referred the issue to another commission, with some of whose findings again the Supreme Court judges have disagreed. However, in broad terms the finding of the commission have been approved of and the government has been asked to fix prices according to these principles.

One may ask whether the Supreme Court should have concerned itself with laying down the principles for fixing prices or with fixing the prices themselves. The case before the Court was one of fixing prices; to the extent the Court has not gone into the subject, it has in effect side-tracked the task set for it. The decision on prices will in any case be made by the government and while the principles may be laid down, the exact arithmetical values are likely to be always a matter of doubt and dispute. To that extent, the prices fixed by the government cannot be deemed to be same as those that would have been fixed by the Court.

The Supreme Court's decision on the specific case before it rests on two major issues. First, the determination of cost and, second, the fixing of the rate of return to be allowed to the manufacturers (cum-assemblers). As regards cost, the Court's decision amounts in effect to a charter for the inefficient manufacturer. Cost is one aspect which is within the ability of a management to manage within limits. It is the responsibility of the manufacturer to prove that the costs incurred are in fact the minimum possible costs. A manager may employ his nephews at high salaries, and this could become an item of cost. A manager may incur expenditure on research and development, whose benefits might be passed on to an associate concern; this again could become an item of cost. A promoter may pay high prices to favoured suppliers; this again may become an item of cost. In a cost inquiry these matters need to be looked into. If a consumer is required to pay a price for a product which is government-determined (and whose production is made possible by the government's policies of protection and licensing), then it is the obligation of the price-fixing authority to ensure that the costs incurred are the minimum needed for efficient production.

Efficient production should cover quality. In a product sold by specifications, the specifications determine quality. In an engineering product which is, moreover, an assembly of a large number of components (self-produced and bought), like a car, it is difficult to buy purely on the basis of specifications; therefore, a system for maintaining quality has to be evolved.

This was a major deficiency in the government's pricing policy so far. While the government could ensure that the producers charged a notionally fixed price, there was no control on the quality of the product set for that price. Manufacturers have been able to delete items (such as clocks) from cars and have been able to reduce quality to a substantial extent by use of inferior goods, inadequate inspection and provision of inferior servicing. While the Supreme Court's decision takes care to make available a fixed price to manufacturers, there is no provision in it which will ensure that the product supplied at the price would be of the requisite quality. It is is not clear who is to be the arbiter in this matter.

Second, the rate of return. The rate of return is compensation for use of capital, and this is related to the interest rate structure and the government's policy on returns to be allowed, in general as well as from different types of activities. So far the government's policy has been to allow a rate of return of 12 per cent on capital employed. One does not know by what logic the Supreme Court has accepted a rate of return of 16 per cent for automobile manufacturers.

Significantly, this return is allowed on total capital employed, even though a substantial part of this capital is obtained, in the form of borrowings, at rates varying between 6 and 10 per cent. The amount of borrowed funds and the rate of interest on them determine the actual return available on owned funds. To allow an equal return on all funds, whether owned or borrowed, has little economic logic. It allows for varying rates of return on owned funds, depending upon the volume of borrowed funds and the rates at which they are obtained.

The more complicated issue is that related to the implications of the Supreme Court's judgment for the government's economic policies. Price control is an aspect of the government's social and economic policies. The main rationale of such price control is the need to slow down the pace of price rise in specific commodities as a means of reducing inflationary pressures in the economy. The government might also decide to allow a relatively lower rate of return in a particular industry (in a luxury goods industry, for instance) in order to prevent undue expansion of that industry. The Supreme Court's decide to allow a relatively lower rate power to the government.

Price freeze and price controls are operated by governments in most countries as part of their administrative efforts to regulate the economy. Even in the most free of the 'free enterprise'

SUBSCRIPTION RATES

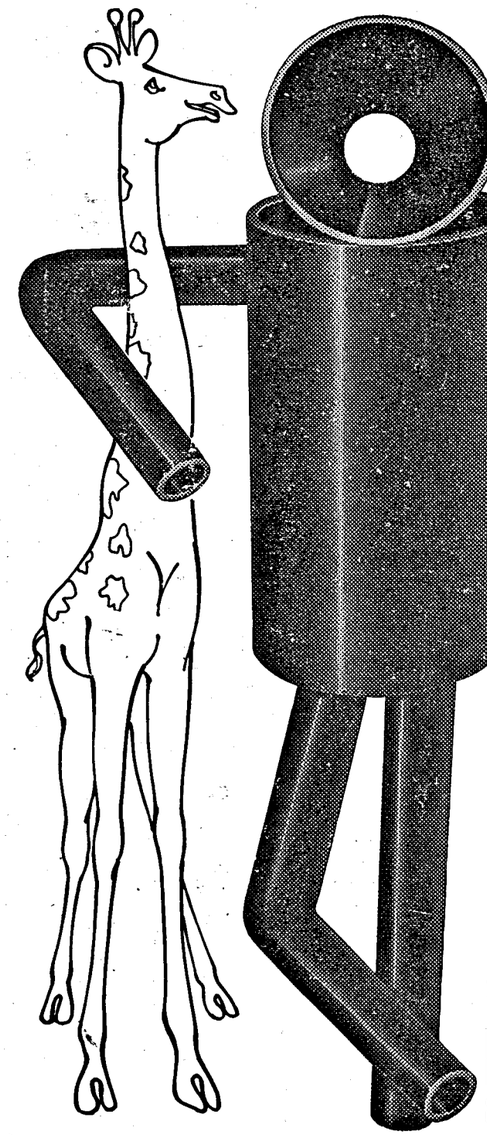
	Inland	Foreign (Surface Mail)		
Six months	Rs 32			
One year	Rs 60	Rs 85,	$ 11.35,	£ 4.75
Two years	Rs 110	Rs 160,	$ 20.75,	£ 8.75
Three years	Rs 160	Rs 235,	$ 30.50,	£ 13.00

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



7 years old and already expanding

Soon we will expand our range to include upto 150 mm diameter tubes. Increase our capacity substantially. And diversify into the manufacture of other products. All this in just seven years!

Gujarat Steel Tubes are in demand in 35 international markets. Earn over a crore of rupees in foreign exchange. Account for 10 per cent of the country's total export of steel tubes and pipes. We have increased our exports by 220 per cent since 1966—twice winning Engineering Export Promotion Council awards.

We started with advantages: the enthusiasm and enterprise of youth. Sound technical know-how. An uncompromising dedication to quality. All of which enabled us to declare a dividend in our first year of production.

Since 1966 we have doubled our sales. And added the most modern welding technique—TUFFWELD —high frequency induction welding. Today we are one of 73 export houses recognised by the Government of India.

We look forward to the future with confidence. A confidence born of achievement. The trust of our dealers. The satisfaction of customers. Above all, the unsurpassable quality of our products.

GST

GUJARAT STEEL TUBES LIMITED,
Bank of India Bldg., Bhadra, Ahmedabad 1

economies, namely the USA, the government recently chose to impose a total price freeze (covering, incidentally, also new models of cars incorporating technical and other improvements which would, on the basis of the Indian Supreme Court's judgment be entitled to a price rise on that ground). Such decisions of the government have not been challenged in any other country; in this country in future they would apparently be open to challenge before the judiciary.

This situation is particularly anomalous in this country because here the government provides various kinds of advantages to industry. For example, industry is given protection not only from external competition (through import control) but also from internal competition (through industrial licensing). In such a situation the government needs to have countervailing powers in order that it can prevent the exploitation of a scarcity situation by a manufacturer. In the process of protecting the manufacturer (but not the user) of a product the Supreme Court appears to deny these powers to the government.

The Court's decision in effect puts the government in a straight-jacket in regard to use of its discretion in economic management. On this basis, manufacturers could challenge many other aspects of the government's economic policies. On considerations of legality rather than justice, the government is virtually denied the right of economic management. Clearly, the implications of the Supreme Court's latest judgment for the exercise of the government's administrative powers needs the most serious consideration.

SOUTH

Loosening in Andhra

Mohit Sen

THE new Chief Minister is an amiable gentleman, a scholar and with long years of administrative experience — if being a Minister does provide such experience. But one quality he conspicuously lacks — a political base of his own. He comes from Telengana and is well known enough. But it would be stretching things to state that this fame has taken or can take the material shape of an organised political following. This fact has been amply demonstrated by the record number of flights that he had to make between Hyderabad and New Delhi in order to form his cabinet. He is dependent on the Prime Minister for everything and makes no secret about it.

From an understanding of this basic weakness of P V Narasimha Rao, it is quite wrong to draw the conclusion that his Ministry is worse than its immediate predecessor. Brahmananda Reddi and the present Chief Minister were cabinet colleagues for a pretty long time. They followed the same policies and, indeed, evolved them together, though the former Chief Minister's share in this was undoubtedly larger. At the time of the Telengana separatist crisis they stood together. Therefore, there is little to choose between the two. If one wishes to go by class analysis, even then one would find it impossible to make a distinction between the two. Essentially, they are both leaders of a Congress which, in the main, represents the interests of the block between the capitalist landlords (or farmers) and the rich peasants.

Brahmananda Reddi happens to come from the more affluent and far more developed delta areas of Andhra, while P V Narasimha Rao comes from the relatively deprived districts of Telengana where, if anything, the landlord interests are stronger than in the delta areas. The former is a Reddy and the latter a Brahmin. These are the differences which, though important at the operational level of routine politics, do not signify when one is considering longer term trends.

Therefore, there is absolutely no reason to bemoan the fact that Brahmananda Reddi stepped down at last. If anything, the people of the state would have been spared some bitterness and anguish had he done so earlier. The appointment of a Chief Minister from Telengana, however politically weak and unrepresentative he may be, was a long overdue political step. Tweedledum has been replaced by Tweedledum! A Tweedledee, evidently, could not be found!

But there is an important consequence of this action which one must properly understand. The stepping down of Brahmananda Reddi will, surely, lead to a loosening of the Congress grip over itself. The former Chief Minister has been deprived of political power but not of factional strength. He has kept financial reserves ready for the coming battle of the ballot boxes. In the first instance his effort would be to secure tickets for as many of his nominees as possible and only after that would he decide to put up rival candidates in many key seats. In this way he hopes to emerge as the leader of a majority of Congress MLAs and then press his claim for reinstatement.

It is not, however, going to be all that easy. Brahmananda Reddi's faction has no stability. It was based essentially on the fact that he was the Chief Minister and so in a position to distribute patronage. Neither a common ideological-political platform nor even caste links wrought it into a cohesive whole. Skill at manipulation the former Chief Minister possessed in abundance and this he used to keep his group together. Sanjeeva Reddy's folly in rushing into a factional compact with Sanjeevaiah was also grist to his mill. The so-called power of state satraps has been grossly overestimated. So one cannot say how much damage the former Chief Minister is capable of at the present moment and much less some three months hence.

All one can say is that factional conflicts in the Congress would be sharper and more pervasive in 1972 than they were in 1967. This is a fact which the Left forces in the state would have to take into account even as they would have to steer clear of any analysis that seeks to project any ideological overtones into this conflict.

What this means is that there are now somewhat better chances of weakening the Congress grip over administrative power in Andhra. It may be possible to reduce the strength of the Congress in the legislature which is an altogether desirable objective. This is the central aim which would, and should, inspire the electoral line of the Left in Andhra. The difference from 1967, of course, would be that any temptation to ally with the Right outside the Congress (the Swatantra and the Syndicate) would have to be shunned. Whether all segments of the Left would be able to resist this temptation remains to be seen.

In this connection mention has to be made of the convention that the Congress Socialist Forum organised in Vijayawada. There is no doubt that it was an impressive gathering which heard Left speeches and passed Left

resolutions. It was a clear demonstration of the fact that radicalised sections of the youth are also being attracted to the radicalised image of the Congress. It is this fact that has alarmed the Rightists in that party. What is more, they seek to make out that the Brahmananda Reddi faction has only rechristened itself as the Congress Socialist Forum. This is a complete travesty of the truth. To this convention a few undesirable elements came but they were from both factions or, rather, all factions. But the overwhelming majority of the delegates were representatives of the new radical currents which have made a swerve in the direction of the Congress.

The CPI and the CPI (M) would have to take note of this new phenomenon. For the former this would present no difficulties, but would the latter be able to make a distinction between this new force and the rest of the Congress? In terms of its programmatic understanding, it would find this impossible but in terms of operational effectiveness it would have to do something. It is necessary to remember that the CPI (M) has in recent months lost yet another of its few remaining strongholds in the state — in Khammam district. Its sectarian rigidity is proving costly and one can sense the growth of a critical outlook among the cadres and members.

In any event, the political quiet of Andhra is over. The loosening one witnesses may well be the prelude to a desirable breakthrough.

MAHARASHTRA

Election Salvoes

THE tension on the Indo-Pak border has diverted attention from two important developments within the Maharashtra Congress. Earlier this month Y B Chavan inaugurated the first conference of the revived Maharashtra unit of the Congress Forum for Socialist Action in Poona. The leadership of the Forum has been thoroughly revamped. The present president is the state Party General Secretary, Sharad Pawar, a known acolyte of the Union Finance Minister. Earlier the Forum had been dominated by men like Tulshidas Jadhav and had threatened to become a platform for those who sought a measure of independence of the Union Finance Minister and the established leadership of the state Congress. Y B Chavan's attitude to the Forum then had been one of indifference. He used to say that there was no need for a separate platform such as that provided by the Forum for prodding the state party and government into accepting socialist programmes because both were already 'socialist-minded'. At the time of the last presidential election, prominent members of the Forum defied his directive to Maharashtra Congress MLAs and MPs to vote for Sanjiva Reddy. After this Chavan could not tolerate the Forum under its then leadership and set about completely revamping it. This process has been completed, it was evident at the Poona conference.

The revived Forum has a further political purpose. Chavan is conscious of the domination of the state Congress by affluent farmers and by those who control the sugar co-operatives. He also knows that there is a big gulf between the state and district level leadership of the party and the rank and file who come from among the small farmers and the poor rural masses. The enthusiam of the latter for the revived Socialist Forum was obvious at the Poona meeting. Chavan's strategy seems to be to give positions in the Forum to people from among the rank and file of the party who are disgruntled at being denied all power in the party itself. This way he hopes to contain the growing frustration in the party at the district and lower levels. If in the process the Forum grows into a force countervailing the established leadership of the state Congress, Chavan would not be unhappy at all. In fact in the state assembly elections he would want to use the Forum, first, as proof of his party's and his own socialist credentials and, second, to dislodge well-entrenched elements in the party leadership whom he has found in the last two or three years challenging his position in the party.

The revival of the Forum is, therefore, viewed by Chief Minister Naik and his Vidarbha colleagues with some apprehension. Naik fears that the Forum would be used to undermine his position. Immediately his apprehensions are that some sections of the Forum would question the sincerity of his declared intention to lower the ceiling on agricultural holdings and to change the basis of fixing of ceilings from the individual to the family.

The danger is not fanciful since even as V P Naik has adopted a radical posture on the question of land ceilings, his followers in western Maharashtra, led by Shankarrao Mohite-Patil, MLA and chairman of a sugar co-operative and a district co-operative bank as also of a host of sale-purchase unions in Sholapur district, have publicly declared their opposition to the lowering of the ceiling and changing of the basis of fixing the ceiling. At a rally of farmers organised and presided over by him at Sadashivnagar in Malshiras taluka of Sholapur district last week Shankarrao Mohite-Patil warned the state government and the party bosses that if the proposed ordinance was proceeded with, they would work against party candidates in the elections and would refuse to give elections funds to the party.

Sadashivnagar Conference

In organising the revolt of the affluent and influential farm lobby against the proposed land ceiling ordinance, Chief Minister Naik has also taken a swipe at his rival for the chief ministership after 1972, Shankarrao Chavan. The Sadashivnagar conference was largely attended by rich farmers from western Maharashtra which is the political base of Shankarrao Chavan.

The Sadashivnagar conference also strongly condemned the revival of the Socialist Forum in the state and attacked Mohan Dharia for what they called his 'left adventurism'. Shankarrao Mohite-Patil and others have also threatened that they would organise even small holders against the new ceiling policy under the slogan that the proposed ordinance would ruin the state's farming community and social fabric once and for all. The threat has been well timed on the eve of the assembly elections when Y B Chavan and the state party bosses cannot afford to antagonise the rich farmers who are the party's pillars in the countryside. Naik also knows that his political adversaries in the party, like PCC President Vasantrao Dada Patil and Y J Mohite, are equally opposed to the lowering of the land ceiling. The meeting of the Pradesh Congress Committee on December 4 and 5, specially convened to discuss the land ceiling question, will be a test of the socialist postures of the Union Finance Minister as well as state leaders like Mohite who have sought to differentiate themselves ideologically from the Chief Minister.

Confusion and Contradictions

(From a Correspondent)

THE ordinance amending the Industries (Development and Regulation) Act is yet another example of our continuing faith in resolutions and amendments as substitutes for policy and purposive executive action. The new measure has been justified on the ground that it would provide an effective answer to the continuing distress in a large number of industries, particularly in West Bengal, and to the large-scale unemployment. That it is unlikely to do anything of the sort comes as no surprise.

Completely Ignored

The dominant theme of the Industries (Development and Regulation) Act is the regulation of production of goods in the scheduled industries. Perhaps this is the reason why the ordinance does not provide the framework for a new policy for development. The provision for taking over the management of units badly managed (through reckless investments, diversion of funds, etc), closed ones and those under liquidation refers to "the production of articles manufactured being affected", to closure "prejudicial to the concerned scheduled industry" and to maintenance of "production, supply and distribution of articles" relatable to the industry as conditions precedent to the take-over of management by government. Fall in demand for traditional items, uneconomic prices, outmoded methods of production, overaged equipment, scarcity of raw materials and inadequate long-term finance for modernisation are some of the causes of 'sickness' of industrial units, particularly in the engineering industry. These considerations appear to have been completely ignored.

There may be several cases in which the shortfall in production of goods of some of the closed/sick units has already been made up by new small-scale units or in which the demand for these goods simply does not exist any more. Will these units which may otherwise have useful equipment, land, other commercial facilities and trained, skilled labour be ignored in the scheme for take-over by government?

Mere take-over of management will not solve the problem of these units. It may add up to no more than unemployment relief for some time with no substantial benefit to the economy. The alternatives of new investment and utilisation of existing production facilities will have to be carefully evaluated with reference to their costs and benefits. Unfortunately, the ordinance has raised hopes of only safeguarding employment and not economic revival. It is to be hoped that government will be able to evaluate the economic justification for taking over industrial units before yielding to the political pressures of organised labour. If some of the closed units have to be reopened for utilising their resources (plant, skills, etc), it should be by means of a completely planned reconstruction and reorganisation programme.

The ordinance does provide for the preparation of schemes of reconstruction. But why the schemes should be prepared only after a period of take-over is not clear. Clearly, the provisions of the ordinance on this subject are loosely and hastily drafted and government would be well advised to alter them drastically. In all cases the schemes of reconstruction should be prepared before the take-over of management. The framing of the schemes should be left to a body like the Industrial Reconstruction Corporation and the government should be bound to accept such schemes or it should permit the Corporation directly to apply to the Court. Again, the possibility of merger of some of the weaker units with more profitable units has not been envisaged at all—another sad omission.

Admission of Defeat

That a government which has shown so much indulgence to organised labour —who are by no means the poor of the country—should seek powers to exempt units managed by it from the operations of the Industrial Disputes Act and the Minimum Wages Act is a clear admission of defeat in the field of industrial relations. The inclusion of the Minimum Wages Act in the list of laws from which the units would be exempt is definitely objectionable. There would be no justification for running any industry which cannot pay a minimum wage—even as unemployment relief.

The timing of this measure, immediately after promises of higher bonus even in unproductive units, shows confusion in objectives and contradictions in policy. Perhaps a pre-election year is not the best period for the evolution of a clear policy.

Exemption from the application of the Industrial Disputes Act, etc, will also apply to units that have already been taken over. If it is admitted that these legislative restrictions hamper the survival of units facing difficulties, there is no reason why such exemption should not be given to these units before they become sick and are taken over by the government. One wonders whether in the context of the large number of closed units in West Bengal this is meant to give some political advantage to one section of organised labour. That the ordinance is not incapable of being so used is a matter of concern.

Unsolved Problems

There are a number of legal and other problems that remain unsolved. If units which cannot be reconstructed have to be sold as running concerns what is the guarantee that they would continue to be run by those who purchase them? Is it necessary that in such cases they should be run for some time with government subsidy or with government financing the losses? Instead, is it not possible that these could be sold free of encumbrances even before the government takes over the management for some time? The position of the creditors to whom the fixed assets are mortgaged is not clear either. There are a number of such problems for which answers have to be found. Perhaps it would be futile to expect a hurriedly put together piece of legislation to have provided all the answers.

One may, however, conclude on a note of optimism. There has been no dearth of enabling legislation that has not been effectively used. (Chapter IV-A of the Companies Act providing for removal of managerial personnel, is only one instance.) No great harm has perhaps been done by adding to this list. Nothing has been said about the necessity for an ordinance that has not been made use of in the two weeks following its promulgation. Perhaps this is a matter for parliamentary privilege and not public concern.

BONN

Indira's Ostpolitik — and Brandt's

Aswini K Ray

THE Government of India's role in South Asia is indeed becoming 'curiouser and curiouser' for those innocents who have stubbornly resisted all logic. Indira Gandhi's position as the kingpin of the South Asian *status quo* has been obvious to all except a section of our establishment intellectuals. Her desire for 'normalisation' of relations with China, a long-term treaty of friendship with the Soviet Union, and a 'goodwill' tour of the West in the midst of a crisis, leaves no doubt as to the role the Indian Prime Minister is to play. She only had to prove her bonafides before being allowed — and helped — to play that role.

In this sense, the Indian Prime Minister's Western odyssey was a great success. At home, she has managed to retain the right radical image. In the West, her oft-recurring, often out of context, allusion to Vietnam in relation to the Bangla Desh issue left one with the uneasy suspicion that she might be thinking of the Ganges Delta as the future key domino, now that the Mekong Delta is as good as lost to the 'free' world.

By the time the Indian Prime Minister reached the last leg of her tour in Bonn, it was obvious that, despite all the sound and fury at home, neither the loss of credibility of the Awami League nor the disintegration of Pakistan (as distinct from its weakening) — in that order of priority — was in the Government of India's interests. The much talked of 'political settlement' of the Pakistan problem had to reckon with these two variables. An Indo-Pak war, which could lead to the disintegration of Pakistan, would not be in India's interests; war can only be thrust upon India by the shortsightedness of the Pakistan military *junta* whose policies have posed new problems for the 'free' world's freedom. Short of war (if possible), and even after a war (only if unavoidable), the generals must negotiate wth the Awami League. Indira Gandhi even agreed to talk with Yahya Khan — which would have been difficult to announce in India particularly after what the General promised, through *Le Figaro*, to tell her — but, "only on condition that Bangla Desh was not discussed". The success of the Prime Minister's tour "to convey to the West the Indian people's greetings and goodwill", lay in her ability to elicit general Western support for the immediate goals of Indian diplomacy in South Asia — which had been earlier underwritten by the Soviet Union, and to which China lately seems to be reluctantly reconciled, at least for the time being.

Many Promises

Many other smaller promises were made and given: there would be no lack of Western sympathy, and even bounty, for the non-rehabilitation of the Bangla Desh refugees; in return India would not recognise either the dream of a *swadhin* Bangla Desh or the reality of a German Democratic Republic "till the proper time". At her television interview in Bonn, the Indian Prime Minister was asked a few uncomfortable questions: right of self-determination in Kashmir and a possible growth of secessionist sentiments in the CPM-dominated West Bengal. As always, her answers were legally incontrovertible. She even went out of the way to warn the East Bengalis against any latent desire for a united Bengal: "the industrially advanced West Bengal would dominate the East".

Enough of our synthetic *Ostpolitik*. Now to Willy Brandt's patented variety, which recently won the Nobel Peace Prize — an acknowledgment of the 'free' world's gratitude to the West German Chancellor. The Swedish Parliament's announcement could not have been better timed for Brandt, who was in a bit of a spot ever since his return from Crimea. A desperate opposition, a week away from its party elections in which parliamentary leader Rainer Barzel's entire political career lay at stake, awaited his return from Crimea. A section of the press, angry at the lack of Russian response to some of their top correspondents who wanted to 'cover' Crimea, set the tone for the opposition clamour. The government straightaway walked into the trap. In the special Bundestag debate on the issue, the opposition announced 'total confrontation' against the government's foreign policy and accused the government of subverting the Western allies by not taking proven friends into confidence prior to the talks and by shrouding the Crimean talks in mystery. Brandt was also accused of talking with the Soviet Communist Party Secretary rather than the governmental functionary. Formally speaking, the criticism of the opposition was tenable, and, in any case, not even all the rabble-rousing by its parliamentary leader Herbert Wehner — SPD's man for all seasons — could help the ruling coalition.

In fact, for a time, everything seemed to be going wrong with the ruling coalition. Shortly after the much-publicised Four Power Berlin Agreement, the intra-German dialogue appeared to be heading towards a dead-end as the East Germans could not find any official German version of the text to form the basis for negotiations. Almost simultaneously, US Ambassador Rush announced at the West Berlin Chamber of Commerce that his country would not ratify any Berlin agreement before a "satisfactory regulation of the Berlin traffic" between the two Germanies.

Britain's Negative Tactics

Relations with France remained cool, begiming with the currency crisis. Nor were they helped by the French fear that their traditional rivals were trying to rob them of their 'legal' inheritance of the Eastern trade from the de Gaulle era. Warning signals also came from across the channel: conservative Britain was hell-bent upon proving, if necessary by negative tactics, that Britain still remained great, and that a European security conference was inconceivable without Whitehall's active endorsement. Two years after the original 'discovery' of a Soviet spy ring in Britain, Douglas-Home suddenly announced that KGB espionage had reached too dangerous a stage for the island's security. This made headline news in this country, as elsewhere, and the Springer press 'found' Bolshevik agents in all corners of West Germany and railed about the sort of people the Brandt government was trying to make peace with. The government was clearly on the defensive.

The ruling coalition's defence was to play down foreign policy issues and to focus public attention on controversial domestic reforms. The day after returning from Crimea, the Chancellor spoke to the trade union conference about the government's determination to push through legislation enabling workers' participation in management; the budget debate and the tax reforms were put on the anvil; the controversial Rent Control Act was put up for a second vote in the *Bundesrat* (upper house of the federal parliament which still has a majority opposition coalition), and, as anticipated, for the second time, the opposition stood exposed as a collection of rentiers, speculators, and finance capitalists; the debate on reform of the laws concerning abortion by choice was revived; and inevitably the search operations for the so-called 'Baader-Meinoff Group', the anarchist red rebels of West Germany, was dramatised to new heights.

Unexpected Help

Help for the government soon came from an unexpected quarter. French President Pompidou's telegram to Brandt, endorsing his *Ostpolitik* and his Crimean talks, and proposing a Franco-German summit on the currency issue, arrived on the very day the West German Chancellor was answering charges of subverting the Western alliance in the *Bundestag*. Later events, however, proved that the French President was only keeping his own record straight before his historic welcome for Brezhnev in Paris. The Russians also came to the rescue of the West German Government. Once again: they replied to British intransigence with strong warnings, but mild reprisals. And the East Germans, fairly soon, found a new basis for the continuation of the Bahr-Kohl intra-German talks. The announcement of the Nobel Prize came just at this moment which made it most timely. Even in ordinary times such an honour for a ruling politician would be big news but the party machinery made the news appear as if it was the event of the year. Meanwhile, on the opposition side, Rainer Barzel had been elected as the party leader of the CDU by an overwhelming majority, and, the defeat of Helmut Kohl meant the end of Gerhard Schroeder's candidature for shadow Chancellorship. Strauss, the leader of the sister CSU, who was till recently playing all the tricks of the trade, biding his time for standing for the same post, has now found the going too rough and announced his preference for "growing pineapples in Alaska rather than be the [shadow] Chancellor". Barzel, more responsible, now that he is on the way to becoming the uncrowned king of the opposition, wrote to the Chancellor, the very day he was awarded the Nobel Prize, climbing down from a position of 'total confrontation' and offering 'qualified co-operation'.

In Paris, Brezhnev managed to cash in on the Franco-German competition for Soviet affections. He let it be known that Citroen was preferred to Daimler-Benz for the manufacture of trucks in the Soviet Union. But presumably the West Germans will now be given the opportunity to help build the gas pipeline from Siberia. Moreover, on his way back from Paris Brezhnev stopped over in East Berlin. Soon after Brezhnev's departure for Moscow, East German Party Secretary Honecker announced that a satisfactory solution of the Berlin traffic problem would be found before Christmas. The Bahr-Kohl talks swiftly reached the stage where experts from both sides were called in to work out the details. The Aeroflot delegation followed suit and worked out a new deal with Lufthansa, indicating one more step forward in the new Bonn-Moscow relationship.

SAIGON

Distribution Centre for US Arms

Harish Chandola

THE United States is sending vast quantities of war material out of Vietnam. In the two fiscal years ending June 1971, the US distributed to its military allies in Asia and shipped home military equipment valued at three billion US dollars from its Vietnam stocks. During the fiscal year 1972 (from July 1971 to June 1972), a total of 440,000 short tons of war material will be shipped out of Vietnam from the four military ports established and controlled by the US in this country (New Port, Camranh Bay, Qui Nhon and Danang). According to the US military authorities, nothing, not even scrap, will be left in Vietnam. All material will be sold, shipped or used.

How is it that the US has such huge surpluses of military equipment in Vietnam? The apparent reason is that the surpluses have been generated by the withdrawal of US combat troops. But what is not so apparent is that while withdrawing its combat forces, the US is also equipping a large number of South Vietnamese troops besides equipping Laotian and Cambodian forces from its stocks in Vietnam. To be exact, while the US has so far withdrawn 350,000 of its troops, it has equipped nearly five times that number of South Vietnamese: 1,100,000 men of the Army of the Republic of South Vietnam, plus 500,000 South Vietnamese provincial and village defence forces.

How could there then be such vast surpluses when the overall requirement of military hardware in Vietnam and the other two Indochina countries has considerably gone up? Observers have come to the conclusion that Vietnam had been developed by the US as a centre for distribution of military equipment to its allies in Asia. This conclusion is strengthened by the fact that most of the equipment leaving Vietnam is not going back to the United States but to Asian and Pacific countries. Of the equipment so far sent out of Vietnam, only 28 per cent went back to the US. Forty per cent of it went to Okinawa, five per cent to Japan and 27 per cent to the Philippines, Korea, Taiwan and Thailand. In terms of tonnages, in the fiscal year ending June 1971, 181,827 short tons of military hardware went from Vietnam to Okinawa, 22,480 to Japan, 126,604 to the US and 119,324 to US allies in Asia. Of course, a lot of this equipment was not in serviceable condition. The US has large repair depots in Okinawa, Formosa, the Philippines and Japan, and it has now begun utilising the repair facilities for ships and river craft in Singapore.

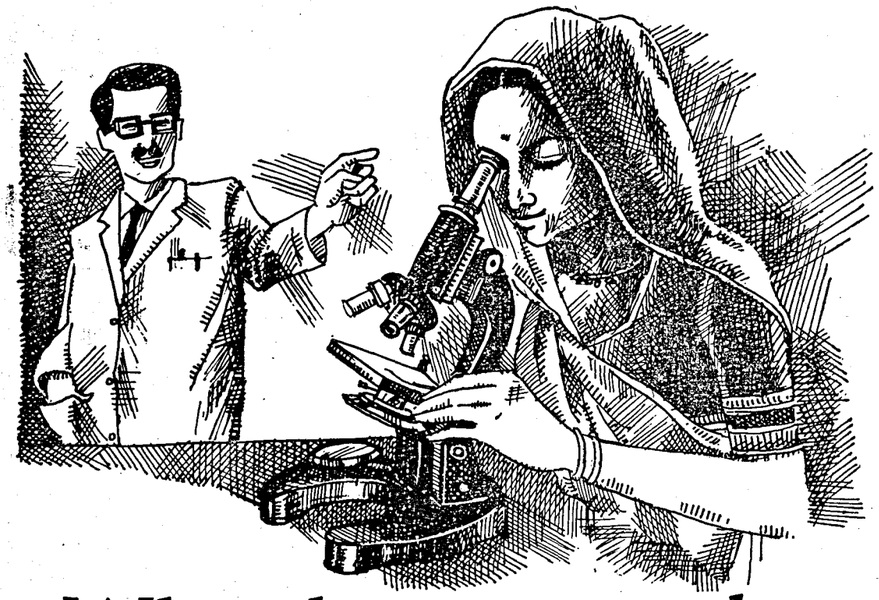
All military equipment sent out of Vietnam is classified into four grades. Items that need minor attention, like painting and patching up, are placed in the first category. Those needing more complicated repair are placed in the second. Those that have to be sent to depots outside for rebuilding are placed in the third and the fourth category consists of items which are economically unrepairable. Components in good condition are salvaged from the unrepairable item — like a carburettor or a starter from a military vehicle — and the remaining hulk is then sent to the Property Disposal Yard where it is auctioned in lots.

Incoming Equipment

South Vietnam has been and shall continue to be the US supply depot for the armed forces of not only South Vietnam but also of Cambodia and Laos. And so, while one sees a lot of military equipment leaving Vietnam, one can also witness at the four US military ports, new equipment, including trucks and all kinds of vehicles, arriving in the country. The incoming equipment is largely for the armed forces of the three Indochina countries.

The consignments of arms leaving Vietnam for the Pacific area bring to light a chain of US arms distribution centres in that region. These centres are not merely convenient points for despatching arms to Asian countries, but are also large depots where mili-

Milk co-operatives as an instrument for adult education



What happens when a village woman in Kaira peers at buffalo semen through a microscope?

In Kaira, batches of women – most of them illiterate – visit the artificial insemination centre every day. They learn the mysteries of conception and birth in scientific terms, from the technicians employed by their milk co-operative. Can they help relating these facts to themselves? When their technicians speak of the nutrition needs of buffaloes and calves, their thoughts turn to themselves and their children.

A new view of their own life begins to form, and the frontiers of knowledge widen. When true education begins, superstition breaks down.

Amul has shown the way.

ASP/ABF/SP-12

tary trucks, tanks, armoured personnel carriers, artillery, communication equipment, sea and river craft, and even aeroplanes are repaired, assembled, and rebuilt. That is why 40 per cent of US arms and equipment from Vietnam goes to Okinawa, which itself has no demand for these things. At Okinawa the US Department of Defence has established an organisation called Pacific Utilisation and Redistribution Activity (PURA), which sends out arms and equipment to Asian countries. Representatives of Asian countries covered by the US Military Assistance Programme visit Okinawa to identity the equipment they need.

Besides those in Okinawa, the US has other large repair and rebuilding depots. In South Korea there are depots for rebuilding military vehicles and sending out material under the Military Assistance Programme, in the Philippines for marine maintenance and property disposal (bulk disposal of economically unserviceable items) and in Taiwan largely for maintenance and rebuilding of vehicles like earth-movers and road-building equipment, and for electrical equipment like generators.

PHILIPPINES

Democracy Asserts Itself

T J S George

THE off-year elections in the Philippines attracted worldwide publicity mostly because of the violence which attended them. Nearly 200 politically motivated murders took place — and the world press lapped them up in gleeful confirmation of its notions about the Philippines as a blood and guts society.

A more serious analysis of the events will, however, highlight two significant facts. First, the murders were related almost entirely to local and municipal elections as distinct from elections to the eight senate seats. Second, despite the violence, there was a notable absence of electoral fraud which has prompted Filipinos to say proudly that the system of democracy is alive and well.

In terms of party power and national politics, what mattered was the senate race, not contests for the more than 15,000 provincial and city offices at stake. In this race, the ruling Nacionalista Party was badly beaten. All eight candidates of the Nacionalista Party were shining stars of the political firmament, four of them members of the present government. But all except two of them were soundly trounced. The opposition Liberal Party's six winners were carried to victory by almost a landslide vote.

The rejection of the Nacionalista candidates was in fact a rejection of President Ferdinand Marcos. For, in this election Marcos was the central issue. The two years following his historic re-election in 1969 have seen Marcos becoming one of the most controversial presidents in Philippine history. A nationwide political debate has been raging and the November elections provided the first opportunity for the people to show what they thought of their President. They expressed their feelings unequivocally. Marcos comes from the northern province of Ilocos and this area has been considered an impregnable bastion of his Nacionalista Party. But this time the bastion was breached by the Liberal Party which did much better than the ruling party in Ilocos.

The reasons for Marcos' popularity plummetting are clear enough. In these two years prices have rocketed. Unemployment has increased. There has been no letup in corruption. Law and order has gone completely haywire. General economic deterioration seems to have been aggravated by the prolonged floating of the peso. Above all, the President has given the impression that he is manipulating affairs with a view to securing yet another term for himself. There is widespread suspicion among Filipinos that if the constitutional bar on a president seeking a third term continues, Marcos might put up his energetic, ambitious and popular wife, Imelda, as presidential candidate in 1973.

The most spectacular and immediate cause for the Nacionalista debacle was evidently what is known as the Plaza Miranda incident. The Liberals had convened a massive public rally in this Manila square on August 21, where some unknown people hurled fragmentation bombs at the platform. Some ten people were killed and almost every top leader of the party was maimed. It is fair to say that the Nacionalistas lost the election that night.

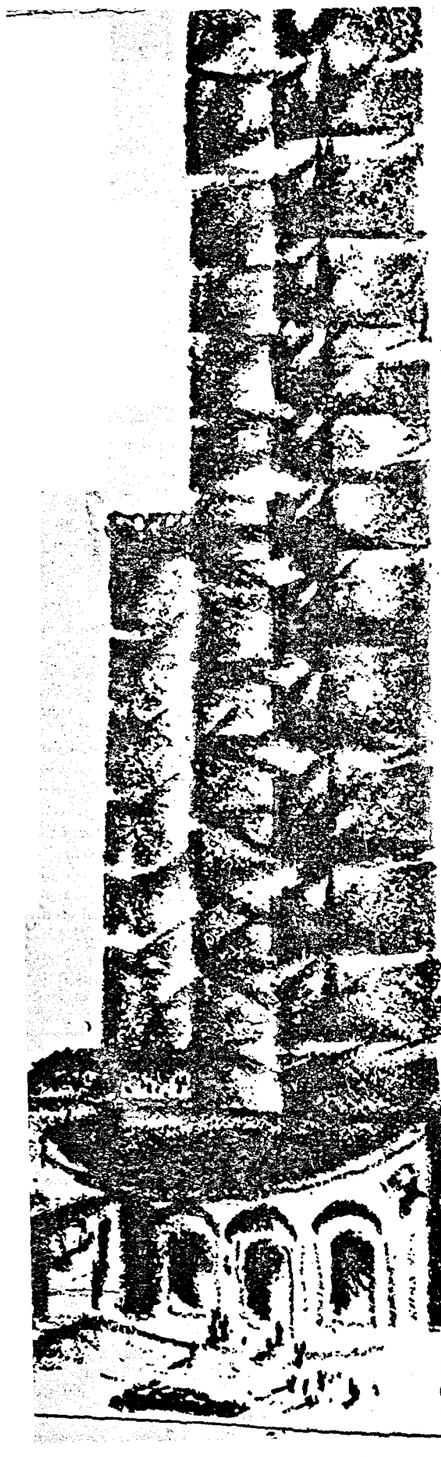
It has not been proved that the Nacionalista Party had any hand in that bomb attack. But Manilans know that an over-enthusiastic party man had in fact done so; the *cognoscenti* even know the name of the person. It is also known that this man staged the mass assassination attempt without the President's knowledge. But the President's image has suffered all the same because the government has so far failed to book even one suspect in connection with the bomb attack.

Pressing home their advantage, the Liberal leaders began campaigning from wheel chairs and crutches. Heavily bandaged Liberals attracted huge audiences wherever they went. A measure of the sympathy votes they won is that the man who was most seriously wounded by the attack, Jovito Salonga, emerged the biggest vote-getter in the election. Ramon Bhagatsingh (a Filipino of Indian origin), who is not a Liberal but was supported by the Liberals — and lost a leg at Plaza Miranda — succeeded in getting elected as mayor of Manila, defeating the powerful Antonio Villegas who had been mayor for 12 years.

The defeat of the ruling party with its superior resources and advantages of power was, as Filipinos claimed, a tribute to the fundamental health of their democracy. As if to confirm this, Marcos immediately made the right kind of noises. He publicly recognised the popular desire for a less partisan approach to urgent national issues and invited the Liberal Party to actively participate in the government's policy-making councils. The Liberals for their part set up a shadow cabinet to prepare for their expected victory in 1973.

But it would be a bit too premature to expect the Philippines to settle down to a period of constructive bipartisan politics. It is somehow difficult to imagine Marcos accepting the idea that he should behave like a lameduck president. He has a serious credibility problem and not many Filipinos believe him when he says he will retire from politics in 1973. Liberal leaders for their part say that Marcos is essentially a warrior and will now regroup his forces with a view to staging a comeback at an appropriate time.

Given his political shrewdness, Marcos can use his power to play one group against another or otherwise consolidate his hold on the political machine. If it comes to the worst, he can easily contrive a constitutional crisis and declare martial law under which he would be able to rule with absolute power. But it is doubtful whether he would go in for such extreme measures. He may rather take advantage of the rivalries that are bound to develop among the Liberal Party's presidential hopefuls and strike bargains with one group or another. In the sense, the really intensive phase of the political struggle in the Philippines is only beginning.



in mysore...

FEEL THE PULSE OF PROGRESS

All the time we are planning more and more years ahead. Planning, striving, attaining, both the possible and the impossible. Setting our sights to new horizons everyday. For all the time we are catching up sooner than we planned, on tiers built of achievements.

10,000 industrial units to date is not a mere term in Urban Dynamics. The sky scraper is only a visual symbol of how we are catching up, higher and higher, what we are planning year after year, farther into the future. Pulsating with dynamism — an outcome of successful industrial endeavours.

The basic essentials for progress are here. An abundance of natural resources, Developed land. Surplus power. Communication & transportation network. Trained manpower. All coupled with the state's encouragement and incentive schemes bring maximisation of opportunities within the reach of every enterprising individual or group of entrepreneurs.

You are invited to share this opportunity and the prosperity.

MSIIDC helps decision makers to invest in an industrial future.

Mysore State Industrial Investment & Development Corporation Ltd., 'Hari Nivas', 36, Cunningham Road, Bangalore-1 B.

To Flog a Dead Horse

Nireekshak

THE fight for possession of the yoked bullocks—the former election symbol of the Indian National Congress—had "for all practical purposes [become] a dead issue after the Congress (R) had clearly established its massive majority in the last Lok Sabha poll", as *Tribune* put it. Nevertheless the Supreme Court verdict in the symbol case and its 'sequel' in the seizure of the old AICC offices in New Delhi by some members of Congress (R), have been subjects of much excited comment in the press.

"The symbol issue seemed to be important before the elections to the House of the People", wrote *National Herald*: "now it is only one of academic interest." Yet, the paper proceeded to spread its 'academic interest' over more than one column of editorial comment. "There has been no doubt what the Indian National Congress is", it declared. "It is only the Syndicate, over which Nijalingappa presided like a pinchbeck Napoleon and over the remnants of which Sadiq Ali presides with absence of dignity, that pretended to be the Congress." And now that "the figleaf of the symbol claim has been removed, the Syndicate stands as exposed as a nude by Epstein in one of London's parks". (If anyone wants to know whether an Epstein made in a London park has any particular relevance to the Syndicate, or why any other nude in any other park anywhere else by any other sculptor cannot do justice to the Syndicate, he should of course write a letter to the editor!)

According to the *Indian Nation*, again, the verdict of the Supreme Court has only symbolic value. "The real victory is of the Election Commission whose impartiality had been seriously questioned by a political party. It is a matter of deep satisfaction for the country that the Commission has emerged clean out of this ordeal." As for Congress (O), *Nation* said, "whatever the legal implications, there is no justification now for Nijalingappa's faction to call itself Congress party. It will have to choose a new name" — which indeed it has since been compelled to do, having been asked to do so by the Election Commission. Some newspapers like *Amrita Bazar Patrika* correctly anticipated that the Congress (R) "may not discard the symbol [of] a cow and a calf with which it contested the mid-term elections".

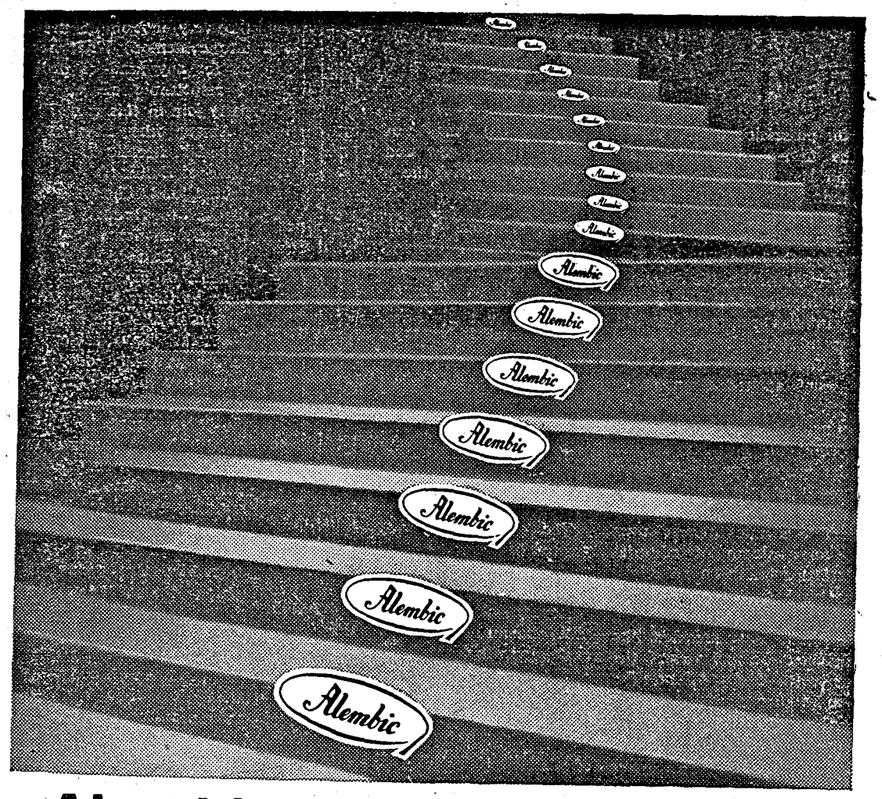
"The historical symbol of a political party such as the Indian National Congress", asserted *Deccan Herald*, "is avocative of its glorious record of service and also signifies all that it stands for. It more or less represents its very soul, and with the Supreme Court also confirming where that soul resides, together with the assertion that for all election purposes the ruling party in the Indian National Congress, any resistance by the Syndicate to do its obvious duty can only invite ridicule to itself."

The takeover by Congress (R) was greeted by newspapers with such words as "outrage at Jantar Mantar" (*Mail*); "unfortunate" (*Nagpur Times*); and "arrogance of power" (*Times of India*). "The manner of this unlawful seizure", exclaimed *Mail*, "smacks of Fascism.... If the Prime Minister did not instigate her followers to commit this outrage, she has certainly connived at it since the building has not been vacated so far. What has happened...is an illustration of might being right...of gangsterism." "Thoughtful people view with concern", *Mail* added, "the widespread symptoms of incipient Fascism in India where mob rule is gradually replacing the rule of law. It is in the interest of the New Congress itself that this tendency should be suppressed and obedience to the law strictly enforced."

Nagpur Times showed it was equally upset. "In view of the definite observations by the Court defining the scope of the Election Commission's decision as 'limited' and also stating that the proper forum for adjudication of disputes about property is civil courts, the action of the members of the ruling party...in taking the law into their own hands and forcing entry into the building...is, to say the least, unfair... [and] cannot be described as anything but trespass....This is a sad and perhaps dangerous precedent." *Times of India* also spoke with unconcealed heat when it said: "The Congress (R) members have disgraced themselves. As it is there are any number of small groups in the country busy bringing the very motion of the rule of law into contempt. What hope can there be for any kind of ordered progress if responsible officials of the ruling party join in this game?"

Among other issues which attracted editorial attention, mention may be made of Zulfikar Ali Bhutto's visit to Peking and Chou En-lai's letter of thanks to Indira Gandhi. Though Bhutto's mission had a "cordial reception" in Peking, wrote *Hindu*, "it is difficult to discern any fresh commitment by China to the Pakistan military dictatorship." The announcement that the talks "have achieved satisfactory results...certainly does not give the impression that the Chinese have given the Pakistanis a blank cheque for immediate assistance." As China has advised Pakistan to work for a 'reasonable settlement' of the Bangla Desh crisis, *Hitavada* observed, the "obvious hint" is that "such efforts have not been made so far by the military dictator of Pakistan". The Chinese Foreign Minister's speech "may be interpreted as a polite hint to Yahya Khan to gain the confidence of his own people, instead of throwing himself headlong into a military adventure... The Chinese may or may not help Pakistan. But they would certainly not encourage Pakistan to fight a self-invited war, and drag China into it."

Chou En-lai's letter to Indira Gandhi, thanking her for India's vote in favour of China's admission to the United Nations, represents "nothing more than a routine diplomatic courtesy", said *Free Press Journal*. "The extraordinary importance which is being attached to the India-China exchanges is only a measure of the near-total absence of such diplomatic civilities between the two governments in recent years. Certainly, the revival of courtesies is to be welcomed. But... Mr Chou's exhortation that the friendship between the peoples of China and India may grow and develop daily...will have to be read without emotion, indeed cautiously", it said. *Deccan Chronicle* took much the same view, though on a somewhat more hopeful note. Mr Chou's message "may be construed only as a routine courtesy", it said, "but the Chinese leaders are not known to waste their words. If nothing more than "diplomatic etiquette" was involved, Chou's message "would have stopped at thanking the Prime Minister without frills."



Alembic—where the pursuit of progress is endless!

Sixty-one years devoted to easing human pain, allaying suffering, bringing health to the people, fertility to the soil ...this has been Alembic's mission.

Alembic has placed in the hands of doctors the means to fight almost every disease. Alembic's antibiotic plant is the first in the private sector and the most modern in India. Alembic's home remedies, tonics and nutritional and cough preparations have become household words. Alembic also produces fertilizers, pesticides, cattle and poultry feed supplements to invigorate the land and livestock.

Alembic does not rest on its laurels—its endeavours are continuous. In its up-to-date, well-equipped, well-manned research division it carries out fundamental and applied research in Organic Chemistry, Biochemistry, Pharmacology, Chemotherapy, Microbiology, Immunology...to discover more potent weapons against disease, to find new ways to promote health and growth, and to set ever higher standards for further achievements.

Health assures happiness. Alembic *assures health*

ALEMBIC CHEMICAL WORKS CO. LTD. BARODA 3.

everest/425a/ACW

Foreign Policy Planning

B L Maheshwari

Foreign Policy and Its Planning by K P Misra; Asia Publishing House, Bombay, 1970; pp 88; Rs 15.

THE study of foreign policy is an underdeveloped area in India. Few scholars devote full time to this field and one often finds it difficult to recommend even a couple of good books on Indian foreign policy. Moreover, in spite of our conscious acceptance of the need for planning at the national level, foreign policy planning has been a neglected subject. It is in this context that the attempt of a scholar of K P Misra's standing in analysing the issues, the institutional aspects and the prospects of foreign policy planning becomes a very commendable thing.

Mishra begins and ends by stating that foreign policy is much too serious a matter to be left to civil servants and politicians and indicates in the book that the politicians and the civil servants also seem to agree with this view. There seems to be a general agreement on (i) the interrelationship between the domestic political process and foreign policy; (ii) increased scope, complexity and impact of foreign policies in modern times; and hence (iii) the need for planning in foreign policy. The author rightly points out that whereas democratic politics are open politics, the decision making process in foreign policy is often secret. The Pentagon Papers also established this. Misra, however, does not agree with the oft-cited view that the democratic system is not conducive to effective formulation and implementation of foreign policy. He suggests that foreign policy should be studied as an integral part of the overall policy process and methods and approaches developed in the policy science could be applied to it.

The author does not deny that some sort of planning is inherent in foreign policy but he stresses the need for conscious, structured and deliberate planning. Obviously, as the foreign policy situations become more complex, the need for policy planning is felt more urgently. The establishment of the Policy Planning Council in the US State Department in 1947 marked the beginning of such conscious planning. In India, no formal foreign policy planning machinery was created until 1962, largely due to Nehru's dominating role in the Indian political system.

By providing chronological review of the planning efforts in Indian foreign policy, Misra amply demonstrates that the process of institutionalisation was accelerated during the last decade. The Policy Planning and Review Committee in the Ministry of External Affairs was set up in 1966.

All through this book, the author compares the institutions and practices in India with those in the Western countries. He also emphasises the importance of close linkages between foreign policy and domestic politics. Since the author relies entirely on public materials, his analysis and, more than that, his prescription for future suffer from a sort of fascination with the institutional structure without adequate understanding of the processes of decision-making. This is not unusual because Indian scholars have had little access to the policy makers and the policy-making processes. It would have, therefore, been useful if the author could present authentic case studies of foreign policy planning in India. This would have sharpened his specific recommendations. This would have also helped him to reduce his reliance on American and British examples to substantiate his assertions in the numerous footnotes.

Looking to the future of foreign policy planning, Misra recommends three institutional remedies, i e, (i) establishment of a National Council of Foreign Policy, consisting of representatives of various political parties; (ii) appointment of an Expert Advisory Committee consisting of 20 to 30 eminent experts; and, (iii) strengthening of planning capability in the Ministry of External Affairs, particularly the Policy Planning and Review Division. He seems to think that the proposed National Council and the Advisory Committee will promote the process of consensus building and provide the policy planners with political support and research-based knowledge.

These suggestions are not new and, therefore, it is important to investigate the reasons for non-implementation. In fact, already there is considerable degree of agreement on the direction and substance of Indian foreign policy. The scholars engaged in the study of foreign policy in India have failed to present even new angles of analysis, not to speak of new strategies and action plans. With about two decades of experience of the study of international relations, Misra is aware of the limitations of Indian scholarly effort in this area. He himself points out to the existence of outdated syllabi and research programmes of the universities and other institutions and questions the relevance of what is being done there. Then, is it not unrealistic to hope for establishing closer links between the foreign policy planners and the growing body of scholars in this field?

Strengthening of the Planning and Review Division again is a desirable thing but the author has not discussed the implications of this for the organisation of the Ministry of External Affairs. For one who is "an outsider to the foreign policy planning process", his insights are penetrating and Misra deserves congratulations for this competent analysis. The problem of foreign policy planning, however, is not one of lack of ideals but essentially one of lack of acceptance and implementation. The two obstacles here are the arrogance of the civil servants and politicians and the inadequacy of the scholars.

A Straight Survey

Vinod Mehta

The Trade Unions in Maharashtra (A Basic Survey 1967-69), Labour Studies Number 1, Labour Research Cell at Bombay Labour Institute, Bombay, 1971; pp xi +225.

THIS volume is a basic survey of the organisational and financial aspects of trade unions in Maharashtra. It gives detailed statistical information together with a resume of the salient points. The object of the survey is to furnish basic data for further research.

The survey covers 1,057, or 46 per cent, of the 2,307 unions which were on the register of the Labour Department during 1967. Only those which were fairly regular in sending their returns during 1968 or 1969 are included in the survey.

The data have been classified according to the affiliation of the unions to one of the central labour organisations, *viz*, AITUC, BMS, HMP, HMS, INTUC and UTUC. There is also another category of unions which have been lumped together under the head 'Not Affiliated'. The breakdown of data according to the state, divisional and district levels is also given. The organisational aspect provides information on the size of the unions, the industrywise classification, and the classification according to the sector of operation. The financial aspect covers the income and expenditure patterns of the trade unions.

A cursory glance at the data would reveal that the numerically strong unions are not necessarily financially strong also—as can be seen from the following Table where the six central labour organisations have been ranked according to their membership and financial position.

	Rank in Terms of Membership	Rank in Terms of Income
HMS	I	II
INTUC	II	I
HMP	III	III
BMS	IV	V
AITUC	V	IV
UTUC	VI	VI

The category of non-affiliated unions requires special attention as it claims 32.39 per cent of the total membership and accounts for 38.6 per cent of the total income of all unions in the survey. These unions rely to a considerable extent upon donations for their funds. About one-fourth of their income is made up of donations. Thus these two characteristics — (i) keeping aloof from central labour organisations and (ii) dependence upon donations — raises a number of fundamental and interesting questions. If they are not affiliated to any of the central labour organisations, are they associated with any other local political party? Or are these unions sponsored by employers as rival unions? What is their role in the trade union movement? The present volume does not provide any information on these questions.

One should be cautious while interpreting even the available data. One would be susceptible to bias which may be immanent in the data. As indicated earlier, the survey covers only those unions which were fairly regular in sending their returns during 1968-69. It may be that a number of unions affiliated to a particular central labour organisation are not regular in sending their returns; the data, therefore, may not reflect true organisational characteristics.

As it is the first of the Labour Studies Series, it is to be hoped that the Labour Research Cell will put out a much-needed survey on the unregistered trade unions. With the funds and other resources at their disposal this should not be a difficult task.

SPECIAL ARTICLES

What Did Fail?

Loop (IUCD) as a Contraceptive? Administrators of Loop Programme? Or, Our Ill-Conceived Expectations?

Kumudini Dandekar
Surekha Nikam

The loop programme has made no headway in India. This is contrary to the reported experience in a number of other Asian countries. The present article is an attempt to diagnose the Indian case.

NO contraceptive device was ever tested, retested and evaluated to the extent and scale of IUCD, before its introduction for use among the masses. As for other contraceptives, they stood the test of popularity by use and tradition. Their testing was being done not in the laboratory atmosphere of the hospitals, but in the bed-rooms. Their results were not estimated and published after applying complicated techniques such as life-table techniques. Their popularity was passed on to people not by figures but by word of mouth. Quick popularity and fast acceptance by the vast illiterate majority was never expected of them as of IUCD. The IUCD programme in India was very cautiously launched after watching the results in the rest of the world and especially in Asian countries such as Korea, Taiwan, Thailand and Pakistan. Moreover, to judge the reactions of local women, a number of careful studies were conducted in India itself in urban—mostly city—clinics. The results of such IUCD programmes were presumably useful for launching the programme in the rural populations, only if all those connected with its administration were well aware of the results to ensure confidence regarding the contraceptive device. Did the results in urban clinics resemble those in other Asian countries? Did the administrators of the rural programmes know about them? Did they handle the rural programme the same way as they did the urban one? If not, did they put a good contraceptive instrument into disrepute and lose the chance of effective population control?

The following is a carefully recorded experience with IUCD in the non-city areas of Maharashtra.

In Maharashtra state the loop programme was zealously launched in 1965 with a total of more than 2,71,000 insertions during the two years 1965-67. This indicated a very promising response and was almost equal to the intended target for IUCD insertions set for later years. However, the numbers of insertions declined fast in the following years. In 1967-68 there were only 28,000 insertions and in the two following years there were respectively only 11 and 10 thousand. The year 1970-71 saw only about six thousand insertions. Thus the loop-insertions for Maharashtra did not attain any sizeable proportion of the stipulated targets for the state.

TABLE : TERMINATION RATES OF INTRA-UTERINE CONTRACEPTIVE DEVICE

Interval after IUCD Insertion (months)	Cumulative Rate of Termination per 100 Insertions					
	Our Sample[1]	Poona City[1]	Urban Clinics[2] in India (D V R Murty's report)	Taichung[3] in Taiwan	Korea[2]	United States
6	21.67	20.14	11.25	—	19.9	—
12	34.35	33.72	23.4	33.3	30.1	26.44
18	51.19	54.48	36.6	—	38.7	—
24	59.20	65.88*	46.3	50.6	46.3	39.84 40.61
30	68.88	—	—	—	—	—
36	73.95	—	—	—	—	—
42	81.79	—	—	—	—	—
48	84.84	—	—	—	—	—
54	87.88	—	—	—	—	—
57	89.03	—	—	—	—	—

Sources : "Intra-Uterine Contraception Research Report" by Tietze. Studies in Family Planning, No 18, April 1967, pages 22 and 23 tables 4 and 5. "Retention of IUCD : An International Comparison", Studies in Family Planning, No 18, April 1967. "Improving Access to the IUCD : Experiments in Koyang, Korea", Studies in Family Planning, No 27, March 1968, page 8. "An Analysis of Data on IUCD Cases", by D V R Murty.

* Calculations for this interval are not reliable being based on small number of observations.

1 For IUCD size 30 mm.
2 For IUCD size 27.5 and 30 mm.
3 For IUCD size 27.5, 30 and 31 mm.
4 For IUCD size 31 mm.

We attended 65 loop camps held during 1965-67 in non-city areas of Maharashtra. Our interest was in watching the administration of such a mass programme. Moreover, we wanted to conduct a follow-up of the loop cases later to assess the effectiveness of the programme. Selecting a sample of 3,365 loop acceptors in the camps, we tried to contact them during 1967 to 1970. Of these, we dropped 767 because they belonged to villages with less than 15 cases. This was necessary to avoid the prohibitive costs of investigation. Thus we were left with 2,598 loop cases from the camps.

At the very outset it is worth noting that only 132 cases out of 2,598 were considered unifit for loop-insertion by medical doctors at the camps. Excluding the pregnant few, they did not constitute even five per cent of the total while in mass programmes in other countries of the world, 20 per cent or more were considered ineligible for loop-insertion due to some health or physical derangement. This can be explained only on two grounds. One is that our women were more fit for loop-insertion compared to other women exposed to the loop programme. Or our screening processes of the ineligible were defective. The first seems highly unlikely, as the conditions of ineligibility for loop included a variety of gynaec and other disturbances which are not likely to be less common in India than in other countries. Then our problem is that if our screening processes were defective why were they so? Was screening not practised in the urban clinics wherein the loop or IUCD device was tried earlier? It seems from D V R Murty's report[1] on these trials that no data were recorded on screened out cases in the pilot inquiries. The neglect of such record no doubt proved hazardous for administering the mass programmes in rural areas.

Thus 2598 — 132 = 2466 women had the loop. We tried to contact these for a follow-up and were successful in interviewing 2,100. The non-response constituted 8 per cent and the rest were not found at the addresses noted by us at the camps. Compared to the time lag between the holding of camps and our investigations the success in interviews was laudable.

The follow-up of the 2,100 loop cases was started in 1968 which made an allowance of more than two to four years for observation of the loop experience. A questionnaire was devised for the follow-up which elicited information on the following items regarding loop experience.

(1) Socio-economic status of the women and their family as defined by caste, income, education and occupation.
(2) Demographic status of the women as defined by their ages and the number of male and female living and dead children with their ages.
(3) Source of information regarding loop and other contraceptives, if any.
(4) Reason for accepting the loop as a contraceptive.
(5) Husband's co-operation in the matter of loop-insertion.
(6) Conveyance and other facilities for attending the loop camp.
(7) Date of loop-insertion.
(8) Time of loop insertion in the menstrual cycle.
(9) Date of removal/expulsion in case of removal/expulsion.
(10) Total duration of loop *in situ*.
(11) Troubles regarding health, bleeding, extent of bleeding, menstruation, its regularity, etc, etc, immediately after loop-insertion, later and at the time of inquiry.
(12) Medical treatment and relevant expenditure for the troubles accompanying loop-insertion.
(13) Final favourable or unfavourable reaction to loop.
(14) Contraceptive practice before loop-insertion and reason for the shift to loop.
(15) Intentions of contraceptive practice after getting rid of the loop.
(16) Reproductive performance to the date of inquiry from the date of loop insertion.
(17) Remuneration for loop-insertion.

The data on all the above and the related items were obtained by interviews at the time of camp and the follow-up survey. They are described in the subsequent paragraphs only briefly to avoid the load of tabular material. However, details regarding certain aspects of the loop programme are referred to as they help to evaluate the programme besides diagnosing the reasons of its failure.

Out of 2,100 cases about 90 per cent opted for loop after getting convinced of its utility besides 7 per cent who were forced by their husbands. Only 11.5 per cent had actually practised some method — mostly traditional and chemical contraceptives—before adopting loop. Thus most of the loop-adopters were fresh cases of family planners.

The 2,100 interviews have a great significance as they bring to light a number of aspects about the mass programme of IUCD. Initially we want to show how far women were motivated to adopt IUCD. This motivation which is of basic importance for the success of the programe was assessed from:

(a) The number of living children or living sons the women had and the

ages of the women.

(b) The eagerness with which they adopted the contraceptive device with or without the permission of the husband.

(c) The eagerness to adopt the device even in the period of lactation amenorrhoea.

(d) The capacity of the women to tolerate the device in spite of bleeding and similar accompanying discomfort.

(a) The median age of the women at loop-adoption was 32.5 years. For Poona city this was 26.4 years. This definitely was not early in the reproductive span and the women seemed to adopt the loop rather for family-limitation than for spacing of children. They had 4.5 children on an average though 14 and 32 per cent of the women had adopted the loop with two or less and three or less children, respectively. Broadly one could conclude that loop-adoption as found in the 1965-67 programme could bring down about 25 per cent of the total contribution to fertility of the loop-adopters had the popularity of the loop been maintained later.

(b) The eagerness of the masses to adopt the IUCD is seen in the adoption of the device in spite of clashes of couples in its adoption. When there was no agreement between the couples, sometimes the motivated husband brought pressure on his wife (7 per cent such cases) and sometimes the wife adopted IUCD without the husband's permission (24 per cent cases).

(c) The eagerness of wives to take to contraception with IUCD was also clear from their adoption (44 per cent) of it even in the period of amenorrhoea when women have a much smaller possibility of conception.

(d) Loop-adopters reported some physical discomfort due to the device in sixty per cent cases. Out of 2,100 cases, 27 per cent had no bleeding at all, while fifty per cent had bleeding for less than a week. About 16 per cent had excessive bleeding for a duration of more than a week. In spite of this, the women bore the device patiently. At the time of interviews only 20 per cent had IUCD and they had it for more than 36 months on an average. About 62 per cent got it removed. Even these bore the device for more than 16 months on an average. About 16 per cent had the device expelled. These had the device for 8 months on an average. Thus the total wearing of the device was about 19 months on an average for 2,100 women. This, no doubt, can be regarded as enthusiastic acceptance of IUCD. Further among 2,100 women, 55 per cent required no treatment of any kind for pulling on with the device. The remaining 45 per cent needed some treatment. These included 31 per cent who took the treatment with success, 8 per cent who got treatment without success and 5 per cent who neglected the treatment. In short only 8 per cent cases had definite reasons for complaint, and their reactions to loop could be very unfavourable. Such unfavourable reaction could easily drive the other 37 per cent panicky as they needed some treatment for wearing the device.

The strength of motivation of the loop-adopters was also apparent from their running to other contraceptive devices once they failed with IUCD. All those with loop removed or expelled were interviewed with regard to their intention of family planning practice after the loop-experience. About 4 per cent got the loop re-inserted. Five per cent shifted to condoms, 43 per cent to sterilisation. Those shifting to sterilisation included 12 per cent who opted for male sterilisation, 31 per cent opting for female sterilisation. The remaining 10 per cent had an intention to get sterilised. But 35 per cent of those without loop had no intention of family planning practice. Was not this group a great loss to the family planning practice of the state?

The panic over the loop could be easily stopped if the administrators were well-informed about the possible side-effects and discomfort due to IUCD. Earlier records of the urban clinics were not useful in guiding the administrators. It seems from Murty's report that the records were not well maintained. As noted earlier, the number of women regarded as unfit for the loop, the period in the menstrual cycle when the device was fitted, the percentage of women which could not be followed in the urban clinics, period for which women suffered from bleeding were not always reliably available from the records. Since these were pilot projects specially designed to help the mass programme, they needed careful recording. But this was apparently neglected. Moreover the rates of termination of the device as given in Murty's report are low compared even to those in the United States for the first 18 months. The relevant rates of termination of IUCD for our sample, for Murty's pilot urban clinics, our Poona City (Maharashtra) follow-up, Taiwan, Korea and the United States are presented in the Table for comparison. The termination rates for the first 12 months in our sample do not appear very different from those for other mass programmes in Taiwan or Korea. They differ most widely from those of the urban clinics of D V R Murty. This raises a number of questions.

(a) Was it that IUCD programme for Maharashtra was much like that in Taiwan and Korea in the earlier 12 months?

(b) Did bleeding after IUCD insertion drive people panicky? If yes, one can easily understand the fast decline in numbers of women coming up for IUCD-adoption.

(c) Was it that the termination rates of IUCD were affected by the *panic raised due to bleeding?*

(d) Did the panic affect heavily the rates for longer durations? The panic no doubt affected the smaller durations, but to a smaller degree because, given the panic, women did not come up for loop adoption at all.

(e) Could better recording in earlier urban projects have helped in administering the mass programme in Maharashtra?

(f) Were the administrators of the programme well-informed about the side-effects of IUCD?[2] If they were, why could not they stop the panic?

In short, the IUCD programme in Maharashtra was not very badly handled in the initial days. But the administrators, probably uninformed about the statistics of side-effects, could not stop the people from getting panicky. The same ignorance probably drove them to go ahead fast with the programme even without a temporary follow-up. This no doubt proved a terrible setback from which there is no easy recovery.

It is worth bearing in mind that even such an IUCD programme for the state of Maharashtra during 1965-67 may have prevented many more than 50,000 births in the state. This despite the way it was handled.

Notes

1 It is a publication of 12 pages on about 20 thousand loop cases from the whole of India summarised by D V R Murty for the Central Family Planning Institute, Delhi, in 1967. Another overview of loop studies in India by Ashok Kumar of the International Institute for Population Studies is equally incapable of providing such data.

2 It is important to note that though IUCD should be inserted within less than one week of menstruation, our sample showed that only 21 per cent insertions were done during the first five days. Respectively about 23, 23 and 32 per cent were done during 6 to 10 days, 11 to 18 days and 19 and more days. About 44 per cent were done in lactation amenorrhoea.

For Whom the Engineer Toils

Richard F Devon

The manpower model in its policy form applied to higher technical education implicitly sees the individual engineer as an industrial number compensated with certain privileges. No consideration is given to the personal development of the engineer, and no education is provided to enable him to improve his performance as a social actor.

Attempts to allot a small percentage of the curricular time to courses in the humanities and social sciences are laudable, but these have to be seen as a mitigating influence rather than a remedial one. What is called for is the development of a philosophy of technical education rather than a utilitarian policy.

A philosophy of technical education can be developed from the consideration that an engineer should act ethically in his work. There are two educational principles which follow from this consideration. First, an engineer requires the knowledge that will enable him to understand the physical and social consequences of his actions. Secondly, an engineer should receive an education that would make him more likely to act ethically. The political implications of higher technical education also cannot be overlooked. Engineers have a higher propensity for mobility to the highest ranks of industry. If they are at no time in the educational process exposed to enlightened thought, then what sort of an industrial elite is in the making?

In the educational context, we are as responsible for the ideas and values that we fail to try to change as we are for those that we try to inculcate. Education changes people, and designing programmes of education that will change their ideas and values is a very delicate task, but not one that can be avoided. And, surely, we can all agree on a number of specific issues ranging from designing street lights so that they do not shine into bedroom windows to designing modes of transport that do not kill people and to cities that have parks in them.

In any nation that is progressing industrially there are two essential questions to be answered, industry for what and a better life for whom? Engineers should be educated so as to be capable of considering these questions.

WHAT are the intents and realities behind a programme for imparting technical education? Current policy on technical education in India, as in the West, is dominated by the "manpower model". This model can be expressed by the following statements. A class of people with a specific expertise can facilitate the acquisition of material goals. This expertise can be imparted in educational institutions. The nummer of people recruited into an educational ipstitution which imparts certain expertises will depend upon the industrial needs associated with these expertises. The capitalist version of this model tends to rely more upon vocational interests and vocational guarantees (high salary and job security), or lack thereof, to keep the flow of experts at the required level than it does upon policy directives from central authorities, such as might issue from a government through its Ministry of Education. Avowedly socialist countries make a deliberate effort to plan and control at the government level both industrial and educational development and to make these plans complementary to each other.[1]

The manpower model is accepted in both capitalist and socialist countries, and one of the main differences is over which policies (planning, free market, or mixed economy) are considered to make the model work more effectively. At present the unemployed engineers to be found both in the United States and in India suggest that neither planning nor allowing the "free market" to adjust can always be relied upon to fulfil the promises implicit in the model. Yet, even when analysing the failures of earlier planning, the model still remains the basis of the analysis. The case of unemployed engineers in India has been explicitly stated to be due to an unforeseen recession in the economy and an enrolment in engineering colleges above the planned targets.[2] Also, it has been argued that the number of educated unemployed in India generally can be greatly reduced by better matching the occupational structure of the economy and the educational goals, specifically more primary education and less higher education.[3] In the United Kingdom the situation has a rather more subtle dimension. There, one concern is that the technical education imparted is not sufficiently flexible to respond to the changing needs of industry in what is a fairly capitalistic industrial economy.[4]

To continue to use the manpower model and to try to improve it is a reasonable thing to do. But what concerns me is the apparent absence of a parent philosophy for the manpower type of analysis, i e, a set of principles for discussing people at work and the work they do in terms of human values. With this in mind I shall look at the case of engineers and higher technical education.

What I wish to suggest in this article is that the impact upon society of engineers cannot be assessed by only considering their numbers and skills as defined by industrial needs (the manpower model). By manipulating the environment the engineer is instrumental in making changes of far-reaching physical *and social* consequences. As a member of at least a quasi-elite class he will also have a social and political role to play. The manpower model, and the derived technical educational policies, never properly account for the engineer in these two roles. To see this we need to begin with an examination of the model itself.

A *fairly concise statement* of what manpower planning involves would be as follows. Assessments are made of current and projected labour resources and of the current and anticipated industrial and national labour needs. Strategies are then planned to match *these over a given period of time*[5] by, one, improving the skills and distribution of the present labour force and,

two, developing manpower resources that are new by quantity and, or, by skill type.

The manpower type of analysis can, at its own level, be articulated intelligently as shown in a useful study of the Indian case by George Tobias and Robert S Queener.[6] They identify many concepts central to the manpower model, such as recruitment, deployment, utilisation, worker efficiency, incentives (rewards and stimuli), training, stabilisation (minimising turnover) and adequate research programmes to acquire empirical data.[7] I would like to note three more concepts, *viz*, the attitudes related to the identified skills, unplanned (and often unrecorded) inter-job mobility, especially at a high level and international mobility. There is evidence of the importance of all of these in the case of engineers in India. Human skills do, after all, reside in a human being who can, if so disposed, work badly when he, or she, is capable of working properly. A person is also able not to do at all the work for which he, or she, has been trained. Moreover, even if that person does utilise his skill properly, he might still work in some place other than that anticipated by the manpower planner. These dimensions of choice involve human rights and are not readily mutable by manpower planners. One manpower analyst writing on the American case and wishing to associate himself with "freedom" (apparently referring to the American concept of individualism) wrote that "In a free and democratic society... Workers and management freely make their own decisions about employment..."[8] As an excursion into social philosophy this is rather baneful and it leaves unexplained (amongst other things) the existence of trade unions and, by and large, of manpower planners! The manipulation of human rights makes a manpower planner a social engineer at the policy-making level, but he does not have to make policy himself and it is probably better if he does not. What he can do is to document the way in which choices about work are being made.

It would, therefore, seem of importance for the manpower analyst to have some idea of job satisfaction levels. Assessing job satisfaction is certainly more difficult than asking the person involved if he is satisfied with his job, which is about as far as most surveys in India seem to have gone.[9] It is important to know what things cause dissatisfaction, and satisfaction, and why. Also, job satisfaction is relative to the desirability of other jobs. Your present work may be fairly satisfactory to you, but if you have a strong ambition to do something else and some opportunity to do it, then you may leave the job which you considered to be fairly satisfactory. So the two concepts of job-related atitudes and inter-job mobility are intimately related.

An indication of a potentially large amount of unplanned inter-job mobility was found in a recent study of IIT students. A D King brought out several important characteristics in a survey of the 1970 graduating class of the IIT Delhi. It was found that 27 per cent of civil engineering students were dissatisfied with their field of engineering, whereas the figure for mechanical engineering was only 2 per cent.[10] As King suggests, this sort of difference in commitment could have important effects in industry. Commitment to engineering in general also appears to have been weak with 34 per cent of the students saying that they would "like to take up a job which has little or nothing to do with engineering."[11] Further, 52 per cent of the students when given a list of career alternatives such as design, construction, production, etc, stated a preference for administration and management.[12]

The majority of students at the Indian Institute of Management at Ahmedabad have a first degree in engineering. These students can be identified by the manpower analyst, but the IIT graduates who go into management directly represent a mobility that will remain largely hidden unless there is a substantial reorganisation of the present manpower research programmes. (Surely, the class and educational background of, and other mobility factors of, managers and executives in business and industry is one of the most neglected areas of manpower research in India.)

The question of engineers going into management and administration is an extremely important one. King reports a study done in the UK which found that one-third of all engineers are in senior or top management functions at the age of 33, and that 22 per cent are in top executive positions at the age of 47.[13] In the USA it has been reported that in 1960 over one-quarter of the top executives in the 600 largest corporations in the USA had degrees in engineering.[14] Now these are striking figures. They are striking because there is little or nothing in technical education in the USA, the UK or India which prepares engineers for what many of them will end up doing full-time and what most of them will have to devote at least some of their time to, that is, executive and management duties.

Now the distinction between management and administration and engineering cannot be sharply drawn. Perhaps it can best be approached by asking the following two questions. What percentage of his working time does the engineer spend making analyses and decisions which can substantively be termed engineering? Further, in the context of education, what percentage of his working time is spent utilising knowledge and skills that were originally learnt in college, and what percentage of his entire college education in terms of content is not utilised at all in his work? These are difficult questions to answer but a methodology that produces results which allow working approximations should be possible.

Another question is at what point in their careers do engineers take on managerial and administrative duties? If they work for 15 years in design first, then by the time that they move into an administrative position they will have forgotten anything that they learnt about management in college. The more important engineers in administration, i e, those that rise highest in an organisation, may be those that make the move earliest. It would be interesting to know how many move into management within five years of graduating and to what levels they typically rise. This group could most benefit from educational changes which involved less engineering specialisation and more general knowledge of industry and management practices. There is some evidence that IIT graduates a few years ago were not moving into administration very quickly at all.[15]

All this poses substantial problems for the manpower analyst in India and it certainly depicts an area which needs researching.

Another problem for the manpower analyst is international mobility, or the brain drain. Most sources suggest that about 20 per cent of those who graduate from the IITs each year go abroad and few seem to return.[16] (There are indications that the current figure is lower than this, probably due to the tight job market for engineers in the USA.) The IIT graduate costs the government at least two to five times as much as engineering graduates from most other colleges.[17] Since those that go abroad often rely on private funds, an argument could be made to increase the representation of the lower classes amongst IIT students.[18] However, the brain drain problem has received a lot of attention already, so it is unnecessary to expand upon it here.

What Society Gives the Engineer

Another important area for the manpower analyst to consider is that of motivations. Why do people become engineers? Several contributing factors can be noted.

Engineering is associated with many positive political values such as progress, material benefits and scientific achievement. Technology, like science, has achieved some remarkable things; it invokes awe. Recently, and particularly in the USA, the concept of ecology has cast a shadow over science and technology, but, in principle, ecology means a study of the consequences from any particular process carried to completeness rather than a consideration of limited industrial goals. Ecology, then, probably means an expanded methodology for science and technology rather than a radically changed one, and the new benefits will be appreciated as were the old ones. However, should the shadow remain, the aura around science and technology would be threatened by the argument that it endangered rather than enhanced human welfare.

Students who go into engineering are drawn from those who do well in the intellectual evaluations carried out in primary and secondary schools. These evaluations are such that those that do well are well considered by others. All these things contribute to the social status of the engineer. It has also been suggested that certain types of action such as boldness, swiftness, and dynamism may be associated with the engineer and this, too, would increase his status.[19]

One study has suggested that the status of an engineer is inversely proportional to the degree of industrialisation of the society in which he works.[20] This is certainly plausible since not only the needs of a society but also the occupations become highly diversified in an industrialised society. The urgent needs for which an engineer is so crucial in a society wishing to industrialise are no longer so urgent once a substantial amount of industrialisation has taken place. Further, the engineer is a member of a class which becomes much bigger with industrialisation not only in absolute numbers (there are over one million engineers in the USA now), but bigger relative to other professional groups also.[21] Although the status of the engineer in India seems to have declined somewhat in recent years (probably partly due to the greatly increased numbers of engineers and partly due to the stigma of large numbers of unemployed engineers), their status is still high[22] and their industrial role still very significant.

A very powerful influence upon those contemplating a career in engineering is the high salaries available in the profession. In more industrialised countries than India the income of engineers is fairly good relative to those for other careers, but in India the salary is very attractive indeed and for those from less well-endowed families engineering represents a good avenue to a modicum of prosperity.

There is also the job itself. Generally, an engineer is engaged in a positive, creative type of work which can provide a definite source of satisfaction. Further, the individual may have a genuine vocational interest in the work that he does.

The engineer may be typically someone who perceives that engineering offers a career that satisfies certain of his personality needs. At least there is evidence in the USA that engineers have typical personality characteristics. Some of those found in student engineers have been low interest in other people, a low indulgence in non-technical literature, and positive interests in material rewards and sport.[23] Reporting from the results of interviews with about 25 per cent of the scientists and engineers in the UK during the Second World War, C P Snow also reports a near complete ignorance of non-technical literature amongst the interviewees.[24] Some engineering educators, in one study, have been seen to be fairly high on ratings of authoritarianism and social prejudice when compared to educators in other fields. Interestingly, these ratings were higher for those who had not engaged in research activities.[25] Several commentators have suggested that engineers are introverted.[26] And Robert K Merton has complained that engineers have an ethic of only doing their job and of not feeling responsible for any social consequences of their work.[27] The vast majority of American engineers work in large organisations (about 75 per cent work in organisations which employ over 1,000 people),[28] where they may see their work as a creative outlet in a safe, firmly hierarchical, and quite confined social structure in which they only have to relate to like-minded people. Conflict in their lives, then, would be very much confined to their dealings with the natural environment rather than with other people. There is no data for the Indian case, but because of the different level of industrialisation and different cultural background the types of personalities that are currently being attracted to careers in engineering may be different than the American case in some respects.

The actual decision to become an engineer may be made somewhat haphazardly under the influence of kin or peer pressures and with an ignorance of other possibilities.[29] Yet those that elect to go into engineering surely perceive that there is something in it for them. There is a very substantial financial investment made in their education by society and many rewards come their way. Surely it is reasonable if engineers, in return, do not work entirely to limited interests, but remember the needs of the larger society. And, if so, is it not necessary to develop within the technical education that engineers receive an awareness of their social roles and duties? If the manpower model is not derived from an educational policy which holds not only industrial skills as important but also the broader goals of building a better social system for the furture, then talk of social planning is idle.

The various rewards listed above constitute, in a way, compensatory privileges for those who I am suggesting are, in terms of the manpower model, industrial numbers. I do not mean to imply that engineers in India are not highly favoured and highly envied by virtue of the reasons given above. But the underlying philosophy behind the policies that produce engineers in India, as in most other countries, denies certain human dimensions to the "engineer". The engineer is produced for his usefulness; his right to function autonomously as an elite or quasi-elite member of society is sabotaged at the beginning in the very policies that give him his social position. His education lacks the breadth required for his social role.

Learning Engineering

Let us first discuss the education required for the engineer *qua* engineer and then for the engineer as a social actor. These two points are by no means exclusive for the engineer as part of his work may be directing a working

force, or the pollution from an industrial plant that he designs may have widespread social consequences. The social and technological aspects of the engineers' work are interrelated and both must be evaluated if we are really to discuss the "usefulness" of an engineer.

There are two issues which figure in any discussion of the educational philosophy pursued by an institute which imparts technical education. The first is the perennial debate of "education" versus "practical training". This debate, I think, loses much of its vigour if the word "experience" is used to replace the word "training". Practical training, conceived to mean the training of experts according to specifications laid down by industrial concerns, cannot be imparted at a public institute for what, ironically, are quite practical reasons. One institute cannot train the multiplicity of specialists required for the region it serves in an industrialised or industrialising society. Not only does industry require specialists, but so also do government departments, professional firms and research centres, and this makes even a general form of practical training for industry hard to implement. Furthermore, it cannot be conducive to scientific and technical progress to produce experts on the basis of a "spare parts" philosophy, since technical experts upon recruitment should be a source of fresh ideas and talent. Technical education must concentrate on the things that are of widest application, such as mathematical and experimental methods of analysis, well-used theories such as elasticity, and heat flow, and basic knowledge on, say, the properties of materials. Finally, it may be noted that an institution financed wholly or partly by public funds should not cater to such limited special interests.

The concept "practical experience" is not subject to the criticisms just made of practical training. Yet, it inherits many of the arguments often made in support of practical training. It clearly incorporates desirable principles such as a physical understanding of the materials and processes common to contemporary technology, an appreciation of industrial goals (e g, output, profit, efficiency), and the limitations of theoretical goals (e g, scientific understanding, exactness, qualitative perfection). Practical experience, also, can encourage a heightened understanding of the ethos of the labour force. Practical experience may be obtained in laboratory exercises, research projects, or through a working situation of, say, two to three months during the annual academic vacations. These things can be, and already are in the IITs, encouraged by educators and industrialists alike.

The debate between the industrialists and the educators continues rather fruitlessly.[30] The industrialists and many working engineers themselves consider that the higher technical education imparted in India is too theoretical, although I suspect that a large part of the problem is an inadequate emphasis on design procedures and not practical experience per se. Most of the teaching staff in engineering colleges in India, incidentally, have not had any practical experience. The educators' usual reply, also justified, is that the industrialists never make any concrete proposals. To the extent that there is an impasse here, I would like to digress from my main theme to make a concrete proposal.

A working engineer should be able to take a month or two, or more, off work on either full-time or part-time leave to study a specialised area related to his work and in which he feels deficient. This study would be done on campus and under the guidance of a professor. (Professors would, of course, only be allowed to take on a few such students at any one time.) The result should be to de-emphasise the importance of degrees (a welcome prospect), to increase the importance of ability and mitigate the effects of the obsolescence of knowledge. So a civil engineer who finds himself working as a road engineer might like to improve his knowledge of soil mechanics. A sales engineer, unable to take a full course in business management, might be able to acquire some introductory knowledge in accounting or marketing, although such a radical change of subject would have to be dealt with carefully. This proposal could mean the development of a more meaningful relationship between education and industry. If the scheme were placed under the control of the educational institutions there would be no question that industry might exploit the situation. It would be particularly useful if the IITs expanded their facilities somewhat to perform this service for the graduates of less well-endowed colleges.

Where a problem of communication between industrialists and technical educators exists on the question of identifying what skills are really required by industry, the manpower analyst is in a difficult position. He will have to continue to rely on the rather superficial categories of numbers, degree level and degree field for assessing the available and materialising engineers.

Educating the Engineer

This second issue is a question of the breadth of the education to be given to technologists. Should institutes of technical education be providing experts that are something more than specialists?

A broad approach to the questions of education as a process has been taken by F Harbison and C A Myers who concentrate on what they term the development of human resources.[31] They consider that an educational programme can be designed that will satisfy both the economist who is concerned about developing skills pertinent to production and also the humanist who wishes to foster an appreciation of human values. Depending on who the "economist" is and who the "humanist" is, Harbison and Myers are undoubtedly right. It is certainly possible for an educational system to produce artists, writers and philosophers as well as scientists, managers and technologists; almost all educational systems already do. There are, of course, a multitude of different opinions on the proportions involved and also upon the nature of the subjects involved (e g, should politics be studied as legal history, philosophy or social science?).

What Harbison and Myers seem to fail to perceive is the need to satisfy the humanist and the economist in terms of the education of a single person, an engineer, for instance. Rather than allow society to fragment into a multiplicity of cultures which cannot communicate with each other, should not an effort be made to promote integrative subjects such as industrial sociology or political economics? Harbison and Myers fail to explain how society will function as a result of their educational system. Who will have political power, will there be proportional representation amongst the philosophers and engineers and so on? In an industrialised society those closest to industry usually have more power. What will be the importance of liberal ideas, then, if they only exist in books and magazines that the industrial elite never read? It is hard to evolve political institutions which can survive in a democracy where the elites do not generally appreciate them. Surely then, it is a better policy in the long run to promote an understanding of society (integrative knowledge) in each person and an appreciation of the cultural values of that society (liberal, socialist or whatever). And this is best done through formal education. Where it can only be done for some, it should, at least, be done for the elite classes. Engineers with a relatively high mobility up through the ranks in industry must be considered as an elite group.

With regard to the question of no communication between different cultures, C P Snow has argued against the type of specialisation in education which creates this,[32] something that has been especially true of higher education in the UK. To be clear in making his argument, Snow considered only two cultures: the literary and the scientific. But he failed to make clear why a lack of communication is important and between which groups of people communication is, or is not, important. It would certainly be helpful if the insights of art were developed through an understanding of modern science and industry rather than a rejection of it. Yet this is not so crucially important as the need for communication between what I would call the political culture and the scientific culture. (I cannot accept Snow's tendency to equate the political and literary cultures[33] for anything outside of the House of Lords) or between the scientific culture and what I would call the humanistic culture. (As Snow himself would agree, the literary culture is certainly not necessarily a humanistic culture.) Why this communication is important is simply a question of ethics set in the context of a highly organised society.

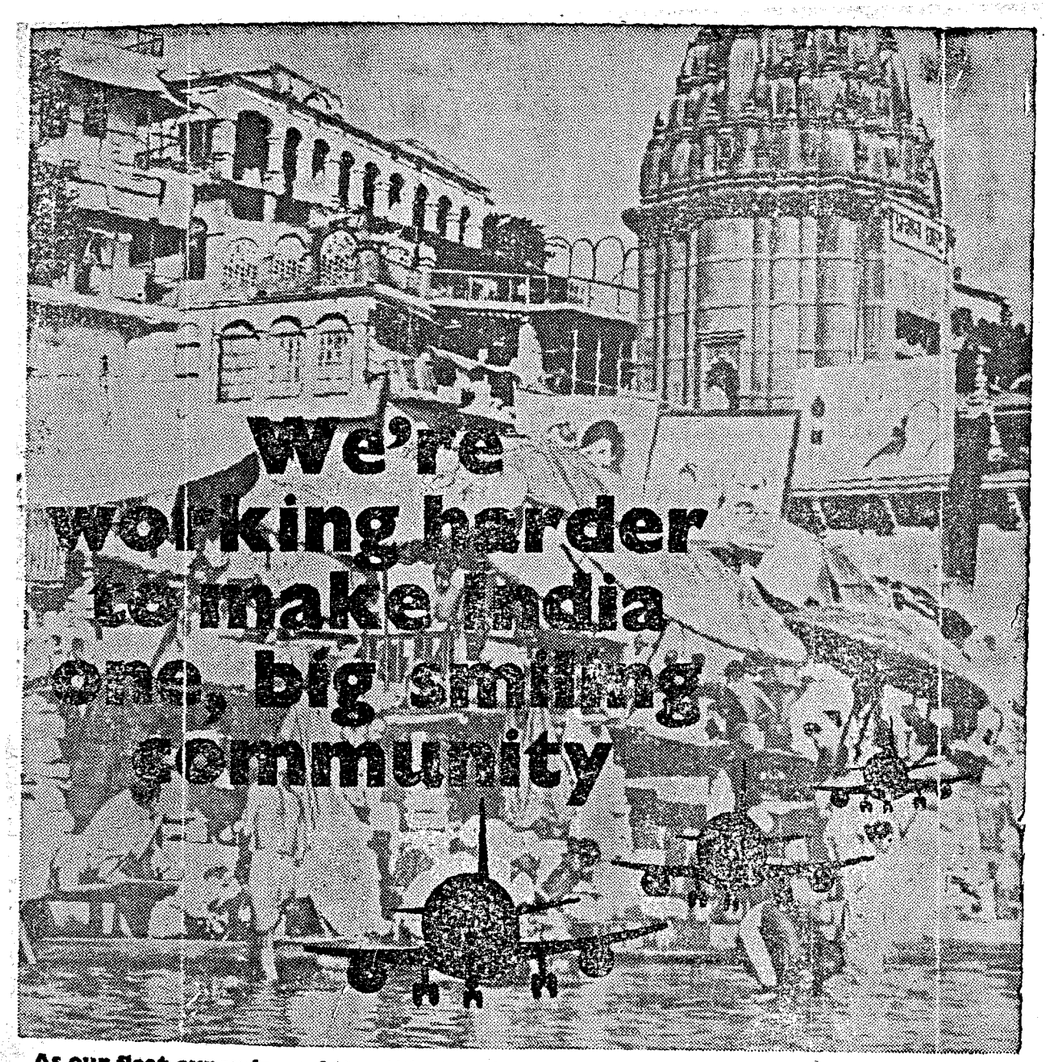
A recent international survey[34] revealed a wide variety of approaches to the goal of introducing non-technical subjects into the curricula of higher technical institutions of education. I prefer to define the issue more broadly than the dichotomy technical/non-technical suggests. Not only is there a problem providing a specialist with knowledge about his society, but, in view of the great degrees of specialisation in science and technology in recent decades, there is also the question of integrating the specialist into his parent disciplines (e g, educating the technologist in general science). Then, and perhaps most importantly, there are the interdisciplinary fields such as the philosophy of science, the history of science and technology and the sociology of technology.[35] These interdisciplinary fields are required in order to weave the fragments of science and technology into a meaningful whole and also to integrate that whole into the larger context of human affairs from whence it comes and in which it operates. This, in turn, requires an understanding of human affairs which in curricula terms means the disciplines of the humanities and the social sciences. In using the word "whole" I am not merely suggesting a body of knowledge that is bound together by some degree of logical and semantic coherence, but also I am suggesting a body of knowledge which attempts to provide a certain completeness of scope as gauged by its ability to handle the human experience, in this case from the perspective of the technologist. I am, in short, concerned about the epistemic resources the technologist has for defining his relationships with the whole society to which he belongs. In contemporary industrial societies in particular the individual often acts upon other segments of society at a great human distance from them. These actions may be of great import for other people who are not only strangers to the actor in the personal sense, but also strangers in the sense that the actor has little or no knowledge of them even in the more objective sense of knowing such things as the demographic statistics, the behavioural traits, and the human values of these other people. Worse still, this lack of knowledge may include an ignorance by the actor of the fact that those other people are affected at all by his or her action. Indeed, one might argue that there is an educational imperative of a pre-categorical nature, viz, one should endeavour to understand the world in which one lives so that one can act ethically.

Obviously much of what has been said above does not apply exclusively to engineers, but there are some critical reasons which make the case of engineers important in this regard. In the UNESCO study mentioned above, Gould and Smith writing on the UK case bring out two of these reasons. The first is the obvious one that engineers are the class of people who design and implement the technological changes which are the material core of the social changes taking place in all industrial and industrialising countries. It would be desirable, it is argued, if engineers had an appropriate understanding of the natural and social consequences of their actions.

The second point made by Gould and Smith is that the work of an engineer makes demands upon him or her as a human being and he should be sensitive to what is known about, for example, industrial management, bureaucratic structures, labour relations and so forth.[36] The implicit recommendation appears to be the inclusion of courses in industrial management, etc, in an engineering curriculum. As currently taught and practiced such disciplines are really skills and not different from engineering skills. Yet Gould and Smith obviously consider that such courses would "humanise" an engineer in some way. Surely, human sensitivity involves the ability to understand others and to be able to reflect tolerantly over value issues. Whereas such courses as Gould and Smith seem to recommend could undoubtedly be of value to an engineer, they will not alone be enough to help the engineer handle demands that are made upon him as a technologist whose actions may be of great social import.

There are two further points which may be made. The engineer has a social status, the relative importance of this status varies from one society to another. In all societies they constitute at least a quasi-elite class as professionals and experts. A certain amount of authority and leadership is thus acquired by them. Hence, situations arise where, say, an engineer's report stressing the feasibility of building a dam carries with it a veiled recommendation to actually build the dam. In a similar case which occurred in India recently, a group of natural scientists made a political gesture by petitioning the Indian Government to sanction the development of the atomic bomb in India. This was an unprofessional action, it might be argued, but the deed was done and the petition of the scientists obviously carried much more weight than if a group of librarians had done so, even though they would be equally well qualified to consider the principal issues involved which are moral and political and not scientific at all. In the UK another example was suggested in the editorial of the *New Statesman*, September 10, 1971, which argued that "...politicians have found themselves embarrassed with the technically superb but socially destructive and economically disastrous Concorde because, at the outset, they failed to cross-question the 'experts' who claimed that a British SST was a noble target for the nation." To prevent problems like those just referred to that arise when there is a cultural discontinuity amongst the elite, the engineer as a member of an elite or quasi-elite class must also promote the new culture in a changing society.

The final point is a simple one and



**As our fleet expands, and its utilisation increases...
places and people will continue to come closer.**

Every new plane that has joined our fleet has helped the people of India come a little closer.
It happened with the Friendships. With the Caravelles. With the HS 748s.
And lately, with the Boeing 737s.
Already our Boeing 737s have helped shrink distances in India by hours.
They've helped even small towns enter the jet-age.
With a bigger passenger capacity they've helped people and places come closer than ever before.
To date, our utilisation of the Boeing 737s has gone up several hundred hours.
And will continue to increase.
But this isn't the end.
Distances will continue to shrink as we get bigger, better planes.
And the day isn't far when you'll be just a smile away from your destination.
We're working in that direction.

Indian Airlines

[mcm/ia/21

2400

not exclusive to the case of the engineer. Do the educational policy-makers when providing sixteen years or so of education have the right to deny any individual the type of education that will make his or her life richer or more meaningful? How far can the process of sacrificing the individual to industry go without doing harm to both? To deny a liberal education to someone, may be, as noted above, to deny the individual the chance to act ethically. While it is not generally possible to give all members of a society a liberal education surely it is in everyone's interest that an engineer should understand his own actions.

Such ideals, of course, do not usually suffer much criticism, but few philosophies of technical education at the active stages of policy making and implementation reflect a very serious commitment to them. An exception is the USSR as the following excerpt indicates: "In the Soviet Union an engineer is not only a technical specialist, but also a public figure, a carrier and disseminator of culture. To perform these functions, he requires extensive knowledge in various walks of public life and human activity."[37] In the same source it is reported that an engineer's curriculum includes a considerable exposure to subjects ranging from natural science to philosophy and including, of course, the history of the Communist Party in Russia. Whether or not these policies are successfully implemented, they do reflect, albeit with a bias, a sophisticated attempt to develop a philosophy of technical education which comprehensively approaches the problems involved.

The IITs have made some effort to give their graduates a general education by allotting around ten per cent of the curriculum to courses given by departments of Humanities and Social Sciences. (The figure of ten per cent has also been adopted in Britain recently in contrast to the previous situation there where there was no general education in an engineering degree programme.) The departments of Humanities and Social Sciences in the IITs are teaching and research units, and yet they do not have any undergraduates majoring in these fields. This poses several problems. First, liberal education is given the status of an addition to the curriculum, i e, something which is not fundamental to the degree programme. This is further reinforced by the absence for the engineering students of peers studying humanities and social sciences in their own right. Also, the teaching staff themselves are in danger of becoming specialists, e g, specialist in teaching liberal education to engineers. It would be more appropriate if these departments became of the same status as the various engineering departments with a body of undergraduate students. This would mean a considerable expansion of staff and facilities and the creation, perhaps, of more departments. It would, incidentally, have the advantage of allowing the development of high quality departments in non-technical subjects which is something that is much needed in Indian higher education. It is, in any event, the point of view of the author that not less than a third of the curriculum should probably be devoted to non-engineering subjects. It is pointless to progress technologically if such progress is not guided by a rational and humanistic base, and besides institutional restraints on the uses of technology nothing may be surer in the long run than providing the engineers themselves with a well-designed liberal education. Certainly I am sceptical of the idea that all will be well if the politicians take the responsibility for guiding the development of science and technology. Nor is it likely that professional societies in India will prove to be any more prominent in guiding the development of technology than they have been elsewhere. And at the moment such societies are very undeveloped in India.

We can now return to the discussion of the manpower model with a question. If in our educational philosophy the qualities of human beings are to be considered paramount then is all that is required in the manpower model an adjustment such as a few general education courses in an engineering curriculum? Clearly not, since either educational policy is governed by considerations of the *type* of people desired, or it is governed by industrial needs. Both goals cannot be paramount, and, if the first is, then it may well be that, on occasion, industrial needs will not quite be met and material production will slow down. (John Kenneth Galbraith makes a strong argument that production should slow down in the USA.) And this is only reasonable since material progress is of no great value after all if it is not so guided as to be of benefit to mankind. What is the purpose of progress if the ability to end poverty and hunger is not exercised while the ability to wage war and wreak havoc and destruction upon millions is constantly used? Of course, engineers alone do not guide material progress and the general arguments that I have made above obviously have a wide reference, but the engineers as a class are a crucial factor in defining the nature of material progress.

Suffice it to conclude then that the manpower model is a technique and not a philosophy and industrial needs are only one factor to consider in a philosophy of higher technical education, and not the most important one either. What is required most of all are men and women who will promote peace and justice and the alleviation of want because they are wise enough to appreciate the sufferings of others, to tolerate the values of others and have the necessary social and technological knowledge to be able to achieve these goals.

It might be thought that discussing valid reasons for slowing down India's industrial production at a time when the problem appears to be its inadequate growth rate is rather perverse. However, later in this article I shall propose an educational system which would produce people with an understanding not only of industry, but also of society. Such people would be of great value in guiding the development of industry, and in the area of technological transfer may well make a very dynamic contribution to industrial development. In the countries that have fostered technological progress there exist both the latest technology and the costly legacies of the parent technologies. By judiciously importing new technology India could achieve a very rapid development in many areas. However, good judgment in technological transfer may in general be beyond the limited perspectives of a traditionally trained engineer. For example, consider the question of developing a traditional (petrol engine) car industry in India. The air pollution caused by petrol and diesel engines in many Western countries is so extensive that alternative types of propulsion have already been developed and are being implemented. The extremely costly networks of roads in these countries often consist of empty rural highways and traffic-choked urban networks. More and more metropolitan areas in the West are developing and expanding rapid transit systems which are efficient, do not pollute the air, and have very few accidents. There are other social factors than air pollution to be considered also. More Americans, for example, have died on the roads in the USA than in all the wars they have fought put together (and the USA has very high standards in cars,

India needs power

HE

helps provide it

Even a decade ago, India was dependent on foreign countries not only for plant and equipment for generation of Power but also for men to install and commission them.

India has since turned the corner; indigenous know-how and technology have been developed at the Heavy Electricals factory at Bhopal.

For the first time in the country, three Hydro Power stations—Obra in Uttar Pradesh, Bassi in Himachal Pradesh and one Power Station of U.B.D.C. in Punjab—have been completely equipped and commissioned with machines supplied by Bhopal factory. The erection and commissioning work has been done by Indian workers and engineers.

Eleven more Hydro Projects—Chibro, Ram ganga, and Khodri in U.P., Koyna in Maharashtra, Ukai in Gujarat, Gumti in Tripura, Sharavati and Kali nadi in Mysore, Sumbal-Sind in Jammu & Kashmir, Dehar and Pong in Punjab, are in different stages of manufacture, erection and commissioning.

On the thermal side, Basin Bridge Thermal Power Station Extension Project of Madras has been commissioned with machines supplied from Bhopal factory. Machines have also been supplied for Parli in Maharashtra, Santaldih in West Bengal and Chandrapura in Bihar. Other thermal projects on hand are Ukai and New Power Stations in Gujarat, Koradi in Maharashtra, Korba in Madhya Pradesh and Namrup in Assam.

The Bhopal factory is also playing its part in eliminating dependence on imports for Naval Steam Main Turbines required for driving modern warships. India's first such turbine built at Bhopal factory has already been supplied and more will follow for propelling India-built Leander Class frigates.

The Bhopal factory has entered the nuclear power field. Kalpakkam Nuclear Power Station in Madras will be the first Nuclear Power Station in India to be equipped with indigenous turbines being built at the Bhopal factory.

All these developments at Bhopal factory are a symbol of India's achievement in the field of power development through indigenous efforts to meet the evergrowing need of Electric Power.

HEAVY ELECTRICALS (INDIA) LTD., BHOPAL

(A Government of India Undertaking)

JAISONS-1329

roads and driving care). Also, in India it may be noted that only the very wealthy will be able to afford cars for the foreseeable future. To develop a car industry in India, then, may be bad technological sense, a poor deployment of resources, inhumane and non-egalitarian. This argument presents one side of the case only, but surely it is enough to justify some thought by very well-informed people who are given power to make policy. Yet, Indian higher education is not structured to produce such people, and it must be if the maximum benefits are to accrue from the interaction between imported technology and the indigenous socio-economic goals.

A New Model for Technical Education

The reasoning so far has stressed the inadequacy of most current conceptions of technical education. It is appropriate, then, to suggest an alternative model for higher technical education.

Instead of a five-year engineering degree course, the education could be given in two degrees. The first course could be of about four years duration and lead to a first degree in arts, science and technology. About half the curriculum could be devoted to maths, science and engineering courses, and the rest of the curriculum would be in the humanities and social sciences with an emphasis on such courses as introductory economics, management, industrial relations, the sociology of technology and perhaps a general series of seminars and films on a group of topics such as contemporary industry in India, ecology, India's natural resources and the idea of the engineer as a professional.

Graduates with this first degree would be valuable in a wide range of industrial careers, e g, administration, sales, publications. They would also be much better material for the management institutes than an engineering graduate from the present system. And, in view of the dire shortage in India of people with a broad understanding of industrial society such graduates would be very suitable for extending their studies for higher degrees in the social sciences (which IITs already offer).

To graduate as an engineer in this system would then require two more years mainly devoted to specialising in a particular field of engineering. This would lead to a masters level degree without involving a substantial research effort, but that does not seem to be an important point.

Such a degree programme would take six years to produce an engineer instead of the present five years (in most places). Given the current surplus of engineers, to start moving in this direction now would not involve a harmful effect on the output of engineers. At present, however, only the IITs have the structure and facilities to even contemplate this change. It is probable that the individuals who chose to complete the second course will be those who seriously find the job of engineer *qua* engineer to their interest. Thus, the resources expended in specialised technical education will not be so likely to be used mainly as a stepping stone to management but fully utilised.

An interesting example, incidentally, of what can happen when an education as well as a skill is provided to a professional class is that of lawyers in the USA who take a three-year law programme only after a four-year undergraduate course, usually in the liberal arts. The USA actually produces far more lawyers than it really needs. But a law graduate is always capable of doing other work by virtue of his general education and one does not hear of unemployed lawyers even though nothing is done to control the vast number of lawyers produced. The manpower model applied to engineering would have a fail-safe mechanism built in for high level manpower planning if engineers were employable because they had other abilities.

Many of the arguments of this paper have been predicated on the assumption that engineers *can* be given an education that will make them more liberal, tolerant and socially aware. Research into the effects of education is a neglected area, but there is now enough data available on higher education in the USA to draw some conclusions. In a recent review, T M Newcombe and K A Feldman's "Impact of Colleges on Students", it is stated that freshman-senior changes such as declining authoritarianism, dogmatism and prejudice have been quite prevalent in American universities in recent decades. They also find that the attitudes held by college students tend to persist thereafter, and that the impact of the college experience is conditioned by the background and personality of the student. It is hoped that future research will identify the significant variables even more precisely. In the meantime, the development of similar knowledge for the Indian case should be given a very high priority.

Concluding Remarks

The success of manpower analysis in India is dependent upon the ability of economists to predict industrial growth. This is very hazardous when it involves being able to predict monsoon failures, wars and many other unforeseeable phenomena such as the political failure to adhere to the targets of enrolment in engineering colleges of the Third Five-Year Plan.[38]

When manpower planners in India have researched their topic they have tended to ignore the significance of three factors. These are job-related attitudes, qualitative assessments of manpower needs and resources, as opposed to *pro forma* considerations such as degrees, and unplanned inter-job mobility. It might also be added that an undue reliance on questionnaire surveys through the mail has created a lot of data of very doubtful reference since most response rates are between 25 per cent and 45 per cent.

It has been argued that manpower considerations have an excessive influence on the development of technical education. The manpower model in its policy form applied to higher technical education implicitly sees the individual engineer as an industrial number compensated with certain privileges. It takes advantage of material constraints, such as material desires, and psychological constraints, such as vocational interest, operating upon the individual during what are very formative years. The last phase of a person's education is of great significance in a society that is occupationally defined when that education makes the recipient very eligible for certain occupations and very ineligible for almost all others. When higher technical education is derived from manpower considerations there will be no consideration given to the personal development of the engineer, and no education will be provided to enable him to improve his performance as a social actor.

Attempts to allot a small percentage of the curricular time to courses in the humanities and social sciences are laudable, but can be seen as a mitigating influence rather than a remedial one. The education of elite classes cannot be considered without a thorough analysis of all the problems involved. This will inevitably lead to the development of a philosophy of technical education rather than a utilitarian policy.

A philosophy of technical education can be developed from the consideration that an engineer should act ethically in his work. There are two edu-

cational principles which follow from this consideration. An engineer requires the knowledge that will enable him to understand the physical and social consequences of his actions. Secondly, it follows that an engineer should receive an education that would make him more likely to act ethically.

The political implications of higher technical education, also, cannot be overlooked. Engineers have a high propensity for mobility to the highest ranks of industry. If they are at no time in the educational process exposed to enlightened thought, then what sort of an industrial elite is in the making?

It is not suggested that an engineer should be indoctrinated in some ideology. An exposure to rational and humanistic thought, to different schools of philosophies, to the ways of different cultures, to ideas like tolerance and free speech, can scarcely be termed indoctrination. Moreover, in the educational context, we are as responsible for the ideas and values that we fail to try to change as we are for those that we try to inculcate. Education changes people, and designing programmes of education that will change their ideas and values is a very delicate task, but not one that can be avoided. And, surely we can all agree on a plethora of specific issues ranging from designing street lights so that they do not shine into bedroom windows, to designing modes of transport that do not kill people and to cities that have parks in them. In any nation that is progressing industrially there are two essential questions to be answered, industry for what and a better life for whom? Engineers should be educated so as to be capable of considering these questions.

Notes

1 I do not maintain in general any distinction in this article between engineers who go to work in industry and those who go into service for the state or central governments. The distinction is not easy to make in a mixed economy, and most of what is said in the article is applicable to both groups of engineers.

2 Institute of Applied Manpower Research, "Employment Outlook for Engineers 1969-79", Working Paper No 11, 1969, p 23.

3 Blaug, M, Layard, P R G, Woodhall, M, "The Causes of Graduate Unemployment in India", Penguin Press, London, 1969.

4 Committee on Manpower Resources for Science and Technology, "The Flow into Employment of Scientists, Engineers, and Technologists", presented to Parliament by the Secretary of State for Education and Science and the Minister of Technology, by command of Her Majesty, September 1967.

5 It has been argued that India has overemphasised long-term planning at the expense of short-term planning. See Tobias, George, and Queener, Robert S, "India's Manpower Strategy Revisited 1947-67", N M Tripathi Private Ltd, Bombay, 1968, p 194.

6 Tobias and Queener, *op cit.*

7 Tobias and Queener, *op cit*, p 193.

8 Lester, Richard A, "Manpower Planning in a Free Society", Princeton University Press, New Jersey, 1966, p 207.

9 In a well executed study of graduates of Delhi University's College of Engineering, it was found that two years after graduation about 40 per cent of the graduates were dissatisfied with their jobs and about the same proportion were dissatisfied with their salaries. See India, Government of, "Survey of Engineering Graduates of Delhi University: 1964 Batch", Directorate General of Employment and Training, New Delhi, 1966. Also, a study of IIT graduates found that about 40 per cent were dissatisfied with their work, but in this case the major reasons seemed to be job specification and future prospects rather than salaries. See Institute of Applied Manpower Research, "Graduates of Indian Institutes of Technology in India and Abroad", Report No 2, New Delhi, 1967. But these two studies seem to be the only ones which inquired into reasons for job dissatisfaction and which also have a high response rate.

10 King, Anthony D, "The IIT Graduate: 1970, Aspirations, Expectations, and Ambitions", *Economic and Political Weekly*, September 5, 1970, p 1502.

11 King, *op cit*, p 1503.

12 King, *op cit*, p 1504.

13 King, *op cit*, p 1504.

14 Perucci, Robert, and Gerstl, Joel E, (eds), "The Engineers and the Social System", John Wiley and Sons, Inc, New York, 1969, p 1.

15 Institute of Applied Manpower Research, "Graduates of Indian Institutes of Technology...", *op cit*, Table 9, pp 29-30.

16 See, for example, Institute of Applied Manpower Research, "Graduates of Indian Institutes of Technology in India and Abroad", *op cit*, pp 6-7, and see also Institute of Applied Manpower Research, "Migration of Indian Engineers, Scientists and Physicians to the United States", Report No 2, New Delhi, 1968.

17 Tobias and Queener, *op cit*, p 119.

18 For a documentation of the high class background of IIT students see King, A D, "Elite Education and the Economy", *Economic and Political Weekly*, August 29, 1970, and Rajagopalan, C, and Singh, Jaspal, "The Indian Institutes of Technology: Do They Contribute to Social Mobility?" *Economic and Political Weekly*, April 6, 1968.

19 See Sinha, D, and Misra, H D, "Qualities Desirable for Engineering Students and Profession: Part III—Comparison of the Teachers' and Students' Sample", *Journal of Psychological Research*, 7, No 1, 1963.

20 Evan, William M, "The Engineering Profession: A Cross-Cultural Analysis", in Perucci and Gerstl, *op cit*, p 127.

21 Gross, Edward, "Change in Technological and Scientific Developments and Its Impact upon the Occupational Structure", in Perucci and Gerstl, *op cit*, pp 17-18.

22 In a recent survey of Delhi school children engineers were among those which the school children listed as having "very high social prestige". See Dutta, Shuva, "UNESCO Case Study on the Attractiveness of Technical Careers in India", Council for Social Development, New Delhi, c 1970, unpublished.

23 Eichhorn, Robert L, "The Student Engineer", in Perucci and Gerstl, *op cit*, pp 145-6.

24 Snow, C P, "The Two Cultures: and a Second Look", Cambridge University Press, 1965, pp 11-13.

25 Struening, Elmer L, and Lehman, Stanley, "Authoritarian and Prejudiced Attitudes of University Faculty Members", in Perucci and Gerstl, *op cit*.

26 See, for example, Danielson, Lee F, "Characteristics of Engineers and Scientists", University of Michigan, Ann Arbor, 1960.

27 Merton, Robert K, "Social Theory and Social Structure", The Free Press, Glencoe, Illinois, 1962, p 568.

28 Perucci and Gerstl, *op cit*, p 2.

29 See King, "The IIT Graduate: 1970..." *op cit*, pp 1499-1501.

30 See Institute of Applied Manpower Research, "Proceedings of the Discussions to Implement Follow Up Action of the Second Seminar held in June, 1964, on 'Collaboration between Industries and Technical Institutions'", Working Paper No 9, New Delhi, 1965.

31 Harbison, Frederick, and Myers, Charles A, "Education, Manpower and Economic Growth", McGraw Hill, New York, 1964.

32 Snow, *op cit*, p 17 and pp 68-9.

33 Snow, *op cit*, pp 60-1.

34 Gould, Julius, and Smith, J H, "The Teaching of the Social Sciences in Higher Technical Education", UNESCO, 1968.

35 See Ashby, Sir Eric, "Technology and the Academics", Macmillan and Co, London, 1958.

36 Gould and Smith, *op cit*, p 116.

37 Gould and Smith, *op cit*, p 107.

38 See Institute of Applied Manpower Research, note 2 above, pp 2-3.

Differential Interest Rates

Another View

A Bagchi

BIMAL JALAN and Boswel, authors of the two articles "Differential Interest Rates: I and II" (September 4), Jalan in particular, deserve to be congratulated for bringing out certain fundamental issues, crucially relevant to the subject, which do not figure explicitly in the Report of the Hazari Committee or the Note of Dissent. There are, however, some gaps and inconsistencies as well as errors of assumption in the arguments of the two authors which this note seeks to discuss.

Boswel is opposed to the idea of differential rates of interest being used as a redistributive instrument on the ground that it is not for the banks to undo 'the historical wrongs', their function being only to provide credit to everyone who is 'potentially capable of economically and profitably using that credit'. The contention that the suggestion for banks to give loans to the weak at lower rates of interest is perverse just because 'it is not the function of banks' seems to be rooted in some conventional ideas about the 'true' functions of commercial banks and cannot stand in the radically altered context of Indian banking today, unless compelling reasons are advanced in support — and Boswel gives none. Nor can the reasoning that the 'interest rate mechanism by itself provides rather limited scope for redistributive policies' be an alibi for refusing to explore the use of that mechanism to the maximum possible extent. With a multiplicity of aims to pursue, a Government should have at least as many levers of control as there are objectives and, as Jalan acknowledges, there should be no inhibition against using all instruments of policy, monetary as well as fiscal, to promote social objectives.

Jalan's objections to the differential scheme suggested in the Report, especially the Note of Dissent, are more basic. A subsidised interest rate as proposed, he argues, is strictly a transfer payment to help the indigent to improve their standard of living rather than an incentive to invest or a device to equalise the social and private rates of return. According to him, the distribution of such 'an unrequited social transfer', as he calls it, 'should be a matter of deliberate social policy rather than be incidental to the allocation of credit'.

The argument that if the proceeds of levies on the rich — be they taxes or high rates of interest — are to go to help the poor, there is no reason why struggling engineers and artisans should get precedence over those in more desperate straits is indeed unexceptionable. But the presumption that the differential scheme was conceived as a mere 'transfer' device to enable the poor to improve their living standards does not seem to be valid. Despite recurring reference to social justice, the poor and the rich, neither the majority of the Hazari Committee nor the dissenting member can be said to have viewed it that way. Nowhere in the Report of the Note of Dissent is there any suggestion that the banks should give loans to support pure consumption. The borrowers intending to avail of the loans must invariably have a project in view whose viability will be open to scrutiny by the credit-sanctioning authority. Contrary to Jalan's supposition, house-building does not come within the purposes envisaged in the credit schemes contemplated in the Report. The possibility that a part of the loans intended to provide working capital for the project may be used for the sustenance of the borrower — maybe, in many cases, a self-employed individual and his family and at a level a little better than what he could afford when he was left virtually without any income — does not lend support to Jalan's presumption. Now the question is whether there is a case for subsidising such loans on purely economic grounds and, if so, how best the cost of such subsidy is met.

If social desirability of an investment project and inadequacy of its commercial return to reflect the social gain correctly can justify a subsidy for it, the rationale for subsidised credit for the weaker sections of traders and producers can be found even within the framework posed by Jalan. One does not have to think of urban development or road-building to spot areas of divergence between social and private return. Instances of 'inefficiency' in the allocation of resources through the market mechanism for the satisfaction of entirely private wants are not wanting and the factors making for such inefficiencies are too well known to need enumeration here. There is hardly a town or village in this country which does not have its monopolists, the Arhtiya and the Mahajan, each with his well fortified domain. Conditions of the money market alone which breed such monstrosities as 3,600 per cent rate of interest (per annum) on loans taken by small hawkers[2] can give an idea of how wide is the gap between social and private returns and where. Cheap loans to a number of traders and producers over a wide area can be an effective way of bridging the gap. It may be argued that for removing imperfections of the market what really matters is the availability of credit rather than its cost. True enough. But, to enable the small producer or businessman to survive competition with his more resourceful rivals in trade every kind of help, from subsidised raw material and price protection to soft loans, would be justifiable. Interest may not be so inconsequential in the calculations after all — how else does one apprehend a stampede for loans if they are given at nominal interest?

Eyebrows may still be raised apprehending that low rates of interest would lead to the flow of investible funds into channels of relatively low return and thus aggravate the inefficiencies instead of removing them. But, though important, the allocative efficiency arguments cannot be carried very far in a country with so much of unemployment and inequality abounding, not to speak of the market imperfections. Besides, the test of viability, however liberally applied, should provide as good a safeguard against gross inefficiencies as one can reasonably expect in the situation obtaining at present in our country.

A case for subsidising interest on small loans can thus be made out on purely economic grounds. There are, to be sure, practical difficulties in the implementation of a subsidy scheme of this kind — primarily, (a) formulation of a truly objective criterion for classifying the borrowers; and (b) prevention of relending. But, however serious, they can at worst act as constraints limiting the area as well as the form of its application but cannot take away

from its basic rationale.

It does not, however, follow that the subsidy so intended should be financed by charging interest at higher rates from the affluent borrowers. The broad choices in meeting the cost are (a) raising the required funds within the banking system or (b) providing for it through the Budget. Assuming that the cost must be met by the banks themselves, there is again more than one alternative, e g, (i) charging according to 'what the traffic can bear'; that is to say, borrowers of different categories within a sector may be made to pay interest on their borrowings at rates linked with their means as reflected by their 'surpluses', (ii) charging interest on loans given to different sectors at varying rates, again, commensurate with 'what the traffic can bear', and (iii) raising the general lending rate of the banks irrespective of sectors. It is interesting to note that while refusing to countenance any significant differential in the rates — anything beyond 'a fiddle here and a scratch there' — on grounds discussed earlier, Jalan nevertheless seems inclined to agree with Ashok Mitra (and Boswel is at one in this) that there is good scope for charging a high enough rate of interest to tax the 'unearned surplus' enjoyed by the rich because of high profitability in certain sectors. It is not clear whether the suggestion is to tax the 'rent' or 'surplus' of only selected sectors in this way and leave others out or to mop up the surplus of intra-marginal units in each sector individually. In either case, attempts to tax the 'surplus' would lead to interest differential of a much wider range than even that proposed in the Note of Dissent. Since, however, the framework within which the scope of interest differential was considered by the Hazari Committee referred specifically to 'each sector' (item 1 of the terms of reference), we may confine the discussion here mainly to the question of intra-sectoral differential.

The suggestion that the banks should fix their lending rates for different categories of borrowers to mop up the surpluses by charging as much as the traffic can bear is, presumably, derived from the idea that interest being a 'price' can be modulated to discriminate between takers according to their urgency of demand or that 'unearned rents' can be tapped as effectively and harmlessly through interest as by a lump-sum tax on profits. Either way, the argument is open to question on several counts.

If the idea is to exploit opportunities of price discrimination available to banks, it must be remembered that the prerequisite for the successful operation of a policy of price-discrimination is a monopoly of the market by the supplier. Does this condition hold in the present case? Even granting that the State now commands a near-monopoly of the organised sector of the money-market, with a large fraction of monetary resources outside the banking fold and unaccounted money providing such a rich source of funds, there is no reason to suppose that the unorganised sector or the non-banking sector of the money-market is non-existent or so small as not to matter. Even otherwise, the problem of seepage can be formidable. Besides, unlike the situation where a discriminating monopolist seeks to extract for himself the 'surplus' that would otherwise be enjoyed by the intra-marginal consumers of his product, the customers of the banks, i e, borrowers, being producers, will surely try to pass on the impost of high interest charges to the final consumers and their ability to do so cannot be wholly discounted.

Looking at it as a tax on 'surplus' profits also, fears of shifting cannot be regarded as altogether unfounded. Even corporation tax, supposed to fall entirely on profits, is widely believed to be passed on, at least, partly.

Moreover, a lump-sum tax on profits in the shape of high rates of interest, being related directly to the size of capital borrowed, mainly working capital, and thus the scale of output or business rather than the volume of profits and that too on so narrow a base as rent or surplus element of profits, partakes essentially of the character of an excise tax rather than an income-tax.[3] Hence the possibility of its shifting will remain as long as there are shades of monopoly on the scene reflecting varying degrees of inelasticities. Besides, all the arguments about the excess burden of an excise tax as against a tax on income will also apply.

Formulating an acceptable definition of 'unearned surplus' too will not be easy. For, needless to mention, surpluses can arise not only through monopolistic practices but also on account of lack of foresight on the part of producers or as a result of imperfect mobility of factors of production, that is to say, 'friction'. It is quite conceivable that the earnings of a small borrower, such as a share-cropping farmer, contain a good element of unearned surplus occurring through a sudden rise in prices or simply because the farmer happens to be an intra-marginal 'firm' in the agricultural sector. While attempts to tax away the surpluses generated by market imperfections are socially desirable, efficiency in sources allocations may be seriously impaired if all profits are sought to be taken away. For, not all profits are surpluses in the economic sense, the line of distinction between 'earned' and 'unearned' elements of profits also is not always as obvious as to be taken for granted. Even assuming that the activities where profits are inordinately high are fairly well known, it is not possible for the banking system or, for that matter, any authority to locate the surpluses accurately in the different sectors and, what is more, among different sections within given sectors, and identify that portion thereof which constitutes 'unearned rent'.

Further, if, as has been postulated, the overall return of the banks is not to be affected by the scheme adversely, the differentials as between various groups will need to be worked out with a precision which would demand sophistication of an extraordinarily high order in the accounting procedure and machinery of the banks. Fixing the rates for the different 'quintiles' as proposed in the Note of Dissent — and the bands can be more in number — to arrive at an assumed average rate will surely be more complex than appears from the Tables in the Note, when 'weights' are taken into account and these weights keep moving in unanticipated directions. It will not be rational to brush this aside as a mere problem in arithmetic. If regard for efficiency in the use of resources is not to be given up, the 'weights', i e, the quantum of credit to be rationed for each quintile, decile, etc, have to follow the market trend and cannot just be fixed arbitrarily. To estimate this unerringly would require expertise akin to perfect foresight.

Attempts to recoup the cost of the proposed subsidy through inter-sectoral differentials will not be free from these difficulties, though this device is often used for directional control of investments. Suitability of such differential even for influencing the level of activity in different sectors is not beyond doubt. For funds will always tend to move in directions where their return is the highest and measures which fail to alter the relative profitability of the alternative investment channels significantly can do little to swing their course. Raising the rates of lending can help provided the costs are not passed on. That apart, a steep rise in the interest rates for a given sector like trade or industry may do more harm than good by accentuating the pressures for relending from the favoured sectors and by choking off quite a few lines of 'productive' activity. If the rates for organised trade or industry are jacked up to say 30 per cent because some sectors therein earn as high as 100 per cent return, the activities will still remain profitable and thus continue while others, though 'productive', may have to shut down. It is doubtful if selective increase for a particular branch of a given sector, e g, textiles within 'Industry', can get over this problem. It is just possible that if interest cost goes up beyond a point, textile mills will step up the production of superfine cloth in preference to the coarse variety because the rate of return on the latter is no longer remunerative. To expect that the rate structure can be adjusted so neatly as to leave certain lines of production within each sub-sector unaffected, while effectively netting the surpluses from others is to place too heavy a reliance on the manoeuvrability and efficacy of monetary instruments. These objections would apply *a fortiori* to a hike in lending rates of the magnitude suggested by Boswel.[4] There may be room for pushing up the interest structure generally but a decision in that regard should be based on considerations of the major aims of monetary policy, and market trends as well as profit maximisation of the banks and not the narrow requirements of a specific subsidy.

This is not to argue that the profits of business and industry should be left untouched but only to show that differential interest on bank credit is but a clumsy and poor instrument for such purposes. A better course is to widen the income tax base and if the profits of trade are to be curbed and not merely mopped up, to intervene in the markets on a bigger scale. What the banks can do best to help in this situation is to impart a greater degree of competitiveness by multiplying the credit supplying points (i e, by opening more branches), enabling potential traders and producers to enter the market in larger numbers and by withdrawing the privileges enjoyed by the wealthy borrowers because of their special links with the banking institutions.

In any event, it does not seem possible or desirable to recoup the cost of the proposed interest subsidy through a graduated rate structure. Even with the best of efforts, results of such graduation will be uncertain if not harmful. There can be no getting away from the fact that the scheme may entail losses for the banks. But that is no reason why the subsidy should not be given. The real question is whether the losses so arising should be borne by the banks or by the Exchequer directly. That involves issues beyond the scope of this note.

Notes

1 Leif Johansen, "Public Economics", 1965. It is not absolutely necessary that the number of instruments must be more than the number of goals. The requirement applies when each of the instruments affects progress towards each of the goals and the relations are linear and independent (*vide* Carl Shoup, "Public Finance", 1969, p 472).

2 "Organisational Framework for the Implementation of Social Objectives" — Report of a Study Group of the National Credit Council, 1969, p 82.

3 Milton Friedman, 'The Welfare Effects of Taxes', in "Essays in Positive Economics", reprinted in "Price Theory", 1962.

4 Boswel's argument that this will help the banks to meet their costs is not very convincing since, in his scheme, deposit rates too would move up in step, raising the cost of funds. The contention that a rise in interest rates will step up savings and bring more deposits for banks assumes a high degree of interest-elasticity of savings and deposits of which there is as yet no clear evidence

Defence: A Socio-Economic Problem

B V Rangarao

India is likely to face conventional wars on its borders as well as internal civil disturbances. No army anywhere is faced with such diverse requirements as ours. In the circumstances, a nominal nuclear weapons programme is more likely to be a liability than an asset. A premature start may only lead to a ruinous situation in which a military industrial complex may get into power.

The defence of the nation is emphatically not an isolated problem, and it cannot be the sole responsibility of any one section of our people. Besides, those who accept public responsibility should make an effort to understand the meaning of modern science and technology, the impact they make on social systems, and the implications of it all for our survival and prosperity. Adherence to traditional military concepts in the modern technological age cannot lead to sound defence policies.

IT is generally agreed that the military weapons found in the arsenal of a country are an index to the social and political outlook and the global ambitions of that country. Security and weapon systems are not synonymous.

Armed conflicts possible in the present context may be divided broadly into three types: (1) total war involving the Super Powers; (2) local wars involving two or more neighbouring nations, each enjoying the moral or/and material support of one or more outside Powers and the Super Powers, without direct involvement, and (3) national liberation wars or civil wars, the conflict in each case being confined to two or more hostile factions within a country. The flow of arms in a war of national liberation may be from several sources, but the war is generally within the boundaries of the country concerned.

Since 1945, more wars have been fought by the newly independent nations either to settle territorial disputes with neighbouring countries or for ideological reasons. Civil wars are more common in these countries than in others, the arms being supplied invariably by the erstwhile rulers of these countries or by other advanced countries. Almost every country in Asia, Africa, and South America, is under this threat. Western Europe, which was the scene of most of the conflicts during the last century and in the early years of this century, has on the other hand become relatively quiet. The political division of the region is now almost complete. National boundaries are well defined, and social orders are fairly stable. There is less tension in the region than before, partly because the governments of the

various countries, are indirectly involved in the wars being fought in other regions. If, however, a war should break out in the region between the two major groups of nations there — although, of course, the possibility of such a war in the region is very remote — it would be a nuclear war which would lead to the devastation of the entire world.

In the second type of wars, *viz*, local wars, the nations involved are generally those which belong to the developing world and which constitute what is sometimes called the Third World. These countries have to cope with certain legacies that they have inherited from their erstwhile imperialist rulers, and they are jealously nationalist. The aspirations which they have cherished since the days of their struggles for independence are based on outdated histories; hence their efforts to realise them inevitably pits them in conflict with their neighbours. Quite a few national boundaries and social orders in these regions are under challenge. The confrontations between Malaysia and Indonesia, India and Pakistan, besides those within Pakistan and Ceylon are examples. Whereas the governments of advanced countries are often willing to shed a little of their sovereignty for the sake of the benefits accruing from membership of a regional organisation or an international arrangement, the governments of the Third World countries are found to be overly attached to their sovereignty — viewing with suspicion and hostility any move that might encroach on their sovereignty. Nevertheless, they depend on foreign countries — often their erstwhile rulers — for arms, economic aid, and technical help.

Vague Political Ideas

Often the governments in these countries are weak. This is because, for one thing, unifying forces within the country are not sufficiently strong: in each country there are far too many local and temporary political parties, dominated by vague and confusing political ideas. The immense diversity in education, social outlook, economic standards, and political aspirations of the people, makes them so heterogeneous that it is difficult to set common goals for the nation as a whole. National liberation wars or civil wars are thus likely to increase in these countries in the next few decades. In these wars sophisticated conventional weapons supplied by the Super Powers are going to be widely used. Use of nuclear weapons, however, it out of the question. No Power would be so irresponsible as to supply nuclear weapons for use in civil wars.

For centuries, since the early primitive days, wars were fought with hired soldiers. Training imparted to these soldiers was meant only to increase their physical strength, endurance, and skill in the use of crude weapons. The soldiers carried with them their provisions, arms and ammunition, fought for a few hours or days — and returned victors or fell victims. Now, wars mean the involvement of whole populations and specialised training to various groups has become necessary. In the rocket units of the major military Powers, 66 per cent of the personnel hold degrees in engineering or science, in addition to having received military training. Preparation for war is a major activity for some governments. A modern army requires to be backed by a massive national effort to produce and supply the requirements for armed conflict — with an efficiency proportionate to the advance in technology. The distinction between the fighting forces and the civilian population, in times of peace or war, is only superficial. The concept of the battlefield is obsolete. Not only is the civil population involved in producing and supplying materials but it is the first to suffer in a bombardment or ground attack. There are more casualties among civilians than among the regular armed forces.

Physically, conflict entails use of force. Three basic forms of force, originating in three different conceptual fields of physics, may be distinguished: (i) mechanical force, (ii) electrical force in chemical form introduced by explosives, and (iii) the more recent nuclear force. The third is about a million times as powerful as the second while the second is similarly about a million times as powerful as the first.

An inventory of war items, even in a modest arsenal, would be formidable in size. The explosive capacity of known nuclear weapons ranges from a few tonnes of TNT to millions of tonnes of TNT. The largest to be tested had an explosive capacity equivalent to that of 50 million tonnes of TNT. Khrushchev once claimed that the Soviet Union had a weapon with an explosive capacity equivalent to that of a 100 million tonnes of TNT. In fact, the limitations are in the carrier systems in spite of the massive rockets that have been developed. If one could only carry these weapons by sea or leave them under water, the weapons could be as destructive as one likes. The technology of nuclear exposive devices is well known. The secrets relate only to the question of bringing down the cost of production.

There are weapons using uranium 235, plutonium 239, and uranium 233. Uranium 235 is the only fissile isotope which occurs naturally; it is, however, found in nature invariably in combination with uranium 238, and the separation of the one from the other is an expensive and laborious process. The other two fissile materials — plutonium 239 and uranium 233 — are artificially produced. In the first-generation US thermonuclear devices, the fusion fuel used was the very expensive tritium, which is an isotope of hydrogen heavier than deuterium. The Russians, even in their first attempt, used an isotope of lithium which is far cheaper than tritium.

Delivery Systems

The delivery systems too have a wide range — from artillery to Multiple Independently Targetable Re-entry Vehicles (MIRV's), which can carry as many as 20 thermonuclear bombs, with independent self-guidance towards different, predetermined targets. The identification of targets itself is a major task in any nuclear war that may be fought. A quarter of a century has passed since nuclear weapons were first used, and the strategies of war have undergone more change during this time than in all the past centuries. Till the First World War, objects directly visible used to be the targets. Today, however, more than the thickly populated cities it is the secret deep silos that contain solid-fuelled rockets with thermonuclear warheads — all ready to be launched within minutes — which are the first targets. Though continuous flights of strategic bombers with thermonuclear warheads have become outdated, nuclear-powered submarines, each carrying 16 missiles with thermonuclear warheads in the fathomless depths of the sea, are threatening globe-trotters.

There are surveillance satellites spying on all activities. Every underwater vessel is probably followed by another underwater vehicle. The deep ocean and the limitless expanse of space with all its celestial bodies are now the green-rooms where preparations are afoot for the unprecedented tragedy of a nuclear war. It is now possible to plant explosive devices either deep

down in the sea-bed or afloat beneath the surface of water a few miles off the coastline and to explode them by remote-control methods to cause tidal waves several hundred feet high which would completely submerge thousands of square miles of land and wreak destruction on all life and material wealth.

Moreover, in every arsenal built for a major war, there are biological and chemical weapons of a bewilderingly wide range and destructive capacity.

The Indian Problem

The variety of weapons in the arsenal of any country depends upon the political, economic, and social goals of that country. The technological capability of the country also depends upon these factors. As we know from experience, the countries most advanced in science need not have the same status in technology and economic growth. Technology is a more complex social activity than science, and the organisational patterns required to put scientific knowledge to use in economic and social spheres are so complex that they are not easily worked out even in many advanced countries.

In some respects, then, it is not only countries like India that can be said to be tradition-bound and conservative. Even certain Powers of Western Europe, which used to be regarded as first-rate Powers only a couple of decades ago, are now reduced to a second-rate position. The economic advance made by the United Kingdom and some other West European countries during the last three or four centuries is excelled by the prosperity attained by North America within the last one century and by the Soviet Union within the last 50 years. It need cause no surprise if similar progress is achieved by some other countries within 25 years or less.

The capability to wage war or to influence international events cannot be separated from social and economic programmes. Each country, including India, has to determine the role it can play on the basis of its social goals and capabilities. The wars in which a country is likely to be involved are also governed by the same factors. It is, of course, possible for a country to shift from one group to the other, depending upon its domestic prosperity, political cohesion, and social advancement.

In India, as in other countries, it is not wishes but the objective situation that decides the options. If any country aspires to achieve or to retain a position of prestige, without undertaking the social and economic support needed for the purpose, it runs the risk of sliding to a position lower than the one it already has reached. For instance, after spending £300 million on the acquisition of all-weather TSR-2 bomber, the United Kingdom was obliged to give up the whole idea for want of resources and to content itself with buying from the United States some F-111s which were later grounded after trials in Vietnam. The United States itself is intending to abandon its supersonic transport project after incurring an expenditure of $730 million. It spent vast sums to develop and produce chemical and biological weapons, and now it has authorised an expenditure of hundreds of millions of dollars to destroy them — and pollute the oceans and the atmosphere in the process. There are several other instances of technological programmes being given up half-way on account of the increasing complexity of related socio-technological problems. There are many examples of countries trying to imitate others more advanced in technology and ruining themselves in the process. Attempts to copy weapons systems are likely to lead to similar results. Informed and hard-headed discussions are, therefore, necessary within the framework of agreed social objectives, facts and analyses.

Democratic socialism is the social goal accepted by the vast majority of the people in India. In spite of three Five-Year Plans, our country is still among the few countries with a miserably low per capita income. Ours is a typical example of an heterogeneous community, and this is a hindrance for evolving and implementing agreed policies. The social values existing in our society today may have been conducive to social progress once upon a time, but today they constitute a serious handicap in evolving and implementing technological and social programmes that can take our country forward.

India's Immediate Requirements

In view of all these factors, we are likely to face conventional wars on our borders as well as civil disturbances — which, if not tackled in a systematic manner, may lead to guerilla warfare. These two threats are already there and no Government faced with internal strife can ward it off by diverting the attention of the people to its global ambitions. The immense diversity we notice in the social and political outlook of our people arises from the wide disparities obtaining among them — in income, in education, etc. This makes it difficult for the government to take any step that might bring about drastic changes. In the absence of a well-knit and stabilised social order, a young democracy like ours is likely to pass into the hands of a military-industrial complex when an unbearable burden is taken up. Already some political parties are openly professing different social goals — often, in the name of national defence. By constant propaganda some vested interests are depicting patriotism as something which is synonymous with support for an ever-increasing military budget. As in many countries which have passed under the sway of military-industrial complexes, so also in India, it is the defence budget that gets accepted with the least discussion. Immediate dangers to the accepted social order are, therefore, internal, although border security, too, needs attention. These limitations themselves should help determine military options. Besides, a coastline 5,900 km long, mountain crests extending to a total of 2,400 km, and a land border 15,200 km long, our armed forces have to keep up their fighting abilities in arid deserts, humid forests, high altitudes, and so on. There are also several islands far removed from the mainland.

As regards the conventional weapons needed for the defence of our borders we are yet to equip our armed forces with the equipment that would help pinpoint targets. Nor have we organised a centralised control system so necessary in the use of long-range guns. High fragmentation shells, detonated at the proper height by proximity fuses, are no less sophisticated than crude nuclear weapons. In our conflict with Pakistan in 1965 tanks constituted an important component of our armoury. However, teleguided anti-tank weapons with shaped charges giving high penetration which can render heavy armour plating and turrets useless, are yet to be suitably developed and adapted to our needs. Air-lifting of tanks and development of air-to-air, ground-to-air and air-to-ground missiles are some of the serious challenges before Indian technology.

Our communication systems too are still in a primitive form. It is only recently that it became possible for us to introduce micro-wave-linking. There is urgent need for telecommunications

in wet forests and hills and we must develop them at once. Our long border demands for its security the use of complicated radar and air-defence systems which are already installed in many other countries. The 'spin-off' in our communication technology is a reality, but it is doubtful in nuclear weapon technology, let alone space technology.

No army anywhere — whether of an advanced country or of an underdeveloped country — is faced with such diverse requirements as ours. We have not succeeded even in sealing our borders so far.

Going Nuclear

The threat to use nuclear weapons is a sign of desperation. Once they are used in a war, the war is bound to escalate into a global war in which there will be neither victors nor vanquished. If a country decides to be counted among those which have the capacity and determination to escalate a local war into a global war, it should go in for a whole range of fissile and fusion bombs, as well as missiles of varying ranges that can be concealed underground, under the water (even in the sea-bed), and in outer space.

What do these programmes mean in terms of investment? The sums spent by the US give us a clue. The US spent about $50,000 million on nuclear weapons; about $59,000 million (about $28,000 million on account of acquisition costs and about $ 31,000 million on maintenance during 1950-70) on strategic aircraft; and about $51,000 million (about $ 37,000 million on acquisition and about $14,000 million on maintenance during 1960-70) on missiles. It is now building what is called thin defence — i e, the Anti-Ballistic Missile System (ABM) — which again is likely to become thicker and thicker with accelerated expenditure. (MIRVs can easily pierce this thick defence, and it is, therefore, natural that the US should be anxious to increase the thickness.)

It is sometimes argued that a nominal nuclear-weapon arsenal acts as a deterrent. This is contrary to the very meaning of deterrence, which is now understood as the ability to make the enemy desist from mounting an attack for fear of a retaliation that might cause him unacceptable damage. The introduction of the ABM, which is said to be a purely defensive device, disturbs the balance of terror and is, therefore, considered a threat. The effect of a moderate nuclear force (such as that of France which has spent more than $5,000 million on the programme over a decade) is neither credible nor respectable.

A nominal nuclear-weapon programme is more likely to be a liability rather than an asset for us. In the first instance, it provides justification for Pakistan to acquire a similar capability somehow. The countries anxious to maintain a balance of power in the region may rush to its aid and act in a hostile manner towards India in matters of trade and other economic matters. If Pakistan forgoes its nuclear option on account of the civil war it is engaged in, the world powers might create another state to take its place in the regional politics of balances.

Apart from ideological and political considerations, a self-reliant and self-generating economy, a forward-looking technology, and a stable political and social order, are prerequisites for initiating a programme for producing nuclear weapons. A premature start may only lead to a ruinous situation in which a military-industrial complex may get into power. The failure of the programme may also demoralise democratic and socialist aspirations. The manner in which certain revivalistic elements and vested interests argue the case for a nuclear weapons programme makes it clear that they regard it only as a tool to change the social order into an autocratic one. When the resources are limited and the programme is ambitious, they get a lever to destroy the democratic order step by step in the name of nationalism and patriotism.

It is argued that a nuclear-weapon programme accelerates economic growth, and that the 'spin-off' leads to advance in various fields of technology. Victor K McElheny, in a report to *Science* (January 1, 1965), points out that the only technical fall-out of the nuclear-bomb programme in France has been the high-speed camera. In spite of passionate chest-beating, the two wars of 1962 and 1965 have not put the country on a path of rapid growth. To hope that a nuclear-weapon programme will act as a stimulant for economic advance is a vain hope: there is no substitute for hard work, informed analysis, and determined social reform.

It is often wrongly presented in our country that the peaceful uses of nuclear energy and stock-piling of nuclear-weapon fuels could go together. There is, no doubt, a lot in common in technology, but the two projects are different. No country has gone in for nuclear weapons so far *via* peaceful application. In fact, nuclear-weapon technology is less sophisticated than nuclear-power technology; the former capability can be expected of any country with an independent automobile, ship-building or steel industry. The materials required for the modern electronic industry and nuclear-power technology are more complex than those needed in nuclear-weapon technology.

It is thus often by considering the issue in isolation that the need of nuclear weapons for our country is stressed. There is also the mistaken notion that the bang power of weapons is the decisive factor in the outcome of a war. There is, further, an anxiety to be on par with the advanced nations, whose problems and possibilities are not the same as ours.

The Chinese leaders, for instance, insist that the People's Liberation Army is a great school in which armymen should learn politics, military affairs, and culture. The soldiers are also asked to engage in agricultural production and pursue some side occupations. Besides, they are made to run some medium-sized or small factories and take part in socialist education. In contrast, in India, when there was a move to engage army personnel, by way of an experiment, to construct residential quarters for their own use, it was strongly criticised by military officers and politicians alike. An army with a suitable social education along with military training as in Vietnam can evolve techniques of warfare in which the material advantage of sophisticated weapons is reduced to almost nothing. It was realised in the early fifties then that an economically backward and ill-equipped army also could wage a successful war against one that was far more advanced economically and equipped with a wide range of far superior weapons, including nuclear weapons, by forcing the enemy to fight on a level where its superior weapons would be futile. The escalation of a local war into a global one is but hypothetical — the logical consequence of using a tactical nuclear weapon being nothing short of a holocaust. It is also apparent that sound social organisations and political systems can withstand any threat and stand up to any kind of aggression. For an underdeveloped country to make progress and to secure its social order, it is the evolution of appropriate social and economic plans and their implementation that are important and nuclear weapons are no substitute for that.

Democracy can be defended only by providing the minimum living conditions to our 550 million people, by providing social justice within the framework of the contemporary world order, and by setting the nation on the path of rapid advance. In international relations, we should therefore revive and pursue with determination such policies as may lead to nuclear disarmament, general disarmament, the banning of chemical and biological weapons, a substantial reduction in the annual global armament cost of $ 200,000 million, and a reconciliation among the nations of the world enabling them to live and let live. The defence of the nation is emphatically not an isolated problem, and it cannot be the sole responsibility of any one section of our people. Besides, those who accept public responsibility should make an effort to understand the meaning of modern science and technology, the impact they make on social systems and the implications of it all for our survival and prosperity. Adherence to traditional military concepts in the modern technological age cannot lead to sound defence policies.

FROM THE CHAIR

The Bombay Gas Company Limited

Speech of the Chairman, Shri K L Jalan

THE following is the Speech of the Chairman, Shri K L Jalan, delivered at the Annual General Meeting of the Shareholders of the Bombay Gas Company Limited, held on Tuesday, November 16, 1971:

Gentlemen,

It affords me great pleasure to welcome you to our Annual General Meeting pertaining to the 109th operational year of the Company and to present to you the Balance Sheet and the Annual Accounts, together with the Directors' Report, for the year ended 31st December, 1970. These have been in your hands for some time now, and, with your permission, I shall take them as read.

I should at the outset wish to express the overwhelming sense of grief with which the Directors have to report the painful premature demise of Mr B L Jalan, the Chairman of your Company. Mr B L Jalan's tenacity, perseverance and wisdom have left an indelible mark on practically all the activities of the Company.

Before proceeding to discuss the Company's affairs, I would like to offer a few brief observations on the socio-economic situation prevailing in the country. The most overwhelming dominating factor on the National scene is the sudden entry of several millions of citizens of East Pakistan, plunging the country into enormous expenditures, so long met out of normal budgetary resources, and currently necessitating the imposition of several emergency levies under special Ordinances.

Inflation, Growing Unemployment and Rising Cost of Living, Industrial Unrest

The familiar phenomena of inflation, unemployment and rising prices and cost of living are spreading discontent among the workers. Law and order situation still continues to be unsatisfactory, though there are a few signs of improvement in some areas. Industrial unrest continues unabated. It is certain that the clarion call of our distinguished Prime Minister to all the sections of the people to rally to the Honour, Safety and Territorial Integrity of the Nation, will evoke spontaneous and universal response.

Moderation and Flexibility in Restrictive Policies

In this great national crisis, we would respectfully suggest to the Government to moderate and relax the restrictive policies against the larger Industrial Houses, so as to enable them to make their full contribution to the economy and defensive strength of the country.

Turning now to the affairs of the Company, the Company is witnessing the third consecutive year of profit, although to a moderate extent, after a spell of heavy losses spreading over a period of seven years. The Company's net profit for the year amounts to Rs 4.65 lakhs. This net profit of Rs 4.65 lakhs, conjointly with the excess provision of previous year's writen back, and a provision for Reserve for bad and doubtful debts and obsolete stores, reduces the accumulated losses to Rs 42.46 lakhs, to be carried over to 1971.

It may be noted that the revenue for the year was higher by Rs 16.82 lakhs as compared to 1969, mainly due to increase in the sale of gas and of residuals. Gas sales increased by 129 MCft during the year, the figures for 1969 and 1970 being 1615 and 1744 MCft respectively. Simultaneously, the cost of production also increased by Rs 16.50 lakhs, mainly due to rise in the cost of material, and increase in wages and salaries and other related payments.

Company's Inability to Avail of Timely Benefit Under the Price Fixation Rules

A recurring feature of the Company's inability to avail of a full and timely benefit of the Escalation Clause incorporated by the Government in the Bombay Gas (Fixation of Price Limit) Rules, and increase gas price as and when there is an increase in the cost of production, may now be set out. The basic objective of an automatic escalation clause is to provide, in cases of increase in the cost of production, prompt and necessary relief to producers. Relief delayed on this account is, as in the case of Justice, relief totally denied. The matter is under correspondence, and it is hoped that the Company would be able to satisfy Government that in accordance with the recommendations of the Gas Advisory Committee, and the letter and spirit of Price Fixation Rules promulgated by Government, it would be competent for the Company to increase gas price as and when there is an increase in the cost of production, and not belatedly resulting in the deprivation of legitimate revenues of the Company.

Import Licences

Reference may be made to another factor which hinders the progress of the Company and greatly hampers its operational schedules. On an application submitted in October 1968 for grant of a licence to import domestic gas meters, the licence came to hand, after protracted correspondence, May 1971, that is to say, after a delay of over 2½ years.

Similarly, on another application covering essential items, the licence was issued nearly 2 years later. Then again an application dated 1st June 1970 covering gas meters, has been in the hands of the authorities pending compliance with the prerequisite formality of a purchase order which is required to be placed on an indigenous manufacturer for a part of our requirements. The highest standards of public utility which the Company is at pains to maintain are severely crippled by reason of such delays in obtaining import licences and non-availability in a large measure of satisfactory indigenous equipment.

Inadequate Coal Supplies

Another matter which is a source of constant anxiety to the Company relates to the supplies of coal, quite apart from the aspect of steep increases which prices have been registered, landed cost of coal in August 1967 being Rs 81.45 per tonne and currently Rs 105.54. The Company, which utilises more than one lakh tonnes of coal per year, obtains its supplies from West Bengal and Bihar collieries. The Company has been using only Selected 'A' Grade high volatile non-coking coal in its carbonising plant for the past several decades. Consideration had earlier been given to the possibility of switching over to the use of inferior coal other than Selected 'A' Grade, but it was not found possible for various operational and technical reasons. By a recent Notification, the Government of India amended the Colliery Control Order, bringing blendable coals (in which category Selected 'A' Grade Dishergarh Seam coal falls) under the purview of distribution control, and there are disturbing signs to indicate that a new policy is being evolved to reserve these supplies for the use of Steel Plants, to the detriment of the Bombay Gas Company. Representations have been forwarded to the concerned authorities that the Company is supplying Gas to several major industries, some of them export-oriented, in addition to hospitals and nursing homes, as well as educational institutions and several thousands of domestic consumers, and thus serving a national cause, and requesting that the reservation of requirements for production of Fuel Gas may be maintained.

Fuel Policy

It would be pertinent, in this context, to make a reference to the general question of Government fuel policy. The Government of India set up in October 1970 a High Level Committee to formulate a long-term fuel policy. It is hoped that the Fuel Policy Committee, and the appropriate Government Authorities framing the national fuel policy, will appreciate the need to continue an unrestricted allotment of the special grade of coal capable of use in the Gas Industry. The problem requires to be studied in depth, and the measures suggested should in fact lead to the establishment of Gas Industry on a national scale.

Notwithstanding the handicaps enumerated above, the Company provided above 700 new gas connections during the year, bringing the aggregate of new gas connections since 1965 to over ten thousand. Having at long last obtained the licence to import gas meters, as also certain other equipment required urgently, the Company has currently drawn plans to quicken the pace of expansion, and effect further improvement in consumed service in the shortest possible time. The Company has also placed Indents on foreign suppliers for a few latest model gas cookers for the use of consumers. The special measures already taken towards service efficiency are enumerated below.

Production of gas has increased, although full use could not be made of the elevated purifiers due to non-availability of licence for the import of gas purification material, which has since come to hand. A water chilling plant was, however, installed in September 1970 to improve the purity of gas. Besides, a small Unit for toning the calorific value of gas was installed late in 1970, and improved results have become noticeable in 1971.

One more booster was commissioned at Gas Works to stabilise station pressures; the re-booster station at Jacob's Circle was commissioned by the middle of 1971 to provide additional relief to the consumers in Central and South Bombay.

The routine progamme of relaying, enlarging and cleaning of mains was maintained; the programme of augmentation of mains capacity in certain areas of Marine Drive and Malabar Hill was completed.

In view of the moderate profit for the year under review and carry-forward of past years' heavy losses, your Directors regret that no dividend could be recommended for this year as well.

We would like to express our appreciation to the General Manager and the Chief Engineer for their valuable services, as also to all other officers, and to staff members and workers, for the co-operation which they extended.

Japanese Monetary Views

THE Japanese Finance Minister, Mizuta, has stated that revaluation of the yen was conditional on the quality of multilateral co-operation including that of US co-operation. Depending on the result of these international efforts to readjust the exchange rates of major currencies, Japan is prepared to revalue the yen "by a reasonable margin", he added. Asked what the "reasonable margin" would be, the Finance Minister said Japan would need more than a $ 2,000 million balance of payments surplus annually after the current economic slowdown is over. Unless this surplus is assured, he continued, Japan will find itelf "in a difficult position".

"We would co-operate only to a reasonable extent, that is, to the extent that our national interests are not impaired by too large a revaluation", he said. Nothing that there were mounting pressures at home for an early return to a fixed yen exchange rate, Mizuta said his statement was designed to "explain the difficult problems" involved in the international readjustment of currency parities and dispel public anxiety over upward revaluation of the yen.

Mizuta also made these points during his press conference: (1) The Government will study measures, including easing the foreign exchange controls, to minimise the impact of the floating system on industry, particularly small businesses. (2) Japan is not in a position to take the initiative for a multilateral currency realignment. There are no assurances that Japanese action would be followed up by other nations. (3) Japan's payments surplus will drastically decrease after the current business slump has run its course. If the yen is revalued by a very wide margin the payments balance might run a deficit.

Mizuta also said the "fundamental reason" for the current monetary unrest was that the US balance of payments had seriously deteriorated. He added: "We are fully aware that the Japanese economy is dependent upon the stabilised growth of the world economy, including the US economy."

ECONOMIC AND POLITICAL WEEKLY

Founder-Editor: Sachin Chaudhuri

Vol VI No 49 December 4, 1971

Missing Momentum—Freezing the Float—Phantom Growth 2414
Business 2416
Letters to Editor 2419
Capital View 2420
Companies 2421
From Our Correspondents
New Delhi: Half-Finished Changes at Hindustan Steel 2423
West Bengal: Liquidation of the Left 2425
Kerala: Cracks in the Coalition —M S 2427
UNDP Country Programme —Dipak B R Chaudhuri 2430
London: All in Their Name —Farrukh Dhondy 2431
The Silent Sell-Out in Rhodesia —V Subramaniam 2433
Dar-es-Salaam: Guinean Revelations —A K Essack 2434
The Fourth Estate 2436
Review 2437
Special Articles
A Linear Programming Model for Storage of Buffer Stocks of Foodgrains —K V Natarajan A S Rao 2439
Pragmatic Politics in a Rajasthan Town: Case Study of a Municipal Election —Hugh S Plunkett 2442
Scientists and Their Commitment to Organisational Goals —S P Gupta K D Sharma A Rahman 2447
Criteria for Evaluation of Capital Projects: A Comment —L C Gupta 2450

ECONOMIC AND POLITICAL WEEKLY
Skylark 284 Frere Road Bombay 1
Phones 266072, 260566, 260192
Editor
KRISHNA RAJ
Assistant Editors
Rajani X Desai, Jawid Laiq
Business Manager: A Fernandes
Circulation Manager: Shiv Patil
Editorial Staff
Colin de Souza, Haresh M Advani

The Final Option

EVER since the night of March 25-26, when the Pakistan army launched its repression campaign in East Bengal, the military rulers of that country seem to have followed a course which has progressively narrowed their options and pushed them towards an all-out confrontation with India. Given a choice of political compromise or military action, Yahya Khan has at every turn chosen to rely on the fire power of his army. Although it is still not clear what happened during the series of talks between Yahya Khan, his military subordinates, Bhutto and Mujibur Rahman, it can be said with some degree of certainty that Mujib till he was arrested, had wanted East Bengalis to rule themselves within the framework of Pakistan. From what can be surmised, the negotiations during the third week of March between Yahya Khan and Mujib might even have led to a reconciliation between the two wings of Pakistan, had Yahya and Bhutto (who had thrown in his lot with the army then, but now appears to be less than enthusiastic about his position vis-a-vis the army) placated Mujib and the Awami League by agreeing in principle to the League's six points, which could later have been watered down in practice, through political bargaining. This would have meant that the central government of Pakistan would still have been the sovereign ruler of Pakistan. But such an opportunity was thrown to the winds in favour of military action.

At that point, and even later, the Government of India would have been quite satisfied to see a political solution worked out within the framework of Pakistan, as its interests have been — and still are — to maintain stability in the eastern region of the subcontinent. But Yahya's army resorted to pushing out millions of refugees into India — a tactic which it no doubt thought clever at the time. As the number of refugees multiplied so did the Government of India's commitment to seeing a popular government established in East Bengal. Of course, it would be disingenuous to say that our motives in helping the East Bengalis did not include the prospect of weakening Pakistan. Yet, even then, Yahya and his military coterie had the option of making a dramatic gesture of recompense — such as releasing Mujib and negotiating with him. But in a remarkable display of a military mind drilled to be narrowly consistent, Yahya Khan chose to apply a milder version of the same medicine in West Pakistan by banning the National Awami Party — a party which has a considerable following in the North-West Frontier Province and in Baluchistan.

And now he has finally closed all his options by launching air strikes on the western front. All the evidence suggests that India was not the first to strike in the west. We were not interested in opening a front in the west as our main concern lies in the east. In his broadcast to the nation declaring war on India — a tautologous declaration, as the act of war on the western front preceded the words by a day — Yahya has said that this would be the final war with India. In one sense this is very likely to prove true. East Bengal will in all probability be liberated by the Indian army; this will not be as desirable an outcome as the liberation of East Bengal by the efforts of its own people, but the break-up of Pakistan now appears inevitable.

In spite of the useful help of the guerillas of the Mukti Bahini in attacking the rear of the Pakistan army in East Bengal, the Indian army's liberation of the East will not be an overnight Goa-type of 'police action'. Due to a terrain intersected by numerous water channels whose crossing-points the Pakistani troops could obstruct, our eastern campaign is likely to take some time, by when the Pakistani forces are likely to run out of supplies and ammunition if the Indian navy does its job of blockading the coast of East Bengal. In the meanwhile, our forces are unlikely to waste men and material in making unnecessary offensive thrusts on the western front against a well-entrenched enemy.

The great imponderable in all these calculations is to what extent the government will resist big power pressures to stop the fighting before the Indian army has completed its task in the east. The Soviet Union is likely to emphasise the need for a political solution of the Bangla Desh problem. The other big powers, including the United States and China, may well insist on an immediate cease-fire, leaving the political issue of Bangla Desh to be tackled subsequently. If these pressures prove irresistible, this war will have been waged to no purpose from India's point of view. In the next few weeks, therefore, the Government of India will need to lean heavily on the support of the

Cash Crops

Missing Momentum

WHILE foodgrains production has made significant strides since 1967-68, cash crops have had little share so far in the 'green revolution'. In 1967-68, there was a general improvement but in the very next year oilseeds, jute and cotton production declined sharply, though sugarcane production was slightly better. In 1969-70, production of oilseeds, jute and sugarcane rose sizeably and the Economic Survey for 1970-71 had forecast that 1970-71 would finally present a mixed picture with oilseeds registering a rise, sugarcane being at about the same level, and jute and cotton being somewhat lower. Latest reports have it that jute, cotton and sugarcane, all showed a downtrend last year. A comparison with the Fourth Plan's output targets for 1973-74 show the vast ground yet to be covered. Against the target of 80 lakh bales, the production of cotton in 1970-71 was 46 lakh bales; and against the target of 74 lakh bales, production of jute was 49 lakh bales. Sugarcane was better off: against a target of 15 million tonnes, production was 13.19 million tonnes. This year, however, the jute and cotton crops are better, but the oilseeds crop has suffered owing to drought in various producing areas and sugarcane has shown no marked rise after 1969-70.

Why has production of the major cash crops failed to gather momentum? To some extent year-to-year fluctuations are to be expected, but overall productivity has failed to rise. This is borne out by comparison with the productivity of cotton in UAR or raw jute in East Bengal. There has been no varietal breakthrough in the cash crops as there has been in foodgrains, particularly wheat. Yet there is much scope for improved cultivation of the existing strains and varieties. Improved seeds, systematic use of inputs, etc, are possibilities that have been neglected. Replanting in tea has also made slow progress. Jute goods, tea and cotton textiles are major export items accounting for nearly 30 per cent of our foreign exchange earnings and unless their raw material base is economically reinforced they could well lose out against international market forces. In oilseeds we have, over the years, become consistent importers after having been exporters.

If the textile industry, for instance, has not, in the circumstances, taken major initiatives to stabilise cotton prices and give a leg-up to productivity, it must be because it has had access to imports. Moreover, both cotton textiles and jute industries have units ranging widely in efficiency so that any joint industry effort in crop improvement — like the consortium idea in exports — has never been feasible.

Agricultural research institutes have developed strains of jute, cotton and oilseeds with higher yields and possibilities of multiple cropping. Nearly Rs 15 crores have been allocated to intensive jute cultivation in six producing districts over the last three years of the Fourth Plan. The initiative in this, as in the initial high-yielding varieties programme in foodgrains, will probably have to rest with government which has by now developed a machinery for distribution of inputs and seeds. It must realise that better raw material production is as important as the much vaunted idea of modernising the mills. Individual states, too, have gradually begun to take more responsibility. It would definitely help if the import tap is at least partially turned off.

World Currencies

Freezing the Float

THE poker game in currency values, started by the USA on August 15, appears to be gradually moving towards a resolution. The three months since President Nixon's announcement have been used for a little sparring (over who was guilty of what sins against the rules of the international trading game) and considerable probing (about what was acceptable to whom). The various national positions have as a result become a little less hazy, if not more clearly defined.

The most inscrutable seemed to be the US, particularly since it had taken the initiative in breaking the (no longer maintainable) status quo. The objectives of the US measures—local tax reliefs, delinking of dollar from gold and the 10 per cent import surcharge—were simultaneously to stimulate the economy and to improve the country's international balance. The US, however, refused to define the situation in which it would revert to international orthodoxy—fixed parities, removal of the import surcharge and non-discriminatory taxation. Apparently, the US considered it to be up to the other countries to change their positions (particularly currency parities) to a sufficient extent to enable the US to withdraw its extraordinary measures. The other countries, particularly Japan, were most reluctant to declare their hand, fearing that the US would use the situation to wring further concessions from them. As a result, major international currencies have been floating—fortunately without damage to the volume of international trade or giving rise to a rash of retaliatory measures like import surcharges by other countries. Denmark is the only country which has imposed a 10 per cent surcharge on imports, but this is recognised to be justified by special factors within Denmark. In any case, Denmark is not an important element in international trade.

But the period has been used for considerable discussions, particularly bilateral, and national bargaining positions have become more clearly defined. The US was the first to indicate that it was seeking a turn-round of $ 15 billion in its international trade account. More recently the US has indicated that it was seeking an average increase of 11 per cent in the parities of foreign currencies *vis-a-vis* the US dollar.

Once the US position got known, it became easier to make counter-moves to unfreeze the uncertain situation. The OECD almost immediately countered by its own estimate that the turn-round required in the US trade position was much smaller—$ 7 to $ 9 billion. The major issue that remains to be determined is the average change in parities needed *vis-a-vis* the dollar and, secondly, how this change is to be shared by the various countries (including the US itself).

Of the major trading partners of the US, Canada is the least concerned about parity changes (though it is about the trade surcharge), since the Canadian dollar has been floating since last year. The UK, West Germany and France have taken very different positions on the crisis brought about by the US action. The UK has floated the pound which has appreciated 3 to 4 per cent in relation to the dollar. The UK's official position, as expounded at the annual meeting of the IMF, is that it would seek a return to the fixed parity system with slightly wider bands for fluctuations. However, the UK's internal economic situation hardly justifies this position. Barber's reflationary June budget has still not led to the expected boom and if a recovery takes place, the recent appreciation of the pound represents an overvaluation of its currency which the UK can ill afford. France has tried to have the best of both the worlds—a fixed rate (at old parities) for the trade account and a floating rate for capital and financial transactions. Given some haziness in transactions, this has enabled France to keep the appreciation in the value of the franc to less than 2 per cent. West Germany which floated the D-Mark in May 1971 is finding the situation becoming more difficult. While the D-Mark has appreciated by 9-10 per cent since the May float, the country has been faced by growing unemployment and fears of a major recession. It is evident that West Germany would want to stabilise the D-Mark soon—and at a much lower parity than what has now been reached.

The Japanese position has undergone a sea change during the last three months. Japan started with an attempt to maintain the then existing parity of the yen (360 yen to the dollar). When this position could no longer be sustained, it let the yen float and the yen has appreciated by 9 per cent so far. Everybody knows that even this is not the true value of the yen and that the value of the yen is being maintained by considerable intervention on the part of the Japanese government which has been responsible, in the process, for the appearance of the expression 'dirty float'. The Japanese economy has eased, which only means that it has a growth rate of 5-6 per cent against the customary 10 per cent. Some industries like steel are in a recessionary phase, leading to the formation of an officially recognised cartel to regenerate production.

The Japanese claim that their export margins are hardly ½ per cent on sale prices. In any case, the Japanese have let it be known that they would not be averse to a 12½ per cent appreciation of the yen, provided the US gave up the surcharge and agreed to a 5 per cent devaluation of the dollar (in term of gold). The Japanese are also known to be planning a 'heavy' yen (1 new yen equal to 100 old yen) and calculating machine manufacturers are already taking steps to adjust to the change.

The main rub in the US position is its insistence on forcing all others to change their parities, without itself taking any steps to change the dollar parity. This has run into predictable resistance. A substantial appreciation of a currency impairs the domestic industry's profit position, and affects adversely the exporting enterprises. A small devaluation, on the other hand, brings about a mildly stimulating profit position. The US attempt to force a unilateral one-way change has not succeeded, particularly as the US was unable to isolate Japan from its other OECD partners. Consequently the US is becoming less flexible regarding a lowering of the dollar parity in terms of gold.

Given the present situation the best way out would be for Japan to revalue 14-15 per cent, West Germany 6-8 per cent and France and the UK 2-4 per cent. If the bands are then widened to 3 per cent either way, the dollar price of gold would become $ 34 to $ 36 — which would give the appreciating countries the psychological satisfaction of having forced the US to devalue. The OECD, now meeting after a postponement forced by the US, would appear to be moving to such a position. If so, by the year-end, the world, or at least its bankers, would have returned to the serenity of fixed rates and no import surcharges — and in a mood to celebrate Christmas.

Small Industries

Phantom Growth

A Correspondent writes:

A PHANTOM figure used by official spokesmen to confound critics of the country's industrial performance in recent years is that of the rate of growth of output of small-scale industries. The apparition was first conjured up by the Reserve Bank which had claimed in its annual report for 1969-70 that output in the small-scale sector had registered an impressive increase in that year as compared to the previous year and had given the respective rates of growth with commendable precision at 11.2 per cent and 8.2 per cent. These figures were later repeated in the Finance Ministry's Economic Survey for 1970-71 which added that there were 'a number of indicators' which suggested that the rate of growth in the small-scale sector had been even faster

Sachin Prize

The last date for submission of papers for the Sachin Prize, 1971, is extended to January 31, 1972.

Three annual prizes of Rs 1,000 each have been instituted by the Sameeksha Trust to perpetuate the memory of the late Sachin Chaudhuri. Prizes are to be awarded for the best paper each in Economics, Sociology and Politics. The papers must be concerned with application of theoretical concepts to interpretation and analysis of Indian situations. Authors must be persons of Indian nationality, not more than 30 years of age as on December 31, 1971.

Papers should be between 5,000 and 8,000 words, typewritten, and should be sent with two extra copies to the Editor, *Economic and Political Weekly*, Skylark, 284 Frere Road, Bombay-1.

in 1970-71 than in the previous year. The Minister for Industrial Development, not being bound by the same standards of accuracy, has been glibly repeating the figure of 11.2 per cent as though it pertained to 1970-71 and not the previous year.

This is not, however, the most interesting aspect of the matter. The Reserve Bank's estimates of growth in the small-scale sector in 1968-69 and the following year were based on figures supplied by the Development Commissioner for Small-Scale Industries, Government of India. The figures were for the value of output of the units registered with the Development Commissioner. How they were arrived at is not clear. At best they must have been based only partially on actual returns, considering the slackness in the submission of returns by registered units; for the rest they could not have been anything better than guesstimates, pure and simple. Further, the figures were of gross ex-factory output and not of value added by small-scale industrial units. And since they related to the value of output, they were inflated to the extent of the price increases in the respective years. Finally, since the figures related to units registered with the Development Commissioner, a part of the increase must have been definitely on account of expansion of coverage.

For all these different reasons, the figures of 11.2 per cent and 8.2 per cent are completely meaningless as measures of the actual growth of output in the small-industries sector. It remains a minor mystery how the Reserve Bank's star-studded economic department came to overlook all these considerations.

BUSINESS

Iron Ore Export Prospects Bleak

Magnus writes:

FEARS about a drop in iron ore exports have been expressed recently by the major Goan mine-owners and by officials of different organisations, particularly the National Mineral Development Corporation. These fears are unfortunately well-founded and some counter-measures are obviously called for.

There are two aspects of the problem, one relating to demand and the other to supply. Taking the latter first, mines in Goa are certainly in a happier position than the mines of NMDC and others in interior regions. NMDC has some very good mines, and even better schemes in hand, but it is handicapped to some extent by divided corporate commitments. Its famous Bailadilla mine had a flourishing period, but has not been able to deliver sustained high outputs over long periods. Now it seems that the second mine at Bailadilla is at least one year behind schedule, and will deliver only in 1974. Kiriburu is doing well, and the project at Donimalai should do even better. Private mines in the Hospet sector and elsewhere are still struggling in their usual fashion, but manage to deliver quite substantial tonnages. Unfortunately, producing ore is only the beginning.

Transport as a bottleneck is by now so hackneyed an excuse that people very often do not realise how serious it is. Bailadilla alone is running short by nearly two rakes per day, and there are any number of producers whose main concern is wagons, not production. Railways and loading ports are really the key to ore exports, and it is often said that a backward country exports the transport services involved as much as the ore. Even an advanced country like the US has to face transport bottlenecks and high costs. An interesting study has been recently conducted by the US Bureau of Mines for transportation of iron ore by pipeline from the Mesabi Range in Minnesota to the steel and pelletising plants near-about Chicago. The pipeline could relieve the snarled-up rail-cum-ship system now in use. Two possibilities have been studied, one of 95 miles and the other of 515 miles. The former, it is estimated, will cost $ 112 mn and will carry 10 mn tons per year, at a lower cost per ton than the present system. Similar studies used to be carried out in India for some of the new prospects, where rail lines are missing or too costly to build. Failure of the Indian Railways can jeopardise major export contracts.

Demand for iron ore is the other aspect of the problem. When there is a slump in Japanese steel-making, our exports suffer because a large proportion of them is tied to Japanese steel mills. Our exporters have apparently not noticed the phenomenal strides made by the iron and steel industry in the Soviet bloc countries during the past fifteen years.

While India's share of steel output has never exceeded 4.5 mn tonnes, its iron ore output of 28 mn tonnes in 1970 may increase at most to about 40 mn tonnes by 1980. This would be a mere 0.4 per cent of world output. This insignificant contribution will make India a nonentity in the market, and the resultant neglect will lose us further business.

Competition from Australia and Brazil has been always keen. It is being rapidly supplemented by Peru, Chile and South Africa. Moreover, we have made almost no move towards pelletisation, while all others have long established pelletising plants. We must do the same, as much to make use of the fines as to get a foothold in the pellets market. It would be most useful if the teething problems at Tisco's plant at Noamundi and Chowgule's plant at Pale are more freely discussed with others intending to set up such plants, so that costly mistakes are not repeated.

Customers are also becoming more grade-conscious. One of the largest suppliers, Hamersley of Australia, were recently accused by the Japanese of having supplied sub-grade material, whereas the truth probably is that supplies were close to the specified grade instead of containing a few 'bonus points'. Hamersley has by now accumulated millions of tons of marginal ore (58 per cent against the export grade of 62 per cent) and is planning for its utilisation. In India such material is just thrown into the nearest valley and lost for ever. We are also quite prodigal about the grade of export ore, 64 per cent being regarded as the minimum in many cases.

It must be admitted that only part of our troubles are due to poor management. There is a genuine lack of finance on the scale required for developing large complexes which comprise mines, pelletising plants, railways and ports—not counting shipping for the present. For this some of the blame must lie with national policy which frowns on foreign capital participation. Virtually every project in Australia or

Brazil was financed from other countries. In both, let it be noted, safeguards for national interests were incorporated in the agreements, and the host countries as well as the companies have benefited from export of iron ore on an unprecedented scale.

The iron ore business is a two-sided coin. Unless one has large orders in hand, the development of big mines and transport facilities cannot be taken in hand; and unless one has these facilities, large export orders cannot be obtained. The strategy for India must obviously be to make the best use of existing mines and facilities, thus proving our ability to compete and then to obtain bigger orders spread over the next ten years or more. It is a well known fact that if orders and ore reserves are available, international finance is not difficult to arrange in this industry. Whether India wants this finance is another question. Although the answer to the question is known to be in the negative, the reasons for it are by no means clear.

Air-India

White Elephants?

THE uses of adversity for Air-India may not be exactly sweet, but they may yet be educative. About the fact of adversity itself there is no doubt left any longer. In an official press release last week the airline forecast a loss of Rs 4 to Rs 5 crores in 1971-72, for the first time since nationalisation in 1953. The loss may in fact turn out to be rather larger since in the period April-September, normally the more profitable part of the year, there had already occurred a loss of Rs 3.67 crores. The more pessimistic among Air-India officials fear a loss of Rs 8 to Rs 9 crores this year and as much as Rs 15 crores next year.

About the causes of adversity, Air-India is being unnecessarily coy. Thus the press note goes out of its way to emphasise that the airline had begun to operate at a loss in March 1971, "before the commissioning of the Jumbos". But the whole world knows that it is the arrival of the Boeing 747s on the scene which has upset the cosy, cartellised world of the international airlines. Air-India is committed to buying four 747s of which two are already in operation and the other two will be delivered next year. Clearly, Air-India's calculations of the impact of the 747s on its economics have gone completely haywire.

The increase in costs has been startling. The additional expenditure on account of interest, depreciation and insurance charges on the two 747s commissioned in May adds up to Rs 6.81 crores per annum, which is only a little less than one-tenth of Air-India's total operating revenue in 1970-71. On the other hand, the expectations of growth of traffic — largely based, some suggest uncharitably, on the rosy projections understandably supplied by the Boeing company — have been belied. The 747s were ordered for use on the India-UK-USA route and a fleet of four was considered to be the minimum required to operate a daily service on this route. As things have turned out, however, traffic on the Atlantic route has shown practically no increase this year. Of course, Air-India is not the only airline to be left high and dry, but it still needs to be explained why it did not exercise its option, which was open till about a month ago (by when the trends in traffic had become clear enough), to stagger the acquisition of the fourth 747.

An altogether desirable consequence of the enormous expansion of capacity in international air transport resulting from the introduction of the 747s has been the beginning of the break-up of the cartel of airlines functioning under the IATA umbrella which rigged up fares even as airlines flew with half the seats on their planes empty. There have been rumblings against IATA-fixed fares in the past. It was usually the giant American airlines, Pan Am and TWA, which pressed for lower rates to attract more traffic, while the European ones on the whole preferred high fares and low traffic to the risks of a sharp cut in fares. Air-India was invariably on the European side in this argument. Now the situation has changed and it is the European airlines which want to try to fill up their empty 747s by reducing fares whereas the US airlines, in a bad shape recently as a result of managerial and other problems, are not prepared to risk lower fares. Air-India has followed airlines like BOAC and Lufthansa in sharply cutting its trans-Atlantic fares. (The so-called excursion Bombay-New York return fare is Rs 4,125 which is lower than the regular one-way fare of Rs 4,605.) Air-India has also registered a wholly-owned chartering company, under the chairmanship of its commercial director, which is nothing but another ruse to offer cut fares. What airlines like Air-India, BOAC and Lufthansa are trying to do is to set up a dual fare structure which will enable them (or so they hope) to charge IATA fares to those who will pay these fares and fares lower by half or even more to those who will otherwise either not fly or will take airlines offering under-the-counter cuts on IATA fares.

Air-India needs to be pushed in two other directions. First, it must pay more attention to ethnic traffic to and from India which at present accounts for less than one-third of its traffic and a good part of which is mopped up by other airlines. Why should not Air-India extend its cut fares to routes other than the India/UK/USA one? Along with lower fares, Air-India also needs to impress on its staff the importance of treating their own countrymen with the same courtesy that they extend to Westerners. Second, Air-India and Indian Airlines need to be prodded to achieve a measure of co-ordination in their operations. Such co-ordination must aim primarily at the maximum utilisation of their combined capacities — there is no reason, for instance, why Air-India's 747s should not operate on the internal trunk routes — but it should extend to other areas, ranging all the way from a computerised booking service to a joint training programme for pilots. Indeed, this appears to be right time for the Ministry of Civil Aviation to initiate a serious study of the pros and cons of eventually merging the two air corporations.

Dempo Steamship

Wherewithal for Expansion

DEMPO Steamship's chairman, Vasantrao S Dempo, has underscored the need for reviewing the decision to withdraw the development rebate from 1974 and to change the method of calculating profits eligible for tax holiday. (The conventional method of calculating profits on the basis of the written-down value of the ships has been changed in favour of adjustment of Government loans against the capital base before arriving at the tax-free quantum of bonus.) These steps, in his opinion, will affect the growth of shipping by impinging on internal resource generation in the industry. The rapid tonnage expansion in the past has been largely financed by self-generated funds. Now shipping companies are hesitant to place fresh orders or to go in for secondhand ships despite the fact that market conditions are favourable. There has been a lull in international shipping activity following a slight recession in Japanese industrial growth, reinforced by the international currency crisis and US protectionist measures. Charter market rates have fallen to the lowest level in twenty

years and international shipping companies are reviewing their development plans. Prices of ships, both old and new, have come down in the international market, but Indian shipowners are following a cautious policy in the matter of tonnage acquisition. Their attitude may well change should the government give any indications of reconsidering its policy with regard to development rebate, at least in respect of ships which were ordered much before the announcement of the new policy but are to be delivered after March 1974.

Dempo's performance in 1970-71 was impressive enough and reflected the boom in the international charter freight rates. Total freight and charter hire increased from Rs 306 lakhs in 1969-70 to Rs 558 lakhs in 1970-71 and, operating profits, after allowing for higher depreciation at Rs 83 lakhs (Rs 68 lakhs), rose from Rs 33 lakhs to Rs 144 lakhs. This is significant considering that the company had to pay charter hire to the extent of Rs 67 lakhs and there was a 70 per cent rise (from Rs 18 lakhs to Rs 31 lakhs) in repairing and dry-docking expenditure. The profitability of the company as a ratio to total capital employed more than doubled from about 7 per cent to about 15 per cent. Despite higher profitability, the company has declared a dividend of 10 per cent in view of the uncertain conditions prevailing in the freight market.

Commenting on the company's future prospects, V S Dempo hopes that there will be an early recovery from the current freight rate slump. During the year, the company placed orders for two bulk carriers — one of 66,000 dwt from Belgium and another of 21,450 dwt from the Hindustan Shipyard — which, on delivery in 1975, will raise the company's tonnage to 212,000 dwt from the current year's 126,700 dwt. SDFC finance to the tune of Rs 13 crores has been secured for acquiring the new tonnage.

KSIDC

Overstretched?

DURING its tenth year of operation (1970-71), the Kerala State Industrial Development Corporation (KSIDC) made a net profit of Rs 2.26 lakhs (Rs 2.60 lakhs in 1969-70). Gross income by way of interest on loans, dividends, etc, was maintained around Rs 23 lakhs. The Corporation's share capital remained unchanged at Rs 4.15 crores; its borrowings, however, increased from Rs 1.73 crores to Rs 2.50 crores, mainly through an issue of bonds of Rs 53.50 lakhs. Total assistance sanctioned by KSIDC declined marginally from Rs 169 lakhs in 1969-70 to Rs 165 lakhs. Net aggregate sanctions as at March 31, 1971 were Rs 9.48 crores and the total amount disbursed was Rs 8.44 crores.

But the financial statistics apart, it is KSIDC's promotional and entrepreneurial role that requires attention. KSIDC has been instrumental so far in the promotion of 8 companies, including one for setting up a mini steel plant. Of these three are already in production and progress on two others has been satisfactory. One company has been wound up and in the case of another company, KSIDC's efforts to secure technical and financial collaboration have still not been successful and work on this project has been at a standstill. Dastur and Co have been appointed as consultants for the mini steel plant, but it seems doubtful that this plant will get the required scrap. KSIDC has also obtained letters of intent for three other projects, for manufacture of, among other things, electronic items and cigarettes. It is reported to be active in promoting a newsprint project and is also engaged in mineral explorations relating to deposits of iron ore, cement-grade limestone and mineral sands.

Kerala is not one of the officially recognised backward states, though industrial activity in the state is relatively low compared to its neighbours, Tamil Nadu and Mysore. KSIDC would thus seem justified in undertaking diversified entrepreneurial activities. But in its anxiety to make an impact on the industrial scene, KSIDC, like its counterparts in some other states, runs the risk of overstretching its resources, financial and managerial. Like many other State Industrial Development Corporations, KSIDC is also managed by civil servants, in service or retired, and lacks the financial and managerial resources to effectively play its promotional and entrepreneurial role. There is also the danger of over-involvement in the projects promoted and, in any case, promotion cannot be carried out on any extensive scale with the meagre funds at its command.

Bombay Gas

Long Haul

AFTER a long spell of seven years of heavy losses, Bombay Gas Company earned a moderate profit for the third consecutive year in 1970-71. Sale of gas and residuals were higher in 1970-71; the increase in revenue was, however, neatly neutralised by higher costs of production. The company's net profits during the past three years have averaged around Rs 4.5 lakhs. At its present level of operations and profitability, it would seem that the company would be able to wipe off its accumulated losses of Rs 42.46 lakhs sometime around 1980-81.

For a company favoured with excellent conditions for growth, Bombay Gas's performance has been disappointing. Gas output has been on the increase; one more booster has been commissioned to stabilise station pressures; and the programme of augmentation of mains capacity in certain areas of Marine Drive and Malabar Hill has been completed. Though poised for quick expansion, the number of new gas connections have remained at a low level, being only 700 in 1970-71 which brought the aggregate of new connections since 1965 to about ten thousand. This by any reckoning is pitiably low.

This is not to deny the problems faced by Bombay Gas in raising the number of new connections. Coal supplies have been inadequate; prices of coal have continued to register increases; and obtaining import licences for gas meters has always been a problem. Even more important, increase in gas prices has time and again been the main theme of the statement of the company's chairman to shareholders. Though the escalation clause incorporated by the state government in the Bombay Gas (Fixation and Price Limit) Rules provides for automatic revision in prices in case of an increase in costs, the company has been complaining of delays in effecting these revisions. The objective of providing domestic fuel to a larger section of the people can be achieved only if Bombay Gas is able to generate adequate resources. Also, if electricity undertakings are permitted to charge what the traffic can bear, why not Bombay Gas? Isn't it possible for Bombay Gas to charge differential prices like the railways (an inverse of the telescopic rates system would seem to be applicable in this case? As a public utility concern, Bombay Gas must continue to grow and the company has to seek out avenues of growth. The manufacture of gas meters is not all that complicated and the company could well have taken up the production of this item instead of lamenting delays of two-and-a-half years in obtaining import licences.

China in the UN

I THINK you exaggerate when you describe ("China in the UN", October 30) the failure of Americans to carry through their resolution making China's admission an 'important question' as a 'defeat' of American foreign policy. The American resolution was defeated by a small margin of votes (54 against 59) and that too despite the fact that the US did not use all the forces at its command to pressurise member states to support its resolution. Leaving aside the small Afro-Asian states, even Britain could not have afforded to vote against the US resolution if the US had fully exercised all its political-economic influence over it. If the US made any efforts, it was not so much to save Taiwan as to get a respectable number of votes (though not a majority) in favour of its resolution to convince the American public that it did try to save its faithful ally from being expelled. Perhaps Kissinger had even mentioned to Chou that for the sake of domestic public opinion, the US had to put up a show of trying to save Taiwan's seat in the UN.

In short, knowing that the expulsion of Taiwan from the UN does not mean handing over the island to the Chinese, the Nixon administration decided to concentrate on the more important objective of the success of Nixon's visit to China. That China's admission into the UN became possible only when the US changed its attitude towards China shows that the US still holds sway over the world body and that a large number of European and Afro-Asian countries can vote against its wishes only so long as the US does not seriously mind their doing so. 'Defeat' or 'beginning of the liquidation of American empire' are thus terms too strong to describe the sudden but smooth readjustment that Nixon has brought about in US foreign policy objectives.

Also, only those who want to wish away the American empire would suggest that Nixon's desire to talk with Mao means that the 'imperialists' have 'bended' because the Chinese stuck to their guns. Just as the US can 'no longer pretend to be unaware of the phenomenon of China', China, too, functions under severe limitations so long as its existence is anathema to the two Super Powers. And to overcome these limitations the Chinese would be no less keen on a detente with the US. To regard Kissinger's visits to China followed by China's admission to the world body as a 'defeat' for the Americans and a 'victory' for the Chinese is, therefore, rather naive. These events only indicate that both countries are making mutual adjustments.

This is not to deny that the defeat of American objectives in Vietnam has forced it to accept the limitations of its military might or that this in turn has indirectly impelled Nixon to establish friendly contacts with China. But the American defeat in Vietnam cannot be credited to the Chinese. The Nixon administration has accepted a detente with China because it knows that given the logic of triangular power competition, the Chinese too would be equally keen to improve their relations with the US and even help the US to withdraw from Vietnam without altogether losing face. Thus the gains made by China by way of securing a seat in the UN and acceptance by the US of the fact of 'one China' have been made at the expense of revolutionary forces in the third world in general, and at the expense of the Vietnamese in particular.

Your editorial has nothing to say about the implications of China's admission to the UN for China itself or for India. As for India, all that the Indian Press has to say is to give credit to India for having tried to bring China into the world body some twenty years ago, forgetting what a lot of water has flown under the bridge over these twenty years. In the early fifties we assumed a patronising attitude to China. But today India and China are enemies and in terms of power-status we are nowhere near China nor are we on very good terms with the US. Thus, if we have supported the Albanian move for China's admission, it is more for the sake of appearing 'consistent' and 'objective'. In fact we are rather apprehensive of the results of China sitting in the UN. For instance, we could so far afford to play a big brotherly role in the Afro-Asian organisations of the UN such as ECAFE. This we can no longer do once China enters these organisations. Similarly, when Indo-Pak questions come up in the Security Council we will now have to completely change our strategy, for with China there we will not be able to dub every UN move on the Indo-Pak question as stemming for Western partisanship towards Pakistan.

Even for China a seat in the UN, particularly in the Security Council, is not going to be without problems. So far its policy-intentions could remain inscrutable to the world and it could get away by keeping silent on major international issues till it had sorted out its options. But now it will have to 'reveal' its preferences. This will put it in a situation in which its policy-intentions will become exposed, thus limiting its options to some extent. Also, its own actions will become subject to some kind of sanctions. For instance, one wonders whether China would have been able to take a quick punitive military action against India of the type that it did in 1962 had it been a member of the UN at that time.

A N OZA

Bombay

Domestic Resource Cost

IT is good that your contributors Samuel Paul, and S A Dave and S K Subramaniam agree among themselves that the "shadow" exchange rate provides the acceptable upper limit for domestic resource costs ("Competitiveness of Indian Steel Exports", May 22; "A Comment", September 11; and "Reply", November 13;). Grateful as all of us are for this rare example of solidarity among economists, I would like to ask them two further questions: (a) how do they propose to estimate the "shadow exchange rate"? In this respect, I hope they would want to do a little better than simply add 30 per cent to the prevailing exchange rate, as suggested by S A Dave and V V Bhatt in another article on domestic resource cost criterion ("Criteria for Evaluation for Capital Projects", August 28); and (b) if they can estimate a "shadow exchange rate", why are they still interested in calculating domestic resource costs in order to evaluate projects? Why not use the derived shadow prices for evaluating projects in the normal way through calculation of rates of return?

It is also a little surprising that none of the above authors have thought it fit to mention, let alone acknowledge, the earlier economic work on this subject by other writers, particularly Michael Bruno. In view of the literature that already exists on the domestic resource cost criterion, it is perhaps a little presumptuous to speak of it as "my", "our", or "Paul's" criterion.

A READER

Calcutta

Bangla Desh in the Making

Romesh Thapar

HE Capital has assumed a posture of ıiet confidence with regard to the ɔnfrontation with Pakistan. Apart om some ranting on AIR, or unneces-ıry excitement over "war news" in arliament, a remarkable maturity is ɔticeable. Visiting Delhi, you would ɔt imagine that we were in the midst an extremely tense situation, with any possibilities.

Reporting on the developments ong the Bangla Desh border is rappy, incomplete and, I suppose, de-berately toned down to avoid the ıphoria of earlier days. From what e can surmise, the Pakistani army in ıe East, acting in the belief that it ould not be challenged, concentrated major part of its force around bor-er strongholds. These are now under ssault.

The future of the Mukti Bahini is ependent largely on its success in ıese crucial battles. A glance at the ıap, and it will be clear that five ırusts are developing in the direction f Dacca. A breakthrough at any two oints would compel a major Pakistani etreat—and this would mean, in the rimitive mobility of East Bengal, the bandoning of a major part of its for-es. The ferocity of the battles under-ines this realisation.

According to current reports, a regu-ar Pakistani military establishment of some 80,000 men is able to draw on para-military reserves and police of almost equal strength. It is unlikely that any further reinforcements would reach the Pakistani Army in the East. Even the harbours of East Bengal are becoming unsafe. A kind of blockade is developing.

If the military junta in Islamabad is still capable of sophisticated thinking —and it doesn't look like it judging from the way the National Awami Party, dominant in Baluchistan and the NWFP, has been banned in West Pakistan—it should be deeply disturbed by the way the situation is developing in the East. A retreat would spark uprisings all over East Bengal. Last-ditch fights in the strongholds would dig the grave of the Army. Some dilemma.

Hence, the speculation about a diversion in the West. Two broad views have formed. One claims that the military junta in Islamabad must escalate the conflict in Kashmir, or along the very open Rajasthan border, to compel the intervention of "peace-making" powers—and that this would not be all that adventurous if China moves to create the impression of a general offensive. The other view plays with the possibility that pressures will build up in West Pakistan to avoid an escalation, to write off East Bengal—a view which expects China to make off-stage noises, but little else.

Pakistan is learning to its cost that it has not paid sufficient attention to the warnings from India. It may now mount a massive campaign throughout the world to prove that India is an "aggressor", but the fact remains that hundreds of millions are convinced that the aggression began with the genocide in East Bengal and the pushing across the Indian border of some 10 million refugees. India is unlikely to be halted in its resolve to settle this problem in the shortest possible time, for delay would destroy India's stability.

Never before, not even in previous military crises, have the people of this country stood so united. And this, despite the difficulties of the times. The economy is in bad shape. Inflation is gatting worse. Goods are scarce in many areas. But there is an overruling determination to puncture the pretensions of the Pakistani military *junta*. The cost doesn't matter to a people who have been blackmailed too often.

At another level, the understanding is growing that we are about to witness profound changes in the balance of power in South Asia. Zulfikar Bhutto is so correct when he says that the old Pakistan is finished. In its place, two states are taking shape in the fury of the battles joined in the East and which may be joined in the West.

December 1



"This is primarily because of the civilised world—we've to speak a language they understand"

Plea for Tax Concession

Hansavivek

SCINDIA STEAM has placed orders for two bulk carriers, one of 53,000 dwt and the other of 75,000 dwt, with West German and the UK shipyards respectively. The former is to be delivered in May 1974 and the latter in 1976. The two ships of 16,200 dwt, already ordered from West Germany, are scheduled to be delivered in May and September next. Of the eight ships of 13,600 dwt, for which order had been placed in 1968 with a shipyard in GDR, six have already been delivered and the remaining two are expected to be completed by the third quarter of 1972. The company had applied for government approval for purchase of shares belonging to Dharma Teja in Jayanti Shipping, but that company has since been nationalised. Scindia has at present 42 steamers of 3.79 lakh GRT, as compared to 255 steamers of 24.92 lakh GRT owned by all the Indian shipping companies. Krishnaraj M D Thackersey, chairman, feels that the Indian shipping companies need to place orders for at least 5 lakh gross tons more than the orders so far placed by them if they have to fulfil the target of carrying 40 per cent of the country's overseas trade as envisaged in the Fourth Plan. He points out the reluctance of the world's shipyards to accept Indian orders owing to overbooking and inability to extend credit. But he adds that, even if the shipping companies succeed in placing orders now, none of the ships can be delivered before May 1974. The Finance Minister's hope, that the advance notice of the abolition of development rebate from May 1974 would accelerate the pace of investment, cannot be realised in the shipping industry. Thackersey observes that practically all the maritime nations give tax concessions in one, or more, forms to develop their shipping. The government, he feels, should do something to enable Indian shipping to face international competition.

During the 52nd year ended June 1971, Scindia's increased freight earnings were offset by higher operating costs such as fuel, wages, insurance, etc. The profit position, however, showed a fair improvement, owing to increased receipts from interest on investments and a net profit of Rs 67 lakhs on sale of six old vessels. About 63 per cent of the recommended dividend is expected to be exempt from tax. Commenting on the current year's prospects, the chairman points out that, from February 1971, the rate of interest on loans given to the shipping companies by the Shipping Development Fund Committee has been raised from 3 to 4.5 per cent and the period of initial moratorium as well as the period of amortisation have been reduc-

The Week's Companies (Rs in Lakhs)

	Scindia Steam		Premier Auto		Cooper Eng		Morarjee Goculdas	
	Latest Year 30-6-71	Last Year 30-6-70	Latest Year 30-6-71	Last Year 30-6-70	Latest Year 30-6-71	Last Year 30-6-70	Latest Year 30-6-71	Last Year 30-6-70
Paid-up capital	1128	1128	748	748	163	163	167	92
Reserves	1871	1686	310	310	49	85	146	191
Borrowings	3525	3026	1539	1567	427	420	247	200
of which Term borrowings	2358	1649	597	651	45	51	—	—
Gross fixed assets	7008	6363	2354	2328	468	465	680	590
Net fixed assets	4559	4030	1648	1614	174	170	407	353
Investments	220	234	15	15	2	2	5	—
Current liabilities	1400	1108	815	741	343	364	246	217
Current assets	3165	2780	1738	1723	723	868	394	347
Stocks	—	—	1292	1256	442	503	204	129
Book debts	655	618	436	441	265	348	184	210
Net sales	3877	3834	3762	3227	479	570	1014	1309
Other income	154	112	63	68	14	18	43	50
Raw material costs	2374	2425	2587	2162	200	336	466	562
Wages	486	446	746	700	170	178	251	322
Interest	164	152	138	129	41	35	22	30
Gross profit(+)/loss(—)	729	609	36	18	—120	+10	101	74
Depreciation provision	356	336	—	—	—	40	38	31
Tax provision	35	52	—	—	—	—	20	32
Net profit(+)/loss(—)	338	221	36	18	—120	—30	43	11
Development rebate provision	170	90	29	17	—	—	14	6
Transfer to reserves	41	32	—	—	—	—	13	—
Dividend								
Amount	127	99	—	—	—	—	E15 P1	E11 P1
Rate (per cent)	11.25	8.75	—	—	—	—	E10	E15
Cover (times)	1.32	1.32	—	—	—	—	P6.43 1.86	P6.45 0.45
Ratios (per cent)								
Gross profit/sales	18.57	15.87	0.96	0.55	—	1.76	9.96	5.65
Net profit/capital employed	5.18	3.78	—	—	—	—	7.68	2.27
Inventories/sales	—	—	34.34	28.95	92.27	88.24	20.12	9.85
Wages/sales	12.53	11.63	19.83	21.19	35.17	30.33	24.75	24.66

ed. With an amendment to the Income-tax rules for the relief available under *Section 80J*, the basis for calculation of capital employed has also been revised so as to reduce the benefit.

PREMIER AUTOMOBILES has shown only a marginal improvement in its working results for the 27th year ended June last, following the increase in production and sale of cars from 12,083 and 12,034 units to 12,381 and 12,530 units, respectively, and of trucks from 3,957 and 3,936 numbers to 5,001 and 5,030 numbers, respectively. Sales realisation increased by Rs 535 lakhs to Rs 3,762 lakhs, but gross profit was up by only Rs 18 lakhs at Rs 36 lakhs. Nearly the whole of this surplus has gone to provide for 'unserviceable items' in the inventory, aggregating Rs 12.92 crores as at the end of the year. Allocation to development rebate could be made by utilising almost the entire surplus of Rs 30 lakhs brought forward from the preceding year. Statutory development rebate reserve, not provided, still stands at Rs 99 lakhs. Depreciation amounting to Rs 144 lakhs could not be provided for yet another year. Total arrears on this account have mounted up to Rs 7.25 crores. The overall performance is indeed disappointing, considering that total funds employed in business are about Rs 26 crores. The company has been experiencing financial stringency. Five instalments due to USAID, in repayment of its loan, have been deferred. Some of the fixed deposits have been overdue for repayment since January 1968. Imports against the credit in respect of deferred credit arrangement of Rs 18 lakhs with Fiat of Italy have been effected. Further credit for about Rs 12 lakhs under similar arrangements has been issued. The supply position of raw materials and components was "slightly better" during 1970-71, but that of diesel engines was not satisfactory. The directors complain that prices of raw materials and components registered a "steep increase" and that labour costs went on rising continuously in spite of reduction in manpower. The interim increase, granted at the instance of the Supreme Court from April last, could find reflection in accounts for only the last quarter of the year. The company is seeking government permission to increase production to 18,000 numbers of cars per annum, in the first instance. Cost of this expansion is estimated at Rs 4 crores, and IDBI and other financial institutions have been approached for the required capital expenditure. The company expects to complete the project in about two years from the date of clearance by government. Meanwhile, the management envisages better results for the current year because production of vehicles is likely to be higher than in the past year and a higher price for the cars has been allowed by the Supreme Court. But the company's future hangs in balance, since government has recently made it known that the question of take-over of the company is being considered.

COOPER ENGINEERING has had to experience the impact of the recession in the diesel engine industry for a full year, as against for a part of the preceding year. Total sales declined by 16 per cent in the 31st year ended June last as sales of diesel engines and spares dropped from Rs 3.90 crores to Rs 2.53 crores—even though sales of machine-tools and spares increased from Rs 1.38 crores to Rs 1.49 crores, looms and spares from Rs 18 lakhs to Rs 47 lakhs and receipts from miscellaneous and jobbing work from Rs 25 lakhs to Rs 30 lakhs. The outcome was a much bigger trading deficit of Rs 1.20 crores, without providing for depreciation amounting to Rs 31 lakhs against Rs 30 lakhs after providing Rs 40 lakhs for depreciation. The accumulated deficit increased to Rs 1.39 crores. In order to reduce dependence on the diesel engine market, the company has been attempting to concentrate more on specialised jobbing work. Orders worth Rs one crore have already been secured, and additional orders worth about Rs 1.5 crores are expected in the near future.

MORARJEE GOCULDAS SPG AND WVG has completed 100 years of existence. The company has been continually modernising its plant and machinery. During 1970-71 alone such additions were worth Rs 91 lakhs. After the year-end, further orders were placed for plant and machinery worth approximately Rs 5 lakhs. The company has been paying increasing attention to exports. Its foreign exchange earnings from cotton cloth and yarn aggregated Rs 80 lakhs in 1970. Fabrics are exported to the US, UK, USSR, East and West Africa, Ceylon, Burma, West Indies, the Middle East, Malaysia, Australia and New Zealand. During 1970-71, M G Mills' profit margins showed notable improvement, despite considerable decline in turnover. The management, nevertheless continues to complain that it had to struggle with "ever rising costs". Equity dividend, lowered from 15 per cent to 10 per cent, is payable on the capital as enlarged by a one-for-one bonus issue. The enhanced quantam of distribution is very well covered by earnings; the last year's payment was short-earned. The company has floated a separate company, Gopikisan Piramal, with a view to developing exports and dealing in powerloom cloth. This will also help the parent company to utilise the surplus capacity of its dye-house.

SUBSCRIPTION RATES

	Inland	Foreign (Surface Mail)		
Six months	Rs 32			
One year	Rs 60	Rs 85,	$ 11.35,	£ 4.75
Two years	Rs 110	Rs 160,	$ 20.75,	£ 8.75
Three years	Rs 160	Rs 235,	$ 30.50,	£ 13.00

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

NEW DELHI

Half-Finished Changes at Hindustan Steel

THE recent changes in the top management personnel of Hindustan Steel, the largest public sector industrial enterprise and one which has been in a bad shape for quite some time, are supposed to have given a 'new look' to the company's management. A new chairman, H Bhaya, took over charge on November 13. The new chairman and three of the four new general Managers of HSL's plants have been promoted from within the organisation. This is claimed to be the most significant feature of the new appointments.

The promotions from within to top positions, which had hitherto been normally filled by 'outsiders', and the resultant series of other promotions have certainly been well received in HSL. But looking at the total picture of HSL's performance, these appointments and promotions touch hardly the fringe of the problem. The poor performance of HSL year after year and the extremely low morale in the organisation have deeper and more complex causes and will require more radical remedies than have been attempted. That HSL would show a loss bigger this year than it has suffered in any year so far is now considered inevitable. The figure is expected to be well over Rs 50 crores.

The new appointments do not change the present top heavy and bureaucratic structure of HSL. They leave untouched the Board of Directors, in particular the so-called functional directors. Even if the quality of the persons at present holding positions as functional directors is ignored, the very institution of functional directors has been so conceived and built up over the last three years that it has become synonymous with centralisation of powers and bureaucratisation of functioning at the headquarters to the detriment of plant level leadership and initiative. HSL's four production units are vastly different from each other and cannot possibly lend themselves to centralised management, direction and control such as HSL's headquarters at Ranchi has attempted to impose in the last few years since the establishment of the system of functional directors in 1968 in place of the earlier system of maximum plant autonomy with the HSL headquarters providing only coordination and general policy direction.

The system of functional directors in HSL has resulted, in the course of the last three years, in the creation of elaborate directorates around each functional director. These directorates, besides inflating the cost of the headquarters establishment (which has increased fourfold in three years), work as interfering busy bodies in the management and operation of the plants —as inspectors trying to find fault with the plant managements. Their intrusion, together with the general tendency towards arbitrariness and whimsicality in the top management of HSL in the last three years, became a major factor responsible for tension and irritation between the plant managements and the HSL headquarters at Ranchi. In particular, the much-publicised production directorate and the personnel directorate became the sources of much bad blood and conflict in the HSL organisation. This system remains intact even after the new appointments and there is no indication that the new chairman, who with his personal experience of managing a plant in this set-up has a realistic appreciation of the problems posed by it, has been given a free hand to overhaul it and clip its negative features.

Over-Centralisation

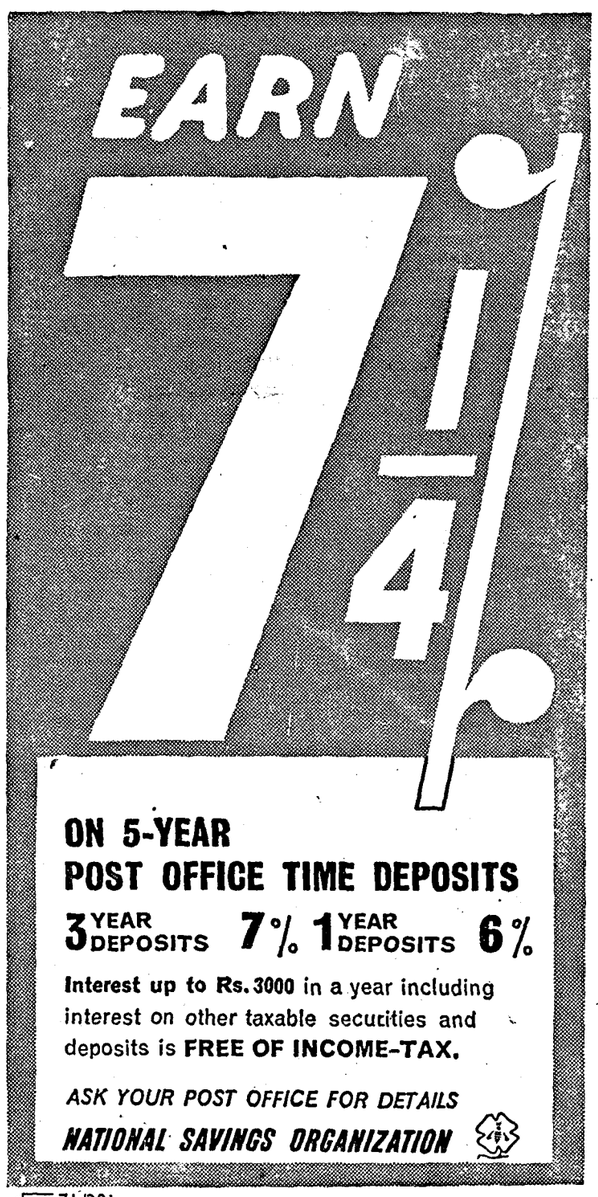
The excessive centralisation of the functioning of HSL is one aspect of its bureaucratic structure. Another, which is probably a common feature of all public sector enterprises, is the system of service conditions and rules which are closer to the requirements of general administration than to those of an industrial enterprise. In this system, for instance, there is no way of rewarding good performance, except by removing the person concerned from the work where he might have done well! A person doing good work on the shop floor in a particular capacity or on the cake ovens, if he is to be rewarded gets promoted to a higher place in the establishment hierarchy and is no longer available for the work in which he had acquired competence. He cannot be given higher remuneration or status while continuing to do the work at which he is good. In the period of centralisation in HSL, this system worked particularly badly from the point of view of the development and utilisation of skills in the plants. Under the so-called system of centralised promotions and transfers, people were shuffled about, promoted and transferred from their places of work in one plant to another plant in a different position, without regard to the requirements of the individual plants. In addition, men needed in the plants were drafted to do desk work at the headquarters. This further aggravated the problem. It is possible that with a greater regard for plant-level autonomy and initiative, the excessive zeal hitherto exhibited in such matters may get mitigated. But the problem will remain unless the entire system is changed from the existing civil service-oriented pattern to one suited to the needs of a large industrial enterprise.

While the existing pattern of service conditions in general is unsuitable for public sector industrial enterprises, the situation in HSL, aggravated by overcentralisation, has become critical as a result of the application of disciplinary rules which have no relevance to an enterprise as HSL. The latest exercise in taking disciplinary action and meting out punishment in connection with the roof collapse at Rourkela has had a particularly bad effect on morale. The roof collapse was certainly a major disaster. In monetary terms, the loss on this account is estimated at Rs 30 crores. But the actual loss may be said to have been far greater because the disaster resulted in suspension of production of high value steel items of which the country is experiencing a severe shortage. But the manner of going about fixing responsibility for the roof collapse has created a widespread impression in HSL that, unlike officers of the civil services who cannot be touched, steelmen can be thrown to the wolves to suit the convenience of the administrative and political bosses. The concept of "constructive responsibility", which has been invoked to remove a whole group of officers at Rourkela, including the general manager of the plant — with some inexplicable exceptions in the case of some, which smacks of arbitrariness —, does not impress the HSL men. In any case, the question is widely asked why application of the concept of constructive responsibility should stop with the general manager of the plant and not go beyond to those at the very top. The report of the Loomba committee on the roof collapse has still not been made public and the government has not taken any

decision on its quality, which many experts in the field of steel structures do not consider particularly high. The men at Rourkela, who have been obliged to leave on this account, had no opportunity to defend themselves and their exit was clearly managed in a manner which is not altogether above board.

The new chairman of HSL and the new general managers of its four steel plants do not have to reckon only with problems of morale or industrial relations. They have also to come to grips with a whole host of complex technical problems of plant operation so that the plants can perform at levels closer to their rated capacities instead of the present 50 per cent level. The HSL plants have run into serious maintenance and operational problems which will not be easy to overcome. For one thing, it is now generally agreed that HSL's rush into the second stage expansion of its plants before the first stage capacities had been fully developed, stablished and consolidated was not such a good idea. The available skills and expertise were unable to cope with the problems of operating established capacities together with the burdens imposed by the second stage expansion of the plants. The situation became all the more difficult because, after the establishment of first stage capacities, there was a brief period of reckless running of plants to achieve production records. This happened particularly in the period 1962-64 and resulted in neglect of maintenance and was to the detriment of a steady build up of production. Some respite came in the period of the recession and fall in demand for steel and this could have been used to consolidate, renovate and overhaul. But, except for stopping further expansion of capacities, these tasks were neglected. In the case of the second stage expansion too, the setting up of all the balancing facilities to achieve results in production from the main units covered by the expansion scheme has taken far too long and the expanded capacities are in fact only now becoming realisable in terms of production of saleable steel. Maintenance problems have, meanwhile, become more serious. These are to be seen not so much in the blast furnaces and in the steel melting shops as in the coke ovens and in the finishing lines.

The coke oven position is particularly serious. There is today a general crisis in coke oven operations in all the steel plants in the country, including TISCO, so much so that the country may be compelled even to import coke from abroad to keep the steel-making facilities running. It is no longer a problem of a single coke oven in one plant but an overall problem of the coke ovens in the steel plants as a whole. The situation has been allowed to reach this critical stage because the problems of the sensitive and complicated operation of coke ovens were never closely studied. As a result, no phased programme of repairs and maintenance was prepared nor were standby capacities created. It was generally assumed that a coke oven had a life of 25 years. Whether this was in fact so in Indian conditions does not seem to have been examined by any one. Almost all the coke ovens in the country have run into difficulties within 15 years and this is posing a bigger threat to steel production than did the roof collapse at Rourkela. This is one of the high priority problems before the new HSL management.



WEST BENGAL

Liquidation of the Left

WHILE the attention of the world is focused on the more momentous events across West Bengal's eastern frontier, cold-blooded and calculated liquidation of organised Left is proceeding apace in this state. Massive attacks on CPI(M) bases jointly by armed police and armed Congress bands, pointblank shootings of boys and girls, inhuman atrocities on detained men and women and cases of people burnt alive, have been followed by another, the sixth, massacre of undertrial prisoners and detenus in jail, in which, according to the official handout, six prisoners have already been killed and over 200 injured, many of them so seriously as to be hovering between life and death.

Not a Word of Condemnation

While the latest event is so outrageous that the Calcutta dailies could not but splash them on the first page, the other atrocities committed daily—such as stationing armed policemen on tall rooftops to shoot indiscriminately into the adjoining bustees—do not find even a brief mention in their columns. And while most of the Left parties and mass organisations have been very prompt in condemning this latest instalment of massacre in jails, there has been so far not a word of condemnation from the advocates of liberal democracy, so senile and effete has liberal democracy turned today. What a pitiful contrast with the day in 1938 when Rabindranath Tagore, then 78, had left his sick bed to preside over a mass meeting at the Calcutta maidan to condemn the shooting down of two detenus in the Hijli detention camp!

The only consolation one can draw from these mounting atrocities is that the ruling party and the henchmen recruited by it are riding roughshod over all human values—for an early fall.

There is no doubt that various signs of degeneration of Congress(R) are coming to the fore. The battle cry raised by the party in its campaign against the Naxalites was defence of culture and heritage from the vandalism. These 'cultured' crusaders themselves committed the worst vandalism in the Calcutta University's administrative building in the course of which Tagore's portrait done by the famous painter Atul Bose was badly damaged. All this had to take place simply because some of the top leaders of the Congress(R) youth and student wings had not exactly covered themselves with glory in the University Law examination.

The indiscriminate recruitment of hoodlum elements into Congress(R) and the open patronage extended to them by the tallest among the party leaders have already led to headlong collisions among rival gangs. One such incident some days ago, which hit the headlines in the newspapers, was the clash in the state headquarters of Congress(R) between the supporters of one of the PCC secretaries and a member of the powerful Ghosh clan, proprietors of *The Amrita Bazar Patrika*. The Secretary who was personally assaulted sent a wire to New Delhi demanding his opponent's expulsion from Congress (R) within 72 hours. The other side retaliated by demanding a public apology from the Secretary. The state Congress leadership authorised Siddhartha Shankar Ray to conduct an inquiry and submit his report within 48 hours. But the situation within Congress(R) is so explosive that in the three weeks since then neither has Ray submitted any report, nor have the parties involved in the clash insisted on any formal step in regard to the incident. Instead, both the factions are manoeuvring for vantage points with a view to settling scores at an opportune moment. Indeed, according to knowledgeable sources, the rival gangs are but pawns in the hands of powerful operators. The principals are fighting by proxy for the control of the state Congress, as a stepping stone to the Chief Minister's suite in the Writer's Building.

Powerful Incentive to Chaos

The apparently brighter election prospects for Congress (R), created by the good work of the Congress strong arm brigades in the form of violence and terror against CPI(M) bases, seem to have produced its dialectical opposite—a powerful incentive to bitter infights for power and privilege, which can only jeopardise the prospects themselves.

The image of Congress(R) as also of the state administration under its thumb has been so much sullied in the recent weeks that even its most ardent populiser, CPI has been constrained to lodge some public protests. The state executive committee of the party in its last meeting (November 16-18) passsd a long resolution on the subject. It says: "In the countryside, jotedars have started harvesting the crops sown by sharecroppers and the police has been illegally intervening in favour of the jotedars... In order to harass the poor peasants and render them destitute, many false police cases are being instituted; on the other hand, police remains unconcerned when jotedars resort to murders, arson and loot...

"Police has assumed the right to commit murder on the pretext of 'died in a clash with police'. Police has resorted to this method on a large scale against the Naxalites. Besides even others who are *persona non grata* with the police are also being killed as Naxalites. It is reported that such inhuman and terrible tortures are inflicted on the arrested persons in the police stations that they either get incapacitated for life or die... Mass murders at Barasat, Baranagar and Cossipore have strengthened the belief among the people that the police force is implicated in these massacres."

Demands for Inquiries Not Accepted

Referring to the massacres in jails, the resolution notes that the demands for inquiries by commissions have not been accepted. Hence, "the popular belief that the state administration under the Governor is conniving in the assumption of the power [to kill, etc] by the police is not baseless."

Although characteristically enough CPI holds the poor civil servant of a Governor responsible for the policies and actions guided by the highest political leadership, the resolution does not stop there. "Presently a section of Naxalites and anti-socials," the resolution continues, "has penetrated in the ranks of the New Congress workers. These infiltrators are pursuing the same path of violence and individual terrorism as done by the Naxalites and CPI(M). Many of these anti-socials are police agents. They work in collusion with the police." (Translated from the Bengali version, published in CPI *Kalantar* of November 22, 1971.)

Four days later, the CPI daily said

NOW a 60-second contest for industrialists:



Given below are 10 of the problems industrialists often face, and the solutions to these are available from SICOM. Indicate the correct letters of alphabet of the SICOM solution against a particular problem. Remember, you've just 60 seconds.

Problems

1 You have the ☐ resources and you want to know what projects are profitable in Maharashtra.

2 You want a ☐ feasibility study made on your project and are willing to pay only 25% of the cost.

3 You need ☐ evaluation of an alternative site for your project.

4 You want to start ☐ a small or medium-scale industry and you need 75% capital assistance.

5 You know what ☐ industry to start but you don't know where in Maharashtra.

6 You want share ☐ capital participation and under-writing support.

7 You want short-☐ term, medium-term or long-term loans on easy conditions.

8 You want to locate ☐ suppliers of raw materials.

9 You need interest-☐ free loans (from the sales tax you pay) to set up another project.

10 You need ☐ expeditious clearances for various basic industrial needs like water, land, power, telephone, etc.

Solutions

(a) SICOM's Project Investigation Service.

(b) SICOM's Capital Participation Scheme.

(c) SICOM's Plant Location Service.

(d) SICOM's Industrial Services Division.

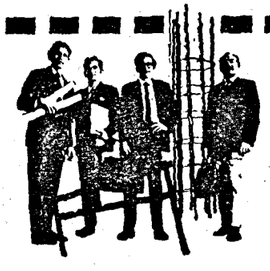
(e) Government of Maharashtra's Package Scheme of Incentives. (SICOM administered).

(f) SICOM's flexible schemes for financial assistance.

For correct solution to any or all of these problems write to the Senior Development Officer.

SICOM– *the moving force for developing industries*

THE STATE INDUSTRIAL AND INVESTMENT CORPORATION OF MAHARASHTRA LIMITED
Nirmal, 1st Floor, Nariman Point, Bombay-1.
Tel: 298216. Telex 011-3066.



SICOM people work hard with expertise and guts. Like you.

CMSC-39-254

in a leaderette "there is no doubt that the organisation [Congress-R] in the rural areas is influenced and led by jotedars and rich peasants. In order to protect jotedar interests, members and leaders of New Congress are assualting and beating the peasants and their leaders." The editorial complained of collusion among police, goondas, jotedars and Congress (R).

All this has not, of course, led to any change of practice on the part of CPI. But the growing exposure of the real character of Congress(R) and its covert rule in West Bengal has already led RSP and Forward Bloc into a common front with CPI(M) in the Burdwan municipal election scheduled to be held on November 28. Whatever the results of the Burdwan polls, this line-up is a pointer to the future political alignment in the state.

KERALA

Cracks in the Coalition

M S

THE partners of the ruling alliance in Kerala have reason to congratulate themselves on their good performance in successfully surviving the CPM-led opposition's first serious challenge after the induction of the Congress(R) into the Achutha Menon Ministry. The successive waves of agitation launched by the teachers of private colleges and the various student organisations in the state coupled with the threatened strike by the state governmnt employees could well have had an impact on the stability of the Ministry, had not the ruling parties defused the situation before the CPM's major offensive of a 'Kerala Bandh' on November 10 could come off.

Mutually Irreconcilable Claims

Once the Congress party's entry into the Achutha Menon Ministry became an accomplished fact, the CPM which had hoped that the exploratory talks among the ruling parties would founder on the rock of mutually irreconcilable claims over the spoils of power, realised that it would, for quite some time to come, be reduced to promoting agitational campaigns as the only avenue of protest. Hence it extended vigorous support to the agitation of about 6,000 teachers of private colleges in the state who were demanding, among other things, direct payment of their salaries by the state government. As direct payment was one of the election pledges of the Congress party, the CPM was in a position to demand that the Congress should fulfil its promise as it had now become the major ruling party. In view of the financial commitment that this would involve and also in view of the constitutional difficulties which would come in the way of certain controls over the managements of private colleges which the state government would want to impose as a precondition to the direct payment of salaries to the teachers, the CPM well knew that it had the ruling parties, particularly the CPI and the Congress(R), in a tight corner and that it stood to gain propaganda advantage if the teachers' demand was not met. The agitation of the teachers which was launched on September 15, assumed serious proportions during the last week of October when the powerful student community in the state, led mainly by the Congress and the CPM, joined it and supported the demand for the imposition of some controls over the managements of private colleges in regard to the appointment of teachers and admission of studetns.

Compromise Proposal

The stepping up of the students' strike in the first week of November and the announcement by the non-gazetted employees of the state government that they would go on an indefinite strike from November 10 in protest against the alleged attack on their basic trade union rights by the state government, provided the CPM the opportunity it was waiting for to mount a massive agitational campaign against the Achutha Menon Ministry calculated to threaten its stability. CPM and its close allies, the KTP and KSP, gave a call for organising a 'Kerala Bandh' on November 10 and to give added force to the 'Bandh' announced their decision to simultaneously stage a state-wide picketing of Government buses in protest against the increase in bus fares earlier ordered by the state government. The ruling parties had little time and only limited chances of success in dealing with the new and rather alarming situation. However, since the situation was likely to affect the very survival of the ministry the ruling parties which had earlier turned down the demand of the teachers on grounds of financial stringency, decided to climb down and signify their acceptance of a compromise proposal put forward by the Congress-led students to settle the teachers' strike. This proposal provided for direct payment of salaries in all private colleges which agreed to government supervision of appointment of teachers and students; the setting up of a suitable machinery to look into complaints regarding non-payment or irregular payment of salaries; and, finally, the setting up of a commission to rationalise and simplify the entire procedure regarding grants-in-aid to private colleges. By accepting the compromise proposal, the ruling parties were successful in persuading the pro-Congress students to withdraw their support to the teachers' strike. Similarly, the pro-Congress section of the teachers were also asked to drop their agitational campaign. Once the solidarity of the strikers was broken and the powerful Congress-led students as well as sizeable sections of the teachers had withdrawn their strike, the pro-CPM teachers and students faced isolation. After complaining for some time against the 'betrayal' of the cause, they were also forced to withdraw their agitation.

Compelled to Withdraw the Agitation

After depriving the CPM of its initiative on the teachers' and students' fronts, the ruling parties were in a stronger position to handle the threatened strike by the non-gazetted employees of the state government on November 10. Here again, they adopted identical tactics and brought about the withdrawal of the strike by a section of the government employees led by the ruling parties after granting a few minor concessions. As a result of these divisive tactics, the pro-Marxist employees' union again faced isolation and was compelled to withdraw the agitation.

Thus, with the momentum for the 'Kerala Bandh' on November 10 completely gone, the CPM was left with only its programme of picketing of state transport buses to go through with. The desperation of the party at the failure of its plans to generate a massive wave of agitations against the Achutha Menon Ministry was evident in the number of violent incidents



Manufactured by:
THE MYSORE ELECTRICAL INDUSTRIES LTD.,
Bangalore.

Sales & Service:
L.A.E.C.
(BOMBAY) PVT.LTD. 43, Forbes Street, Bombay 1.
Branch at: 'K' Block, Chawdhary Bldg.,
Connaught Circus, New Delhi.
Associated Offices: Calcutta, Madras, Bangalore, Hyderabad.

Dattaram-MEI-137

provoked during the picketing campaign as well as in the damage caused to public property.

Though the ruling parties in the state have thus demonstrated their ability to rally round and defeat attempts which threatened their continuance in office, the entire course and complexion of the teachers' and students' strike have served to highlight and expose their basic vulnerability. In this connection, the role played by the Congress-led students in the teachers' strike is significant. While the agitational activities of the CPM-led students were a natural corollary to the party's backing of the teachers' demand, the active role played by the pro-Congress students came as a surprise and embarrassed the Congress ministers in the Cabinet. Though the student leaders of the Congress emphasised that the edge of their agitation was directed at the managements of private colleges, this argument was not calculated to convince the partners of the CPL-led Front who were aware of the earlier opposition of the Congress youth wing to the entire idea of the party's participation in the CPI-led Ministry. Besides, it is a known fact that the youth Congress leaders in the state desire an early election in the belief, however misplaced, that their party would sweep the polls and return to power on its own. It was, therefore, no surprise that some partners of CPI-led Front complained that the Congress was adopting the same tactics of 'agitation cum-administration' preached and practised by the CPM while in office.

Power Conflict

The recent agitation has thus affected the image of the Congress party *vis-a-vis* the partners of the CPI-led Front, and the latter's fear that what the Congress was really after was power to itself is likely to increase rather than lessen in the coming days. Though it is now quite some time since the Congress joined the Achutha Menon Ministry, it is yet to be seen how the party and the members of th CPI-led Front propose to function together to implement commonly-accepted progressive measures. Recently, while the Congress (R) has expressed itself in favour of a time-bound one-year programme for the implementation of progressive measures, the CPI has stated that it would rather go in for a four-year programme for this purpose. This is perhaps an indication that the Congress party would like an early poll if the other partners in the ruling alliance are reluctant to fall in line with its one-year programme; the CPI, on the other hand, is anxious that the present Ministry, which came to office in September 1970, continues as it is for the full term.

The difficulties of the ruling parties do not end here. The Muslim League, throughout the teachers' strike, more or less sided with the private managements, thus indicating its opposition to any move to introduce government restriction on the running of private educational institutions some of which belong to the party. Though it finally agreed to the compromise proposal put forward by the students, the Muslim League's endorsement of it was not wholly enthusiastic. This may, at a later stage, lead to some friction between the Muslim League and the other ruling parties which support the measure.

Further Rift

The state RSP has not yet obtained the central leadership's clearance for its close association with the Congress party in Kerala which is clearly against the party's all-India policy of opposition to the Congress. In case the all-India leadership directs the state party to implement the national line, fresh divisions may arise within the state RSP between those who support the line of participation in the Achutha Menon Ministry and those who oppose it, thus contributing to a further rift in the ruling alliance.

The PSP rump in Kerala, which continued in the Achutha Menon Ministry in defiance of its all-India leadership's decision to merge with the SSP, has itself been further split on account of the demand of a section of the party for the stepping down of the party's present nominee in the Cabinet in favour of another. The refusal of the PSP Minister to do this and the consequent antics of the rival factions within the party are matters of concern, primarily because the ruling alliance which has 72 members in an Assembly of 133, will lose one PSP MLA belonging to the anti-ministerial faction. The hostility of this faction which has a base in the Trivandrum district has already cost the ruling parties the mayorship and deputy mayorship of the Trivandrum Corporation which went to CPM candidates in a recent poll. This has not endangered the Ministry's majority in the Assembly but the ominous fact remains that not infrequently in the past the dissident activities of socialist groups in the state have led to the collapse of various ministries. It must be remembered that the former ISP was in some measure responsible for the downfall of the Namboodiripad Ministry in October 1969 and also contributed substantially to the troubles of the first Achutha Menon Ministry which led ultimately to the dissolution of the state Assembly in June 1970.

The role of the Kerala Congress deserves some mention here. Like the Muslim League in Malabar, the Kerala Congress in the Travancore-Cochin region is a stable political force and would be a useful ally in any electoral contest. It is on account of the ruling parties' awareness of this that they had made a special effort to keep the party on their side during the last Lok Sabha poll in the state and this was the main cause of the CPM's rout then. In the subsequent period, when the party's efforts to join the Ministry ended in a fiasco because of reservations among the ruling parties about its 'reactionary' character, it moved rapidly away from the ruling parties and even joined the recent students' agitation with the sole object of adding to the government's difficulties. The enmity of the Kerala Congress would cost the ruling parties 13 votes during divisions in the current sessions of the state Assembly, and this may prove decisive during critical votes. The CPM certainly would do nothing to mitigate the Kerala Congress's hostility to the ruling parties and indeed would seek to profit by it.

Broad Political Consensus

Following the CPM's ouster from office in October 1969, the anti-CPM forces in the state led by the CPI attempted to construct a broad political consensus against it. This process was partially completed during the mid-term poll of September 1970 with the reaching of an electoral understanding between the CPI-led Front and the Congress party. The exclusion from the electoral accord of the Kerala Congress with its sizeable Christian following had worked to the advantage of the CPM which managed to secure as many as 32 Assembly seats. However, in the Lok Sabha poll in March 1971, the Kerala Congress was also included in the electoral understanding among the ruling parties which completed the shift in the

balance of political and communal forces against the CPM. This resulted in the CPM's near rout at the poll.

The alienation of the Kerala Congress which followed in the subsequent period on account of the ruling parties' reluctance to asmit it into the Achutha Menon Ministry has restored the balance partially in favour of the CPM and has increased its scope for manoeuvrability. Of late, the party, which at the time of the mid-term poll of September 1970 and the Lok Sabha poll of March 1971, had rationalised its isolation as resulting from the correctness of its political line has sought to mend its relations with the other parties of the former United Front led by it and has made a beginning with the KSP and KTP. It has also showed an inclination to cultivate better relations with the state unit of the newly formed Socialist Party.

UNDP Country Programme

Dipak B R Chaudhuri

THE United Nations Development Programme (UNDP) has introduced a new procedure for programming assistance in various countries from January 1, 1972. The main feature of the new programme is that, unlike the present system of filing *ad hoc* requests, the recipient countries will now be required to draw up a Country Programme within an Indicative Planning Figure (IPF), representing the amount of resources expected to be available from the UNDP during the period covered by the Country Programme.

The Country Programme

The Country Programme approach was developed and recommended by Robert Jackson in his now famous report on the "Capacity of the UN Development System"; the approach as a procedure for programming was adopted by consensus by the UNDP Governing Council. The stated purpose of this procedure is to overcome existing factors encouraging inertia and to escape from the traditional distribution of operational activities among the various economic and social sectors. Each partner — each developing country — will have to rethink its programme and its requirements and to identify sectors in which it feels multilateral aid will be preferable to other forms.

The Indicative Planning Figure for the five-year period 1972-76 is $ 50 million. In order to make the Country Programme cocyclical with India's plan period, the Government of India have decided to present a Country Programme for the seven-year period from January 1972 to March 1979, i e, for the remaining two years of the Fourth Plan and for the five years of the Fifth Plan. The precise IPF for the five-year period from 1977 is not yet known but on the assumption that UNDP assistance of the order of $ 25 million would become available during the period January 1977 to March 1979, Government of India have decided to present a Country Programme for 1972-79 of $ 75 million.

The Planning Commission and the Department of Economic Affairs are jointly working on the preparation of the Country Programme Document. With reference to the amount of $ 75 million mentioned above, a sum of $ 10 million was reserved for Technical Assistance (TA) type schemes which may emerge during 1972-79 and out of the balance available, *viz*, $ 65 million, they made sectoral allocations with a tentative ministry/departmentwise breakdown of the proposed allocations. Against the tentative allocations thus made, the ministries and departments concerned were requested to formulate schemes which in their view should be considered for assistance from UNDP by inclusion in the Country Programme Document.

The allocation for the industry, minerals and small industries sector was $ 11.70 million including requirements for the export promotion programme and out of this $ 2.28 million was tentatively allocated to the Ministry of Industrial Development. Since this allocation included $ 692 thousand on account of 'on-going' and a further $ 990 thousand on account of 'pipeline' projects, the effective balance amount left for fresh proposals was only $ 600 thousand.

A major complaint of developing countries including India has been that UNDP does not have at its disposal adequate resources for undertaking programmes relating to industrial development and that the share of UNDP assistance for industries is only about five per cent, while it could be substantially increased, say to 20 per cent. The standard answer to this complaint from the UNDP, as well as the developed countries, has been that it is for the developing countries themselves to propose more schemes relating to industrial development for UNDP assistance. In this context and considering the general needs of industrial development and especially those relating to the small-scale sector, the allocation of $ 600 thousand for fresh schemes to be sponsored by the Ministry of Industrial Development was not considered adequate and a request was made both to the Planning Commission and the Department of Economic Affairs to increase the allocation to a suitable level. Discussions were also held with the officers of the Department of Economic Affairs and it is expected that an allocation of $ 4.5 million will be made to the Ministry of Industrial Development for fresh schemes in addition to the provision of $ 692 thousand for the continuation of 'on-going' schemes related to this ministry.

Industrial Sector

The Ministry of Industrial Development is also requesting the Department of Economic Affairs for an allocation of $ 200 thousand in the TA sector for a scheme relating to Appropriate Technology. It is expected that when these allocations are made, the overall allocations for industries for the Ministry of Industrial Development as well as the Ministry of Petroleum and Chemicals, Ministry of Steel and Mines and Ministry of Foreign Trade will add up to $ 17.11 million against $ 70 million of total UNDP assistance now proposed to be distributed to various ministries, after reserving $ 5 million for unforeseen needs emerging over the next seven years. In other words, when the final Country Programme Document is drawn up, it is expected that the industrial sector, including small-scale industry, would have received an allocation representing roughly 25 per cent of the total UNDP assistance available under the Country Programme, as compared with 7.5 per cent during the last 12 years. Originally, the Department of Economic Affairs had proposed only 18 per cent of the Country Programme funds for the industrial sector.

Among the new projects the Ministry of Industrial Development has proposed are a welding research institute ($ 1,000,000), an automobile ancillaries testing centre ($ 500,000), a numerical control centre for engineering manufacture. Among other proposed schemes are projects for the quality control of small-scale industries and a project for the exploration and identification of alternative raw materials for the manufacture of newsprint and paper.

LONDON

All in Their Name

Farrukh Dhondy

BRITAIN'S entry into the European Common Market is a dead certainty, in spite of the parliamentary games played to give its people the conviction that everything is done in their name and with their fingers dipped in the bowl of decision. At the Labour Party conference, the Trades Union representatives called upon to hold the disintegrating party together said some strong words about Roy Jenkins and the other pro-marketeers in their party. Some went so far as to suggest their expulsion. 'Smoothy Chops' Roy — as some Labour members call him in gentlemanly jest —, in spite of his leadership of the Labour defiance, in spite of splitting the Labour Party's vote against entry substantially, was re-elected this week as deputy leader of the party. The Left wing of the party put up a brave show; their man, Michael Foot, got 125 votes on the second count, as opposed to Jenkins's 140.

Nominal Opposition

The canvassing, horse-trading, speculation on marginal shifts of significance, and deals for power involved in this parliamentary 'Monopoly', were reminiscent of the sort of thing that goes on at the state Assembly level in India. Though it was made much of by the newspapers, it belongs to the politics of Peyton Place, and as far as the Labour Party is concerned, can bring no change of attitude or shake-up of policy. Besides, there are very few differentes between Wilson, Jenkins, Foot, Wedgwood Benn *et al.* They are pragmatists who offer leadership in the framework of British capitalism. Whatever opposition they show to the market is nominal. In their regime, they perpetrated an identical plan for entry and supported it with almost exactly the same draft plan for legislation to control the working class and take away the right to strike, the same policy on black labour, the same policy on exports, imports, and the balance of payments.

Yet there are some in Britain who say there is hope for Labour; the party is dead, long live the party. Among them, the Communist Party of Great Britain. At their annual conference this week, apart from passing resolutions imploring members to be vigilant about the quality of hedges the local parishes were cultivating, they were called upon to become more active so as to "push the Labour Party further to the Left". One member even recommended that the party should be dissolved and all its members join the Labour Party as individuals.

Failed to Evolve an Alternative

Whether they know it or not, the CPGB and the Labour Party, the militants, the lefties, and all, have by their sheer lack of policy (one must pay them the courtesy of not being willing compradores) failed to evolve a line or an economic policy for Britain in the seventies. Labour's political support for broad Tory policy is no secret. On the political front, Wilson has just visited Northern Ireland accompanied by an official from the Home Office, and is to give reports of his 'findings' to Ted Heath and to Home Secretary Reginald Maudling. For all their show of wanting to integrate shop-floor decisions into the programme of the party, their economic strategy is the same as that of the Tories. In the words of Ted Heath, "lame ducks must be left to die", "every man must stand on his own two feet", and so on. The cornerstone of this policy is the overhauling of the old imperial machine. British industry must be forced to modernise, to mechanise, and to come into line with the standard of production that Europe has set. The balance of payments must be fixed by stepping up exports and cutting down on imports which have no direct bearing on the 'modernisation' of industry.

In the process of implementing this broad economic policy, Britain has involved itself in the classic fight of crisis-ridden capitalism. To survive in their way, industries all over Britain are creating unemployment, mechanising, and trying to force productivity deals on smaller labour forces. British industry, to survive, is being forced by the withdrawal of state subsidies to compete with the multi-national monopolies. Investors who came into the lame-duck category are selling out and taking their capital elsewhere, forming larger combines, and in the process creating unemployment figures which are among the worst in the century. Unemployment is far above the million mark, the highest figure since 1939. Last month alone, 50,000 workers lost their jobs (official parliamentary figure).

The workers are replying with strikes against redundancy, occupation of the factories, and demands for retaining and redeployment. The Upper Clyde Shipbuilders, a group of four companies in Scotland, were threatened with closure in July. Since then, the workers have kicked the management out, occupied the yards and attempted to keep full employment through work sharing. Paradoxically, the militant move in fact supports Tory policy. The workers of UCS are doing their best to fulfil the foreign orders which UCS has for ships. Jimmy Reid, member of the Communist Party and chief shop steward of the yards, has negotiated with the receiver, to finish the work that the UCS has without any guarantees from the government of continued employment after the current list of orders runs out. The government knows that 'free enterprise' must have its limits: when it means that workers negotiate their own orders with foreign customers, they must be stopped.

Written Guarantee

Just next door to UCS at Alexandria near Glasgow, the workers of the engineering works which were bought over from the Ministry of Defence by a firm called Plessey, have gone a step further. They occupied their plant on September 3, and have been in it since then. They refuse to work the plant, however, till a settlement is reached with Plessey who planned to make the entire work force redundant by moving the modernised machinery to Ilford in Essex. The workers demand a written guarantee from any buyer who takes over from Plessey that there will be no redundancies. Ted Heath denationalised the plant which cost the taxpayer £ 1.5 mn and sold it to Plessey at the bargain price of £ 650,000. Plessey bought the plant, with no intention of working it but just to get the machinery cheap. In other circumstances, the police would have been called in to get the workers out. With the workers in the plant, they dare not do this, as their valuable machinery would be reduced to scrap metal if the workers were attacked. Besides, Scotland has enough troubles already, and the Tories don't want another military occupation on their hands.

A catalogue of strikes and analysis in this situation, would stretch till the crack of doom. I can't think of any important unions which haven't given notice of strike in the last year. Unfortunately, too much has been said

Economics

IF YOU ARE INTERESTED IN ECONOMICS, THESE ARE JUST THE BOOKS FOR YOU FROM VIKAS

ECONOMIC PROBLEMS OF INDIAN AGRICULTURE
G. D. Agrawal & P. C. Bansil
1969. 415pp. Rs. 32 (HB) Rs. 17.50 (PB)

ECONOMIC THEORY AS APPLIED TO AGRICULTURE
G. D. Agrawal & P. C. Bansil
1970. 256pp. Rs. 25

CURRENT ECONOMIC PROBLEMS — WITH SPECIAL REFERENCE TO INDIA
Bepin Behari
1969. 380pp. Rs. 35

CHALLENGE OF POVERTY IN INDIA
A. J. Fonseca (Ed.)
1971. 182pp. Rs. 25

WAGE FLEXIBILITY AND FULL EMPLOYMENT
R. D. Gupta
1971. 104pp. Rs. 14

PROBLEMS IN FISCAL AND MONETARY POLICY : A CASE STUDY OF NEPAL
Y. P. Pant
1970. 205pp. Rs. 32

AGRICULTURAL DEVELOPMENT AND SMALL FARMERS : A STUDY OF ANDHRA PRADESH
G. Parthasarathy
1970. 123pp. Rs. 16.50

VALUES AND ECONOMIC DEVELOPMENT : THE INDIAN CHALLENGE
V. K. R. V. Rao
1971. 182pp. Rs. 20

EMPLOYMENT AND UNEMPLOYMENT PROBLEMS OF THE NEAR EAST AND SOUTH ASIA (2 Volumes)
Ronald G. Ridker & Harold Lubell (Eds.)
1971. 862pp. Each volume Rs. 45 Set : Rs. 80

THE DEMAND FOR MONEY IN INDIA : A SECTORAL APPROACH
M. Saravane
1971. 197pp. Rs. 27.50

INSTITUTIONAL FINANCING OF ECONOMIC DEVELOPMENT IN INDIA
T. V. Sethuraman
1970. 166pp. Rs. 20

WAGES AND PRODUCTIVITY IN SELECTED INDIAN INDUSTRIES
J. N. Sinha and P. K. Sawhney
1970. 200pp. Rs. 22

INDIAN ECONOMIC PLANNING : AN ALTERNATIVE APPROACH
Subramanian Swamy
1971. 142pp. Rs. 20

SMALL INDUSTRY IN THE SEVENTIES
Ram K. Vepa
1971. 307pp. Rs. 45

MODERN ECONOMIC THEORY (Hindi)
1971. 517pp. Rs. 16.50 (for B.A. & B. Com)
1971. 588pp. Rs. 20.00 (for M.A. & M. Com)

VIKAS PUBLICATIONS
5 Daryaganj
Ansari Road Delhi-6
Savoy Chambers
5 Wallace Street Bombay-1
10 First Main Road
Gandhi Nagar Bangalore-9
80 Canning Road Kanpur
64 Ladbroke Grove
London W11

DESIGN SATISH SUD + ASSOCIATES naa/965

about the 'complacence' of the British worker and the world has been given the feeling that the average unionist in Britain has very little consciousness of what he is involved in here, that the worker of Britain thinks of nothing more than beer, bingo, and the football pools. Today, he is seriously having to think of the dole queue, of the depression of being unemployed; he is having to face the prospect of real hardship and the prospect of having to translate that sense of being pushed around into a will to fight.

The Silent Sell-Out in Rhodesia

V Subramaniam

TO an observer from India, the strangest feature of the whole drama of Douglas Home's elaborate negotiations with Rhodesia's Smith, ultimately "legalising" his regime is the low key of the comments thereon in Zambia. Ever since the UDI of Rhodesia, Zambia's political leaders have rightly concerned themselves with discovering some means of reversing it. On moral and legal grounds President Kaunda has on every possible occasion condemned the "illegal minority regime" as an outrage against human dignity. The leaders of black Africa, with few exceptions, joined with Kaunda in condemnation. Over the last six years, Zambia's trade has been slowly turned away from the South progressively to the North—mainly because Rhodesia was holding Zambia to ransom in regard to imports in retaliation against Zambia's condemnation. The pipeline from Dar-es-Salaam to bring in petrol, the improvement of the Zam Tan Road and the accelerated construction of the Zam Tan Railway by China, all these were clear indications of Zambia's earnestness in reducing ties with the South. A more positive indication of a commitment to liberate the five million Africans in Rhodesia from a minority regime was Zambia's support of the liberation movements, ZAPU and ZANU.

Bitter Comments

On all earlier occasions when efforts were made to reopen negotiations between Britain and Rhodesia, the Zambian Press and politicians were quick to see through the game and expose it. The insistence on NIBMAR or 'No Independence Before Majority African Rule' was never relaxed. And yet at the moment of betrayal there are very few emotional outbursts, no processions, no demonstrations but only cynical and bitter comments and even of them not too many.

Thus there has been no comment from top leaders and the President has promised a detailed comment on Saturday, November 27. It is true that the local press, has put the news on the front page and has given it strong headlines. But as for comment, the *Daily Mail* came out with a Niagara of indignation on Friday but the *Times of Zambia* added hope to its sense of betrayal by suggesting that just as the Zambians in 1962-64 worked a complicated 15:15:15 constitution towards freedom, through political education and organisation, the Rhodesian Africans could do the same. The rest of the comments were just a summary of world reactions. Even in regard to news coverage, there were grave shortcomings. The full sordidness of the deal was not revealed. Thus the ten million put aside for African education may be spent on *mutually agreed projects* other than education. Again the constitution can be changed with a white and African majority. The latter is rather easy to secure with nominated chiefs.

Bored Cynicism

What are the reasons for this bored cynicism and sullen silence. The more important ones can be identified through a little investigation. There is first a sense of exhaustion and disillusionment. There is, secondly, the present political and economic weakness. There is again the clever timing of the sell-out by Heath. And, lastly, there is the obvious incapacity of African countries to act in unison apart from a chorus of condemnation. The proven capacity of the Smith regime to survive, even if in a state of economic stagnation, against economic sanctions seems to have brought several sympathisers of Zambia to the view that it was no use ignoring the reality of the Smith regime. Arguments about Zambia itself depending on Rhodesian maize in this year's emergency were used to dull demanding consciences. Within Zambia itself voices have been raised about the illogicality of half-hearted commercial ties with the South. Both in and out of Zambia, by sheer emotional exhaustion, Rhodesia's Smith was slowly being accepted as an existing and even necessary evil.

This has been buttressed by the pathetic ineffectiveness, and the ridiculous internecine feuding of the two liberation movements of Southern Rhodesia operating in Zambia, namely the Zimbabwe African People's Union (ZAPU) and the Zimbabwe African Nationalist Union (ZANU). For quite a long while these two were hurling verbal thunderbolts at each other most of the time rather than doing much against the Smith regime. Continuous warnings from President Kaunda to make up their differences only produced a third liberation movement, FROLIZI, this year. Several Zambians had begun to say that it was little use trying to help those who could not help themselves.

Confusing Problems

The present political climate is not again very conducive to a tough foreign policy. As long as the UNIP led by Kaunda was clearly the dominant party, with the ANC being a purely regionally strong group, the President could pose a strong challenge to British efforts at selling out to Smith's Rhodesia. With the formation of the United Progressive Party by Kaunda's former companion and colleague, Simon Kapwepwe, with a more verbally revolutionary platform, the political triangle poses some confusing problems. No one knows what following the new party has and its alliance with the professedly conservative ANC is indeed a strange thing which UNIP speakers have not failed to ridicule. But the real confusion flows from the ultra-nationalist stance which the UPP takes in public on issues of importance which leaves the government less responsible choice than would be the case if they were faced with the regional ANC alone. While all the three parties would at heart agree about the terrible consequences of the sell-out to Smith, the very existence of a political triangle restricts the toughness of foreign policy.

In regard to its economy, Zambia seems to be in a psychologically weak position. Prophets of doom have predicted an economic fiasco but this is unlikely to materialise. In spite of falling copper prices and six years of economic struggle against UDI, Zambia still has reasonable foreign reserves and reasonable agricultural production at home. Indeed she has more foreign reserves than several other African countries. But psychologically Zambia seems to a foreign observer not well

armed for a period of trial. Two months ago a panicky decision was taken to buy maize from Rhodesia under harsh conditions to build up reserves — a decision which could have possibly been avoided or postponed. Again seven years of post-independence boom seem to have produced a certain flabbiness of nerve in important sections of the population. One suspects that foreign financial authorities such as the World Bank and the British Overseas Development Ministry are doing a considerable amount of arm-twisting in the present rather weak psychological climate. Indian readers need no elaboration of the arm-twisting process similar to that which India was subjected to in 1966 leading to the devaluation of the rupee and the long 'plan holiday'. One does not know what the financial agencies are upto in the case of a smaller and more isolated country like Zambia. One can only pray for realistic toughness on the part of the Zambian elite.

Moment of Betrayal

Heath has again chosen his moment of betrayal carefully. Quite apart from the lack of bargaining power on the part of Zambia and its friends, the British public and the world community seem to be in a mood to accept anything. With the preoccupations in Ulster and the aftermath of the Common Market Entry decision, the British Press and Public are not concerned about Rhodesian Africans except marginally. The world community is too preoccupied either with currency crises and fear of recession of the Indo-Pakistan cauldron. The USA had anyway decided to buy Smith's chrome well before these negotiations.

A substantial part of the onus should be placed on free African countries as a whole which have so far left Zambia to bear the burden alone with only token help. Free Africa, to use a worn-out cliche, has indeed failed Zambia and Zimbabwe.

Too much hope is now pinned on the ability of African leaders in Rhodesia to educate their own people politically fast enough to extract independence from the present sell-out constitution. Such things have happened elsewhere and Rhodesian African leaders are probably more worldly wise now. But Africa and the liberal world have yielded to disciplined and toughened racism at a crucial moment when they could have fought back.

DAR-ES-SALAAM

Guinean Revelations

A K Essack

THE principal feature of the African situation in the seventies is the intensification of the class struggle. Blurred to a certain extent during the nationalist phase of the struggle, when all the classes united to drive out the colonial oppressors, there is now an increasing class consciousness. Classes are now seeking out allies and have cut across national boundaries. The reality of the situation is that a small section of the African people—the African bourgeoisie—whose economic interests are such as to perpetuate capitalism is seen to be openly linking itself with international finance capital and the former colonial masters against its own peasants and workers.

It has been widely believed and accepted that with independence imperialism granted political power, but retained economic control. But this is a misconception, as the political structure must reflect the interests of the dominant economic class. Events in the last decade have proved that the idea of political independence existing alongside economic subservience is a dangerous illusion. What the imperialists granted was not political power but merely the state machinery to be run on their behalf.

There is no contradiction in the behaviour of the leadership of a nationalist movement which decides on pursuing a capitalist course under spurious slogans like African socialism or partnership, for that is why independence was granted. The contradiction arises precisely when the leadership decides on taking the socialist road which involves the liquidation of the economic interests of imperialism. It is then that not only does the leadership come into conflict with the representatives of international finance capital overseas, but also with the machinery of the state internally.

Not an Impartial Arbiter

The only institution that imperialism developed fully in the colonies was the state machinery. And this appeared to be the only "worthwhile" legacy it left behind when it departed. Just what is this institution? What is its historical function? Does it stand above classes to reconcile antagonisms or is it an instrument of coercion and suppression? There is enough literature to show that the state is not an impartial arbiter in society but is used by the dominant class to supress the other classes—till now the minority suppressing the majority of workers and peasants. Hence a leadership embarking on socialism has to ask itself the pertinent question whether it is possible to bring about a basic change in the social and economic relations of a society and transfer property from the few to the majority by using the existing state machinery?

Corruption of the top layers of the state machinery—in the civil service, the ministries, the armed forces or in the police — is one of the accepted practices of capitalism. And this has been one of the salient features of a section of the nationalist leadership in the post-independence period. The next question that one may ask is why was it possible for such corruption to take place? Firstly, the forces of monopoly capitalism which control the Western countries have unlimited funds. Pool the resources of all the multinational corporations together and one can see the threat posed to Africa. Consider the situation when they pump these resources into various aid agencies, churches, foundations and development corporations, and we see the enormous temptations put before the political leadership and the bureaucracy esconced in the state machinery of most African countries.

Bureaucratic Bourgeoisie

The African bourgeoisie in the immediate post-independence period was essentially bureaucratic with a small trading class. But essentially it was a bourgeoisie without much property, let alone substantial capital. Having arrived late on the historical scene—at a time when the world was moving towards socialism—one can understand its desperate haste in accumulating property. It previously had little property but its tastes were distinctly bourgeois as were its aspirations. But unlike the classical bourgeoisie, this bourgeoisie was not involved in production, as, in any case, the profitable section of the economy had already been cornered by the monopoly corporations. All they then had were positions in the state machinery. This is all they had to give to imperialism when they sold themselves for money and goods. The state machinery became one large cesspool of corruption. Those who wanted to get rich quick, openly advertised that they were up for sale. This is what the confessions of the fifth column in Guinea have revealed.

The principal feature of these confessions is that those who sold themselves were connected with the state and also occupied posts in the party. These agents of imperialism were in the pay of West Germany, France and the US. Britain was also involved. Their confessions make sordid reading. These personages linked themselves with the West German Secret Service when publicly they identified themselves with the socialist policies of Guinea. They sat and deliberated on behalf of their people in the highest organs of the state and the party, only to reveal what was decided upon to the enemies of the people. What is of importance to Africa in these confessions is the groundwork that imperialism lays before attempting a coup or in this case, an invasion. What the world sees or hears of is the coup, but the groundwork for it has been laid over a period of many years. In Guinea's case, the bribes given were large by any standards. The ministers got outright grants of 200,000 dollars plus 5,000 dollars a month. Cars, fridges, etc, were also thrown in. Below are a few details of some of the confessions.

Confessions

Keita Noumandian, ex-General of the armed forces: First he was in the French Secret Service. The contact man was Captain Bourreau, French Press Attache. Noumandian's tasks were: (1) Use racialism and pit tribe against tribe in the army, particularly on questions of salaries and promotions; (2) organise theft of ammunition; (3) incite soldiers to mutiny on salary and leave matters; (4) increase antagonism between army and militia.

Diallo Amadou, ex-Minister of Information: "I was contacted for the German Secret Service by Dr Richards, a Cultural Attache." Amadou's functions were: (1) Give West Germany favoured treatment in economic planning; (2) send students to West Germany; (3) oppose the influence and presence of the Russians and Chinese.

Diope Allsane: "Siebold, the head of the German Secret Service contacted me. He said that I should safeguard the interests of his country. I asked him what he meant and to be precise. He said, 'I and other influential men should prevent the nationalisation of their investments'."

Zoumagi Kekouri, commander of the gendarmerie: "I was recruited by Madame Rossein, First Secretary of the Embassy of France. I had to create shortages of consumer goods. I had to arrange for the smuggling of arms. I knew the date of invasion. I had to render the gendarmerie inactive. I also had to organise the elements in the interior and assist the aggressors to occupy the important places.

Barry Baba: He was expected to make people dissatisfied by making day-to-day commodities more expensive. "I was to poison the beer when it was put into the market. We wanted the consumers to die and thus to turn the people against the government."

Balde Oumar: "My job was to act as a liaison between Conakry and Dakar [Guinea and Senegal]. My job was to: (1) Isolate Guinea from other states; (2) I had to be the liaison between the External and Internal Fronts; (3) We recruited mercenaries from Senegal and Gambia and sent them to Guinea Bissau to be grouped with white mercenaries... The countries which helped us on November 22 were NATO countries, Ivory Coast and Senegal. After the abortive invasion Senghor [President of Senegal] told me not to go back to Guinea for he said 'I have information that you would be arrested'."

The strategy of imperialism thus was first to win over layers of the state machinery on to their side and then undermine the government by way of creating economic shortages and showing that capitalism was a superior system to socialism. This was in order to win the battle for minds. Then was to come the final blow — the attempt to overthrow the government of Guinea by force.

Foiled Plots

As the overthrow attempt failed, the imperialists are now casting doubts on the validity of the confessions. They have even suggested that the confessions are either false or made under duress. The fact is great pains are taken to be just. The method used is one of denunciation and confrontation. Before anyone is arrested he has to be denounced by at least three people. He is arrested only if, in addition, incriminating evidence is found, like letters, unlicensed guns, etc. If he denies the charges, he is allowed to confront and question his accusers. In this way the innocent have been able to acquit themselves speedily.

How were the Guinean people able to foil the plots of the combined forces of the German and French Secret Services, as well as the CIA, after these agencies had bribed so many important layers of the party and government. The answer lies in the high degree of political and military mobilisation of the people and the acute political consciousness of the cadres of the Democratic Party of Guinea. Without fear, the people denounced those of their own leaders whom they believed were in league with the imperialists. Simultaneously they acted on their own to defend Guinea in defiance of those leaders who were assisting the aggressors by showing lack of enthusiasm in fighting. President Sekou Toure of Guinea later admitted that party militants had, in fact, warned him against some of the ministers, but he could not believe that these ministers would betray the party and the revolution.

Now that the forces of socialism have triumphed over capitalism, it has become necessary to fashion the state machinery to serve the needs of the workers and peasants who protected their revolution with their blood. In the course of the struggle, the entire bourgeois judicial system has been dispensed with. To create an organic link between the civil service and the people, civil servants are made to work part-time in factories and rural co-operatives. The educational system is being transformed so that it ceases to produce an elite which turns against the people and towards the bourgeoisie. Students are being linked up with the process of production.

Guinea has an excellent and highly politicised party in power and its 8,000 cells meet every week to discuss everything from international to local issues. The party has established control of every section of Guinean life. Yet this party had housed the traitors who evaded suspicion. For this reason careerists in the party are being weeded out. Workers and peasants now control the party. Dedication and commitment to the revolution are given precedence over technical knowledge and specialised skills.

The period of transition from capitalism to socialism is the most difficult one in a people's history. It is then all the more necessary to establish all-round vigilance and all-round mobilisation with the gun alongside the plough and the hammer.

More Vinegar than Sugar

Nireekshak

DURING a parliamentary session, newspapers generally do not have to search hard for interesting topics of comment. Debates, bills, reports and even questions provide much food for thought, and not unoften there are controversies to enliven the news pages as well as to irritate or gladden leader writers. However, with the Government and MPs thoroughly preoccupied with the Bangla Desh crisis, the current parliamentary session is yielding far less than the usual crop of talking points for newspapers; Bangla Desh, moreover, being very nearly an all-party or non-party issue, is non-controversial. The result is that there is very little journalistic attention being paid to anything other than the fighting in Bangla Desh, he confrontation with Pakistan and the diplomatic fall-out in the world capitals of this confrontation.

Even when Parliament is seized of some other issue like, for example, the problem of holding the price line, it inevitably gets intertwined with Bangla Desh. And if the Deputy Home Minister tries, as he did in the Rajya Sabha, to make out a feeble case for Devanagiri as a common script for all Indian languages or asserts that anyhow English "is slowly going out of India", he is sternly reminded by *Statesman* that this is hardly the time for such talk! Perhaps the coup in Thailand—"not a coup in the normal sense", according to *Free Press Journal* —and China's first statement of policy in the United Nations were the only two subjects of recent editorial comment which did not seem to suffer from the baleful effects of Bangla Desh. But even here not quite, for some leader writers, have not failed to take note of the fact that Chiao Kuan-hua made no mention whatever of Bangla Desh in his speech! Only Thenom Kittichachorn, it seems, has somehow managed to avoid the influences radiating from Bangla Desh, However...

Yeshwantrao Chavan has had worse luck. "So many pronouncements have been made by Finance Minister Chavan on stringent action against the speculative activities of the mercantile community and on holding the price line with such little effect", wrote *Deccan Herald* "that his latest statement in Parliament is not likely to be taken seriously. The way the Government has acted in imposing fiscal and administrative restraints on hoarders and profiteers has served little purpose either as deterrents or for infusing in them a sense of discipline or service." There was no doubt, the paper said, that the prices of most commodities were steadily rising; yet the Government, which awoke to this situation rather late, did not seem to be tackling the problem on the right lines. "To ask the people of a country where 90 per cent of them live at below-subsistence level to practice austerity is only to indicate how unrealistic the Minister is and also how helpless the Government is in tackling the powerful forces which menace society."

When the Finance Minister presented his taxation measures in May last, *Hitavada* recalled, he had given the assurance that the prices of untaxed commodities would not be allowed to be affected by the new taxes. However, it added, these assurances have proved unavailing in the context of the steady spiralling of prices of all commodities during the last few months. "Unless all the present laws—which are good—are faithfully implemented, the tax evaders are brought to book, the traders are effectively dealt with whenever they are found erring, the hoarders are ruthlessly punished and last but not the least, the taxation burden is studied to know its part in the rising prices", *Hitavada* asserted, "the essential commodities would not be sold in the the market at fair prices. These measures should be strictly adopted without party or political considerations". "Otherwise", the paper warned, "our whole economic structure will crumble one day, and history will hold the politicians responsible for this chaos."

Commenting on the annual report of the Reserve Bank, *Deccan Chronicle* said: "Despite a record crop, foodgrain prices have registered a 16-point rise in August in just under five months; production of cotton, jute and sugarcane has not kept up with the expected levels; industrial production has not developed to the required extent. The Plan therefore faces drastic revision." In such a context, the paper said, "salvation seems to lie in a radical shift in the trade pattern with the Soviet Union." Now that an Indo-Soviet treaty was a reality "New Delhi and Moscow will have to think of integrating planning policies. This is an inescapable choice."

About the coup in Thailand, no one here seems to believe that the reasons advanced by Thanom Kittichachorn for his puts are the real reasons for it. The situation in Thailand did not seem to have posed any threat to the country's institutions, observed *Hindustan Times*. "What has been offset [by the coup] on the other hand can perhaps have been a threat to certain individuals, including Field Marshal Kittichachorn, from a section of the ruling clite itself... It is [also] implausible that the coup is precipitated by a threat from Thailand's northern neighbour." *Statesman*, too, remained unconvinced about the reasons advanced for the coup. "Military dictatorships have not been notably more successful than democratic regimes in dealing with internal disorder or external threats", it said. "By discarding the democratic experiment, Thailand's rulers have followed Cambodia's in a disturbing trend in South-East Asia, which seems to stem from the belief that a dictatorship is the only answer to the threat of communist subversion." *Mail* thought, on the other hand, that there might have been some truth in the fear of internal subversion. If the threat of "a swing to communism by Thailand's Chinese population inspired by Peking's entry into the United Nations" was a reason for the coup, *Mail* remarked, then "there is something here to ponder for those in the UN who greeted China's admission with 'screaming, singing and dancing in the aisles'. It has certainly not been long before those who rang the bells have begun to wring their hands", it said. "But the reason adduced by Thailand's dictator for the military takeover is unconvincing."

Chiao Kuan-hua's speech in the UN seems to have elicited a mixed reception in the press. *National Herald* has had no difficulty in concluding that by his speech "China has put herself in the forefront of the struggle for collective security. It is a powerful and unmistakable voice and that voice will have to be heard", it said. However, *Hindu* was not quite sure. The question uppermost in the minds of UN members when China was admitted to the world body, it noted, was: "Will [China] spread sweetness and sugar or vinegar and obstruction?" And if Chiao's speech is any indication, "there is henceforth likely to be more of vinegar than sugar".

A Civilisation over Time

Viswa Nath

India: The Social Anthropology of a Civilisation by Bernard S Cohn; Prentice-Hall, Englewood Cliffs, New Jersey, 1971; pp xv+164; $ 1.50.

IN 'great civilisational' areas such as India with a long and recorded historical past, society can be studied not merely at a particular point of time but also over a period of time. With the help of archives available in the Government record offices and a whole lot of other literature particularly in the regional languages, social conditions in India during different periods in the past can be studied and analysed sociologically. Moreover, the 'ethnographic present' can be studied in relation to the past. This is very useful, if not essential, in the analysis of social change.

The book under review is part of a series on the Anthropology of Modern Societies. This is significant. For one thing, it shows that the study of 'modern' societies in increasingly engaging the attention of anthropologists who were until recently preoccupied mainly with primitive societies. For another, practically all 'modern' societies have a recorded past, and the anthropologist studying such a society is forced to grapple with historical material about the society as contrasted with his almost sole reliance on the participant-observation method in the study of preliterate societies. The study of 'modern' societies requires an integration of the two modes of inquiry.

Cohn fulfils this requirement eminently. He is a trained anthropologist as well as a historian. He has done an intensive field study of a village in eastern Uttar Pradesh and also worked on published and unpublished historical records relating to the eighteenth and nineteenth centuries for the same region. In the book under review, he brings together in a useful way historical and anthropological knowledge about India.

The study of Indian society in a historical perspective presents certain problems in sociological research. The sociologist as well as the historian usually distinguish between different historical periods in Indian history. However, the sociologist is not interested in any one period of Indian history, say the mediaeval or the modern. He is interested in the study of the society in the past in general and in any period for which reliable historical data are available. If the sociologist is studying the 'ethnographic present' alone, he can study almost any aspect of society he wants. But he cannot do this for the past. He has to select an aspect of society for study in which, of course, he is interested but for which archival material is also available. It is also necessary in the study of a society's past that historical documents should lend themselves to sociological analysis. That is, they should throw light on different aspects of society and deal not merely with political history.

In the first chapter of the book under review, Cohn has discussed the approach of different scholars to the study of Indian civilisation and the theoretical frameworks they have suggested for understanding the nature of Indian society and culture. One way of looking at Indian society is to study it in terms of specific traits which can be listed and described; another way is to find out what cultural traits have endured in Indian society through the millenia. This chapter is followed by three chapters dealing with (1) the geographical features of the Indian subcontinent, (2) the cultural and historical geography of different regions in India, and (3) the demographic, economic, and linguistic structures. These are followed by three more chapters which are purely historical. They deal mainly with the political history of India upto the British conquest. The above-mentioned chapters cover nearly 70 out of 164 pages of the book and serve as a background to the discussion that follows on various aspects of Indian society. I wonder if such a lengthy background is necessary in a book dealing with the social anthropology of Indian civilisation. It strengthens the impression that the book is primarily meant for the student at the undergraduate level.

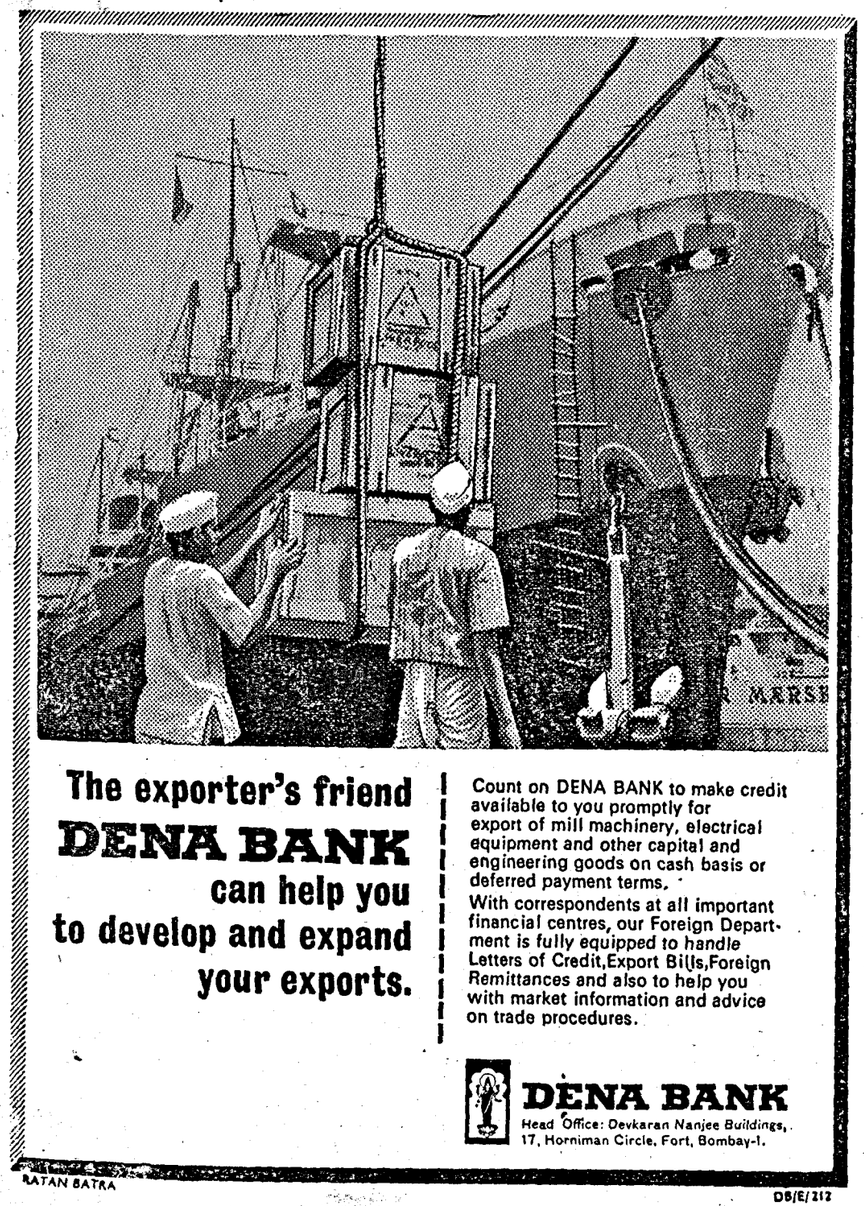
After the background chapters, there are two chapters dealing with various aspects of Indian society during the nineteenth century. They include, among other things, a discussion of the pattern of landownership, the nature of the Indian village community, and the urban structure during the early nineteenth century. The older type of urban centres of that period such as Banaras, Bareilly, Anupshahr and Dacca have been compared with the modern port cities of Bombay, Madras, and Calcutta which developed after conquest by the British as centres of trade, commerce, and industry. This discussion of the nineteenth century Indian society will, no doubt, be of very great interest to sociologists and anthropologists as also to the sociologically minded historians.

The discussion of aspects of Indian society during the nineteenth century is followed by three chapters on Indian social structure, which deal among other things with the Indian family and the pattern of interpersonal relations in it, the caste system, concepts of purity and pollution, caste dominance in rural India, and caste mobility. In dealing with these topics also, Cohn has dealt wherever possible with the past. However, the treatment of certain topics — for instance, the Indian family and the concept of purity and pollution — is too brief.

The major emphasis in Cohn's book is on aspects of Indian social structure during the British period. He has dealt with society in pre-British India very briefly. Cohn has rightly pointed out that, during the nineteenth century, there was not only a great concern about the legal rights of those who owned land, but it was also assumed that the landowners were ancient aristocrats who had traditionally owned land for a long time. A good deal of legislation was passed during the British period to 'protect' the rights of those who owned land. There can be no doubt that, in this, the British in India were influenced by the pattern of landownership prevalent at the time in England where the traditional landowners were the 'gentry'. Cohn has suggested — and I think quite correctly — that for a proper sociological analysis of landownership in India during the nineteenth century, the assumed origins of those who owned land is less important than an understanding of the actual ownership of land and the dominance derived therefrom. It is clear that, in the late nineteenth century, the person who exercised control over others in the rural social structure in India was not the big landlord but the substantial peasant belonging to the numerically large castes. This continues to be the pattern even now.

In the discussion on the nature of the Indian village community in the early nineteenth century, Cohn has pointed out that there are only a few

published accounts of the Indian village at this time. This is no doubt true. A number of studies of India's villages were undertaken by anthropologists in the early 1950s, which have since been published. If we could have some studies of early nineteenth century village India, it would provide a useful and interesting comparison. There is, of course, Thomas Coats's excellent study of village Lony in Maharashtra to which Cohn has referred. The same village was studied again by G S Ghurye and his students in the 1950s to see what changes had taken place. But Coats's study is perhaps the only extant published account of an Indian village in the early nineteenth century. More such studies are necessary. The village revenue and other records are a useful source of information for reconstructing a picture of the Indian village community during the early nineteenth century. Vernacular newspapers and journals are also an untapped source of information for this purpose. It is clear from such information as there is, that at the advent of British rule there was in the Indian village a high degree of monetisation, considerable rural indebtedness, and involvement of the village in the surrounding region.



The section dealing with the nature of the Indian family and the impact of urbanisation and industrialisation on the ideology of the joint family is interesting. There is a significant observation: "Recent research seems to indicate that the nuclear family certainly as far back as the Middle Ages in England was the predominant type" (p 122). Thus the evidence suggests that, in the West, the assumption that the large extended family broke under the impact of industrialisation is not correct. Recent research by anthropologists on the Indian family also suggests that the assumption that there were large joint households in the past in rural India and that they are breaking down under the impact of urbanisation and industrialisation is open to doubt.

There are certain statements in the book with which it is difficult to agree. Thus, on the caste system, Cohn observes: "The caste system like any stratification system, requires groups with power to maintain the system. This power has been provided not by Brahmans, not by sacred authority, but by political power" (p 129). The caste system, as is well known, has existed through the ages and has passed through many vicissitudes. Even groups which did not have this form of social stratification, or were directly opposed to it, have in course of time acquired all the characteristics of the caste system. It has often been doubted whether the caste system could survive in a modern political democracy where there are political parties and organised pressure groups. Yet the caste system has not only survived but has acquired new forms. One wonders how, in view of this, the caste system requires political authority or patronage for its maintenance.

In the concluding chapter of the book, Cohn has indulged in a good deal of speculation. He has, for example, speculated on the effect the ever-increasing population of India might have on the Indian family and the interpersonal relations in the Indian village. He has also speculated on the effect that mechanisation of agriculture and increasing agricultural productivity may have on the social structure of the Indian village. Likewise he has speculated on whether the movement to stronger regional identity would lead to better governance. Such speculation is thought-provoking; but it is also highly controversial and could well have been avoided.

The book seems to have been printed in haste. Though the list of contents states that there is an index, there is in fact no index at the end of the book. All in all, it is a good introductory study of Indian society and culture, viewed in a historical and sociological perspective. It will be useful at the under-graduate level to students of social anthropology as well as of history.

SPECIAL ARTICLES

A Linear Programming Model for Storage of Buffer Stocks of Foodgrains

K V Natarajan
A S Rao

Several objectives have to be borne in mind in the location of storage points and in the determination of storage capacity, both for buffer stocks and for distribution and procurement. These are: first, that grain should be readily available at short notice; secondly, that the total cost of procurement, handling, and transport should be the minimum; and thirdly that such storage capacity as is created should be optimally utilised.

In this paper an attempt is made to construct a linear programming model to help in decisions about location and capacity. The time horizon in view is the Fourth Plan period. The focus is on finding out what will be the storage requirements by the end of 1973-74.

[The authors are grateful to A M Khusro for comments, and to S Vohra for giving a practical insight into the problem and for encouraging the completion of this work. However, the views expressed in this paper are those of the authors.]

THE objective of the present paper is twofold: first, to determine the location of grain storage both for buffer stocks and for public distribution and procurement in Rajasthan; secondly, to determine the capacity required in each location. The time horizon within which planning is attempted for the creation of storage is the Fourth Plan period. In other words, the attempt is to estimate storage requirements by the end of 1973-74.

Several objectives have to be kept in view in the location and capacity creation for storage. One such objective is that, wherever these locations and whatever their capacities, grain should be readily available for consuming centres within short notice. This objective is of particular interest for us since this exercise, apart from being concerned with ordinary pipeline stocks, is concerned with buffer stocks, i e, anti-speculative governmental stocks. The objective just outlined therefore suggests locations in favour of deficit districts. Another important objective, for the agency operating these stocks, is that the total cost involved in the entire process of procurement, handling, and transport of grain, should be the minimum. On this consideration, storage capacity should be located near surplus districts. A third objective must be the optimum usage of the existing storage capacity. According to this criterion, it is not advisable to create additional storage at places where the turnover of grain is

TABLE 1 : DISTRICTWISE PROCUREMENT AND ESTIMATED PUBLIC DISTRIBUTION OF FOODGRAINS BY END OF 1973-74 IN RAJASTHAN

(in tonnes)

Name of District	Total Procurement of Foodgrains	Requirements for Public Distribution
Ajmer	—	2000
Alwar	18000	—
Barmer	—	5000
Bundi	5000	—
Banswara	2000	2000
Bharatpur	19000	—
Bhilwara	7000	—
Bikaner	—	4000
Churu	—	2000
Chittorgarh	9000	—
Dungarpur	—	3000
Ganganagar	35000	—
Jaipur	7000	3000
Jodhpur	—	5000
Jaisalmer	—	5000
Jalore	4000	3000
Jhalawar	4000	—
Jhunjhunu	—	2000
Kota	24000	—
Nagaur	—3000	2000
Pali	—	4000
Sikar	—	1000
Sawaimadhopur	12000	—
Sirohi	—	2000
Tonk	7000	—
Udaipur	6000	4000
Total	1,61,000	50,000

more but the quantum of procurement and distribution is low. This criterion is particularly useful in suggesting the requirements for pipeline storage.

One could thus arrive at a set of advisable locations and capacities of storage, based on some probabilistic considerations and recent experience. Alternatively, linear programming techniques can be used towards the same end. A more realistic approach would be to make use of both. In the present paper, attention is concentrated on the second approach, though an attempt is also made to formulate a third approach in finally estimating storage capacity for each location.

Before going into the actual formulation of the model, it is necessary to see that the model represents the real situation to the extent possible. It is appropriate, therefore, to identify the factors affecting buffer and pipeline storage. Clearly, pipeline stocks have to be located both in deficit and surplus districts — since they are required in daily transactions. Buffer storage, on the other hand, has to be determined, apart from climatic conditions and needs of public distribution on (a) the procurement potential, (b) the availability of transport and (c) the command area of the location. If one of the considerations governing buffer storage is to minimise cost of procurement, locations have to be near procurement centres. In addition, if it is intended to minimise transport cost also, locations have to be among the surplus districts in the following way: After meeting the public distribution requirements of the deficit districts in the state as a whole, some of the surplus districts can still maintain some stocks. These stocks should give us an idea both as to the location and capacity of buffer storage.

THE MODEL

After omitting Banswara which, according to our estimation, will remain just self-sufficient, there are 25 districts with imbalances between public distribution and procurement. Of these 25 districts, 15 will have surpluses of procured grain over their public distribution requirements and the rest will fall short for their public distribution needs. Hence we have 15 supply points and 10 demand points, with their surpluses and deficits respectively. Let a_i be the disposable procurement in the ith surplus district and b_j the amount required by the jth deficit district, *i e*:

a_i = procurement in the ith surplus district minus public distribution there.

b_j = public distribution in the jth deficit district minus procurement there.

Since the procurement in the state is in the aggregate in excess of public distribution, to convert the present problem into a standard transportation problem, these two have to be equalised and so an 11th fictitious demand point imagined. If a surplus district happens to send grain to this demand point, it means that the district is left with some stock after the requirements in the state as a whole have been met at least cost.

If x_{ij}, which is to be determined, is the optimum amount to be catered from the ith surplus district to the jth deficit district, and c_{ij}, is the cost of transporting one unit of grain from i^{th} surplus centre to the jth deficit centre, then the cost involved in meeting the public distribution requirements of the deficit districts in the state as a whole is given by the sum of all possible products of x_{ij} and c_{ij}, *i e*:

$$\sum_{i=1}^{15} \sum_{j=1}^{11} c_{ij}\, x_{ij}.$$

The problem is to minimise this expression. Two important sets of constraints have to be imposed on the policy variables x_{ij}. The first of them is that the total quantity that is catered from a surplus district to all the deficit districts should be at most equal to the disposable procurement in that surplus district. Secondly, the total quantity received by a deficit district from all the surplus districts should add up to the amount required in that district. When these constraints are expressed in a mathematical formulation, the problem becomes:

Determine a non-negative set of numbers x_{ij} which minimises

$$\sum_{i=1}^{15} \sum_{j=1}^{11} c_{ij}\, x_{ij} \quad \text{subject to}$$

$$\sum_{i=1}^{15} x_{ij} = b_j \quad j = 1, 2\ldots,11$$

$$\sum_{j=1}^{11} x_{ij} = a_i \quad i = 1, 2\ldots,15$$

DATA AND ASSUMPTIONS

Public distribution requirements and procurement by 1973-74 were estimated in consultation with the state government, for each of the districts in Rajasthan and are presented in Table 1. Cost of transporting a unit of grain is obtained by applying the grain freight schedule, which is telescopic in nature, on the nearest rail route. A nine per cent surcharge, levied by the Railways, is then added to the rates thus obtained. The costs associated with the 11th fictitious demand point is taken to be zero, since no transport is involved in that case. The cost matrix is presented in Table 2.

It is assumed that the public distribution requirements in the state are entirely met from the procurement within the state and no grain is received from outside the state. Grainwise break-up of data, on public distribution and procurement, is not readily available; so the figures relate to the aggregate of foodgrains. This assumption does not alter the cost matrix since the cost of transporting a tonne of either rice or wheat is the same. Finally, the rail grain freight schedule is applied on the nearest road distance in the case of a single district lacking rail connections.

SOLUTION OF THE MODEL

To illustrate the model according to the least cost solution, represented in Table 3, Alwar need not send any grain to any district and can keep all the procurement of 18,000 tonnes of grain as stock. Whereas Ganganagar, out of the procurement of 35,000 tonnes, has to send 4,000 tonnes for Bikaner, 2,000 tonnes for Churu, and 5,000 tonnes for Jaisalmer, and has to keep 24,000 tonnes as stocks and so on. Column 11 of Table 3 indicates that in particular Alwar, Ganganagar, Kota, Bharatpur, and Sawaimadhopur have substantial stocks. Among them, Bharatpur and Sawaimadhopur are well connected, both by broad- and metre-gauge railways, besides having a high procurement potential. Ganganagar, Kota and Alwar, are connected but only by either metre- or broad-gauge, and are favourable for locating buffer stocks because of their high procurement potential. Kota is on the broad-gauge line and also has good transport facilities, and is therefore desirable as a location point. Ganganagar has a preference over Alwar — even though both have only metre-gauge connections — owing to Ganganagar's high procurement potential so that large stocks can be kept at least cost.

So, buffer storage at Bharatpur, Sawaimadhopur, Kota and Ganganagar — in the order of preference stated — would appear the most suitable alternative locations, in the sense that the cost of procurement and transportation is minimum. Besides, they have good transport facilities as well as the necessary climatic conditions for preservation of grain.

So far, we have dealt with only buffer storage. Regarding the state's pipeline storage, as mentioned earlier, it has to be located both at surplus as well as deficit districts. The present model suggests locations and storage requirements only at surplus districts. Storage requirements of deficit districts have to be worked out independently of the mo-

TABLE 2 : COST MATRIX

(cost in Rs of transporting one unit, *viz*, 100 tonnes of grain)

From \ To	Ajmer (1)	Barmer (2)	Bikaner (3)	Churu (4)	Dungarpur (5)	Jodhpur (6)	Jaisalmer (7)	Jhunjunu (8)	Sikar (9)	Sirohi (10)	Fictitious Demand Point (11)
Alwar	1820	2800	2050	1800	3000	2380	2910	1530	1730	1810	0
Bundi	2150	2880	2800	1240	2230	2590	3170	2290	2040	2250	0
Bharatpur	1850	2900	2780	2490	2970	2520	3160	2150	1970	2630	0
Bhilwara	1310	2290	2630	2530	1900	2180	1920	2220	2040	2260	0
Chittorgarh	1660	2410	2730	2350	1660	2110	2620	2420	2230	1660	0
Ganganagar	2920	3110	1750	1900	2360	2510	2620	1960	2140	2930	0
Jaipur	1380	2620	2170	1660	2580	2110	2780	1680	1340	2220	0
Jalore	2090	1670	2520	2340	2110	1740	2120	2990	2730	1290	0
Jhalawar	2110	3020	3140	2630	2520	2590	3360	2740	2790	2640	0
Kota	2010	3060	3000	2470	2020	2780	3020	2580	2290	2080	0
Nagaur	1880	2130	1380	2110	2720	1310	2350	2310	2040	2230	0
Pali	1490	1660	2190	2360	2030	1070	2120	2280	2100	1460	0
Tonk	1380	2730	2420	1840	2340	2780	2880	1860	1520	2240	0
Sawaimadhopur	1830	2840	2630	2100	2460	2360	3110	1960	1680	2480	0
Udaipur	1830	2020	2680	2650	1080	1820	2520	2460	2350	1140	0

TABLE 3 : A LEAST COST SOLUTION FOR DETERMINING THE LOCATION AND CAPACITY OF PUBLIC GRAIN STORAGE IN RAJASTHAN

('00 tonnes)

To :	Ajmer (1)	Barmer (2)	Bikaner (3)	Churu (4)	Dungarpur (5)	Jodhpur (6)	Jhunjhunu (7)	Jaisalmer (8)	Sikar (9)	Sirohi (10)	Stocks (11)
Alwar											180
Bundi											50
Bharatpur											190
Bhilwara	20										—
Chittorgarh					30						60
Ganganagar			40	20				50			240
Jaipur						10	20		10		—
Jalore										10	—
Jhalawar											40
Kota											240
Nagaur						10					—
Pali						40					—
Sawaimadhopur						10					110
Tonk		50				20					—
Udaipur						10				10	—

Total procurement in the state	1,61,000 tonnes
Total public distribution requirements	50,000 ,,
Balance, *i e*, stocks	1,11,000 ,,
Total transport bill	5,66,000 ,,
Total tonnage moved	36,000 tonnes
Average cost of transporting one tonne of grain	Rs 15.72

TABLE 4 : DISTRICTWISE STORAGE REQUIREMENTS FOR PIPELINE AND BUFFER IN RAJASTHAN, 1973-74

(in tonnes)

District	Storage Requirements		
	Pipeline	Buffer	Total
Ajmer	2,000	—	2,000
Alwar	10,000	—	10,000
Barmer	5,000	—	5,000
Bundi	1,500	—	1,500
Banswara	3,000	—	3,000
Bharatpur	10,000	19,000	29,000
Bhilwara	1,000	—	1,000
Bikaner	4,000	—	4,000
Churu	2,000	—	2,000
Chittorgarh	4,000	—	4,000
Dungarpur	3,000	—	3,000
Ganganagar	17,500	24,000	41,500
Jaipur	3,500	—	3,500
Jodhpur	10,000	—	10,000
Jaisalmer	5,000	—	5,000
Jalore	2,500	—	2,500
Jhalawar	2,000	—	2,000
Jhunjhunu	2,000	—	2,000
Kota	12,000	24,000	36,000
Nagaur	3,000	—	3,000
Pali	2,000	—	2,000
Sikar	1,000	—	1,000
Sawaimadhopur	6,000	11,000	17,000
Sirohi	2,000	—	2,000
Tonk	3,500	—	3,500
Udaipur	7,000	—	7,000

del, particularly based on past experience and using data on public distribution and procurement by 1973-74. They have to be worked out taking into account the projected procurement within the district, projected movement of foodgrains, from one district to others obtained from the least cost solution referred to above, and the number of turnovers which the public distribution system would call for in each district. Specifically, if C be the public distribution requirement for the year within the district, B the required capacity to be determined for pipeline storage, and T the number of times grain rotated in a year, the following identity holds good:

$C = BT$

For example, if grain is moved in four instalments to meet the public distribution requirements in a year in a particular district, and if the requirements are 5,000 tonnes, then, the ideal capacity for public distribution in that district should be one-fourth of the requirements, i e, 1,250 tonnes. The same formula could also be made use of in estimating the storage requirements for procurement. But in this case, the turnover may not be the same as in the case of public distribution. However, exclusive reliance on this formula may not give a realistic solution and some corrections have therefore to be applied. Table 4 gives the storage requirements for buffer and pipeline storage, that were finally arrived at.

Reference

A M Khusro: "Location and Economics of Storage of Major Foodgrains in India", mimeographed, Institute of Economic Growth, Delhi.

Pragmatic Politics in a Rajasthan Town

Case Study of a Municipal Election

Hugh S Plunkett

In considering the development of politics in India, Western-trained observers have tended to assume that the adoption of a device — elections — has, or should have, as a necessary concomitant, the spread and acceptance of the democratic ideology.

This view ignores both the fact that multiple forms of political competition co-exist in communities and other types of social systems in addition to those organised through elections, and the common finding that local and pragmatic interests tend to govern the course of electoral opposition in local communities round the world.

The author suggests that in the town in Rajasthan studied by him here, as elsewhere, the institution of elections may play only a secondary part in shaping political values and norms — though elections do provide a convenient 'window' for observation of on-going political processes.

ON May 29, 1966, the voters of the Rajasthan district town of Chhaoni went to the polls to elect a new Municipal Board. The results of that election surprised and disconcerted the townspeople: despite anti-Muslim sentiment in the region, aggravated by the recent Indo-Pakistani war; despite the fact that Muslims in the town numbered only a fifth of the population and were dominant in none of the electoral wards; despite the fact that, on the three previous municipal boards elected in Chhaoni since merger, only two Muslims had ever held seats; despite the modest expectations of Chhaoni's Muslim candidates, who were perhaps more surprised than anyone at the outcome — five of the ten General seats were won by Muslims. The problem which I shall take up in this paper is the interpretation of this election, as a political event, in relation to social and cultural change in post-Independence India. Can we view the outcome of this election as the consensus of informed voter preferences in predominantly Hindu, parochially-oriented Chhaoni? Or is it better understood as the unanticipated consequence of a complex sequence of political activities in which the people of this Indian district town are involved? And in what ways does analysis of this event add to our understanding of the impact of democratic institutions at this socio-cultural level in India?

The Setting

The former capital of the small princely state of Zalimgarh, now a district headquarters, Chhaoni is still an administrative rather than a trading or industrial centre, providing goods and services to district officials and organisations now located there. The town's political elite is drawn primarily from its advocates and merchants, with continuing participation by persons formerly part of the Maharaja's court. In 1966 the townspeople numbered approximately 16,000, of whom 7,741 were registered voters.

The town's 25 neighbourhoods (*mohalle*) are incorporated into 10 electoral wards. Although *mohallas* often have a core population of a single caste group, wards are multi-caste; in no ward does a single caste dominate numerically. In the 1931 Census, the largest caste groups in the town were listed as:

	(Per Cent)	
Brahman	10	
Kumar	6	
Mahajan	6	(Agarwal and Oswal)
Chamar	5	
Mali	5	
Rajput	4	
Teli	2	
Muslim	21	(all Muslim castes)

These figures remain roughly correct. According to the 1961 Census, 41 per cent of the townspeople are literate, compared to the average for the district as a whole of 13 per cent.

The municipal board of Chhaoni, composed of ten General members, two Scheduled Caste members, and two Nominated members (whose seats are usually held by women), is charged with revenue collection through *octroi* and local taxes, and with provision of municipal services such as street cleaning, sanitary facilities and water supply. Day-to-day administration is conducted by a Rajasthan state civil servant and his staff, reporting to the District Collector. Despite its limited scope

and resources and its relatively recent establishment following the merger of the former princely state, the municipal board is the major focus of town-centred political activity. Control of the board is indicative of the relative power positions of individuals and groups, and the board's machinery may be used to provide patronage or for the harassment of rivals.[1] Until 1965 the municipal boards of Chhaoni had been dominated by Brahmin and Mahajan advocates, with support from dependent allies of other castes, and token representation by a Congress-affiliated Muslim lawyer or his nominee. Leading members of these boards were linked to state-level factions within the dominant Congress party, tieing the town arena to district and state politics.

Candidates and Campaign

Upon the announcement by the Rajasthan state government that state-wide municipality elections would be held in May of 1966, the state's political parties decided not to contest the elections on a formal party basis. At that time the state Congress party was embroiled in factional controversy, in which Chhaoni's former Maharaja, a minister in the state Congress government, was deeply involved, and therefore the Maharaja was unable to direct his influence toward the Chhaoni arena. As a result state-level political prestige involved in the outcome of the Chhaoni election, and the availability of party funds for the contest, were both much lower than they might otherwise have been. Because the competition was to be defined in local terms, without preliminary jockeying for party tickets, and with less need for expensive propaganda and organisation, many candidates were tempted to enter. The following table indicates the number of candidates in the wards:

No of Candidates	No of Wards
General Seats	
2	1
3	1
4	5
5	2
6	1
41	10
Reserved Seats	
1	1
2	1
3	2

Viewed in terms of the structure of electoral competition in the town as a whole, several "teams"[2] may be noted. Most prominent were the factions within the town's Congress party. One, smaller and weaker, was based upon Brahmans and Mahajans associated with the early years of Congress activity in the district following merger, and led by an old Mahajan (not himself a candidate), who was linked strongly with the Chief Minister's faction of the state party, hereafter referred to as the Sukhadia faction. The second was led by a young advocate, Mangi Lal, formerly the chairman of the municipal board, who controlled a coalition of local influentials, including some Muslims, and was loosely affiliated with the district "machine" led by the former Maharaja. Three other party-affiliated teams provided candidates: two of these, the Socialists and the Swatantra, were little more than cliques of ideologically-oriented, educated young men, with few rank-and-file supporters. The Jan Sangh party had an active core of workers in the town, drawn primarily from young Brahmans and Mahajans, and was able to draw on a reservoir of "Hindu" sentiment in the town. A wave of solidarity among Muslims had been further stimulated by the success of two important Muslim festivals managed by Muslim advocates, and ten Muslims stood in eight wards, under a variety of party labels or as independents. Finally, a part was played by an aide to the former ruler, who put up candidates in the Maharaja's name in several wards, to oppose those of the Sukhadia faction as well as those of other parties.

Campaigning was based on personal contacts by the candidates and their supporters with voters in the wards, augmented for some candidates by occasional *gasht* (or "lightning tours") by influential persons from elsewhere in the town. The town's only election meeting was held by Muslims in the *jama masjid*, and its organiser considered the turnout very poor. Despite general and frequent complaints about the previous board's "corruption" and "inefficiency", town-wide concern over poorly-managed and over-priced water supply by municipal carts during the severe drought then going on, and background issues of food shortage, rationing, and inflation widely attributed to the "Congress raj", no clearly defined community-wide issues were articulated by political teams during the campaign. Voter choices and candidates appeals were thus directed toward goals and values important to the social structure of the town but not directly associated with electoral office.

Victories by Muslims in 5 wards showed a clear and unprecedented gain for Muslims in town politics. Muslim communal sentiment was reflected in higher turnout and bloc voting, and in the election of young Muslims who were not linked to political groups and had never been active in politics before, in the face of rising anti-Muslim sentiment in the town and region.

A second clear result was the defeat of persons and groups identified with the state Chief Minister's faction of the Congress party, interpreted by those active in politics as indicative of growing anti-Congress sentiment. The son-in-law of the leader of the Sukhadia faction and two former members of the municipal board who were old-line party workers were soundly defeated.

A third outcome was the humiliation of the Maharaja's aide who had attempted to set up 4 candidates, all of whom lost decisively. This failure resulted in a shift in the internal organisation of the district machine, and the ultimate defeat of the aide in the subsequent General Election. The influence position of the Maharaja, however, remained relatively undamaged.

Election and Social Process

As described so far, the Municipal Board election in Chhaoni appears to be a straightforward example of the operation of democratic processes in the Indian hinterland. As such, it may be analysed following familiar lines of academic tradition dealing with political institutions, and its outcome assessed in terms of the relative strengths, skills, and degrees of success of parties and factional groupings in the town. According to this view, the important roles are those of party and faction membership; the ultimate prize which is sought is succession to electoral office within the framework of democratic norms; and the rules for competition are entirely derived from the ideology of egalitarian democracy. This is conceptually neat and tidy — and in fact most studies of local elections, in India and elsewhere, have been structured along these lines.

However, this view, and the stress on election analyses in the literature, involves several assumptions which appear to me to obscure rather than illuminate the interpretation of the facts on the ground. The assumptions I object to are three:

(1) That *all* politics is electoral politics — elections are relatively easy to study, since they are being temporally

bounded and highly visible. And they *are* important political events. But they are not the *only* relevant political structures in rural India.[3]

(2) That in a local community such as Chhaoni a unitary town-wide political structure stands in contraposition with structures of the superordinate society. As I hope to show, the political system in Chhaoni is composed of multiple, intersecting structures of political competition, only some of which are bounded by the town itself.

(3) That the appropriate unit for analysis in such studies is the coherent, cohesive political group, whether clique, faction, or party. If these units do not emerge clearly in political competition, there is a strong tendency to fall back upon residual terms, such as "amorphous", to describe the situation, and to abandon the attempt to explain it further.[4]

I am more concerned with the processes of politics than with taxonomic identification of groups or of structures: following Barth,[5] I think it more important that we look for the activities and the choices made by Chhaoni citizens according to determinable rules, and from these derive social *forms* — cliques and factions — and understandable outcomes of political competition as well. This kind of fine-grained analysis is precisely where the anthropologist may make his most effective contribution, complementing the approach taken by most political scientists.[6] In order to accomplish this end, we must shift our perspective concerning the Municipal Election in Chhaoni, viewing it not so much as a culmination and resolution of political forces defined in group terms, but rather as an event providing a *"window" into the* opacity of on-going social processes.[7] How best can this be accomplished?

Intersection of Political Structures

In a stimulating, much anthologised but little utilised article, Norton Long[8] has written of the local community as an "ecology of games" — that is, in the local community a number of political structures exist simultaneously and intersect each other. Through competition for prestige, power and resources within the framework of rules defining these structures, of "games", individuals obtain a sense of purpose and a role. Long also implies that the many types of interactions and many types of games, played by a variety of institutionalised players, may have as partly unanticipated results the development of higher-order structures.

Applying this scheme to the Chhaoni *municipal election, it is possible* to identify at least six separate but intersecting political "games" which emerge in the context of electoral opposition in various wards. They are:

	Game	*Opposed Players (Roles)*	*Prizes (Goals)*
(1)	intra-caste	exogamous kingroups	relative prestige/ material resources
(2)	inter-caste	endogamous kingroups	deference/access/ goods
(3)	"communal"	Hindus/Muslims	solidarity/ deference/security
(4)	factional	leader/leader	influence/access to higher levels
(5)	party-based	party organisations	influence/access to policy-formation/ideological goals
(6)	personal enhancement	individual/relevant group	deference/preference/prestige/ influence

Each of these structures provides its players with a set of goals, a definite role, and a *significant* public capable of assigning scores. The strategies appropriate to the various games are diverse and make use of differing sets of meaningful symbols; all strategies, however, permit the symbolic display of opposition in the context of the election as a public event. In consequence, the election in Chhaoni may be seen less as a confrontation among a set of corporate opposing groups than as the arena within which a multiplicity of political "games" intersect *ecologically*,[9] conditioning but not determining their respective outcomes.

Examples of Intersecting Games in Chhaoni

In the space available, full presentation of the material for the entire town is impossible; I will try to illustrate my argument through examination of the structures of opposition in selected wards.

Ward A. Five candidates stood for the seat in a heterogeneous ward of craftsmen, clerks, and agriculturists. Important social segments were reported as follows:

	Households
Mali	50
Brahman	5
Scheduled Caste (Koli)	70
Rajput	3
Julaha Muslims	24
Other Muslims (approx)	50

A total of 554 voters were registered, 219 of whom were Muslim. Of the total registered, 352 (64 per cent) voted in the election.

The opposing candidates were:

(1 and 2) A Muslim Sheykh, son of a stone contractor, stood in opposition to a Muslim Julaha, also a stone contractor, though less successful, bringing to the electoral arena a long-standing feud between the families with overtones of both economic competition and claims to symbolic rank (inter-caste game). The Julaha attempted to mobilise support from both segments of the local Congress party, but was unsuccessful (faction game).

(3) A Brahman shopkeeper, formerly a municipal board member from a neighbouring ward, and recognised as a low-ranking member of the local Sukhadia faction, was shunted into candidacy in Ward A rather than his home ward as a result of machinations by Mangi Lal, the former municipal board chairman, assisted by the Maharaja's aide (faction game). The aide wanted a candidate to represent the Maharaja; Mangi Lal, the factional opponent of the leader of the Sukhadia faction, wished to defeat the rival faction. The shopkeeper recognised his awkward position and bitterly resented it, sitting in his shop instead of actively campaigning.

(4) A young Brahman advocate, son of a former official in the princely state, of the same sub-caste but of very different social position from the shopkeeper, stood representing the newly-fledged Swatantra party organisation in the town (party game), opposing the Congress as represented by the Brahman shopkeeper.

(5) A young Mali fruit contractor/ vegetable seller, from the largest single caste in the ward, one both prosperous and upwardly mobile, stood primarily as representative of his caste to the town, and secondarily to advance his claim to influence within his own caste (intra-caste game or perhaps, since no overt lineage opposition emerged, personal enhancement game).

Results in Ward A. The Muslim Sheykh was able to enlist canvassing support from other Muslims to capture the votes of non-Julaha Muslims, and was also supported by Scheduled Caste voters economically dependent upon him. He obtained 118 votes (34 per cent) to win the seat. His Julaha opponent secured his caste-fellows' votes, but few others, receiving a total of 42 votes (12 per cent) and losing his security deposit.

The Hindu candidates split the Hindu vote in about the manner they had separately predicted to me before the election: the Mali candidate received 74 votes (21 per cent), virtually all from his caste-fellows; the young Swatantra Brahman lawyer received 91 votes (26 per cent) to run second, primarily, it would seem, from those disgruntled with Congress inefficiency in managing the water supply in the ward; and the "carpet-bagger" Brahman shopkeeper forfeited his security deposit with only 27 votes (8 per cent).

In this ward the small vote-margin required for victory and the cross-cutting oppositions of the Hindu candidates were decisive in the election of a Muslim, whose own major goal seems to have been the defeat of a rival Muslim rather than his own victory. Factional and party intervention in the campaign in this ward was small and intersecting concerns within the ward determined the outcomes. The young Swatantra lawyer and the Mali candidate felt that by standing for election they had accomplished a positive goal — they seemed almost as happy with their showing as they would have been had they won the seat.

A second example shows the penetration of the ward contest by more extensive structures of opposition.

Ward B. Ward B includes part of the main market area, as well as pockets of Muslim and Gujar residents. Registered voters numbered 518, with Muslims accounting for 27 per cent; 314 persons actually voted (61 per cent). The five candidates were:

(1 and 2) Two Baniya brothers were quarrelling bitterly over the division of their inheritance from their prosperous father, and the elder had set up a rival shop. This elder brother had been an active politician for some years, serving for some time on the District Congress Committee and pursuing a variety of covert interests as well. The younger brother was determined to stand for board membership, hoping to "gain friends" to assist in his fight with his brother. The elder publicly and repeatedly vowed to spend Rs 50,000 if necessary to have his brother defeated (intra-caste game), and, more practically, approached Mangi Lal, the former municipal board chairman, his classificatory sister's son (*bhanej*), whom I noted above as the factional opponent of the Sukhadia faction, and who was tied loosely to the Maharaja's district organisation (faction game outside the ward). The two managed to set up a rival candidate, a young Baniya related affinally to the former chairman (and with precisely the same name as the younger brother), in order to split the Baniya vote.

(3) Abdul Ali, a personable Muslim Pathan with a prosperous machine-tool shop in the ward and a frank interest in political fame (personal enhancement game), was approached by the clique of young Swatantra-linked Hindu advocates, and agreed, after he had already decided to stand, to call himself a Swatantra candidate. He received no further aid from them, and never joined the clique. He did accept support from a Muslim jagirdar with town influence, and, in the later phase of the campaign, from Mangi Lal as well. This latter alliance resulted from the situation of candidate No 4.

(4) A retired Muslim Pathan official, in poor health, was coerced by the Maharaja's aide into standing for election to represent the interests of the Maharaja against the Baniya candidates, regarded as anti-Maharaja Congress representatives (faction game), and at the same time to split the Muslim vote otherwise destined for Abdul Ali (intra-caste game). Although he acquiesced, he was unable to campaign, effectively retiring in favour of Abdul Ali. At this, Mangi Lal, sensing that Abdul Ali would be the winner, and wishing to bolster his own position, approached him and a linkage was made (faction game).

(5) A young Jan Sangh-affiliated Joshi candidate stood to increase his party's "visibility", without, he claimed, any expectation of actually winning the seat (party game).

Results in Ward B. Abdul Ali, the ambitious Muslim Pathan won decisively with 97 votes (31 per cent), mostly from Muslims. The candidate put up to split the Baniya vote came second with 77 votes (25 per cent), while the younger Baniya brother ran third with 60 votes (19 per cent), dividing the ward's Baniya vote along kin lines. The young Joshi collected the rest of the Hindu votes, receiving 48 (15 per cent); and the retired official, with only 32 votes (10 per cent), mostly from his large family, lost his security deposit.

The quarrel between the Baniya brothers thus remained in asymmetrical balance; the position of Mangi Lal, the former chairman, was enhanced through both his successful engineering of the Baniya vote split and his budding alliance with the Muslim winner. The town's Congress party, and especially the Sukhadia faction, were further weakened. The Maharaja's aide was discredited because of his inept and unsuccessful attempt to set up a candidate in this ward (he was equally unsuccessful in trying the same tactic in three other wards as well), and his position in the inner circle of the district machine was badly eroded. Paradoxically, the position of the Maharaja himself seems to have been damaged neither by the victory of an ostensible Swatantra candidate (to whom he immediately made successful overtures through Mangi Lal and others), nor by the poor showing of the candidate put up in his name. People in the ward, and leaders in the town generally, felt that the retired official had acted honourably in standing out of loyalty to the Maharaja despite his disabilities, and the Maharaja's ability to command such "loyalty" was remarked on. Finally, the young Joshi's reputation as a worker within the small nucleus of the town's Jan Sangh party was enhanced, and he began to set his sights on working in the coming General Election.

The intersecting oppositions described above are intended to exemplify the complexity of political processes operating in the town, and they are paralleled by similar complex situations in the other wards. In some instances, to be sure, the election game coincides with other games. In Ward C, for example, a Muslim unsuccessfully opposed a Hindu in a straight fight, but even here lineage opposition among the Hindu's caste-fellows eroded his support. And in the Scheduled Caste seat in Ward D, two Yadav stone-contractors stood opposed, with cleavage among their major supporting groups structured on lineage lines. Where more than two candidates stood, however, identification of inter-locking games in the electoral situation becomes increasingly crucial in understanding the processes of opposition and their outcomes.

Conclusion

Students of Indian politics will recognise the intricate—almost Byzantine —admixture of caste, communal, party, factional, and personal conflict described in Wards A and B—this is, after all, the stuff and substance of local politics in India, as reported in a large literature from all parts of the subcontinent. Efforts to impose

conceptual frameworks on this chaos in terms of ideology, and in terms of party and faction, have not been completely satisfactory. The Muslims in Chhaoni came to office not because they represented the majority of the citizens as a whole, nor because their organisation as a community was cohesive or solidary. Rather, they were the beneficiaries of the outcomes of multiple sets of interesting political games in their various wards. Although this fact is obscured by focusing attention on the groups involved in town politics, it is clearly revealed by an analysis of the structures of opposition which underlie the formation of such potential social forms. Though the matter cannot be explored here, further elaboration of the crucial nature of roles linking diverse structures, such as displayed by the activities of the former board chairman, and the Maharaja's aide, would shed still more light on political processes in the town.[10]

In conclusion, let me return to the problem I posed at the beginning of this paper, that is, how does the complex of intersecting political "games" that I see in Chhaoni relate to "democracy" as manifested in the Indian context? It seems to me that, despite the framework provided by the election as an event, and despite the facade afforded by the institution the municipal board in Chhaoni, little of the politically significant behaviour in the town is informed solely by the norms of democracy or is structured by oppositions usually considered basic within its framework of rules. This is hardly surprising: although the form imposed from above is formally democratic, the substance of the competition derives from more fundamental social cleavages and goals embedded in the hierarchically-oriented local social structure.

In considering the development of politics in post-Independence India, Western-trained observers have tended to assume that the adoption of a device — elections—has, or should have, as a necessary concomitant, the spread and acceptance of democratic ideology. This view ignores both the fact that multiple forms of political competition co-exist in communities and other types of social systems in addition to those organised through elections, and the common finding that local and pragmatic interests tend to govern the course of electoral opposition in local communities around the world. I would like to suggest that in Chhaoni, as elsewhere, the institution of elections may play only a secondary part in shaping political values and norms —though elections do provide a convenient "window" for the observation of on-going political processes. Democracy, like any ideology, interacts with and is conditioned by its enactment in specific social contexts, and local-level democratic processes in India will surely continue to display distinctive qualities, related to local and regional social structures and cultural traditions.

Notes

[Research for this paper was done as part of a field study of district-level politics and social change, November 1965-March 1967, supported by a Junior Fellowship granted by the American Institute of Indian Studies. Responsibility for the contents of this paper rests solely with myself. Data were obtained through observation and interviews before, during, and after the election in Chhaoni, and were supplemented by documents kindly provided me by the Municipal Secretary, the District Collectorate, and private individuals of the town. All proper names, including those of the town and district are pseudonyms. Social characteristics and events have in some cases been altered to protect persons in the town.]

1 Fox, Richard, "From Zamindar to Ballot Box", Cornell University Press, Ithaca, NY, 1969, pp 191-194 cites a similar example from Uttar Pradesh.

2 Bailey, F G, "Stratagems and Spoils", Schocken Books, New York, 1969.

3 I have drawn inspiration here from Somjee, A H: Review of Bailey, F G, "Politics and Social Change: Orissa in 1959", in *Journal of Commonwealth Political Studies* 3 (1965), No 3.

4 *Cf* Rossi, Peter, "Power, and Community Structure" in "Political Sociology" edited by L Coser, Harper and Row, New York, 1966, p 143.

5 Barth, Fredrik, "Models of Social Organisation", Royal Anthropological Institute Occasional Paper No 23, London, 1966.

6 The point of view I stress here differs from that which has so far appeared in the writings of most political scientists concerned with South Asia. Most such work (*cf* Brass, Paul "Factional Politics in an Indian State", University of California Press, Berkeley, 1965, for a brilliant example, focused upon the politics of Uttar Pradesh) takes as unit of analysis the social groups involved in politics—factions, parties, and the like—and considers the origins of these social forms as being based simply on "lasting personal enmities" between faction leaders. I feel this approach obscures the dynamics of social change in political development. Its inadequacy as an explanatory device is revealed in telling fashion when one considers that in 1967, after 15 years of opposition (as described well by Brass), Mohan Lal Gautam formed an alliance with his arch-rival C B Gupta, undermining the validity of Brass's contention that the only fixed aspect of UP politics was the immutable personal enmity between such major factional opponents.

7 Frankenberg, Ronald, "British Community Studies: Problems of Synthesis" in "The Social Anthropology of Complex Societies", edited by Michael Banton, Tavistock Publications, London, p 149, *et passim*.

8 Long, Norton, "The Local Community as an Ecology of Games", in "Political Sociology", edited by L Coser, Harper and Row, New York, pp 146-166.

9 "There is a...kind of group conflict in which the groups interpenetrate each other, either in physical or social space, so that there is no line boundary between them and each individual of one group tends to be in some sort of contact with individuals of the other group. This is the sort of group conflict that characterises an ecological system of competing species, where the individuals of the various species interpenetrate the space and there is no central organisation of the group. This is pure group conflict or the conflict of species; we may call it ecological conflict... we should perhaps call this competition rather than conflict, as it is not organised or conscious." Boulding, Kenneth, "Conflict and Defence", Harper and Row, New York, p 113.

10 I hope to present such material in future publications.

Trek to the Cities

ACCORDING to the UN Demographic Yearbook 1970, 34 per cent of the world's population now lives in urban areas and there are 1,784 cities with more than 100,000 inhabitants, an increase of 20 per cent in a decade. Among other facts in the Yearbook: world population increased by one billion in the last 20 years, but will grow by 1.75 billion in the coming two decades; seven nations now have a population of more than 100 million — China, USSR, USA, India, Pakistan, Indonesia and Japan; Tokyo is the largest city with 9 million inhabitants, New York and London following with 7.8 and 7.7 million respectively; 133 cities have a million or more inhabitants, 29 cities more than 10 years ago; Australia has the highest degree of urbanisation, 83.3 per cent, Burundi the least at 2.2 per cent; and Swedish men and women have the highest life expectancy, 71.9 and 76.5 years, respectively.

Scientists and Their Commitment to Organisational Goals

S P Gupta

K D Sharma

A Rahman

It is not enough for a country to pump in more monetary investment into scientific research; it must create a climate that is conducive to the flowering of creative talents. For this, scientists must be made to feel committed to organisational goals. This cannot be done just by changing the organisational system or providing more facilities.

It is necessary to study the factors that influence scientists' commitment to organisational goals. In this paper are presented the results of such a study for India.

THE goals of an organisation and the objectives it sets for its scientists and technologists are not the same as those of the profession. An industrial firm, for example, demands from its research scientists results that develop and improve its line of products. Science as a profession on the other hand demands of its practitioners that they maintain the standards of scientific ethics even in the face of contradictory demands by employers. Scientists as industrial employees are thus caught between these two cross-pressures.[1] It is, therefore, necessary that the factors that influence their commitment to organisational goals should be studied. In this paper, results of such a study for India are presented. The main characteristics of the sample analysed are given in Table 1.

The main operative variables that influence one's commitment to organisational goals studied in this paper are:

(a) recognition;
(b) professional freedom; and
(c) researcher-supervisor relationship.

Age, experience, status and place of work (i e, type of organisation) have been treated as constraints of the situation.

Recognition[2] has been by and large measured by self-evaluation by the respondents themselves. If the respondent felt that he was highly appreciated by his supervisor and given preference in authorship, it was taken to mean high recognition and otherwise he was categorised as having low recognition.

The extent of freedom in research is inferred from the extent of autonomy in selection of the project on which he was working. Like the index for recognition, index to measure the degree of freedom has also been reduced to two classes only, i e, high and low degree of freedom.

The researcher-supervisor relationship is classified as harmonious and disharmonious depending upon whether the researcher finds the supervisor (i) appreciative of the basic value of the projects and helpful in his work (harmonious); or (ii) appreciative but not helpful in his work or helpful but not appreciative or neither appreciate nor helpful (disharmonious).

Analysis and Results

Table 2 shows the inter-correlation among the various indices as defined above. It is found that three of the six possible correlations were statistically significant at or beyond the 0.001 level. All correlations were positive except for the inter-correlation between indices for freedom and researcher-supervisor relation which is negative. This indicates that to have harmonious relations with supervisor the freedom index should be low.

Secondly, commitment to the organisational goals is highly related to researcher-supervisor relation. Further, recognition has strong influence on supervisor-researcher relationship which suggests that recognition may be a factor in generating conflict in the researcher-supervisor relationship. Lastly, recognition and commitment are also significantly inter-correlated.

Organisations as an environmental constraint play an important role in determining one's commitment to organisational goals. The various types of scientific organisations in India employing scientists are: national laboratories; government-research institutes (other than national laboratories); private/industrial research institutions and universities/teaching institutions. Table 3 gives the commitment indices for each of these organisations. Each of the organisations presents a social situation and affects recognition, freedom and supervisor relationship according to its characteristics of control and administrative structure and scientific tradition.

It is apparent that for scientists working in national laboratories, government research institutions and universities/teaching institutions recognition is a strong motivating force to commit them to organisational goals. However, in private/industrial institutions scientists have high commitment to organisational goals even without recognition.

Professional freedom has no bearing on commitment to organisational goals under all forms of organisation. The researcher-supervisor relation and organisational commitment are significantly related at better than 0.0002 level for all organisations other than private/industrial research institutes. In the latter case, it is significant at 0.02 level. The results reflect that researcher-supervisor relationship is highly effective in the development of commitment to organisational goals. The more harmonious the researcher-supervisor relations, the greater is the commitment.

It has been found that under Indian conditions whatever be the organisational variation, salary is a direct indicator of the status of the scientist in the organisational hierarchy. For the purpose of analysis, status has been classified in three categories, i e, high, middle and low (Table 4).

It can be seen from Table 4 that status is positively and monotonically related to commitment. This relationship is statistically significant at 0.01 level which is consistent with Goffman's result that "low placed members tend to have less commitment and emotional attachment to the organisation than higher placed members".

Age and commitment are also positively related. The commitment in this case becomes operative through mobility. Survey indicates that mobility decreases with age. Scientists over 45 years of age are more committed to

organisational goals than the scientists in the lower age-groups (Table 4). Older scientists are likely to be in part constrained by their age, lesser mobility and imminent retirement. Secondly, it may be because they have remained so long in the group that they feel committed to it.[3] They are also probably committed to the organisations on individual grounds of their involvement in its informal group structure which gives them eminent positions in the organisational hierarchy.

How does experience influence one's commitment to organisational goals? Glasser[4] finds that scientists with high professional experience are more committed to organisational goals. The threefold classification of experience, i e, high, middle and low [see note (b) to Table 4] for the Indian situation does not seem to agree with those of Glasser. It is found (Table 4) that experience and commitment to the organisational goals are not significantly related.

In the subsequent discussion this anomalous situation is further examined with respect to other variables such as (i) organisations and (ii) recognition.

The relationship of experience and commitment to organisational goals with type of organisation is examined in Table 5. For national laboratories and universities/teaching institutions, experience is curvilinearly related to the commitment, with the lowest percentage of highly committed scientists occurring in moderate experience group (4-12 years experience).[5]

These relationships are statistically significant at .05 for national laboratories and at .10 for universities/teaching institutions. For government research institutions and private/industrial research institutions, on the other hand, experience is not significantly related with organisational commitment.

When commitment is treated as constant and experience and recognition are related, we find that the scientists with high experience and high recognition are highly committed to the organisational goals than those with low recognition and high experience. Among scientists with low experience, those with high recognition are highly committed. (Table 6). A comparison of these differences shows that the commitment of scientists with high experience to organisational goals is slightly less dependent on recognition than in case of scientists with low experience.

The survey further indicates that people with both high experience and low experience need recognition to maintain their commitment to organisational goals, but for different and diverse reasons. Those with high experience need recognition because of lack of mobility and because they have become part of the system. In the case of scientists with low experience, recognition is the means to establish them. However, the middle group, i e, with experience of 4-12 years, seems to be indifferent to recognition.

TABLE 1 : CHARACTERISTICS OF THE SAMPLE

Characteristics	Percentage	Characteristics	Percentage
I Sectors of Research		**IV Age**	
National labs	23.0	Under 25 yrs	21.7
Government research institutions	30.8	26 - 30	30.5
Private / industrial institutions	6.8	31 - 40	32.5
Universities/teaching institutions	39.0	41 - 50	11.4
Not reported cases	0.4	Over 50 yrs	3.3
		Not reported cases	0.6
Total	100.0	Total	100.0
II Fields of Research		Median age	32.1
		V Salary	
Agriculture	7.3	Below 500	56.7
Engineering	12.4	501 - 800	24.4
Medicine	7.2	801 - 1100	10.1
Physical sciences	43.9	1100 - 1700	6.1
Biological sciences	15.9	Above 1700	1.0
Social sciences	1.6	Not reported cases	1.7
General sciences	11.1		
Not reported cases	0.6	Total	100.0
Total	100.0	Median salary	455.9
III Academic Qualifications		**VI Experience**	
		Below 4 yrs	17.4
Doctorates	24.6	4 - 8	19.7
Post-graduate	51.2	8 - 12	15.1
Graduate	21.6	12 - 16	10.2
Undergraduate	2.5	More than 16 yrs	15.0
Not reported cases	0.1	Not reported cases	22.6
Total	100.0	Total	100.0
		Median experience	9.4

Source : Ahmad, A and Gupta, S P: "Opinion Survey of Scientists and Technologists", Survey Report No 9, RSPO, CSIR, New Delhi.

TABLE 2: INTER-CORRELATION OF INDICES

	Commitment	Recognition	Freedom	Researcher-Supervisor Relationship
Commitment		.15*	.01	.18*
Recognition			.03	.27*
Freedom				—.15**
Researcher-supervisor relationship				

* Significant at the 0.001 level
** Significant at 0.10 level

DISCUSSION AND CONCLUSIONS

On the one hand, the employment opportunities for scientists are limited and on the other the country expects demonstrable and tangible results from them. Moreover, science organisations in India, as well as in other developing countries, are directed to achieving the objectives of economic and social development. Therefore, the commitment of scientists in these countries to the objectives and goals of the organisation is directly related to the national objectives of economic and social development.

The importance of the present study lies in bringing to the fore certain environmental variables which can be operated to increase the scientists' commitment. Manipulation of these variables does not involve any monetary resources, but certain administrative and managerial readjustments.

Thus the study indicates that recognition is a variant of prime importance that influences one's commitment to organisational goals. In the Indian situation, even for a person with long experience and higher status, recognition is of great significance. But still there is an organisational system —

TABLE 3 : ORGANISATIONAL VARIABLES IN RELATION TO SCIENTISTS' COMMITMENT

Institution	Organisational Commitment	Recognition		Freedom		Researcher-Supervisor Relation	
		High	Low	High	Low	High	Low
National laboratories	High	93.9	87.0	89.3	91.8	94.6	81.7
	Low	6.1	13.0	10.7	8.2	5.4	18.3
	Significant difference	0.05		ns		0.0002	
Government research institutes	High	95.7	86.8	89.4	90.8	93.5	81.2
	Low	4.3	13.2	10.6	9.2	6.5	18.8
	Significant difference	.002		ns		0.0001	
Private/industrial research institutes	High	98.2	93.5	97.1	94.6	97.7	85.7
	Low	1.8	6.5	2.9	5.4	2.3	14.3
	Significant difference	ns		ns		0.02	
University/teaching institutes	High	96.2	82.3	92.4	90.8	92.5	78.5
	Low	3.8	17.7	7.6	9.2	7.5	21.5
	Significant difference	0.0001		ns		0.0001	

the private/industrial research institution — where this recognition does not seem to be operative. This may be due to two reasons. Firstly, the major organisational goals are the direct application of research results in the actual production process of the company. Secondly, the management does not encourage its scientists to publish their research results. The secrecy of research results is an organisational constraint. Recognition under these conditions is perceived through rise in hierarchical structure and monetary gains that a committed scientist gets.

Scientists the world over emphasise the importance of freedom to work. They feel that creative faculties cannot flourish without freedom. But the study finds that "freedom" of a scientist in selection of his research work does not seem to influence his commitment to organisational goals. It is rather surprising to find that scientists should be able to maintain commitment even without freedom. It is not possible to hazard any guess about this paradoxical finding. This may probably be due to divergence in the definition of the term freedom. In the survey the main emphasis is on the freedom to select research projects whereas probably the scientist at the bench is more concerned with the freedom to attack the problem. If a scientist is free to decide the tactics, he is less bothered who takes the strategic decision of problem identification.

Experience also binds a scientist to his organisational commitment. Here again the main operative variable is recognition in the organisation. Moderately experienced scientists (i e, those in the experience range of 4-12 years) do not identify themselves with the organisation and its goals and do not see their career in terms of commitment to the organisational goals and are prepared to leave the organisation, and hence do not care for organisa-

TABLE 4 : ORGANISATIONAL COMMITMENT AS RELATED TO STATUS, AGE AND EXPERIENCE

		Commitment to Organisational Goals				
		High	Low	Total	N	P*
Status	High	98.7%	1.3%	100.0%	149	0.01
	Middle	91.4	8.6	100.0	694	
	Low	90.5	9.5	100.0	1068	
Age	Over 45 yrs	95.5	4.5	100.0	156	0.05
	30-45 yrs	92.5	7.5	100.0	795	
	Below 30 yrs	90.1	9.9	100.0	983	
Expenditure	High	93.0	7.0	100.0	514	ns
	Moderate	90.5	9.5	100.0	676	
	Low	90.4	9.6	100.0	332	

* Chi-square test at 2 degrees of freedom.

Status : High: income more than Rs 1100 p m; Middle: income between Rs 500 and Rs 1100 p m; Low : income less than Rs 500 p m.

Experience : High : 12 years or more; Moderate : 4-12 years; and Low : less than 4 years.

TABLE 5 : PROFESSIONAL EXPERIENCE IN RELATION TO SCIENTISTS' COMMITMENT BY TYPE OF ORGANISATION

Organisation	Organisational Commitment	Experience		
		High	Moderate	Low
National laboratories	High	96.7	88.0	92.3
	Low	3.3	12.0	7.7
	Significant difference*		.05	
Government research institutes	High	91.8	91.2	87.3
	Low	8.2	8.8	12.7
	Significant difference*		ns	
Private/industrial research institutes	High	96.7	95.3	95.7
	Low	3.3	4.7	4.3
	Significant difference*		ns	
Universities/teaching institutions	High	95.5	89.4	90.8
	Low	4.5	10.6	9.2
	Significant difference*		.10	

* Chi-square test for 2 degrees of freedom.

TABLE 6 : RECOGNITION AS RELATED TO EXPERIENCE OF SCIENTISTS WITH HIGH COMMITMENT TO ORGANISATIONAL GOALS

Experience	Recognition				Difference (per cent)
	High %	N	Low %	N	
High	98	201	86	201	12
Moderates	93	244	87	301	6
Low	98	108	83	130	15

tional recognition. Scientists in this category gather experience as they move from organisation to organisation. As they grow old they tend to identify themselves with one organisation. At this stage they require recognition as a motivating force to commit them to organisational goals. In the case of new entrants, recognition is very important as it helps them to establish themselves.

Researcher-supervisor relationship increases commitment to organisational goals as it gives to a scientist a sense of participation in the system.

To sum up, it may be said that it is not sufficient for a country to pump in more monetary investment into scientific research. It must create a climate that is conducive for the flowering of creative talents. For this the young scientists must be made to feel committed to organisational goals. This cannot be obtained by changing the organisational system or by providing more facilities alone. It can be done by properly manipulating environmental factors such as those studied in this paper.

Notes

1 William Kornhauser, "Scientists in Industry", University of California Press, Berkeley and Los Angeles; 1962, p 12.

2 Berney G Glasser: "Differential Association and the Institutional Motivation of Scientists", *Administrative Science Quarterly*, Vol 10, 1965-66, pp 82-97.

3 Alvin W Gouldner: "Cosmopolitans and Locals: Toward an Analysis of Latent Social Roles — II", *Administrative Science Quarterly*, 2 (March 1958), 465.

4 Berney, G Glasser: "Differential Association and the Institutional Motivation of Scientists", *op cit.*

5 Leo Meltzer and James Salter, "Organisational Structure and the Performance and Job Satisfaction of Physiologists", *American Sociological Review*, 1962, 27, 351-362.

Criteria for Evaluation of Capital Projects

A Comment

L C Gupta

IN their article ('Criteria for Evaluation of Industrial Projects', August 28, 1971, pp M-105-114) Dave and Bhatt have raised some interesting issues which need to be given a closer look.

Minimum Rate of Return

First, as regards their method of deriving the minimum rate of return on capital. They rightly observe that, since the market rate of interest, which is regulated by the Government, may not reflect the true social cost of capital, the cut-off rate of return for evaluating industrial projects need to be fixed at a higher level. They proceed to derive the minimum rate of return from the targeted rate of growth in industrial production and the corporate propensity to save, as follows:

> From the Company Finance data published by the Reserve Bank, it is observed that roughly one-half of net cash flow, generated by the existing capital, returns in the form of gross fixed assets formation. Thus if net cash flow were 50 per cent of capital, the gross fixed asset formation would take place at the rate of 25 per cent per annum. For net capital stock to grow at the rate of 8 to 10 per cent per annum, therefore, net cash flow must be at least 15 to 20 per cent of capital. The minimum rate of return on capital, in other words, should be above 15 per cent in the Indian context.

This procedure of deriving the minimum rate of return on investment is open to several objections. First, the net cash flow has been equated here with the minimum rate of return. As ordinarily used, the term 'net cash flow' represents the cash flow generated by the operations of an enterprise, net of current expenses. (How far the netting out process is carried depends upon the objective of analysis. Interest payments and corporate taxes may or may not be netted out depending upon the objective). It is easy to convert the net profit figure to net cash flow by adding back to the former the amount provided for depreciation which is a non-cash item. Thus, cash flow is always inclusive of depreciation allowance. On the other hand, the minimum rate of return on capital has to be exclusive of depreciation. It is, therefore not correct to equate the minimum rate of return to net cash flow.

Further, the authors seem to assume that capital formation in the corporate sector would have to be wholly financed from internally generated funds. That is why, taking the corporate saving propensity to be 50 per cent they require a net cash flow of at least 15 to 20 per cent of capital in order to achieve an annual growth rate of 8 to 10 per cent in net capital stock. However, corporate growth need not be financed entirely by internal funds. In fact, over the last decade in India, the corporate sector's gross saving has financed roughly only one-half of its capital formation.

A more fundamental objection to the procedure suggested above arises from the fact that, neither the corporate saving propensity nor the targeted rate of corporate growth are directly relevant to the calculation of the minimum rate of return on *future* investment projects. The procedure in question would imply that the minimum rate of return for corporate investment projects can be derived from a few selected facts about the corporate sector, irrespective of what may be happening in the other sectors of the economy. This, however, is not so. In economics, the required rate of return is an *opportunity cost* and is wholly a question of the available investment opportunities *vis-a-vis* the available resources for the economy taken as a whole.

NPV *versus* IRR

Comparing the Net Present Value method with the Internal Rate of Return method, the authors observe:

> The basic difference between NPV and the IRR lies in the assumption regarding interest rate and the treatment of depreciation.

As regards the treatment of depreciation, they explain that, while in the case of the NPV method an allowance for depreciation calculated by the sinking fund method is "deducted before arriving at the value of the net cash flow", in the case of the IRR method, the net cash flow is defined inclusive of the allowance for depreciation.

It is submitted that there is a conceptual confusion here. The mistake lies in deducting depreciation before arriving at the value of the net cash flow for calculating NPV. It may be asserted that there is absolutely no difference between the NPV and the IRR methods in the treatment of depreciation. Under both methods, the net cash flow has to be taken inclusive of depreciation. Both methods look at *cash* flow and, it must be remembered that, depreciation is a *non-cash* item. Under both methods, depreciation is automatically taken care of because, both forms of return (i e, NPV and IRR) represent only the excess of cash inflows value over the initial capital expenditure. A deduction for depreciation from net cash flow would, therefore, amount to counting it twice. Hence, there is no question of any express provision for depreciation in NPV as well as in IRR. The figures of net cash flow for net present value, as given by the authors in columns 14-16 of Table 2 are, therefore, not correct.

The authors take an oversimplified view of the problem of evaluation in a situation of capital rationing. The solution they suggest is to rank the project according to their rates of return, and then to go on selecting the projects in the order of their ranking until all capital is exhausted. This is an oversimplified view, because it ignores altogether both the basic problem of choosing the appropriate discount rate in a situation of capital rationing and the fact that the ranking of projects is *not* independent of the discount rate selected. The authors' preference for IRR against NPV seems to arise from their oversimplified view of the problem and is contrary to the recognised theoretical superiority of NPV over IRR.

Reply

S A Dave

V V Bhatt

L C GUPTA in his Comment has raised issues which, we submit, were not adequately explained in our article. We take this opportunity to clarify and further elaborate the points that have given rise to these questions.

Minimum Rate of Return

First, the question of derivation of the minimum rate of return on capital. The rate of return (RR) as the method of computation in our article implies, is defined as the ratio of undiscounted value of net cash flow to the capital expenditure. If C=capital expenditure, and B=undiscounted value of annual net cash flow, the RR is simply $\frac{B}{C}$. The internal rate of return (IRR), on the other hand, is that rate which would give the discounted value of the stream of net cash flow to be equal to C. *In other words, the internal rate of return, r, is such that*

$$C - B\sum \frac{1}{(1+r)^n} = 0$$

where n= life of the project. If r is positive (we are interested only in positive values of r) and n sufficiently large (strictly speaking $n \to \infty$), r can be approximated by $\frac{B}{C}$. For smaller values of n, naturally, there will be some divergence between the values of IRR and RR. To illustrate, assume that capital expenditure on a project is incurred in the first year, and the capacity output is achieved from the second year. For simplicity, assume that the salvage value of capital is zero. The influence of n (years of working life of the project) on IRR and RR can be seen from the following table:

n	IRR	RR
15	15	17.28
20	15	15.98
25	15	15.47

Thus for n equal to 15 (16 years including the year of construction), difference between the IRR and RR is 2.28 for an IRR of 15.

Normally, however, the construction lag is longer and the capacity output is not reached in the very year a project is commissioned. In such cases, divergence between the IRR and RR would be still larger. Take the case of a project where capital expenditure of Rs 100 is spread over a period of three years, and the capacity output is reached in the next three years as shown in the following table:

Year	1	2	3	4	5	6-20
Capital expenditure	20	30	50	—	—	—
Net cash flow	—	—	—	0	13	23

This project is 'assumed' to have a life of 20 years with the salvage value of capital equal to zero. The IRR of the project is 15, whereas the equivalent RR is 23. In all realistic problems, an IRR equal to 15 per cent would very likely be equivalent to RR of 20 to 24 per cent.

If the rate of return is between 20 and 24 per cent, the annual rate of growth of gross capital formation, as the Company Finance data suggest, would be between 10 and 12 per cent. The rate of growth of gross fixed assets would also be the same, as long as the proportion of inventories in gross capital remains constant. If we further assume that average life of capital is 15 years with zero salvage value, the annual depreciation requirement by the sinking fund method at an IRR of 15 is two per cent of capital. Consequently, the rate of growth of net fixed assets formation would be between 8 and 10 per cent. An IRR equal to 15 per cent, therefore, is likely to yield 8 to 10 per cent rate of growth in net fixed assets formation.

The crucial assumption here is that n is sufficiently large; and this assumption, as is shown later, is the basis of our article We have explicitly suggested in our article that at least 15 years of the working life should be taken into account for project evaluation. We would like to emphasise the word *at least* and qualify that the years of working life should be years of capacity output. This certainly is a somewhat crude way of transforming more easily understandable RR into IRR; but there is only a small loss of accuracy so far as the derivation of the cut-off IRR is concerned.

We have *not* assumed that capital formation in the corporate sector would have to be entirely self-financed. In fact, only half of the net cash flow generated by the corporate sector returns in the form of gross capital formation. The other half of the net cash flow remains with the rest of the economy and depending on the saving propensities of all other recipients, (i e, government, banks, financial institutions, directors, shareholders), a part of the capital formation in other sectors might be financed out of the net cash flow generated by the corporate sector. It is true that the corporate sector does borrow from banks, financial institutions, and the household sector for the purpose of capital formation. But it also pays them, and the payments to all the recipients taken together exceed what it borrows from them.

We are interested in this article in evaluation of projects in the industrial sector. It is certainly true that, for any investment, we should examine its opportunity cost in the entire economy. We do not question this. But once certain funds are earmarked for the industrial sector there is a problem of selecting projects for the efficient utilisation of resources allocated to this sector. Our article deals only with this problem.

NPV *versus* IRR

Gupta is correct in pointing out that the cash flow for NPV and IRR should not be different and that figures in columns 14-16 in Table 2 are incorrect. Figures given in columns 11-13 would hold both for NPV and IRR.

We do not deny that, if an appropriate social rate of discount is known, we should use that rate for discounting and projects which have positive net present value should be selected. This would be the correct procedure if there were no capital rationing and each project is selected on its own merits. The 15 per cent cut-off rate suggested in our article is nothing but a rate of discount based on declared social preference for 8-10 per cent annual growth in industrial production. This is an objective of the Fourth Plan. The statement that the NPV of a project is positive at 15 per cent discount rate, or that its IRR is above 15 means exactly the same and the project would be selected on either criterion.

But the situation is different when there is capital rationing. The ranking could differ depending on whether we use NPV or IRR as the criterion. In theory, it is not difficult to devise problems where ranking according to IRR and NPV are different or even diametrically opposite. This would depend on the timing of the future stream of net cash flow and the 'assumed' life of the project. An example was given by us on page M-110. But, in reality, project life does not get over so soon. If we assume that (i) the projects under consideration will continue perpetually and that (ii) a project with an 'assumed' project life would at least earn a return equal to the IRR of the next lower ranked project till the end of the 'assumed' life of the longest lasting project, there should not be any conflict in ranking according to either criterion. The second assumption is more important when the 'assumed' lives of different projects are unequal. In the case of the first assumption we only need n to be sufficiently large.

In practice, however, a project analyst does not estimate net cash flow for a very long period because of the obvious problems of estimation. What he normally does is to truncate the net cash flow of a project at the end of the 'assumed' life and take credit for the salvage value of capital. But the salvage value of capital, and, therefore, the net cash flow during the terminal year (years, in case there was capital replacement) does not sufficiently reflect the productivity of the terminal stock of capital. If the 'assumed' life of the projects is sufficiently long, both criteria would very likely yield an identical set of ranked projects. If the 'assumed' life is short enough to give different ranking according to these two criteria, sideline considerations regarding the productivity of terminal capital stock should be taken into account. From a practical point of view, we believe that, so long as n is reasonably large (at least 15 years of working life), ranking according to IRR should be preferred. This would obviate problems associated with the estimation of the productivity of the terminal stock of capital.

PAY INCOME-TAX PROMPTLY

on NOTICE OF DEMAND

On failure to pay income-tax within the period specified in the Notice of Demand issued by the Income-tax Department, the tax can be recovered through various processes under the law.

If, on account of some genuine difficulties, it is not possible to pay the income-tax in time, then, an application may be made, within the period specified in the Notice, to the Income-tax Officer for extension of time or for instalments which he will consider on merits. Any application made after the expiry of period specified in the Notice of Demand is invalid in law and, therefore, cannot be entertained.

CENTRAL BOARD OF DIRECT TAXES
(Department of Revenue and Insurance)
Ministry of Finance,
Government of India

davp 71/306

ECONOMIC AND POLITICAL WEEKLY

Founder-Editor: Sachin Chaudhuri

Vol VI No 50 December 11, 1971

Lost Balance of Power — Long Way to Economic Independence — Diplomatic Failure 2454

Business 2456

Letters to Editor 2458

Companies 2459

From Our Correspondents

Soviet Union and the War 2461

Chile and the Lessons of Legal Socialism —Pradip Krishen 2463

Perspectives

Problem of Refugees from East Bengal —P N Luthra 2467

The Fourth Estate 2473

Review Article

On Irrelevance in Economics of Employment —Bimal Jalan 2474

Special Articles

Changing Consumption Pattern in Punjab: Projections of Consumer Demand for 1973-74 —Amarjit Singh Haramol Singh 2479

The Market for Graduates: A Field Report —Enno W Hommes Nivedita Trivedi 2486

Civil Strife and Doctrine of Responsibility: A Comment on the Events in Ceylon —R S Perinbanayagam 2491

ECONOMIC AND POLITICAL WEEKLY
Skylark 284 Frere Road Bombay 1
Phones 266072, 260566, 260192

Editor
KRISHNA RAJ

Assistant Editors
Rajani X Desai, Jawid Laiq

Business Manager: A Fernandes
Circulation Manager: Shiv Patil

Editorial Staff
Colin de Souza, Haresh M Advani
Shireen Heerjee, Ashok Rao

The First Week

THE first week of the war has unfolded largely according to expectations. Indian forces in the east have advanced as planned — the only surprise was the hasty withdrawal of the Pakistan army from Jessore — but are now bound to meet tougher opposition as they come up against the concentration of enemy forces ringed around Dacca, unless of course there is a wholesale surrender by the beleaguered West Pakistanis even if this unlikely surrender takes place, the Indian army has a delicate job ahead of it in maintaining a modicum of law and order in Bangla Desh, especially in preventing an outbreak of killings of non-Bengali civilians by aggrieved Bengalis. Plans for establishing civil rule in the liberated areas are well in hand; IAS and IPS officers are about to be seconded to Bangla Desh to smoothen the administration of a war-ravaged land.

In the west, the war has closely followed the classical pattern of 1965. The main confrontation has been in the Southern Kashmir-Punjab sector where both sides are firmly established in extremely well-entrenched defensive positions. Even the smallest offensive in positional warfare conditions involves heavy casualties. The Pakistanis have at heavy cost tried to break through our defensive network at Chhamb in order to approach the vital Jammu-Srinagar road, but have been pushed back every time. In spite of local advances into Sind from Kutch and the Jaisalmer and Barmer regions of Rajasthan, our basic interest in the west, for military as well as political reasons, is to maintain a defensive posture till Bangla Desh is totally liberated. It is only then that we will be able to agree to a cease-fire. As Pakistan has conspicuously failed to occupy any significant territory in the west, it will not readily agree to stop fighting as soon as it has lost in the east. This suggests the present war will probably go on longer than the last one, unless there are dramatic developments in the international field which lead to unexpected diplomatic and economic pressures on the two combatants.

The United States seems to have lost all semblance of serenity now that the balance of power in the subcontinent — which has so frequently been used by the big powers as an excuse for interference — is being radically altered. Economic aid, that age-old instrument for arm-twisting, has been cut off, at least for the time being. The Government of India does not seem unduly alarmed by this predictable manoeuvre, especially as it now seems to have the full backing of the Soviet Union both in and outside the UN. In the Security Council the Russians vetoed two resolutions which were not suitable to India as their accent was on a cease-fire and mutual withdrawal of troops to pre-war frontiers rather than concern for the political problem of Bangla Desh. Due to the deadlock at the Security Council, the whole question was transferred to the General Assembly where the predominant concern was to bring about peace without worrying too much about what kind of peace it would be.

As far as declarations in the UN go, the Chinese have been as concerned about the integrity of Pakistan as the United States, although the Chinese speeches have been more virulently anti-Russian than anti-Indian, in contrast to US statements which have focused on Indian 'aggression' but have been relatively silent about Soviet backing for India. While the Chinese, for the moment, may appear to be against the breakup of Pakistan it is most unlikely that they will back their words with any deeds on the Himalayan frontier. That they are taking a very long-term view of political developments within the subcontinent is substantiated in an interview with Chou En-lai before the war broke out, published in the *Sunday Times* (London) last week, where the Chinese Prime Minister's tone clearly suggests that he is thinking of a revolutionary situation developing in and around Bangla Desh in the long term: "If India should brazenly provoke a war, can it benefit from it and can the problem be solved? Once a war breaks out both sides, not just one, will incur losses. You know what our attitude will be if a war breaks out between India and Pakistan. We firmly support Pakistan against India's subversive and aggressive activities. India would *in the end* taste the bitter fruit of its own making. And from then on there would be no tranquillity on the subcontinent." (Emphasis added). It seems likely then, that once Bangla Desh becomes a reality, China will turn towards aiding potential revolutionary forces in Bangla Desh against the established Awami League government. At the same time it would try to maintain good relations with the government of the Pakistan that remains in the west. In the interim period, it might even soften its posture towards the Government of India.

US and the War

Lost Balance of Power

THE policies of the Nixon administration towards the developments in what was East Pakistan and the war between India and Pakistan have to be viewed within the framework of the concepts of balance of power which have, ever since the Second World War, exercised a dominant influence on the foreign policy of succeeding American governments. It may seem, from the considerable criticism to which it has been subjected by American political and public opinion, that the US position is the outcome of the peculiar prejudices of the present administration or even of the present President. This is not the case, however.

American policies towards South Asia have been based on the premise of the existence — and the need for maintenance — of a balance of power between India and Pakistan. Linked with this has been another sort of balance which the Americans have been trying to sustain — that between the relative influences wielded by the great powers over the South Asian region. In a report to the US Congress made in February this year on 'US Foreign Policy in the Seventies' President Nixon had defined a major objective of US policy in South Asia as being "to bring our activity [in the region] into a stable balance with that of the other major powers with interests in the area". Expanding on this, President Nixon said in the same report: "We will try to keep our activities in the area in balance with those of the other major powers concerned. The policy of the Soviet Union appears to be aimed at creating a compatible area of stability on its southern borders, and of countering Chinese communist influence. The People's Republic of China, for its part, has made a major effort to build a strong relationship with Pakistan. We will do nothing to harm legitimate Soviet and Chinese interests in the area. We are equally clear, however, that no outside power has a claim to a predominant influence, and that each can serve its own interests and the interests of South Asia best by conducting its activities in the region accordingly."

It is now possible to see why the US has reacted with such alarm to the war between India and Pakistan. The liberation of Bangla Desh by the Indian army completely upsets the so-called balance of power between India and Pakistan, such as it ever was; by emaciating Pakistan and extending India's influence to what was till now, population-wise, the bigger part of Pakistan. Further, the Soviet role in this development, according to the Americans, went way beyond "creating a compatible area of stability on (the Soviet Union's) southern borders and of countering Chinese communist influence". Also, the Soviet Union had acquired in the process "a predominant influence" in the area — something forbidden to an outside power. Soviet diplomacy in the 1965 Indo-Pak war, culminating in the Tashkent conference, did boost Soviet influence in South Asia, but this had been done within the rules of the balance of power game as envisaged by the United States. The Soviet Union had then played the role of the honest peacemaker without seriously disturbing the political status quo in the subcontinent.

The US government has alleged that the Indian intervention in Bangla Desh came at a time when secret negotiations were under way to find a political solution to the problem posed by East Bengal's demand for autonomy. It is impossible to say whether any such negotiations were in fact in progress; the Government of India as well as the leaders of the Awami League have denied knowledge of them. However, more generally speaking, the Americans were no doubt concerned about finding a solution to the problem of East Bengal's relations with Pakistan. Of course, in these efforts the dictates of preserving the balance of power between India and Pakistan by safeguarding the integrity of Pakistan predominated over the need to fulfil the just political aspirations of the people of East Bengal, but in this the Nixon administration was only following the logic of successive US administrations in underwriting manifestly repressive regimes and political arrangements to safeguard what were seen as legitimate US interests in different parts of the world.

The criticism of its policies which will hurt the Nixon administration most is not Senator Edward Kennedy's moralistic broadsides but the charge of Senator Fred Harris that "we have not saved Pakistan ... [while] we have driven [India] firmly into Soviet arms". Since there appears to be little that can be done to "save" Pakistan, the Nixon administration (or the one that replaces it next year) will now proceed to try to reduce Soviet influence over India. Therefore, those in this country who foresee hard times ahead without US succour in its various forms will not have to wait long to see their worst fears proved wrong.

Bangla Desh

Long Way to Economic Independence

IT was evident from the very start that East Bengali nationalism had a real economic content. The middle class—whose aspirations the Awami League represented and incorporated in the six points put forward as the terms for East-West Pakistan co-existence—was discontented with the growing disparity between the two wings and was aware that autonomy could yield greater economic gains to the East. It was not merely that disparities had been growing in terms of gross provincial product (GPP) but that the economic relationship between the two wings had progressively become colonial in character. Industrial development and diversification had taken place primarily in the West which, by its control of the central government managed to corner industrial growth and economic power. The East became a source of foreign exchange, through the export of jute goods, and a market for West Pakistani manufactures and investments. The autonomy sought by East Bengal was to break through this stranglehold and check the net flow of resources out of East Bengal.

Now, with liberation by the Mukti Bahini 'in concert with' the Indian armed forces apparently close at hand, Bangla Desh will soon have to face up to the tasks of realising its economic dream. That dream, as conceived by the Awami League, in any case never had much radical content. But even the more limited aims of self-determination and a maximum GNP growth may not be easily achieved. The new, emerging 'links' were outlined by Hossain Ali, the Bangla Desh envoy, early this week when he said that as the liberation of his country was completed economic collaboration with India would begin. The first task would be that of massive reconstruction of communications and industry. For that, help will primarily come from India, and from such other countries as will recognise Bangla Desh and its needs—among them Hossain Ali cited Britain whose investments in plantations are sizeable. India's investment in Bangla Desh will have been sizeable, too, by the time the war ends and India should be keen to encourage economic co-operation with Bangla Desh. Hossain Ali stated that Bangla Desh would be benefited by any kind of economic co-operation with India; it needs developmental materials like coal, cement and so many other things and Bangla Desh can give in return many items like raw jute, fish, etc.

Not long after the civil war began, there were already high-level deliberations in New Delhi in May to map out how the most could be gained from East Bengal's major curtailment of jute goods exports. By Hossain Ali's own revelations, though the Bangla Desh board of trade had asked India to purchase, through the STC, some 80,000 bales in storage in the liberated areas for re-export so that the foreign exchange could be held in credit for Bangla Desh for future use, we had legalistically refrained from doing this. After all, we had not recognised Bangla Desh. At the same time, our mills did purchase vast quantities (reportedly Rs 80 crores worth) of raw jute—at cut-rates.

Assistance for reconstruction of the Bangla Desh economy should also follow and will, no doubt, establish markets for our industries. Much of the Rs 100 crores worth of goods hitherto annually imported by Bangla Desh from West Pakistan would now be supplied from India. After Pakistan imposed quantitative import control in the early fifties and West Pakistan industry began to develop, a wide range of manufactures—cotton textiles, cement, sugar, chemicals, drugs and pharmaceuticals, salt, paper, footwear, and provisions—comprised much of East Bengal's imports from West Pakistan. These are all items that our diversified industrial base can export with ease to a ready market, and our established private industry straining to expand, can have a field day in another ready, protected market. Among the industries declared strategic since the outbreak of war is the textiles industry, to which credit has been further liberalised to step up production. There will be relief for our cement-surplus south and a strengthened case for further units in the 'deficit' north and east. In return, raw material for our jute goods and paper industries might become more readily available from Bangla Desh, and fish supplies will increase to West Bengal.

That is not all. West Pakistani investments in Bangla Desh used to yield Rs 30-40 crores annually. Indian capital, already in the collaborations business abroad, can now find a grateful recipient in Bangla Desh. Said Hossain Ali, he wished "friends would visit Bangla Desh and spend money there".

The initial flow of goods to Bangla Desh will be under Government of India 'credits'. Companies are already getting organised to take advantage of these credits and to help Bangla Desh recuperate. The process should be helped along by the Indian Administrative Service on which apparently will fall the major burden of re-installing civil administration in Bangla Desh.

United Nations

Diplomatic Failure

TWO things about the UN General Assembly resolution, calling upon India and Pakistan to cease fire and withdraw to their own territories, appear to have taken the Government of India by surprise. First, the speed with which the resolution was passed and, second, the overwhelming support which it secured. The Government had evidently expected that the General Assembly would take a few days to debate the "complex situation" by which time, it was confident, the Indian army would have more or less completed the liberation of Bangla Desh. As it happened, it took the General Assembly only a few hours to complete the debate on the motion moved by Somalia and a number of other countries and to adopt it. Similarly, while it probably did not expect to muster enough support to defeat the motion, it has come as a surprise to the Government that except the Soviet bloc countries, it got the backing of only Bhutan and Cuba. The line-up during the earlier abortive debates in the Security Council should have prepared us for some such outcome. Even so, it has not been easy for the Government to accept the fact that even countries like Yugoslavia, Ceylon, and the UAR, supported the resolution when they might have at least abstained.

The reaction in the country to the vote in the General Assembly has been, predictably, to argue on the one hand that the resolution is irrelevant and we should not allow it to interfere with whatever we are doing in Bangla Desh and on the other to question the motives of the United Nations and the countries with whose behaviour we are displeased. That the General Assembly resolution need not bother us too much may be warranted. Given the continued support of the Soviet Union, there is little danger of the UN being able to take any action to implement the resolution. At the same time, there is no gainsaying that the voting in the General Assembly was a diplomatic debacle. At the very least, it bore out the criticism that the sending out of a continuous stream of politicians on inter-continental jaunts all through the summer to explain the Indian position on the developments in Bangla Desh had been a complete waste of time, money and effort.

More serious than this, however, is the criticism of the United Nations. The petulance and self-righteousness which mark much of this criticism only serve to emphasise our diplomatic failure. It has been alleged that the overwhelming vote for the resolution was the result of pressure by the US. After being stymied by the Soviet veto in the Security Council, the US was obviously keen to push through the re-

Sachin Prize

The last date for submission of papers for the Sachin Prize, 1971, is extended to January 31, 1972.

Three annual prizes of Rs 1,000 each have been instituted by the Sameeksha Trust to perpetuate the memory of the late Sachin Chaudhuri. Prizes are to be awarded for the best paper each in Economics, Sociology and Politics. The papers must be concerned with application of theoretical concepts to interpretation and analysis of Indian situations. Authors must be persons of Indian nationality, not more than 30 years of age as on December 31, 1971.

Papers should be between 5,000 and 8,000 words, typewritten, and should be sent with two extra copies to the Editor, *Economic and Political Weekly*, Skylark, 284 Frere Road, Bombay-1.

solution in the General Assembly, but it can scarcely be argued that countries like Yugoslavia, Ceylon, the UAR as well as a number of other African and Asian nations supported the resolution only to please the United States or China. Similarly, it has been maintained that countries voted for the resolution without regard to the long chain of events, since last December's elections in Bangla Desh, which finally led to the outbreak of war between India and Pakistan. In this context it might be instructive to look back at our own record in the matter of seeing grave international issues in their proper context. How often have we, for instance, equated the presence of American troops in Vietnam with that of the forces of the National Liberation Front and demanded — in a posture of apparent impartiality — the withdrawal of *all* troops from Vietnam?

The fact is that, like us, other countries generally look at international issues in terms of their self-interest and, in these terms, it made no sense to a very large number of Asian, African, and Latin American countries to support India against Pakistan in Tuesday's vote in the General Assembly. As most countries see it, there is a war on between India and Pakistan and they voted for putting an immediate end to the fighting. The issue of the return of the refugees, vital to India, was not altogether ignored; one of the paragraphs of the resolution urges that efforts be intensified to bring about "conditions necessary for the voluntary return of the East Bengal refugees to their homes".

The United Nations has been charged also with having done nothing at all to tackle the situation created by the inflow of refugees into India and having woken up only after the outbreak of fighting between India and Pakistan. There is much substance in this criticism, but it might well be asked why India itself did not raise the issue in the UN — something which it could have done at any time during the eight months since March but which, perhaps rightly, it deliberately did not do so as to keep its option open.

On the whole, the shrillness of the criticism of the United Nations in this country on this occasion reminds one of Adlai Stevenson's statement, on behalf of the United States, after the Indian takeover of Goa and after the Soviet veto of the Western resolution on the subject that the UN was witnessing "the first act in a drama which could end with its [UN's] death".

BUSINESS

Oligopoly by Licensing

THE Government is reported to be considering permitting Tata Chemicals to further expand its soda ash capacity from 1,000 tonnes to 1,400 tonnes per day. Other reports suggest that the proposal sponsored by Saurashtra Cement and Chemical Industries of the Nanji Kalidas group has, after four years of waiting, at last come up for Cabinet approval — thanks largely, it appears, to the persistent interest shown in the proposal by the Gujarat government.

The history of licensing in the soda ash industry clearly illustrates how licensing has often encouraged the perpetuation of monopolistic situations in industries. Soda ash production increased more than five times between 1955 and 1969 and the number of units rose from two to four — Tata Chemicals, Saurashtra Chemicals (Birla), Dhrangadhra Chemicals (Sahu Jain), and another unit belonging to the EID-Parry group. The Tata and Birla units between them, however, account for 85 per cent of production.

Licensing of capacity in this industry in the Second and Third Plans bore little relationship to the Plan targets of production or capacity. At the beginning of each Plan, a great deal of capacity was licensed, in excess of the Plan targets. According to the report of the Licensing Policy Inquiry Committee, the Second Plan target of capacity was 2,53,000 tonnes, whereas the capacity actually licensed was 4,76,000 tonnes; for the Third Plan the corresponding figures were 5,30,000 tonnes and 7,05,000 tonnes. Fortunately, in the Second Plan, non-implementation of licences was just enough to make the capacity installed equal to the targeted capacity. But in the Third Plan, non-implementation was much larger, with the result that the capacity actually created was only 60 per cent of the Plan target.

Over-licensing has been a major factor responsible for non-implementation of licences in the soda ash industry, and it has acted as a barrier to the entry of new units. The risk of idle capacity is more forbidding to the new entrant than to the existing producer with an established, often diversified, production base. The new entrants with licences, therefore, hesitate to go ahead with their projects, leaving the field open for the established concerns to implement their substantial expansion licences. If there were a better balance between licensing of capacity and the Plan target and likely demand, then the new entrant to the industry would have confidence to go ahead with his project.

There are other aspects of licensing policy which have also served to perpetuate the oligopolistic structure of the soda ash industry. The Licensing Policy Committee found that, between 1956 and 1966, a number of applications for soda ash units had been rejected, mostly on the ground that there was no scope for creating further capacity in the industry. And yet the existing units belonging to the large houses of Tata, Birla, and Sahu Jain, were allowed substantial expansion of capacity from time to time. The existing producers were also permitted to expand and perpetuate their domination over the industry on the ground of their experience in the industry. This is clearly suggested by the revocation of the licence granted to a small group, Bhiwandiwala, simply on the ground that licences for additional capacity should be given to experienced producers.

The Licensing Policy Committee did not find, from the evidence available to it, that there were any strong techno-economic reasons which justified the policy of creating new capacity in soda ash only through expansion of the established units. And when techno-economic factors were advanced in support of licensing decisions, the reasoning was often completely irrelevant. To quote the Licensing Policy Committee's report: "Another case where a small party — Saurashtra Cement and Chemical Industries — was attempted to be treated unfavourably as compared to large houses — Saurashtra Chemicals (Birla) and Tata Chemicals — is in respect of soda ash. The difficulty put forward was that there was not enough limestone. All the three units were proposed to be located in Saurashtra (Gujarat), and the inadequacy of limestone deposits could have been expected to affect all the units equally."

Finally, as licensing of capacity in soda ash, like in most industries, is not done on the basis of long-term planning, the standard practice has been to license fresh capacity only after shortages appear. This has naturally weighted the scales in favour of the established units who can claim to be able to expand capacity in a shorter period of time than a new entrant to the industry.

It is against this background that Saurashtra Cement and Chemical's application for a licence for a soda ash unit becomes important. This case will be a test of whether the licensing authorities persist in the approach of preferring established units belonging to the large houses to new entrants without any technical or economic justification for doing so. Also, if along with granting a licence to Saurashtra Cement and Chemical Industries, the licensing authorities proceed to license capacity far in excess of demand (by simultaneously permitting substantial expansion of one or more of the established units) then once again, as so often in the past, the dice will be loaded against the new entrant into the industry. In the past, this policy has resulted in non-implementation of licences. This may be expected to happen again, leaving the present oligopolistic structure of the soda ash industry intact. Clearly, this would be contrary to the Government's proclaimed policies of encouraging new entrepreneurial groups and fostering competition.

Joint Ventures Abroad

Selective Study

WHEN in response to charges of malpractices levelled by the Minister for Industrial Development against Indian industrialists participating in joint ventures abroad, the Federation of Indian Chambers of Commerce and Industry announced sometime in August that it had decided to conduct a study of such ventures, it was of course not expected that FICCI would go out of its way to throw light on the nature of the malpractices or the identity of the culprits. The main allegation of the Minister was that Indian parties who had been allowed to invest in the joint ventures were not remitting to India dividends, royalties, and technical fees, earned by them.

The results of the FICCI study have now been published; as expected, the study provides little fresh information. Even if FICCI could not be expected to look too closely into the alleged leakages of foreign exchange, it should have been possible for it to give detailed information about the joint ventures which is now lacking. Only section II of the study gives some limited factual account of the joint ventures already set up. Even this is likely to be of some interest until more details are unearthed by some other official or non-official study.

The FICCI study reports that total sanctioned Indian investment in all joint ventures so far amounts to about Rs 17.8 crores of which that in projects under production and implementation comes to Rs 4.5 crores and Rs 9.8 crores, respectively. The Indian role in these ventures is confined mostly to supply of machinery and equipment and technical knowhow, all of Indian origin. The study reports that with a few exceptions, all the 28 completed projects have been in production for only about two years or less. Foreign exchange amounting to about Rs 1 crore, earned by way of dividends, fees for technical knowhow and management and royalty, has already been remitted to India. The ventures have also earned foreign exchange worth about Rs 4 crores through export of machinery, equipment and raw materials. The FICCI study is at pains to emphasise that in view of teething troubles and likely losses in the first few years of operation of industrial projects, it would be too much to expect in the short run a large inflow of foreign exchange earnings through Indian joint ventures abroad.

The study has given limited information about nearly half a dozen cases of joint ventures which have earned and remitted their earnings to India as 'illustrative examples'. It is not explained why similar details were not given for the other joint ventures which have been completed. It is possible that the new office bearers of FICCI, who are so keen to improve the 'image' of the business community, were not able to persuade the Indian partners in all these joint ventures to co-operate in the task of refuting the charges levelled against them. Not surprisingly, therefore, the FICCI president's foreword to the study report makes no mention of the Union Minister's charges which had prompted the FICCI to undertake the study.

West Bengal

Forgetting the Closed Units?

A Correspondent writes:

THE new package of incentives announced by the Government of West Bengal to attract entrepreneurs to make fresh investments in the state appears to be a not-so-clever move to cover up the Government's failure to implement the 16-point programme which the Union Minister in charge of West Bengal, S S Ray, had earlier announced with much fanfare. Ray had then promised to take over all the 356 closed industrial units in the state "free of encumbrances".

About three months have elapsed since the Minister's proclamation but so far not even one of the 16 points has been taken up for implementation. Apparently, both New Delhi with whose blessings the programme was announced, and Writers' Building in Calcutta are now visibly less enthusiastic about reopening the closed units and providing employment to the over 1.25 lakh people who have been thrown out of jobs—notwithstanding the Industrial Reconstruction Corporation of India and the amendment of the Industries (Development and Regulation) Act specifically to facilitate take over of closed and badly run units. Has Governor Dias's administration at last discovered that talking about reopening closed units is not quite the same thing as actually reopening them? Hence perhaps the attempt to divert public attention from the failure to do first things first.

The excuse till now put forward by many industrialists in West Bengal for keeping their units shut was the law and order situation. But both Minister Ray and Governor Dias have been claiming spectacular improvement in the law and order situation. And yet most of the industrial units which had been closed still remain closed. What new excuses are the Government and the industrialists going to put forward now? There are faint murmurs that many closed units are "not economically viable" and that their take-over would necessitate pumping in of very large sums of money by the Government. But was this not evident to the Government when it had announced its 16-point programme? In any case, what response can the state Government expect to its new package of incentives when hundreds of units remain closed for months and over 70 per cent of the units work below 50 per cent of their rated capacity?

Clearly, the task of industrial reconstruction in West Bengal calls for a far less simple-minded approach than that reflected in the earlier 16-point programme or in the new package programme of incentives.

"Bleak House"

I AM pleasantly surprised to discover that two of your regular correspondents are unconscious humorists in the Dickens vein. On page 158 of the MacDonald edition of the master's Bleak House" appears the following :

"Then there is my Lord Boodle, of considerable reputation with his party who has known what office is, and who tells, after dinner, that he does not see to what the present age is tending. A debate is not what a debate used to be; even a Cabinet is not what it formerly was. He perceives with astonishment, that supposing the present government to be overthrown, the limited choice in the formation of a new ministry, would lie between Lord Coodle and Sir Thomas Doodle—supposing it impossible for the Duke of Foodle to act with Goodle, which may be assumed to be the case in consequence of the breach arising out of that affair with Hoodle. Then, giving the Home Department and the Leadership of the House to Joodle, the Exchequer to Koodle, the Colonies to Loodle and the Foreign Office to Moodle, what are you going to do with Noodle? You can't offer him the Presidency of the Council; that is reserved for Poodle. You can't put him in the Woods and Forests; that is hardly good enough for Quoodle. What follows ? That the country is shipwrecked, lost, and gone to pieces, because you can't provide for Noodle."

While Romesh Thapar operates at this elevated level, Mohit Sen works lower down among the people and the parties, as Dickens suggests in the next paragraph:

"On the other hand, the Right Honourable William Buffy, MP, contends across the table with someone else, that the shipwreck of the country—about which there is no doubt; it is only the manner of it that is in question—is attributable to Cuffy. If you had done with Cuffy what you ought to have done when he first came into Parliament, and had prevented him from going over to Duffy, you would have got him into alliance with Fuffy, you would have with you the weight attaching as a smart debater to Guffy, you would have brought to bear upon the elections the wealth of Huffy, you would have got in for three counties Juffy, Kuffy, and Luffy, and you would have strengthened your administration by the official knowledge and business habits of Muffy. All this, instead of being as you now are, dependent on the mere caprice of Puffy!"

I cannot pretend to the learning of Romesh Thapar or of Mohit Sen, but I hope that they will eventually discover that behind the alienated shadows that they see, behind the reified fantasy that they watch, behind the fetishistic mumbo-jumbo that they purvey, stand the Indian masses at labour. No amount of smart surveys by Thapar and Sen will be able to convey the agonised cry of the landless labourer, or the painful poverty of the city slumdweller. Now, as 136 years ago, "the bones of the cotton-weavers lie bleaching the plains of India".

VINAYAK PUROHIT

Bombay

Forward Trading

IN his comment on forward trading ("More Senseless Curbs", November 13, p 2296) your correspondent seems to give the impression that non-transferable specific delivery (NTSD) contracts have some relationship with futures markets. While in India Government has assumed powers under the Forward Contracts (Regulation) Act, 1952, to regulate NTSD contracts along with futures contracts, nowhere else in the world are NTSD contracts subject to such regulations. By definition, an NTSD contract is any genuine contract for purchase of an article where delivery or payment is made after 11 days. It is, therefore, a contract under which genuine delivery transactions take place day to day at all levels of trading in all commodities.

No industry can plan smooth flow of its raw material requirements except through orders on suppliers sufficiently in advance to take care of the time needed for getting such raw materials ready and transporting them to the factory. Payment usually takes its own time in negotiating documents through banks. Even the small retailer providing credit to its regular customer and quoting payment at intervals is using NTSD contracts. Hospitals, hotels, canteens, etc, purchase cereals, pulses, groundnut oil, etc, on annual contract basis which are all NTSD contracts. It is impossible to ensure that in all these cases both delivery and payment can be completed within 11 days as the ban on NTSD provides.

In this sense the ban on NTSD in cereals, pulses, dals and now groundnut and groundnut oil becomes as unrealistic as would be a ban on knives just because of their use in many cases of homicide.

A C CHHATRAPATI

Secretary
The Vanaspati Manufacturers' Association of India
Bombay

SARDAR PATEL INSTITUTE OF ECONOMIC AND SOCIAL RESEARCH

has vacancies in the following grades : (a) ECONOMIST Rs. 700-50-1100-75-1400 : A good Master's degree in Economics with five years' experience and published work or Ph.D. in Economics with three years' experience essential. Specialisation in one of the following areas desirable : Agricultural Economics, Econometrics, Industrial Economics, Labour Economics, Monetary Economics and Regional Economics. (b) RESEARCH ASSISTANTS : Rs. 300-25-600 : A good Master's degree in Economics and/or Statistics. The posts carry D.A., H.R.A. and C.C.A., and P.F. benefits as per rules of the Institute. Apply with full particulars to the Director, Sardar Patel Institute of Economic and Social Research, Sheth Mangaldas Marg, Ahmedabad-6, by December 25, 1971.

Rising 'Costs', Yet Expanding

Hansavivek

ANDHRA PRADESH PAPER has received 'letter of intent' for expansion by 15,000 tonnes per annum under the 'crash programme'. Applications to the financial institutions for foreign exchange and rupee loans are being submitted. With a substantial increase in production, from 36,907 tonnes to 51,179 tonnes, following installation of balancing equipment, net sales advanced 48 per cent to Rs 9.60 crores and gross profit turned out to be two-and-a-half fold at Rs 2.01 crores. Of this, Rs 1.53 crores were provided for arrears of depreciation for the two years ended June 1970. Depreciation amounting to Rs 1 crore for the latest completed year has not been provided for. There are also arrears of dividend on cumulative preference shares of about Rs 42 lakhs. The profit figures have been arrived at after providing for sole selling agents' and selling agents' commission of Rs 13 lakhs (Rs 9 lakhs). G D Somani, a director, is interested in one of the sole selling agents, Sanjay and Company, as his relatives are partners in that firm. Placid of Calcutta and Thakkar and Company of Bombay are also sole selling agents. Somani and Company Private is the proprietor of the latter firm. It is stated that none of the directors has any interest in the resolution, proposing certain variations in their agents' territories. The company is seeking additional forest ranges from the state government to augment the supply of raw materials as owing to flowering in some of the forest ranges the supply of bamboo has depleted. A nursery for fast growing species of wood has been set up by the company. The company complains that there has been continuous increase in the cost of raw materials, chemicals, coal, and stores. Also, power tariff rose from Rs 400 to Rs 525 KVA.

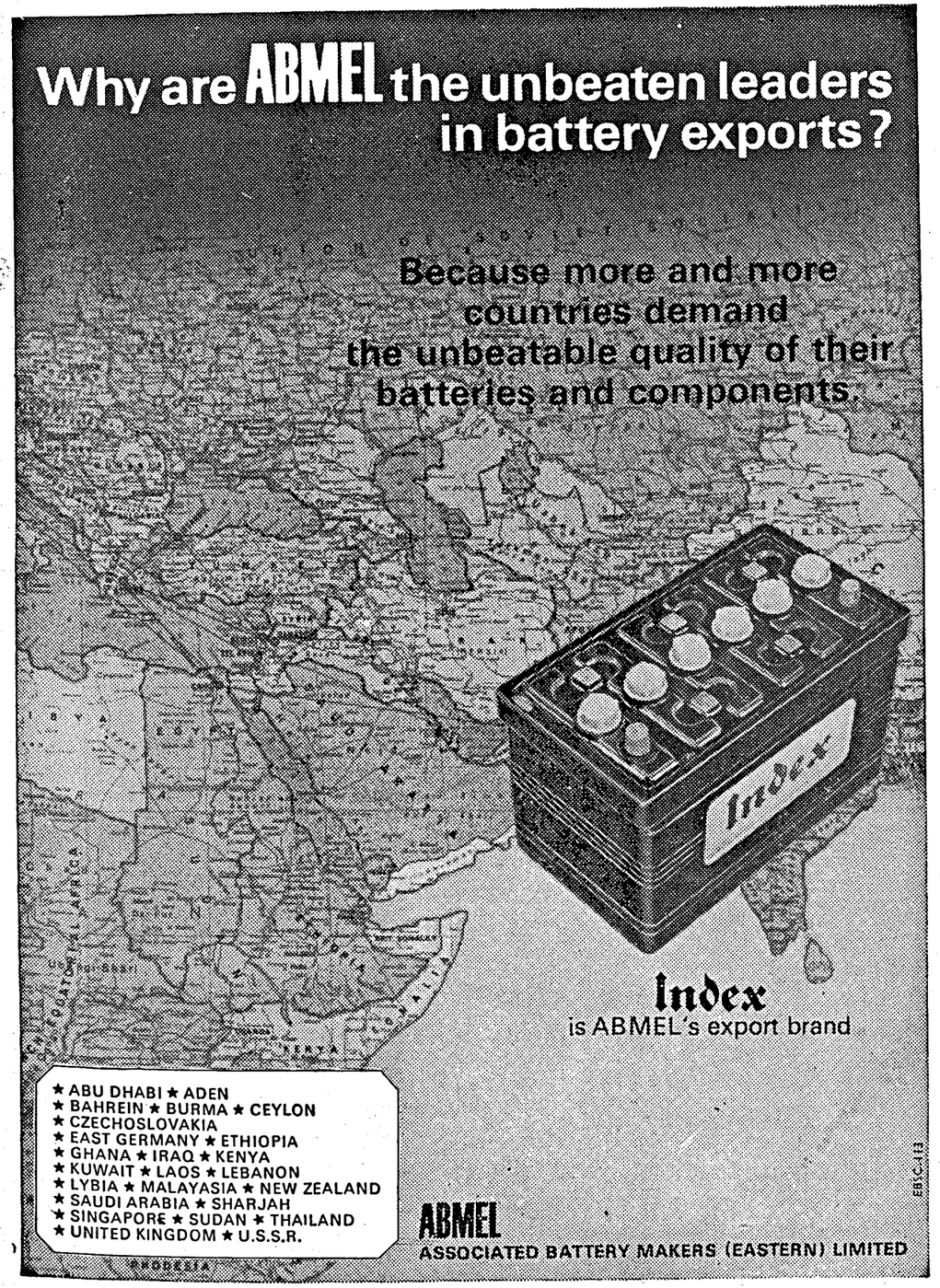
SPENCER AND COMPANY is paying increasing attention to the hotel business and expects to derive benefit from suspension of prohibition in Tamil Nadu which should give fillip to sales at the Connemara Hotel in Madras and the Savoy Hotel in Ootacamund. A renovation and improvement programme at Connemara is being implemented in phases. At West End Hotel, Bangalore, some new construction was completed last year. General improvements are planned to provide for suitable additional amenities. The pharmaceutical division has provided additional facilities for distribution of pharmaceutical products through various depots located in different parts of the country. The company has also acquired, in certain areas, distribution rights for other well

The Week's Companies (Rs in Lakhs)

	Andhra Paper		Spencer and Co		West Coast Paper		Special Steels	
	Latest Year 30-6-71	Last Year 30-6-70	Latest Year 30-6-71	Last Year 30-6-70	Latest Year 30-6-71	Last Year 30-6-70	Latest Year 30-6-71	Last Year 30-6-70
Paid-up capital	475	437	100	100	330	330	170	170
Reserves	66	4	132	131	228	198	218	182
Borrowings	780	867	137	138	284	179	301	274
of which Term borrowings	570	651	—	—	125	97	104	101
Gross fixed assets	1404	1316	245	226	851	754	560	509
Net fixed assets	1154	1205	112	102	318	290	427	403
Investments	1	1	39	39	100	100	—	—
Current liabilities	260	267	190	159	151	147	303	170
Current assets	423	356	407	383	538	427	552	383
Stocks	270	256	232	238	302	187	305	174
Book debts	141	96	122	113	229	236	238	202
Net sales	960	646	1564	1393	813	753	1301	1040
Other income	31	24	30	35	14	14	27	23
Raw material costs	143	100	1305	1159	85	86	776	583
Wages	93	70	116	107	137	128	112	87
Interest	84	76	17	15	24	17	38	35
Gross profit(+)/loss(—)	201	80	32	33	202	201	141	103
Depreciation provision	153**	119	9	8	62	53	27	24
Tax provision	—	—	10	8	78	86	56	17
Net profit(+)/loss(—)	52*	4	13	17	62	62	58	62
Development rebate provision	—	—	1	1	8	5	5	6
Transfer to reserves	52	—	—	4	16	19	30	37
Dividend			P 4	P 4	P 7	P 7	P 5	P 5
Amount	—	—	E 8	E 8	E 31	E 31	E 18	E 14
Rate (per cent)	—	—	P 6½&8½	P 6½&8½	P 7.8	P 7.8	P 9.5	P 9.5
Cover (times)	—	—	E 20	E 20	E 13	E 13	E 15	E 12
Ratios (per cent)			1.00	1.50	1.51	1.61	2.66	3.64
Gross profit/sales	20.93	12.38	2.05	2.37	24.84	26.69	10.84	9.90
Net profit/capital employed	—	—	3.52	4.60	7.36	8.77	8.42	9.90
Inventories/sales	28.13	39.63	14.83	17.08	37.14	24.83	23.44	16.73
Wages/sales	9.69	10.84	7.42	7.68	16.85	17.00	8.60	8.64

* Before providing for depreciation for the year.

** For 1968-69 and 1969-70.



known products. With the manufacture of expensive and quality cigars becoming uneconomic, the company has concentrated on improving sales of cheaper varieties. Rob Roy Tea estate produced 'reasonable' results despite a decline in crop from 2,45,478 kg to 2,24,720 kg. This was because the average auction price increased over the year from Rs 5.31 to Rs 5.59 per kg. Spencer's 1970-71 results showed sizeable decline in margins, with a slight shading of gross profit despite increase in net sales..

WEST COAST PAPER has received balancing equipment, but is awaiting some indigenous equipment to carry out the erection work. The delay in supply of indigenous equipment has upset the company's schedule. Meanwhile, the company's application to increase capacity by 15,000 tonnes per annum under a 'crash programme' has been approved in principle by the licensing committee. Industrial and import licences are awaited. The company's application for additional areas of bamboo on a permanent lease basis has been approved by the Mysore government. The plantation programme of fast-growing species of wood and bamboo is also being continued. During 1970-71, production increased from 41,100 tonnes to 42,651 tonnes and despatches from 41,004 tonnes to 42,176 tonnes. While net turnover was up by Rs 60 lakhs at Rs 813 lakhs, gross profit was only a shade better at Rs 202 lakhs (Rs 201 lakhs). The shrinkage of margins was attributed to increase in prices of raw materials, chemicals, stores, etc.

SPECIAL STEELS has diversified its production into more sophisticated wires, such as fine wires, alloy steel wires for ball bearing and for other specialised industries, stainless steel wire, and tyre bead wires. The company has also entered into a technical collaboration agreement with Suzuki Metal Industry of Japan with a view to improving the quality of specialised products to bring them on par with international standards. During its thirteenth year, ended June last, the company faced "serious difficulties" in obtaining the raw materials, particularly mild steel wire rods for which it depends almost entirely on the Bhilai steel plant of Hindustan Steel. Imports of all categories of wire rods is canalised through HSL, and the company has to obtain its requirements of high carbon and alloy steel wire rods through it. The company should be able to maintain the tempo of production if canalisation does not result in due delays and administrative difficulties. In spite of difficulties in obtaining the raw material supplies, SSL produced good results last year with substantial increases in sales and gross profit. The profit figure has been arrived at after debiting to the profit-and-loss account the entire amount of about Rs 16 lakhs which is actually payable by instalments to Suzuki by way of technical service fees and has been guaranteed by a bank. Since the tax liability has taken Rs 39 lakhs more than in the preceding year, net profit is lower. Even so, the dividend, stepped up 3 points to 15 per cent, is still very adequately covered by earnings. Actual production during the year was 40,416 tonnes (excluding processing of 2,756 tonnes of outside parties), against the installed capacity of 50,000 tonnes. With improvement in raw-material supplies, the company should be able to produce still better results.

FROM OUR CORRESPONDENTS

Soviet Union and the War

(From a Special Correspondent)

THE difference in the Soviet Union's attitude to the present war between India and Pakistan from that to the war in 1965 is truly remarkable.

In a letter to the late Lal Bahadur Shastri, then Prime Minister, dated September 4, 1965, four days after the fighting had started, Soviet Prime Minister Kosygin had taken the position that hostilities between the two countries "only play into the hands of those external forces which try to split and set at loggerheads States which have freed themselves from the colonial yoke, forces which are interested in weakening the unity of Afro-Asian countries" and had demanded that "the main efforts should be concentrated on the immediate termination of military operations". The Soviet Union later enthusiastically supported the Security Council resolution calling upon India and Pakistan to cease fire and withdraw troops, passed on September 20.

This time the Soviet attitude has been completely different. In the Security Council it has used its veto powers to defeat successive resolutions calling upon India and Pakistan to cease fire and withdraw troops. It also led the opposition to the similar, but successful, General Assembly resolution. In the debates in the Security Council and the General Assembly the Soviet position has been that a cease-fire and withdrawal of troops would be untenable without prior effort to tackle the root causes of the present war. Consistent with this, the Soviet Union has opposed "intervention by external forces" to arrange a cease-fire.

The reasons for the sea change in the Soviet Union's position have to be sought partly in the difference in the political and military situation in the subcontinent today from what it was six years ago and partly in the Soviet Union's own vastly changed relations with India. To take the first set of reasons. Among the big powers, the Soviet Union appears to have been among the first to conclude, after the brutality of the Pakistani army crack-down in East Bengal had come to light fully, that Pakistan as it had existed till then was finished; that *de facto*, if not *de jure*, West Pakistan and East Bengal no longer constituted parts of the same country; that while the West Pakistani army might be able to hold on to East Bengal for a while, the political bonds between the two parts of Pakistan had been irreparably snapped. The Soviet Union seems to have come to the conclusion, at a fairly early stage, that those who were working for the preservation of the old Pakistan were working against the basic political forces operating in East Bengal. So it decided that it did not want to be on the wrong side of the dividing line, especially as this did not suit its own other strategic considerations.

Fuller Appreciation

At the same time, having recently become the major supplier of arms to India, the Soviet Union evidently had a much better and surer idea of the relative superiority of all branches of the Indian armed forces over those of Pakistan, an appreciation which was not fully brought out by the conventional inventories of armed personnel and military materiel. For instance, the conventional comparisons in terms of the number of tanks and planes possessed by either country certainly did not prepare any one for the kind of action carried out by the Indian Navy which resulted

in the destruction of two Pakistan destroyers at the mouth of Karachi harbour.

On the basis of the above two considerations the Soviet Union appears to have concluded first, that any action that India might take in East Bengal would only hasten what was in any case inevitable—the detachment of the eastern wing of Pakistan from the western wing—and, second, that India had the military capability to contain any retaliatory action that Pakistan might take along the western border between the two countries.

Even more important than the Soviet Union's assessment of the political and military realities of the situation has been the sea change that has taken place in the Soviet Union's relations with, and stake in, India since the last Indo-Pakistan war. Soviet military assistance to India began in the wake of the India-China hostilities in 1962. But while the Soviet support at that time was enthusiastically welcomed by the Government and people of India, Soviet influence in this country was still an uncertain quantity when war broke out between India and Pakistan in 1965. Not only was there a measure of unavoidable political uncertainty in India after Nehru's death, but there were also apprehensions of a 'rightward' turn in the country's domestic and international policies under the late Lal Bahadur Shastri. It was, therefore, necessary for the Soviet Union in 1965 to proceed with the utmost caution while playing the role of the impartial peacekeeper.

Tashkent Approach Abandoned

The Soviet Union's success in arranging the peace settlement of Tashkent was a major breakthrough in its relations with the subcontinent. Initially, it gave the impression of trying to improve relations equally with both India and Pakistan. But subsequent events in India and Pakistan made it possible for the Soviet Union to abandon this approach and to increase its influence over India to a far greater extent than the Soviet Union must have considered possible at the time of the Tashkent conference. Important among these events were the political upheaval in the country leading to, and following, the split in the ruling Congress party and the marked 'leftward' shift in the tone of the government's policies under the present Prime Minister. The overwhelming majority won by the Prime Minister in the March elections to the Lok Sabha gave the Soviet Union much-needed confidence about the stability of its position in India. In sum, in India the Soviet Union was on the side of a leader whose popularity among the people of the country had been established beyond question and who heads a government which is politically stable and is committed to policies considered generally progressive.

By contrast, in Pakistan the political situation had undergone a debacle. There was the overthrow of Ayub Khan, the manifest political disaffection not only in East Bengal but also in some of the provinces of the West and, more recently, Yahya Khan's bungling efforts to return the country to civilian rule. Even in the eyes of the Western aid-givers Pakistan ceased, in the late sixties, to be one of the model developing countries. There was, therefore, no longer any question of the Soviet Union wanting, or needing, to be equally friendly with India and Pakistan. The Treaty of Friendship with India signed in August formalised the Soviet Union's special relationship with this country.

Ensuring Political Stability

The Soviet Union's attitude to the current India-Pakistan conflict has to be viewed in this context. This does not mean that the Soviet Union is averse to a cease-fire or that it underwrites every action of the Indian Government. What it does mean is that it will not accept any solution to the conflict which is likely in any way to threaten political stability in India. The Soviet Union has wholly accepted the Government of India's position that the presence of the nearly 10 million refugees from East Bengal in India constitutes a disruptive burden on the country's economy apart from also being a more direct threat to the political stability of the country's sensitive eastern states. The Soviet Union must therefore insist that any solution must ensure the return of the refugees. Also, the Soviet Union cannot lend its support to any solution which might appear to the Indian people as a political or a military setback for their government. Since the Government of India has taken the initiative to recognise Bangla Desh as an independent nation, this position will be sustained by the Soviet Union, irrespective of whether or not it itself recognises the Bangla Desh government immediately.

As the Soviet Union sees it, its present happy relations with India will be imperilled not so much by any sudden change for the better in India's relations with the United States or China but by anything which makes for the disturbance of the political stability of this country. The Soviet Union must be aware of the economic difficulties facing India, which are certain to be aggravated by the present war. Any assistance that the Government of India is able to secure from any source for shoring up the economy will be, therefore, basically in the Soviet Union's long-term interest. From that point of view, the Soviet Union can have no serious objections to efforts by the Government of India, once the dust of war settles down, to mend its fences with the United States and to secure the restoration of US economic assistance, for the moment partially suspended.

Nobel Prize Winners

ECONOMICS

SIMON KUZNETS

Economic Growth of Nations

Total Output and Production Structure

In his new book Professor Simon Kuznets, who has been awarded the 1971 Nobel Prize for Economics, summarizes some of the results of his studies of the economic growth of nations in modern times. He reviews long-term trends in growth of total output and in changes in production structure. He covers a variety of countries, suggesting general characteristics and noting the limits within which they hold. He also provides comparisons between the economically developed and the less developed countries.

Harvard Cloth boards $15.00

PHYSICS

DENNIS GABOR

Innovations

Scientific, Technological and Social

Dr Dennis Gabor has been awarded the 1971 Nobel Prize for Physics for his development of the holographic technique. His book *Innovations* describes 100 of the technological and biological inventions that may be expected in the next fifty years; and suggests 37 social innovations or reforms which Dr Gabor believes will be necessary to defend society from the consequences of the inventions.

Science and Engineering Policy Series Paper covers £0.75

Oxford University Press

Bombay Delhi
Calcutta Madras

Chile and the Lessons of Legal Socialism

Pradip Krishen

IF Indira Gandhi's margin of electoral success appears astounding in retrospect, it is largely because the massive measure of faith extended to a repentant bourgeois-nationalist regime, reaffirming 'socialism', appears irrational. Whether the electorate is seen as peculiarly gullible or merely as naive in its weakness for symbolic programmatic commitment, there is still room for explaining the credibility of a promise of change within the lumbered structure of Indian government. In this context, it is pertinent to ask how far is it likely that the ostensibly left-wing tone of Congress(R) politics will ring untrue? How far, indeed will the phenomenon of 'legal socialism' emerge as a tenable idea?

One does not have to course very far to see that the notion of a peaceful transition to socialism is emerging as a recurrent paradigm in the third world — I have chosen to discuss the situations in Chile, Ceylon and India in their broadest implications. The last two mentioned, despite the tempting analogy with the transfer of power to social democracy, are yet seen as unique in the particularity of their underdevelopment, and consequently, in the absence of powerful trade-unionism as a base for government. To 'genuine' socialists, the asimilarity may even be welcome, if the disappointing record of British Labour governments and the economistic drift of German social democracy in their most promising periods are recalled.

The Chilean Unidad Popular (Popular Unity), on the other hand, is not readily appreciable as new because of its superficial resemblance to the Popular Fronts of the 1930s in Europe. The real difference between the two, however, recognises that the Chilean electoral alliance is rooted in less transient immediate objectives than the turning back of fascism, and in contrast to the academic perspective of middle-class radicalism in the 30s, is dominated by two working-class parties of revolutionary Marxists. Salvador Allende's situation is thus unprecedented: it is not a government of anti-fascist union, in composition it is considerably more than social democratic, yet stops short of being a people's democracy or of being a euphemism for Soviet orthodoxy. If this is not seen as being far ahead of parliamentary socialism, it is because firstly, as in India and Ceylon, there is an insurrectionary pressure group (MIR — Movement of the Revolutionary Left) waiting in the wings and firmly to the left of the Unidad Popular (UP) and secondly, because of the constraints of constitutionality itself — the very plane that revolutionary Marxism would wish to transcend. There is thus a basic similarity between the three countries on the level of political latitude for manoeuvre — it is arguable that the experience of any one of them in translating policy into an achievement of meaningful change will have an important bearing on the nature of the experiment itself.

Inherited Constraints

Because legal socialism, as a political genre, evolves within or about an existing constitutional armature, it is bound sooner or later to experience a degree of constraint by its inheritance. The extent to which Indira Gandhi is constricted by a legal system based on property is evident enough. Sirimavo Bandaranaike's new constitution, too, has been framed acutely aware that the Westminster-style document it succeeds gave a certain entrenched status to the right-wing United National Party, and also aware that Ivor Jennings and D S Senanayake are uncongenial fathers of the nation's legal guidelines. Her own version thus incorporates socialistic symbols such as the principle of public sector predominance and the idea of a single Popular Assembly. Allende's 'shackling' has been more difficult to readjust, in that he has had to formally guarantee the survival of the democratic regime as the price of being allowed to take office. With the UP's slim plurality in the face of a Congress controlled by his opponents, his power to ask for a show of plebiscitory loyalty is an unpredictable device that only theoretically balances the fact of parliamentary opposition. Allende's response has been a virtuous avowal of legality. Institutionally, he will function through a unicameral legislature, but he has been careful to dissociate its judicial trappings from bourgeois democracy. In other words, there will be legality, but as the Presidential message to Congress in May 1971 iterated, "this is no mere formal compromise ... but the explicit recognition that the principle of legality and the institutional order are consubstantial with the Socialist regime". Again, "there will be legality, yes, but not one reflecting the requirements of a capitalistic system. The judicial norms will reflect the requirements of a people straining to build a new society."

In many ways, for those schooled on the rigidly dichotomous solutions employed in the third world, there is something disturbingly anomalous in such a pattern of government posing as socialist. Operating through undynamic processes, such regimes, it is felt, must eventually provoke the kind of grass-roots left-wing insurrection that surprised Ceylon earlier this year. Orthodox finger-wagging, where it does not question the *bona fides* of professedly leftist parties, points to the inherent inability of such regimes to create a climate for radical change. In Chile, for instance, the charge could be translated into specific terms of seeing the UP land reform programme as one that has merely accelerated the previous Christian Democratic trend, as it happens, not with much success. In addition to gradualism, there is the feeling that a parliamentary party, by its very nature, is unable to propagate a policy of frugality and asceticism that a state of underdevelopment, rapid progress and initial travail demnad. The explicit comparison is with Cuba and China. In practice, the charge is serious and means that having to present itself at free elections, the range and scope of governmental policy cannot but be severely circumscribed and geared to producing short-term and spectacular results. Thus, the Chilean Presidency takes the lamentable though necessary

There is a shortage of 82 million houses in India

LIC is building homes- doing what is most needed today

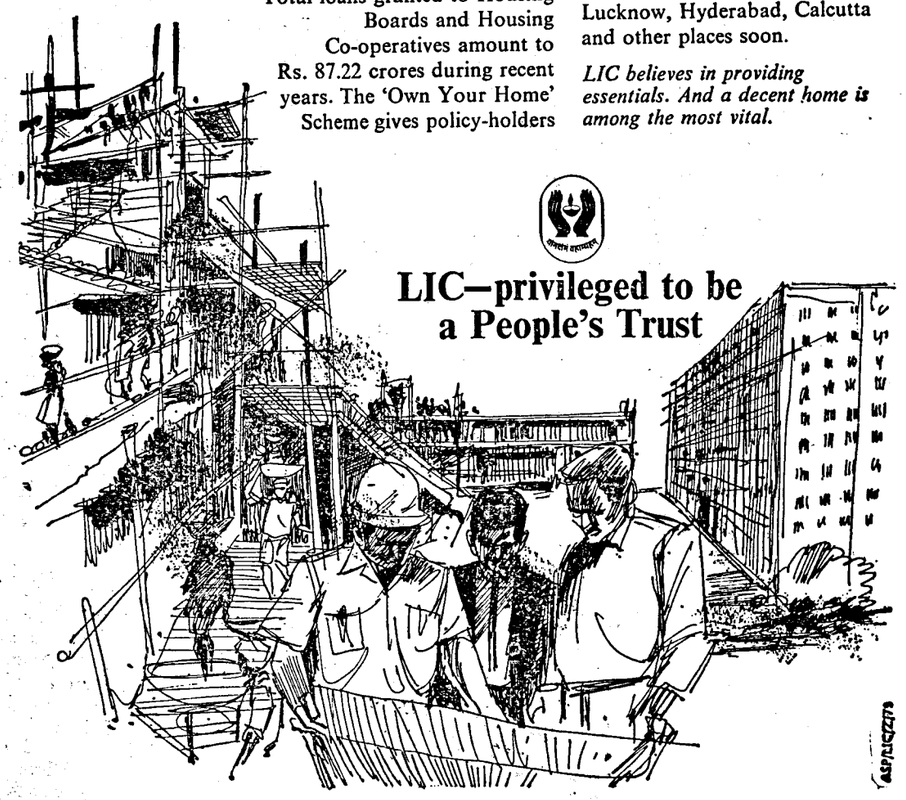
A growing population, a growing gap in housing. LIC has already invested over Rs. 300 crores in housing loans.

Loans to State Governments have financed housing schemes all over the country, in cities, towns, industrial townships.

Total loans granted to Housing Boards and Housing Co-operatives amount to Rs. 87.22 crores during recent years. The 'Own Your Home' Scheme gives policy-holders an opportunity to build their own homes.

A new venture by LIC is the Township started at Borivli, Bombay, which will provide for 4,000 flats. This is the first of the model townships that LIC plans to build and would be followed up at Bangalore, Lucknow, Hyderabad, Calcutta and other places soon.

LIC believes in providing essentials. And a decent home is among the most vital.



LIC—privileged to be a People's Trust

view that during its term of office, heavy industrialisation and the development of an economic base must be subordinated to the immediate and more visible goal of the production of consumer goods. Whether the indulgence of a consumer fetish will, in fact, provide adequate support to a government of legal revolutionaries, is too dependent on other issues to be clear at this moment. But the compromise is viewed as one that stems logically from the nature of the electoral process. As far as the pursuance of goals unadulterated by political expediency is viable, it is certain that parliamentary socialism cannot accommodate such a process.

Legal Legerdemain

Meanwhile, the "tactics of legality" have been put to individual use in Chile. Unlike India and Ceylon, where sheer parliamentary consensus enables the governments to forge legal implements to suit its own ends, Chilean socialism is not blessed with an amenable assembly. Allende has been forced to ferret out laws useful to his purpose from among the 17,000 or so valid laws with which his office is provided. Notably, he has made use of an unrepealed decree of the fortnight-long Socialist Republic of 1932, that empowers the government to appropriate any factory or industry that "fails to supply the people" with its goods and services. Ensuring that this precondition is met, has been achieved by the simple device of having the workers occupy the necessary factories to halt production. If one is initially impressed by this piece of legal legerdemain, however, it is balanced by the observation that the new or anticipated lineaments of the Chilean economy are not in bold contrast to conditions that antedated it. Before Allende, the economy was already theoretically dominated by a public sector which provided 70 per cent of all investment and was engaged upon "some drastic interference with domestic and foreign private property." A similarly unnoticeable chiaroscuro emerges if past and present Indian and Ceylonese economies are compared. Ceylon, with its colonial dependence on the afternoon whims of British tea-drinkers, and the 'twice-born-ness' of Indian Socialism, with its connotation of a second initiation and the higher castes, both seem little more than conscience-stricken programmes of gradual change, dependent on continued popular support.

This raises the other fact of crucial importance to parliamentary socialism — the 'quality' of its support. Subject by their own acquiesence, as they are, to indictment or removal at the polls, it matters not a little that such regimes should rationalise their electoral basis in a section of the people. Consonant with the ethical desire to root out economic exploitation for its own sake, is the need to identify with the interests of this exploited class whose interests they claim to represent. Failing this, as I have implied, the fact of intermittent socialist governments does not make for any more than didactic rule 'on authority', or perhaps, even an attempt to pre-empt genuine revolution. Insofar as this is an analysable quality, it seems that in all three countries there is a significant section of the poor that is either hostile to or uncultivated by the governments. Allende's support comes from a solid stratum of industrial and urban workers, especially the miners and labour unions; large enough, perhaps, as a base for government, but nevertheless a minority. The Chilean countryside (30 per cent of the population), the white-collar workers and public employees are either pitted against Allende or remain unconvinced that socialism will last or recur frequently enough. The most vulnerable spot in Allende's popular posture, however, is an unwieldy mass consisting of miscellaneous and unclassified "pobledores", often regarded as a marginal entity. It is perhaps correct to see them as a difficult group to assimilate, but they are marked out as a vital section by the fact of their being a favourite stomping-ground for demagogic right-wing politicians.

Judging by the municipal elections earlier this year, the Unidad Popular is still far from having made inroads into the traditional voting pattern of this group. And that Ceylon's indigenous "pobledores" can be belligerently inclined towards the government was witnessed during the large-scale violence in April. In India, even if the helicopters lent to Ceylon are not taken as an indication of Indira Gandhi's natural proclivities, there is little to hide the fact of agrarian discontent in some areas, which if easily explained by the absence of land reform, is nonetheless significant. Extrapolating from this pattern, only the broadest generalisation can be ventured: that a combination of parliamentary socialism and underdevelopment, in its affirmation of a progressive urban political culture, is likely to leave the peasantry prone to general discontent, perhaps to significant hostility.

There remains an assessment of the likelihood of the regimes in question realising their own ends, and here it will be necessary to dissolve the generalisation into its component specificities. Allende has often said that there is no socialist system appropriate for Chile to copy. What he probably means is that the Vietnamese or Chinese exemplar is not easily transplanted in a Chile where it is at least possible to discern the lineaments of political situations that could occur in industrialised societies, with a similar complement of strategies and problems. This is immediately clear when it is remembered that Allende's support is primarily proletarian. Chile's problems are thus more easily comprehended on its own terms. So far, the Unidad Popular's domestic economic policy has been innovatory and spectacularly successful. Yet, already there are ominous auguries for the government's popularity in 1972, when the international price of copper is expected to drop, with calamitous results for Chile's food procurement programme. These problems may be overcome by 1973, but the intervening year will be difficult and crucial. Surely it is a tragic commentary on the parliamentary system that the electoral popularity of domestic reaction should be bolstered by the USA's willingness or unwillingness to buy copper. On the credit side, it is significant that the UP is based firmly on the working-class, and is not primarily inspired by nationalism or 'modernisation' *per se*, but by the emancipation of the exploited and poor. However, it is difficult to escape the conclusion that so far, the party has not been taken beyond the boundaries of socialist reform.

Strategic Avenues

Ceylonese socialism, like the Chilean, is likewise dependent on economic performance criteria that are bedevilled by the vagaries of a single export commodity. If the world market in tea drops (as it has already shown signs of doing), it is simply possible that parliamentary socialism will disappear as a political alternative, to be replaced either by non-accountable socialism or a regime that comes to power on its electoral ashes. The strategic avenues open, seem limited to the simple economic determinism that envisages a perpetuation of socialism by eroding the economic bases of the bourgeoisie so that it cannot return. The forms that such thinking have taken are familiar enough.

Seen in the light of the Chinese Revolution, India and Ceylon would seem to be more eligible for a brand

of rural revolution than, say, Chile. But it is less in context to speculate on the variety or justice of possible models than to take cognisance of the strengths and weaknesses of the present regimes. It is true that the Indian and Ceylonese governments are far from being formed by working-class parties, yet it is somehow a measure of their contemporaneity—no more—that Russia and China have been led to recognise the specificity of post-colonial bourgeois governments. The Russian notion, formulated at the Twentieth Congress, attributing a genuine progressive nature to such regimes, is well known and, broadly, still adhered to. Implicit in their postulation is the idea that the contradictions between the national bourgeoisie of newly independent states and imperialism are infinitely more profound than that between the former and the peasantry or proletariat. Thus, Russian collaboration with the national bourgeoisie can be lasting and sincere throughout the period during which imperialism exists, to the extent that the problems are envisaged primarily in terms of national interest. The Chinese have never been this explicit, though their strategic intent is open to a more flexible interpretation than their official pronouncements. Without raising the whole issue, it is enough to suggest that Mao's relations with states such as Burma (till 1967), Cambodia (till Lon Nol), Afghanistan, Pakistan and Tanzania are not simply *realpolitik*, but reflect the contradiction between internal and external criteria of what is 'progressive'. In Mao's eyes, it stands that any government consciously or unconsciously opposing imperialism, is objectively playing a revolutionary role on the world scene.

On a less abstract plane, it is perhaps facile to sum up by saying that Allende's chances of survival are slim merely because he has the slenderer parliamentary majority. But on a more meaningful level, it emerges as crucial for this type of regime to initiate and maintain a conversation with the unorganised poor between elections, so that the latter are more involved, and the former more present as a government. What is at stake is not a method of government or a campaigning pitch, but a style of politics. Thereby, though far from revolutionary, such a government will stake a claim to a relatively more meaningful leftist status. Other questions pertaining to India and Ceylon, such as—Can socialism ever be achieved in an agricultural economy that is dependent on outside influences? Can the changes that development requires be produced fast enough in this manner?—remain sceptically posed.

asia72

Third Asian International Trade Fair

Exhibition Grounds
Mathura Road
New Delhi

November 3
December 17
1972

PLANS OPEN

Book your space from now on till 31/12/71

Space is limited and there is great demand from India and abroad.

Early registration will ensure your space.

Enquiries to
The Chief Executive Director

Third Asian International Trade Fair

Exhibition Grounds
Mathura Raod
New Delhi

davp 71/393

Problem of Refugees from East Bengal

P N Luthra

MIGRATIONS of uprooted humanity have taken place in very early times in the history of man. Records show that the Roman Empire received many waves of refugees from North and East. Amongst the countless refugee tragedies, there were the Jews of the Dispersion, the Armenian refugees from the Ottoman Empire and the Russian Whites who migrated after the 1917 Revolution. More latterly, we have the case of Spanish Republicans who fled to France in 1939 and the Germans and Austrians — mainly Jews — who escaped from Nazi rule. In the Middle East there exist today Palestine Arabs and in the Far East refugees from the mainland of China and the two halves of Korea and Vietnam. The two world wars saw vast movements of population and, in fact, the twentieth century has come to be called the century of the uprooted. A former United Nations High Commissioner for Refugees, Hauven, has said:

"Persecution and fear chased thousands of people from their homes and sent them across the border of their Fatherlands walking into an unknown and uncertain future."

However poignant the records of refugee tragedies have been, none of them come to the level of what the world has witnessed in the way of the refugee influx which started on the fatal day of March 26, 1971 from East Bengal. Its number has surpassed any other displacement from a single country. The nature and magnitude of this influx is unique in history.

Refugee Influx

In the brief span of seven months upto the end of October 1971, the influx from East Bengal has been of the order of 9.5 million. Four states in the neighbourhood of East Bengal have received refugees as shown in the following statement:

West Bengal	:	7.1 million	76%
Tripura	:	1.4 million	15%
Meghalaya	:	0.7 million	6%
Assam	:	0.3 million	3%
Total Influx	:	9.5 million	100%

The daily rate of influx has varied during the preceding months. It was as high as 102,000 persons per day in the month of May; in June it was 68,000 and in April 57,000 per day. Calculations indicate that, on an average, some 1,600 refugees have been entering India every hour round the clock.

The influx continues unabated till today although it has now come down to some 7,000 per day. But let it be made clear that any diminution in the rate of influx does not reflect that there is any return to normalcy in East Bengal. The influx during the preceding months has followed an erratic pattern. The conclusions are that the influx has increased or decreased in relation to the intensity of Pakistani persecution of the East Bengal people; it has also varied in line with the changing pattern of the Pakistan Army's dispositions along the border. Whenever the Pakistan Army established itself along the border, it hindered egress and the people waited for an opportunity to steal across when the Pakistan Army relaxed its vigil.

The refugees are entering India through numerous points stretching over several thousand miles of border between East Bengal and our country. They are utilising all modes of transport such as, bullock carts, motor cars, country boats, rickshaws and the like. The majority has, of course, trodden long distances on foot in grim agony and in a desperate effort to escape from the ruthless atrocities of the Pakistan Army. Even after seven months of the Army crackdown in East Bengal, the influx continues at an enormous rate.

Before dealing with the problem thrown up by the massive influx of 9.5 millions — many countries in the world have populations of this order— it would be worthwhile to consider the origin of this unparalleled upheaval. Its origin goes back many decades to the period prior to the Partition of India.

It would appear that Muslims of East Bengal had grievances against the Hindus and against the power exercised by Calcutta. These people had two things common with West Pakistan: firstly, a common religion and secondly, a common struggle towards the formation of Pakistan. East Bengal was strongly in favour of Pakistan even at the cost of partition of the former Bengal. But after partition these people found that all that had happened was that the former domination of Calcutta had been exchanged for that of Karachi. These people had not only a passion for autonomy but, what was more important, a fair recognition of their claim of the Eastern Wing being at par with the West. Soon after the creation of Pakistan, the people of East Bengal witnessed a period of neglect of their province and an ever-increasing domination by West Pakistan over their culture, language and finances. They soon realised that the National Government in West Pakistan was hostile to all things Bengali. Ataur Rahman Khan said as follows in the Constituent Assembly of Pakistan in 1955:

"Sir, I said that the attitude of the Muslim League coterie here was of contempt towards East Bengal, towards its culture, its language, its literature and everything concerning East Bengal. In fact, Sir, I tell you that far from considering East Bengal as an equal partner, the leaders of the Muslim League thought that we were a subject race and they belonged to the race of conquerors."

Sense of Neglect

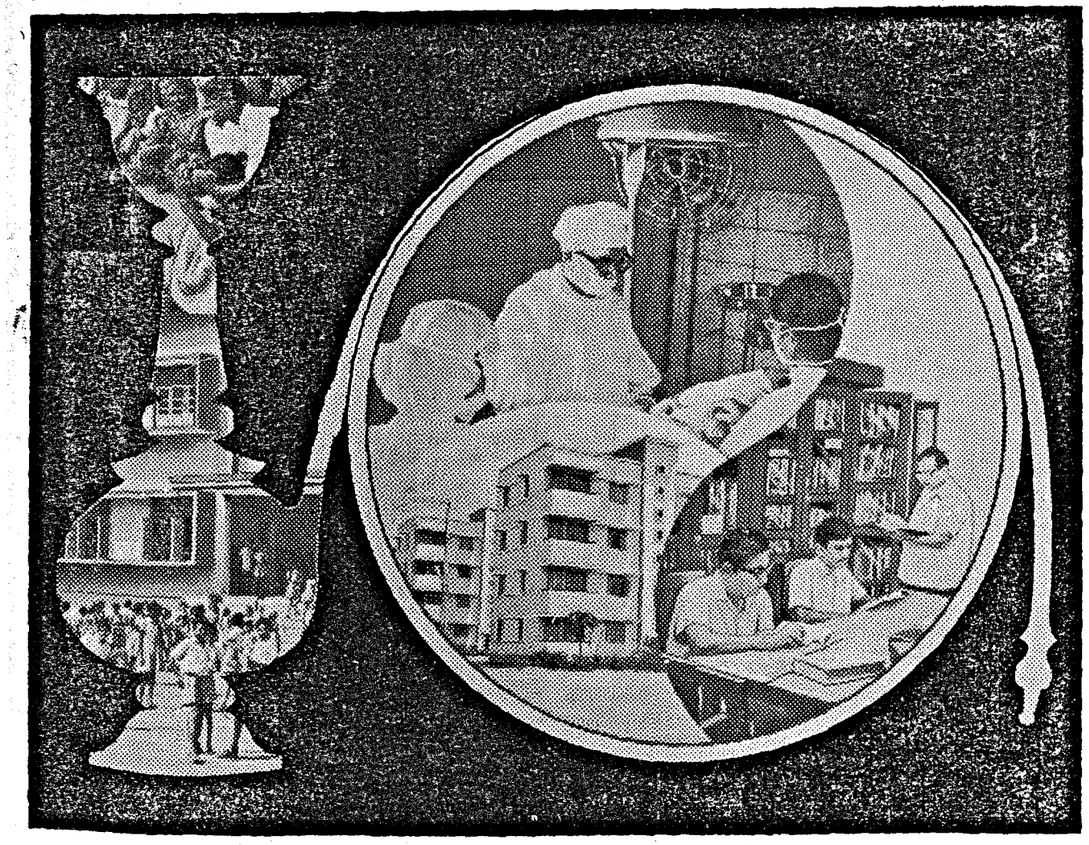
In the early years of independence, the activities of the Central Pakistan Government were centred round areas within the easy reach of Karachi, namely, Sind and the Punjab while remote East Bengal suffered from lack of attention. The sense of neglect among the Bengalis arose almost immediately: "It seems, Sir," said one Bengali Muslim Leaguer in March 1948, "that in the present scheme of things East Bengal is really very much neglected."

The Chief Minister of East Bengal presented a list of demands of his province by saying:

"First and foremost among these is that as far as Eastern Pakistan is concerned, we must have a fair and proper share in the Armed Forces of Pakistan."

The Bengali complaint arose from maldistribution of financial resources as well. East Bengal is inflicted with much greater poverty than the areas in West Pakistan. The Bengalis wanted the chronic poverty of East Bengal to be a primary concern of Pakistan national policy. They wanted the federal resources to be allocated to bring the standards of East Pakistan into line with those of the West. Another major grievance of theirs was that very little of the expenditure of

THE PLEASURE OF OUR COMPANY



Enlightened industrialism has become an NRC tradition. And the spirit of employee welfare, a constantly motivating force. No less than 8,000 persons are housed in NRC's vast and impressively maintained factory colony at Mohone, while as many as 24,000 dependents are supported by NRC employees on remuneration and benefits received. From housing to medical care, from schooling to recreation, an NRC employee receives careful company attention. But even more than this quantum of actual benefits, is the *real* benefit an NRC employee receives — of good talent well rewarded.

THE NATIONAL RAYON CORPORATION LTD.
EWART HOUSE, BRUCE STREET, BOMBAY 1.

NRC'S COMPANY WELFARE ACTIVITIES HELP 8,000 DAILY

Creative Unit-477

the Central Government was taking place in East Pakistan. Thus Abu Mansur Ahmed said in the Constituent Assembly of Pakistan in 1956 as follows:

"I shall show, Sir, from statistics published by our Government that the share of East Pakistan to the Federal revenues from 1947-48 to 1954-55 has been Rs 168 crores and 14 lakhs. During this period West Pakistan contributed Rs 553 crores 53 lakhs to the Federal revenues. These figures may make our West Pakistani brothers, like Mr Gurmani, boast and say 'Look! East Pakistan is contributing only 18 per cent, West Pakistan contributes more than treble'. But, Sir, look at the expenditure side. This is the expenditure. The Central Government has spent during these 9 years, Rs 42 crores and 66 lakhs in East Pakistan as compared to Rs 790 crores and 67 lakhs spent in West Pakistan. Therefore, Sir, we have got back much less than what we have contributed."

Another crucial issue involving antagonism between East and West Pakistan concerned the status of the Bengali language. Among the languages spoken in Pakistan, the proportion of people speaking Bengali is 54.6 per cent as against 7.2 per cent of Urdu speaking people. The decision by the Government of Pakistan to make Urdu the only national language and to relegate Bengali to a lesser status imposed an additional burden on the already handicapped province. This issue aroused strong feelings at the very beginning of the State of Pakistan. In February 1948, a Hindu Bengali moved an amendment to the Assembly rules to permit Bengali to be used in the House along with Urdu and English. The Prime Minister replied:

"Pakistan is a Muslim State and it must have as its lingua franca the language of the Muslim nation... [The Mover] should realise that Pakistan has been created because of the demand of a hundred million Muslims in this subcontinent and the language of a hundred million Muslims is Urdu... It is necessary for a nation to have one language and that language can only be Urdu and no other language."

A month later, Jinnah's authority was used to put the same proposition before an audience in the capital of East Bengal:

"Let me tell you in the clearest language that there is no truth that your normal life is going to be touched or disturbed so far as your Bengali language is concerned. But ultimately it is for you, the people of this province, to decide what shall be the language of this province. But let me make it very clear to you that the State Language of Pakistan is going to be URDU and no other language. Anyone who tries to mislead you is really the enemy of Pakistan. Without one State language, no nation can remain tied up solidly together and function."

The language question has been merely the most flagrant example of the series of issues on which Bengalis feel that they have to fight desperately to secure satisfaction. There was then the factor of distance which by itself had proved a major obstacle to the attainment of effective unity of Pakistan. East Bengal had been increasingly dissatisfied with its status as a constituent part of the Federation. The province, containing 56 per cent of the population of Pakistan, has been clearly a less advanced area than West Pakistan in matters of industry, trade and urban development.

The cultural and social separateness between the people of the East and the West Wings of Pakistan became a question of sentiment amongst the Bengalis who form the majority:

"Pakistan is a unique country having two wings which are separated by a distance of more than 1000 miles. These two wings differ in all matters, *viz*, the language, the tradition, the culture, the costume, the custom, the dietary, the calendar, the standard time, practically everything, is different. There is, in fact, nothing common in the two wings particularly in respect of those which are the *sine qua non* to form a nation."

Added to the above mentioned variants, the threat of Punjabi domination was another major factor in the political struggle at the national and provincial levels. After the Partition of India, the Punjabis in West Pakistan represented the most advanced component of the new State. The Punjabi middle class tended to occupy the best positions not only in their own province but at the Centre and they began to spread into East Bengal as well. This led to considerable resentment by those who found that strangers were coming to dominate the entire machinery of Government and commerce. It will, therefore, be seen that the recent political upheaval in East Bengal was nothing else but the boiling point of a discontent which was simmering in the hearts of East Bengalis ever since the creation of Pakistan in 1947. The immediate cause was provided by the fact that the leader of the Awami League, Sheikh Mujibur Rahman, who had won the elections in December 1970 on the basis of his six-point programme was not permitted to form a Government which was the next logical democratic step after the elections. In fact, the six-point manifesto on which he fought the elections — elections which President Yahya Khan had styled as fair and just — was called into question. Sheikh Mujibur Rahman was sought to be coerced to give up his stand for internal autonomy. When coercion failed, President Yahya Khan clamped down the rule of martial law and there followed untold repression, killings and genocide let loose by the Army which was given unlicensed free play in wreaking destruction over a defenceless people.

SUBSCRIPTION RATES

	Inland	Foreign (Surface Mail)		
Six months	Rs 32			
One year	Rs 60	Rs 85,	$ 11.35,	£ 4.75
Two years	Rs 110	Rs 160,	$ 20.75,	£ 8.75
Three years	Rs 160	Rs 235,	$ 30.50,	£ 13.00

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

Chairman's Statement

Stc Group – MID-YEAR APPRAISAL

The State Trading Corporation of India Ltd. The Projects and Equipment Corporation of India Ltd. The Cashew Corporation of India Ltd. The Handicrafts and Handlooms Exports Corporation of India Ltd. Indian Motion Pictures Exports Corporation Ltd.

Rupees in Crores

	1970-71 Full year	1971 Apr.-Sept.	1971-72 Budget	1971-72 Latest Estimate*
Exports ...	74.1	35.0	94.5	94.9
Imports ...	154.0	98.6	206.5	248.8
Domestic ...	5.7	5.6	5.9	11.6
Total Turnover ...	**233.8**	**139.2**	**306.9**	**355.3**
Trading Profit ...	**14.6**	**11.0**	**15.5**	**23.0**
Less:				
Expenditure ...	6.4	2.8	6.4	6.7
Interest ...	(–) 0.2	0.8	0.2	0.4
Depreciation ...	0.2	0.1	0.1	0.2
Provisions ...	1.0	0.3	—	0.6
Total cost ...	**7.4**	**4.0**	**6.7**	**7.9**
Profit before Tax ...	**7.2**	**7.0**	**8.8**	**15.1**
Profit after Tax ...	**2.2**	**4.5**	**3.6**	**8.0**
Stocks ...	**35.3**	**44.7**	**21.7**	**32.0**
Debtors ...	**25.0**	**31.7**	**20.8**	**28.5**
Manpower (Nos.) ...	**2,213**	**2,219**	**2,297**	**2,254**

*Latest Estimate 1971-72 Rupees in Crores

	STC	PEC	CCI	HHEC	Total
Exports ...	71.0	19.4	—	4.5	94.9
Imports ...	192.5	26.6	29.4	0.3	248.8
Domestic ...	11.5	—	—	0.1	11.6
Total Turnover ...	*275.0*	*46.0*	*29.4*	*4.9*	*355.3*

We are pleased to announce—for the first time—the results of the STC Group in a consolidated manner. This follows upon the recent major reorganisation in two years in the holding company, effected to properly back the fast expanding activities of the group. Organisationally, STC is developing in three directions: its new subsidiary corporations, now four; a long chain of marketing and services divisions; and an expanding network of offices abroad, from Sydney to New York, now 18: achieved without adding to our numbers or cost significantly.

Mention may also be made of two other significant aspects of our new marketing policy:

—now ranging freely and competitively in the export field; and

—providing a package service to small industries in India through the State Corporations.

Our first half-year accounts, profit and loss and balance-sheet, have been completed, with all provisions made and contingencies allowed for. From now on we will complete our accounts each quarter—we already declare a dividend quarterly. In between, we will prepare Flash Monthly Accounts by the 10th, necessarily with a degree of approximation, but enough to enable our management to keep closely in touch with performance compared with budget. Each Monthly Account will, however, be properly adjusted and merged with the Flash Account of the following month and thus the quarterly accounts will represent the accurate position.

We have also done a mid-year review of our Performance Budget and prepared the Latest Estimate, which makes an encouraging reading. It looks as if we will meet all our targets, and even improve upon them in some cases. Most encouraging of all, though, is that last year's exceptional decline in profitability has been stemmed and it is once again beginning to look respectable. In the present situation the more profit we make, the more power to the national elbow!

The Latest Estimate shows that, compared with last year, exports this year might be 28% plus; imports 62% plus; total sales 52% up, while the profit before tax may double from Rs. 7.2 crores to Rs.15.1 crores. This is still only a 4% return on turnover – well below the industrial norm of around 10%, and below the 6% we achieved in 1969-70.

Our expenditure is well held at an estimated Rs. 6.7 crores against Rs. 6.4 crores last year despite a 52% increase in turnover. We expect the stocks/turnover ratio to improve from 15% to 9% and the Debtors/turnover ratio from 11% to 8%. Working capital, however, while continuing to decline as a percentage of sales, will in absolute terms, go up, largely on account of the buffer stock operations for vegetable oils. In consequence, we will be paying interest instead of earning it, as in the past.

Our exports would have been still better had it not been for the shortages that are developing in many areas—steel products and engineering, alcohol, cement, molasses and even coins, influenced further by the international monetary uncertainty.

THE STATE TRADING CORPORATION OF INDIA LTD.

Offices in India New Delhi ● Bombay ● Calcutta ● Madras ● Cochin ● Agra ● Tuticorin ● Guntur ● Adipur

Offices Abroad Bangkok, Beirut, Belgrade, Berlin, Budapest, Colombo, Frankfurt, Hongkong, Lagos, London, Moscow, Nairobi, New York, Paris, Prague, Singapore, Sydney, Tehran

As mentioned earlier, the influx of 9.5 million refugees placed no mean social, economic, and political burden on the host country. The entry of this vast refugee population has greatly changed the population statistics of the receiving states of West Bengal, Tripura, Meghalaya and Assam. About 76 per cent of the total influx, namely 7.1 million, are in the eight border districts of West Bengal. In West Bengal they account for 16 per cent of the normal population of the entire State and 32 per cent of the total normal population of the eight border districts of West Bengal. The highest concentration of refugees is in 24 Parganas namely, 26 per cent of the total influx in West Bengal. This is followed by West Dinajpur where it is 25 per cent and Nadia where it is 15 per cent. It is further interesting to see that in West Dinajpur the population of the refugees and of the local people is of the same order, namely, 1.8 million each. In Cooch Behar, where the influx consists of 0.8 million and the local population is 1.4 million, it is 57 per cent. The density of population has also indicated violent patterns of change. In West Dinajpur, for example, the density per square km has doubled from 344 to 684. Similarly, in Cooch Behar, the density has increased more than 58 per cent from 423 to 653 per sq km. The density of population of West Bengal as per 1971 Census is 507 persons per sq km as against the all-India average of 182 persons per sq km. Within a span of seven months, the influx of the refugees has sent up the density of population in this state to a new height, namely, 600 persons per sq km and thus has placed West Bengal as the most populous state in India.

Within West Bengal the concentration of refugees is more in North Bengal consisting of the five districts of Malda, West Dinajpur, Darjeeling, Jalpaiguri and Cooch Behar. These five districts have 37 lakh refugees which account for over 50 per cent of the total refugee influx into West Bengal.

Relatively speaking, the concentration of refugees is the highest in the union territory of Tripura. The influx is nearly as much as the local population. The density of population of this union territory has thus nearly doubled in that it has gone up from 149 persons per square km to 290 persons per sq km within a period of seven months. The concentration of refugees is much higher in the south and west districts.

From the geographical, social, economic and linguistic viewpoints, Meghalaya is an inhospitable area for the refugees. Hilly terrain, cold climate, differences of languages and dialects with the local population and difficulties as to the means of communication, are some of the factors which would obviously discourage the people from East Bengal to cross the border into Meghalaya. But in spite of these barriers, the atrocities of the Pakistan Army were so intense that the refugees fled to secure refuge in the foothills lying along the border between Meghalaya and East Bengal.

Some seven lakh refugees have sought sanctuary in the tiny state of Meghalaya which has a population of about one million. Refugees in the state thus constitute over 60 per cent of the local population. In Garo Hills District, the refugees number 3.2 lakhs as against the local population of 3.9 lakhs. In the United Khasi and Jaintia Hills District, there are over 3.1 lakh refugees as against the local population of 5.8 lakhs.

The refugee relief work centres around five major necessities. These are requirement of space, the construction of shelters on this space, provision of medical cover, supply of water and, fifthly, supply of food. These immediate needs have been expanded from time to time to cope with the ever-increasing number of refugees. With the passage of time and the change of seasons, we have had to carry the burden of additional provisions. For example, with the onset of winter, it was decided to issue blankets to the refugees. Similarly, it became necessary to give free clothing to them. Recently, it was decided to give utensils and mats also. The expenditure caused by the supply of these additional amenities is very high. For example, the requirement of blankets comes to the tune of 4 millions whereas an expenditure of Rs 8 crores will be incurred on the provision of clothing.

Relief camps were opened from the very beginning when the refugees started entering India. The number of refugee camps was about 300 in April 1971 but it reached a record figure of 1,200 in June 1971. In West Bengal, the number of camps during the period of four months from April to August 1971 rose from 170 to 615. During the peak period, camps were opened in schools, public buildings, dharmasalas, co-operative stores, polytechnic institutes, etc, etc. In May 1971, in some sub-divisions of the state, 75 per cent of the total camps were located in schools and public buildings. There are, however, no refugees in schools and other buildings at present except in West Bengal where about 1,000 buildings are still occupied by the refugees.

From the point of view of accommodation, the refugees may be divided under two heads. Firstly, the refugees who are living in camps and, secondly, those who are living with their families and relatives. The number living in camps is 5 million as against 2.2 million living with friends and relatives in the case of West Bengal. In the case of Tripura 8.5 lakh refugees live in camps and 5.6 lakh outside the camps. In Assam 2.2 lakhs live in camps and 89,000 outside the camps. In Meghalaya the statistics are that 5.8 lakhs are sheltered in camps while 77,000 live with their friends and relatives.

The principle underlying the provision of relief to the refugees is that they will return to East Bengal at the earliest opportunity. The camp facilities provided to them are, therefore, on a transient basis. The term used is 'transit camps' of which there are two types, namely, those looked after by the Centre and those by the states. In both cases, shelter is constructed out of local materials such as bamboo and thatch. Where thatch is not available, tarpaulins and polythene sheeting are provided. As regards the size of camps, the policy is that these should house substantial numbers. Small camps sheltering 2,000 to 5,000 people are not only uneconomical but also pose a problem from the point of view of communications. The figure of 25,000 would appear to be the optimum. There are, however, camps today which have as many as 3 lakhs of refugees while there are others which have only 3,000. In the former category we have the instances of the Salt Lake Camp near Calcutta or the Kalyani complex in Nadia District or the Balat-Mailam Camp in Meghalaya. Each of these three camps has a refugee population varying from 2 lakhs to 3 lakhs. This obviously is a remarkable figure considering that Shillong, the capital of Assam and Meghalaya, has only about 1 lakh people.

In the course of the last few months, refugee camps have been consolidated with a view to eliminating smaller units which had to be raised earlier under the force of circumstances along the main roads. Today, there are 827 camps in the seven states of India, namely, West Bengal, Tripura, Meghalaya, Assam, Madhya Pradesh, UP and

Bihar. Of these, 17 are run by the Centre and the remaining by the states. The Central camps came into being as a result of the realisation that the problem of refugees is a national one. The influx into West Bengal and Tripura has been very heavy and it became necessary to shift refugees from these states to others. Recently, the Government of India decided to take over the administration of some two million refugees in West Bengal. Also about 5 lakhs refugees will be moved out from the state. Thus in the case of West Bengal some 50 per cent of the total refugee population will be administered directly by the Centre.

Camps as a rule are entirely run by the Centre or state governments. The entire expenditure is being incurred by the Government of India. The Government of India has built up the necessary infrastructure not only in the form of a Secretariat in Calcutta of the Ministry of Labour and Rehabilitation but also Refugee Departments in all the states. Some 30 voluntary organisations are operating in the various states to assist the administration of camps. The contributions made by the voluntary organisations consist of providing medical cover by opening hospitals and dispensaries, maintenance of sanitation and hygiene in camps and the distribution of milk.

A significant contribution by the voluntary social welfare organisations has been the running of orphanages and training homes for girls. Pakistani atrocities had rendered many boys and girls of tender age from four years to 22 years orphans. There is a heart-rending case of a young girl who saw five members of her family shot dead in front of her eyes. These children require proper attention in the name of humanity. They should not be made to feel that the entire world is as monstrous as the cruel hand of the Pakistan Army. For this vulnerable section of the refugees, 18 orphanages have been set up where unattached boys and girls receive residential education and training in handicrafts with the idea that on return to East Bengal, they might be in a position to maintain their skills and seek employment in due course.

Malnutrition is endemic both in India and Pakistan and this disease indeed affects many other neighbouring countries. In India malnutrition amongst the children is as high as 30 per cent. Some 40 per cent of the deaths in India are due to malnutrition amongst children. Malnutrition lays its tight hold on children in the age group of 0 to 5 years. A sample survey carried out in refugee camps has shown that some 14 per cent of children suffer from malnutrition. To combat this inadequacy, it has been decided to establish 100 Nutrition Therapy Centres in the various states. This programme has come to be known as Operation "Life Line" which covers two phases of work styled as Alpha and Beta. The programme under Alpha includes provision of supplementary nutrition diet to children while the Beta programme is intended to cure malnutrition diseases amongst children. The cost of this scheme has been computed at about Rs 4 crores.

The population of refugees, namely, 9.5 million represents the population of many countries in the world today. This is three times the population of New Zealand and it equals the individual population of countries like Denmark, Sweden and Norway. The administration of 9.5 million refugees has all the complexities which a National Government would normally face. It involves heavy financial expenditure. Our estimates are that it requires Rs 2.77 per day to maintain one refugee. The total daily average of expenditure on the refugee population comes to Rs 2 crores approximately. The estimated expenditure for 7 months has been of the order of over Rs 400 crores. Against this, the foreign aid so far promised has been $157 million. The actual receipts against this figure have been about Rs 30 crores. Thus it will be seen that there is a big margin between the actual expenditure and the foreign aid promised. Therefore, the extra funds required to maintain the refugees have had to be produced by extra taxes in our country which were recently notified in the newspapers. Owing to the diversion of our financial resources to refugee work, much of the development programme of the affected states had to be slowed down either for lack of financial resources or because of the primary engagement of Government staff in refugee relief work. This has been and continues to be a major problem. There are then the social, economic and political problems which constantly tell upon the staff at all levels. Our figures show that some 35,000 Government functionaries are employed on the entire refugee relief programme.

The social problems are that the refugees cannot remain without work and enjoy a perpetual disposition of leisure. Indeed, lack of work among the refugees has become a problem. Many refugees have attempted to seek employment or set up small business in the way of running shops or taking to agricultural labour to keep themselves occupied and earn wages. This has been resented by the local population for which there are undeniably sound reasons. For example, when there is unemployment to the tune of 2.5 millions in West Bengal, how can they look kindly at the foreign refugees. Such happenings lead to social tensions and throw an extra burden on those who are engaged in relief work.

There is then the danger of communal passions being generated not only in the refugee camps but between the camp inmates and the people around. President Yahya Khan has made earnest efforts to give the entire political phenomena of East Bengal the garb of a communal incident. The minority communities who have been, time and again, hounded out of East Bengal cannot always easily contain their antagonism for Islamic fanaticism and intolerance. But in the secular State of India and more so in the interest of the political Bangla Desh movement which has transcended to a secular plane, communal passions have to be kept in check. To this our people have responded remarkably well. This area of refugee relief work has to be most vigilantly guarded.

In the political sphere it is vital that the refugees should, under no circumstances, be used as convenient targets for the extension of Indian politics. They, as foreigners, have to be kept outside the pale of our national political controversies. This means insulation of refugee camps from the surrounding political activities. This again poses serious problems for the refugee administration.

The foregoing, therefore, are the various political, administrative, social and economic problems which face our country. The refugee problem is a national one. It has two implications: firstly one of humanism towards those subjected to untold oppression; secondly, recognition of the political progress which East Bengal has made in the sense that its politics hitherto confined to religious urges has now risen to a higher plane of secularism. This is a major advance in the applied field of political science and is living evidence against the theory of two nations which 24 years ago split India into two. Bangla Desh is a phenomenon of the people of this subcontinent awakening to the deeper content of democracy. This phenomenon aims at human beings not identifying themselves in terms of hate and love generated by religion but by the desire of men to be equal and to be friendly and to be free.

The Lines Are Drawn

Nireekshak

HAVE newspapers lost interest in themselves? From the way some of them have hiked up their sale prices — in conjunction with the hike due to the two-paise excise levy imposed by government for refugee relief — it seems not. Far from it. The occasion for raising prices was most certainly provided by the enforcement of the excise levy rather than by any sudden increase in the costs of production. Costs may have risen somewhat in recent times, but so has revenue if the growth in total volume of advertising is any guide. In any case, it is doubtful if the increase in costs would have led to an upward revision of sale prices at this stage had Government not decided to impose the excise levy. If Government can raise additional revenue to meet the needs of increased expenditure, why can't newspapers do the same? This seems to have been the deceptively simple reasoning behind the price hike — which, however, has convinced few people, least of all the government.

Some Calcutta newspapers, for example, which raised their sale prices have had to retract, partly as a result of resistance from hawkers, and more decisively as a result of government intervention. On the other hand, at least two Bombay dailies continue to charge a higher price, though they are reported to have been advised by the government to revert to the old price. One interesting thing is that the wealthiest newspapers, which also had the highest sale prices, have not sought to raise their prices this time. With the highest price now standing at 27 paise (including two paise excise levy) for daily issues and 35 paise for the Sunday issues, it was probably thought prudent by these newspapers not to price themselves out of the market by raising prices any further!

In the absence of any statutory price regulation for newspapers, the government's right to intervene in a newspaper's sale price fixing may not be above question. And it would be odd, too, if government intervention resulted in one newspaper being allowed to charge a higher price while another is prevented from doing so on arbitrary considerations. Such a practice, if allowed, would give the government an additional handle to influence, if not control, the press; and it is, therefore, one which it would be dangerous for the press to encourage. Yet, as the different experiences of the Calcutta and the Bombay newspapers show, the government has been able to impose its will, irrespective of whether it has any legal rights to arbitrate on prices.

Illegitimate Discrimination

Hitherto, the sale prices used to be fixed by prior agreement among the 'competing' newspapers themselves. In the present case also, the higher prices were fixed by prior agreement among the various newspapers. But now that this cosy arrangement has been disrupted by government intervention — at least temporarily —, it remains to be seen how the trade union of newspaper owners, the Indian and Eastern Newspaper Society, will seek to set things right again! What the price wrangle proves most of all is that half-measures are often worse than no measures. While readers in the Calcutta region have been spared by government intervention from having to pay more than the excise levy for their daily newspapers, readers in the Bombay region have had no such luck. Should not readers of newspapers have the same protection against arbitrary price fixation by the 'manufacturers' which, say, consumers of vanaspati have? Viewed from any angle, there is no substitute for a price-page schedule and the sooner Government sheds its inhibitions and revives the scheme, if necessary by a constitutional amendment, the better. However, the day of resolution seems distant.

Even the much-trumpeted draft bill (or 'discussion paper' as it was later described to be) on diffusion of newspaper ownership seems to have been shelved, at least for the time being. There was much that was ruritanian and one or two things which were plainly repugnant to professional independence, in the draft proposals. But it was not all black on that account and had at least some features designed to give the journalist, if not the total professional independence that he seeks, at least a far greater say in the formulation of policy and running of his newspaper. No wonder the proposals were pounced upon by the monopoly press, by its professional front — the All India Newspaper Editors Conference —, and subsequently by such champions of freedom of the press as the Kirloskars and the Bajajs of the market place.

It had the desired effect: Nandini Satpathy, reputedly co-author of the proposals with Raghunatha Reddy, announced in the Lok Sabha last month that government had decided to set up a committee of Ministers to go into "all aspects of the proposals for diffusion of ownership of major newspapers and news agencies". Besides Satpathy and Reddy, the committee consists of Mohan Kumaramangalam, H R Gokhale, and Raj Bahadur; Uma Shankar Dixit, though not formally a member, will also be associated with the committee. In what form the proposals will re-emerge from the committee, and when, has now only to be speculated upon. Even if Raghunatha Reddy stands his ground firmly against attempts at defeating the main object of the proposals — as he is known to have indicated he would to some senior journalists — the final proposals will now most likely be subjected as well to a detailed scrutiny of the Cabinet as a whole. And second thoughts may prevail.

To return to the question with which this review began, let it be said that after the first volley was fired against the diffusion proposals, a great silence has descended on the press! Newspapers, with one or two honourable exceptions, seem not to be interested in themselves! This seeming disinterestedness began actually from the morrow of the mid-term parliamentary elections and now seems to have become a well-set trend. Of course, this conspiracy of silence is no more than a diversionary smokescreen, under cover of which the monopoly press hopes to wage its battles from other fronts. And, as the leaping of the Kirloskars and the Bajajs from their hitherto secure foxholes onto the van of battle for the freedom of their press shows, the hope has not been unjustified. Yet, simultaneously with this development, the monopoly press has also abandoned its pretence to being an 'independent' organ of our democratic system and with no other purpose for existence than disinterested public service. As for the journalist representatives of the monopoly press, one senior editor is known to have denounced the proposals for diffusion angrily, on the ground that it may require him to explain policy to a mere sub-editor! The lines of battle are indeed more clearly drawn now than ever before.

On Irrelevance in Economics of Employment

Bimal Jalan

Employment and Unemployment Problems of the Near East and South Asia, Vols I and II, edited by Ronald G Ridker and Harold Lubell; Vikas Publications; 1971.

I

THERE are three aspects of the unemployment problem that have received the professional attention of economists. The first is the problem of measurement, i e, how to count the unemployed. The second is an analysis of the past experience in absorbing labour in different countries and in different sectors. And the third is the problem of policy or how to employ the unemployed.

The problem of measurement arises because of the difficulty of satisfactorily defining either the labour force or the unemployed. In predominantly rural and non-monetary economies, it is difficult to be sure who is and who is not in the labour force because of differences in working age, differences in period of work, seasonal nature of demand for labour, and the large number of unpaid workers in households and family farms. Similarly, unemployed or partial unemployment may manifest itself in various forms. While the number of persons actively seeking full-time work may be low, there usually exists substantial underutilisation of labour in the sense that productivity and income of a large number of the apparently employed are far below some average or norm. As a result of these and other definitional difficulties (in addition to those pertaining to data availability), estimates of unemployment turn on the definition one adopts, and can vary widely for the same country. On this, economists and demographers seem to be fairly well agreed.

These difficulties are so formidable that unidimensional definitions of unemployment, and estimates based on them, are considered somewhat meaningless and a number of economists have concluded that defining unemployment in developing countries is not entirely a technical matter and that one's definition of unemployment should be related to policy objectives. This has led to the "productivity" definition of unemployment based on some physical norms, and the "poverty" definition of unemployment in terms of some minimum consumption norm.

The analysis of past experience with labour absorption has proceeded along two lines. One is the estimation of employment that has actually been created in the course of development and growth in different countries. Here, there has been a striking similarity in the growth experience of various countries — industrial and national income growth has been faster than the growth of employment, and countries with faster rates of growth have tended to register higher rates of growth of employment *vis-a-vis* the slower growing ones. In addition, considerable research effort has also been directed to estimating employment functions in individual countries, and for the less developed countries as a group. Here, the object is either to project employment levels associated with a given growth objective, or to estimate rates of growth and the sectoral composition of output that is necessary to meet a given employment objective.

Thus, for example, on the basis of assumptions regarding likely growth in labour force and a constant ratio between growth of output and growth of employment, ECAFE has made estimates of unemployment in India for the year 1980-81 associated with different rates of growth of domestic output. OECD has used a similar approach for estimating rates of growth required to eliminate by 1980 the estimated level of unemployment in 1965 in various regions of the world. (The required rates of growth during 1965-80 vary from 4.8 per cent in Sub-Saharan Africa and Middle Asia to 8.4 per cent in West Asia.)[1] In a more elaborate model, Yves Sabolo has estimated the relationship between the sectoral employment pattern and economic growth by fitting regression equations on past data from 40 developed and developing countries. This model relates employment in each of the major sectors (e g, agriculture, manufacturing, construction, commerce, transport, etc) to per capita national income; since countries included in the model are at different per capita income levels, the estimated co-efficients are expected to reflect the "normal" relationship between the pattern of sectoral employment and economic growth.[2] In this and similar studies it is believed that this "normal" pattern can be applied to project the employment consequences of growth in any typical developing country.[3]

On policy questions, the state of economic thinking is not as clear-cut. However, there seem to be two major, although not always clearly separate, schools of thought on the subject. One school seems to regard employment as a function of the rate of development alone; the solution to the unemployment problem boils down to increasing the rate of development sufficiently to absorb the growing labour force. The problem of employment is thus essentially the same as problem of development, and cannot be treated separately. The other school regards the rate of employment generation as capable of being influenced by the pattern of development as well as specific development policies, even though the overall rate of development may be fixed. The employment-objective would influence the pace of development, the sectoral allocation of investment during different time-periods, the choice of industries to be set up, the choice of techniques and the choice of policy instruments. Employment, therefore, is a distinct issue of development strategy. The emphasis in this approach is usually on labour-intensive industries, labour-intensive techniques, and policies that favour the employment of labour input over capital during the development process.

Outside of these two main schools, there are a few who equate unemployment with the extreme poverty of the majority of people in the developing countries, and despair of the "normal" pattern of development or policies as being capable of alleviating the extremes of poverty in the near future. Since much of this poverty is in rural areas (or was there before spreading to urban areas), they seek an interim solution of the problem in special rural schemes to engage the rural poor in productive endeavour. The rural poor are, as it were, waiting to be employed in industry and the organised sector. However, since the period of waiting before sufficient jobs are available, is likely to be very long, the poor should be provided with some socially productive employment in the meantime. In this way, their poverty can be eradicated by their own productive effort.

II

The twenty-nine conference papers on unemployment in the Near East and South Asia, brought together in the two volumes under review belong to the mainstream of economic thinking on the subject. There is unanimity among the authors about the formidable data and conceptual difficulties involved in estimating unemployment levels in developing countries. Nonetheless, since it is important to know the extent of unemployment in these countries, estimates — sometimes by more than one author — are presented for a number of Asian countries (*viz*, Afghanistan, Ceylon, India, Pakistan, Iran and Turkey) as well as for Africa, Latin America and Puerto Rico. There are methodological essays on projections as well as projections of unemployment for Ceylon (1968-72), Pakistan (1960-80) and Turkey (1972-1982). There are essays on employment-effects of new technology in agriculture as well as experience with labour absorption in industry, construction, services and roads. Finally, there are essays on an appropriate policy for employment in developing countries. While the quality of the papers is not uniform and a number of papers are repetitive with little new or interesting in them, the editors deserve to be congratulated for making available a wealth of information on such a wide range of issues.

In his introductory piece, R G Ridker has summarised the conclusions of the country studies: "If the data are taken at face value, we would conclude that open unemployment is a serious problem in only some Asian countries under review, that we must reserve judgment on underemployment, and that while the problem is likely to deteriorate over time in most of the countries, we do not know how it is likely to manifest itself" (p 23). A perplexing feature of the estimates presented in these volumes is the wide variation in the extent of open unemployment in Asian countries: they vary from 29 per cent in East Bengal and 19 per cent in Ceylon to 4 per cent in Iran and 2 per cent or less in India. No plausible hypothesis for these differences has been presented, and it is believed that a principal reason for these differences in observed experience may lie in differences in definition and data gathering methods. The authors also agree that not much reliance can be placed on these or even more tentative estimates of underutilisation of labour for individual countries. Since these data cannot be taken at face value, on the basis of considerations outside of the estimates and studies presented, Ridker concludes that "even in countries such as India where open unemployment rates are very low, the overall problem is quite serious, but it is more one of inadequate rather than non-existent jobs. Put this way the unemployment problem is seen to be the problem of poverty, a manifestation of the general development problem."

The estimates of the effects of industrialisation on labour absorption are somewhat more firm. All the studies agree that growth in labour force has been faster than the increase in industrial jobs and that the process of industrialisation has so far failed to take care of the rural and the urban unemployed. Even where countries have been growing at 5 or 6 per cent in real terms, the annual rate of labour absorption in the non-agricultural sectors has been at levels of no more than 2 or 3 per cent. Sethuraman's study of employment generation in the large-scale manufacturing sector in India during 1950-64, for example, shows that while capital stock and value added in this sector increased at the rate of 17 per cent and 10 per cent respectively, employment increased by some 6 per cent. Employment generation in small-scale industry was even lower. What is more, it has been found that the elasticity of employment relative to output in the industrial sector in developing countries is not only low but has also been falling over time. Gustav Ranis estimates the elasticity of employment to have fallen from 0.5 in the fifties to 0.3 in the sixties.

Failure of industrialisation to generate sufficient jobs to absorb the growing labour force has naturally raised doubts about the industrialisation policies of the developing countries, and almost to a man the authors agree that these policies must be changed and made more employment-oriented. Ridker, Ranis and Frank, in particular, have elaborated the point. Industrialisation policies and incentives in developing countries have favoured capital-intensive sectors and techniques over labour-intensive ones — with little or no regard to the relative "factor endowments" of these countries. Bias in favour of capital-intensity has been the direct result of the strategy of import-substitution and distrust of the market mechanism as a means of accomplishing the import substitution goals. In order to encourage import substitution, factor and product prices in developing countries have been held away from their "equilibrium levels". Wage rates are too high and interest and foreign exchange rates too low relative to the actual availability of these factors, with the consequence that excessively capital-intensive techniques and sectors have been favoured over others that would have employed more labour. These policies lie at the root of the problem of underutilisation of labour, industrial inefficiency, structural imbalances and lower than desirable growth rates.

Happily for developing countries, the new policies that are required for generating greater employment opportunities in industry are also the ones that would give more and better growth. Although the contents and comprehensiveness of the "policy package" prescribed by different authors differ somewhat, there are two points on which there is substantial agreement. First and foremost, factor price distortions should be corrected — by lowering wages in relation to the price of capital. This would favour adoption of labour-intensive techniques and greater utilisation of labour in relation to capital in industry. Secondly, investments should be reallocated in favour of agriculture and more labour-intensive industrial products. Emphasis on agriculture will provide greater opportunities for employment in that sector, and would also slow down migration to the cities. Concurrently, emphasis on labour-intensive industries would generate more jobs per unit of capital employed.

These policies, it is believed, may lead not only to greater labour absorption but also to more output, *at any given level of resource mobilisation.* In addition, there is also plenty that the developing countries can do to (a) mobilise more resources, and (b) use these resources better to generate faster rates of growth of income and employment. Thus, among other things, Ridker has suggested that "the overall size of the public budget must be reviewed to ensure that maximum expansionary pressures subject to inflationary and other constraints is placed on the economy" (p 49). Ranis, on the other hand, has asked for a whole new set of policies and development strategies which are necessary not only in the interest of employment but of development itself. Action on a number of

fronts is necessary; thus, "a devaluation, for example, to bring the exchange rate into line with the real cost of foreign exchange, may have to be accompanied by a change in the rationing system, in this case the import control regimes, if, in fact, a more price-determined allocation is to become possible. Even a re-examination of the tariff structures underneath the quantitative restrictions, often quite haphazard in character, may be necessary... liberalisation in a number of markets may be needed, i e, with an adjustment of the signals and a willing-

ATTRACTIVE INTEREST & TAX BENEFITS

through **Bank Series** of

7-YEAR NATIONAL SAVINGS CERTIFICATES II, III & IV ISSUES

★ 5% on II and III Issues — Tax Free

★ 7½% on IV Issue — Interest upto Rs. 3000 in a year including interest on other taxable securities is FREE OF INCOME-TAX.

★ Facilities of nomination, pledging, etc.

Available at

STATE BANK OF INDIA AND ITS SUBSIDIARY BANKS

Issued by

NATIONAL SAVINGS ORGANISATION

davp 71/35

ss to permit greater play for the rket and a lesser role for discreonary actions by officials" (p 67).

The essays on agriculture focus on e likely effects of the new technology labour absorption. Although the perience with new technology in deloping countries is still very short, ese studies highlight two important ints about its likely effects: (a) the tal effect of new inputs (including m mechanisations) on labour requirements is likely to be very different in fferent regions of a country and in fferent months of the year depending land relations, size of farm, cropng intensity, and growing conditions; nd (b) there is no inherent conflict beween higher agricultural yields from ew technology and greater labour abrption in agriculture *provided* mecha*isation is introduced selectively* and ction is taken to reform land relations. s an example, Billings and Singh menion the case of Japan which uses 3.5 ectares of crop land or about double he US figure, and at the same time ses 2.04 workers per hectare of land *vhich is more than twice that of India.*

III

What to make of all this? While hese essays have certainly contributed o highlighting the universal nature and similarity of the unemployment problem in Asian countries, they are perhaps unlikely to be remembered for their analysis of the problem in individual countries or the estimate and projections of unemployment that they present. With the possible exception of two essays — one by Murad Asiel on Afghanistan and the other by Syed Hussain on Pakistan — these are largely of ephemeral interest; their main usefulness lies in making available statistics on unemployment (along with a careful analysis of their limitations) that may not be easily accessible to the non-residents of these countries.

Nor perhaps are these essays likely to be remembered for the policies they propose for increasing labour-absorption in developing countries. In the view of this writer, these suggestions are either too obvious and tautological or irrelevant to the employment problem as it arises in labour-surplus economies during the process of industrialisation. I propose to examine these in some detail not only because they are of utmost concern to policy-makers in developing countries, but also because they have become a part of the conventional economic wisdom that is being offered to developing countries with increasing frequency.

As pointed out above, suggestions for employment policy are mainly of three kinds: (i) the developing countries should adopt a strategy of industrialisation based on their relative factor endowments. They would get both more employment and more growth if they were to specialise in labour-intensive industries and freely exchange it with the rest of the world at realistic exchange rates: (ii) they should save more, invest more, and grow more; and (iii) they should adopt labour-saving techniques in industry,. and the best way of doing this is by removing factor-price distortions and lowering wages. Let us take the "development strategy" argument first.

The argument omits enough of the current reality of international trade to make it likely that it would overlook some important questions about economic development, and the objectives that the developing countries are trying to seek. Korea, Taiwan and Hong Kong notwithstanding, the option to develop on the basis of exports of labour-intensive commodities is simply not open to all the developing countries for all times. And even if it were, it does not necessarily follow that this is the only sensible strategy that the developing countries must seize upon.

While the ultimate objectives of development may be the same for all countries, — i e, eradication of poverty — the strategy for getting there is likely to differ from one country to another. I will depend firstly on the perception and evaluation of opportunities that are available (e g, trade prospects, availability of aid, and stock of skills), but it depends also on a number of other political and value judgments which are outside the purview of technical economics. These include issues such as the desired degree of openness, the acceptable degree of dependence on external aid, the choice between current and future consumption levels, and the distribution of benefits among various sections of the community. These decisions ultimately rest on social and political value judgments, and it is futile to prescribe a unique development strategy for all countries — unless we are also prepared to prescribe a unique value or preference system.

It is thus possible that a predominantly agrarian and labour-surplus economy may deliberately choose to change its factor endowments by establishing the kind of industrial structure which does not *immediately* generate sufficient jobs for the growing labour force. This strategy may be based on the belief that, in view of the country's objectives and external opportunities, it provides the shortest route between two points — the present day low-productivity traditional economy and a modern economy capable of harnessing science and technology and thus raising the average productivity and income of the future labour force. This long-term strategy, however, may fail to do sufficient justice to the current factor endowments and, during the transitional period, there may exist the problem of unemployment which has to be tackled for social as well as political reasons. The only interesting question then is the extent to which the long-term strategy or the pace of progress towards that objective has to be modified (rather than abandoned) in order to take care of the immediate problem. One may still argue endlessly about the right development strategy or what is best for a given country, but it does not help the discussion of the employment problem in countries that have already made that choice. What they have chosen may be wrong, but that is a different debate.

The proposal to invest more and save more as an answer to the unemployment problem is as unexceptionable as it is uninteresting. It is unexceptionable because it is clear that within any given development strategy, the higher the rate of investment and the pace of development, the greater will be the number of jobs created; and there can be no doubt that the developing countries must do all they can to raise their level of investment and saving. In the context of employment policy, the proposal is uninteresting because the developing countries need and should anyway be trying for as high a rate of investment and growth as they can get, quite apart from the effect on employment. The problem that they face is that their capacity to invest in the short- and medium-term is not growing at a rate fast enough to absorb the unemployed, and they urgently need a policy specifically directed to tackling that problem. Moreover, it is not clear whether growth in investment and income at *any* feasible rate can solve the unemployment problem in countries where the labour force is also growing at a fast rate. The study of Puerto Rican experience by Lloyd Reynolds, included in these volumes, is a case in point. Reynolds argues that economic development is employment destroying as well as employment creating, and despite the remarkable economic ex-

pansion of last twenty years (which has led to a more than threefold increase in per capita income), the number of unemployed workers in Puerto Rico is about the same today as in 1950.

While in principle it is difficult to object to the use of labour-intensive techniques whenever feasible, it is not clear what exactly the advocates of this proposal have in mind. Obviously, it cannot mean that labour-intensive techniques should be preferred only when they are economically as efficient or as profitable as the capital-intensive ones. Nor can it mean that any available technique which is labour-intensive should be used, irrespective of the efficiency considerations. So what is probably being proposed is that an inferior but labour-intensive technique should be given a certain "margin" of preference" over capital-intensive ones in the interest of creating more employment. If so, this naturally raises the question of trade-off between more employment *now* and more development — and consequently — more employment later. Therefore unless the margin of preference to be given to labour-intensive techniques is specified, it is difficult to give the proposal any operational meaning or judge its likely impact on employment.

The operational significance of this proposal also depends on an assessment of the technological choice that is available to the developing countries in the form of alternative production techniques, once the direction of industrialisation has been chosen. The very condition of underdevelopment and technological inferiority constrains this choice since most of the machinery and capital goods are produced in industrialised and labour-scarce countries, which may have little interest in producing labour-intensive equipment for use in developing countries. At this point, it may be argued that the developing countries should develop their own technology to suit their needs, and thus increase their technological options. This is true; but it cannot be accomplished right away and in the meantime they may have very little choice in the matter. The need to decrease their total dependence on foreign technology may be another good reason why some countries may choose to break away from their current factor endowments and develop domestic capital goods industries. Technological development cannot take place in a society wedded to traditional modes of doing things, and there is a limit to the type and amount of technology that can be incorporated in a man working with a shovel or a plough. Without a domestic capital goods industry, the developing countries are forever likely to remain dependent on imports of labour-saving machinery.

In this connection, another point made by Demir Demirgil, in his essay on choice of technology, may also be mentioned. He has argued that economic development implies the integration of the developing countries into the world economy at a different level of productivity that they possess at present, and this requires adoption of capital-intensive production methods and the most modern techniques available. The low-productivity of currently available capital-saving techniques, in his view, "will tend to perpetuate the existing conditions rather than to change them". Demirgil accepts the point that in the short and medium terms, it may be necessary to tolerate the existence of relatively unproductive techniques because they absorb a certain amount of manpower. He argues, however, that "this should be explicitly recognised as a cost imposed by social considerations, and its limits should be very clearly determined" (p 698).

Finally, there is the oft-repeated suggestion of removing factor-price "distortions" in developing countries by lowering wages in relation to interest and profits on capital. There are two separate points here: one is that lowering of industrial wages would reduce the rate of rural-urban migration and thus relieve urban unemployment, and the other is that lowering of industrial wages would lead to selection of more labour-intensive techniques and industries. On the first point, suffice it to say that if it were considered desirable to decrease the rate of migration, an equally effective policy should be to *raise* rural wages and bring them in line with industrial wages rather than the other way round. There is no *a priori* reason why industrial wages have to be lowered.

On the second point, apart from what has been said above about choice of techniques, it is a little strange to speak of wages and profits as payments to disembodied factors of production. Changes in wage and profit rates have distributional implications which need to be clearly understood and recognised. If the rate of accumulation remains the same, and the rate of profit is raised in relation to wages, it is clear that distribution of income would shift in favour of profits. In countries where much of the capital is privately owned, it means a redistribution of income and consumption in favour of those who own capital *vis-a-vis* those who do not. It is meaningless to discuss the question of relative returns to factors of production independently of the distribution of ownership of capital and incomes among different classes in the society.

In sum, in my view, taken either individually or as a whole, the above policy recommendations do not provide a sufficient or acceptable basis for consideration of employment policy in developing countries with an unemployment problem. This is not a criticism of the individual papers or economic expertise that has gone into them; it is a statement that can apply equally well to much of the contemporary economic discussion of this issue.

As a more positive contribution to the employment debate, I would offer the following simple propositions: (i) development implies a change in the composition of output; however, industrial expansion, when beginning from a low base, can only have a marginal employment-creating effect in the short and medium term (in relation to growth in labour force). Ultimately, the objective of development is to create the kind of economic structure which will provide employment to all those who seek work at a high level of productivity and income, but this will take a long time; (ii) in the meantime, countries with existing under-utilisation of labour and a fast growing labour force are inevitably going to face an unemployment problem; (iii) in the transitional period, special measures are necessary to tackle this problem. Rural public works programme which provide socially useful and productive employment to surplus labour (while they wait for industrial jobs) is one such measure. However, the ability to do this on an adequate scale is dependent on organisational capacity; and (iv) in a country without sufficient organisational capacity, the problem of unemployment becomes essentially one of relieving poverty associated with such unemployment. A society may thus wish to direct some of its current resources to welfare and increasing the consumption of the unemployed. This may somewhat slow down the rate of progress towards the long-run development strategy, but must not vitiate it.

Notes

1 ECAFE, "Projections of Sectoral Output and Employment — An Analysis for India" (Bangkok, 1969), and OECD, "The Employment Problem in the Less Developed Countries — A Review" (Paris, 1969).

2 Yves Sabolo, "Sectoral Growth of Employment", ILO, Geneva, 1968.

3 The approach is similar to that followed by Chenery for projecting changes in the sectoral composition of output. See, for example, H B Chenery and L Taylor, "Development Patterns among Countries over Time", *Review of Economics and Statistics*, November

Changing Consumption Pattern in Punjab

Projections of Consumer Demand for 1973-74

Amarjit Singh
Haramol Singh

This paper projects the demand for different commodity groups for Punjab on the basis of certain assumptions regarding the size and distribution of the population between rural and urban areas, the rate of growth of per capita income, the stability of consumption habits, the parity in the structure of relative prices and the rise in the level of the wholesale prices, etc.

These projections furnish a profile of consumer demand in the Punjab economy in 1973-74 and could usefully be utilised for adapting resources to the structure of wants and the structure of wants to resources.

[This paper is based on a study conducted by Punjab Economy Research Unit at the Punjabi University, Patiala, under the direction of H K Manmohan Singh.]

ECONOMIC growth with stability requires that the supply of consumer goods, specially those of an essential nature, is kept in balance with rising demand. This objective could be partly realised by restricting demand through rationing and controlled distribution of goods at pre-determined prices. Our experience in this regard has been, however, extremely unhappy. Effective administration of controls presupposes not only an honest and competent bureaucracy but also a sense of national duty and capacity to put up with austerity among the people. Since both the assumptions are violated in the Indian context, controls are almost invariably associated with blackmarkets and breed further controls so that virtually the entire economy is ultimately engulfed by controls which make excessive demand on the most scarce resource, *viz*, administrative skills. Successful planning in India, therefore, requires that, as far as possible, the availability of each item of essential goods (domestic production plus imports) is continually equated to its demand as arising under the free play of the market for consumer goods. In short, it must satisfy the test of consistency. In this context, the need for fairly accurate, if not absolutely precise, projections of demand for consumer goods can be hardly overemphasised.

Fortunately, we have a long series of data on consumer expenditure collected through the National Sample Survey which could provide the basis for dependable projections of demand. In the absence of comparable data on income, the data on total consumer expenditure obtained from the same source could be utilised as a proxy for income. The kind of data available would permit a search for some relationships of a general nature between expenditure on particular commodity groups and the total consumer expenditure, in addition to permitting some broad comments on the change in the consumption pattern which is taking place under the impact of development.

Specifically, the objectives of the present study are:

(i) to examine the pattern of consumer behaviour;

(ii) to estimate expenditure elasticities for different commodity groups; and

(iii) to project demand for consumer goods for the year 1973-74, at constant and current prices, for Punjab.

Pattern of Consumer Expenditure

It is about two decades now that Punjab, along with the rest of the country, initiated the process of planned economic development, with a view to providing its people the material requisites of a full life. It would, therefore, be useful to examine how the pattern of consumption has undergone a change over this period. The NSS Organisation collected in 1967-68 data on consumer expenditure for 20 commodity groups. It is proposed to analyse the average per capita consumer expenditure on each of these groups over time. Table 1 is designed to compare the average per capita consumer expenditure on different commodity groups for 1961-62, 1964-65, and 1967-68, i e, 17th, 18th and 22nd rounds of the NSS

Broadly speaking, the per capita total consumer expenditure on all the commodity groups is marginally higher in the urban than in the rural areas. The monthly per capita total expenditure was Rs 27.69 in urban and Rs 22.92 in rural areas in 1961-62 and was Rs 47.04 in urban and Rs 44.39 in rural areas in 1967-68. The traditional inequality between urban and rural expenditure seems to have been considerably abridged due to the significant progress in the agricultural sector of the state in recent years. The percentage expenditure on food items continues to increase in both the rural and the urban areas. It increased from 72 per cent in 1961-62 to 75 per cent in 1967-68 in rural areas and from 64 per cent to 69 per cent in urban areas over the same period. On the contrary, the expenditure on non-food items during this period declined from 28 per cent to 25 per cent in rural areas and from 36 per cent to 31 per cent in urban areas. Further, as Table 1 reveals, the per capita expenditure on food is lower in urban areas as compared to that in rural areas, indicating that the expenditure on food declines as developmental process leads to urbanisation.

Within the food group, it seems that both in the urban and rural areas there is a decline in the percentage expenditure on 'cereals'; whereas there is an increase in the percentage expenditure on 'meat, eggs and fish', 'vegetables, fruits and nuts' and 'sugar'. There is a marginal decline in the percentage expenditure on 'edible oils' and 'beverages and refreshments' in both the urban and the rural areas.

So far as the non-food groups are concerned, both in the urban and the

TABLE 1 : PER CAPITA CONSUMPTION EXPENDITURE IN PUNJAB IN ABSOLUTE AND PERCENTAGE TERMS FOR A PERIOD OF 30 DAYS

Commodity Groups	17th Round (1961-62)				19th Round (1964-65)				22nd Round (1967-68)			
	Per Capita Expenditure (Rs)		Percentage Expenditure		Per Capita Expenditure (Rs)		Percentage Expenditure		Per Capita Expenditure (Rs)		Percentage Expenditure	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
1	2	3	4	5	6	7	8	9	10	11	12	13
(1) Cereals	6.84	6.02	30	22	8.58	7.46	27.30	23.57	10.24	9.75	23.08	20.73
(2) Cereal substitutes	0.11	0.10	00	00	0.01	0.00	0.02	—	—	—	—	—
(3) Pulses	0.59	0.69	2	2	1.08	1.00	3.44	3.16	1.45	1.75	3.27	3.72
(4) Milk and milk products	5.43	4.88	24	18	7.12	5.06	22.65	15.99	11.46	9.74	25.82	20.71
(5) Gram					0.07	0.02	0.23	0.06	0.06	0.03	0.13	0.06
(6) Edible oils					1.00	1.77	3.18	5.59	0.95	2.01	2.15	4.28
(7) Meat, eggs and fish					0.22	0.35	0.70	1.10	0.37	0.54	0.84	1.16
(8) Vegetables					0.92	1.47	2.94	4.63	1.11	1.57	2.49	3.34
(9) Fruit and nuts	3.60	6.03	16	22					0.26	0.65	0.58	1.38
(10) Sugar					2.77	2.03	8.81	6.34	5.79	4.02	13.05	8.54
(11) Salt and spices					0.61	0.57	1.94	1.79	0.79	0.90	1.77	1.91
(12) Beverages and refreshments					0.92	1.56	2.92	4.94	1.03	1.48	2.31	3.14
(13) Food: Sub-total	16.57	17.72	72	64	23.29	21.29	74.11	67.26	33.51	32.45	75.49	68.97
(14) Fuel and lighting	1.66	1.84	7	7	1.80	2.23	5.73	7.05	2.23	2.90	5.02	6.17
(15) Clothing	1.98	2.05	9	7	2.57	2.01	8.18	6.35	3.12	1.87	7.03	3.98
(16) Pan, tobacco and intoxicants					0.42	0.66	1.35	2.09	0.97	0.56	2.18	1.19
(17) Footwear									0.90	0.72	2.02	1.53
(18) Misc goods and services	2.71	6.08	12	22	2.41	4.84	7.66	15.29	3.40	6.33	7.66	13.45
(19) Rent and taxes									0.04	1.82	0.08	3.86
(20) Pet animals									0.12	0.01	0.27	0.02
(21) Durable goods					0.93	0.62	2.95	2.95	0.11	0.39	0.25	0.83
(22) Non-food: Sub-total	6.35	9.97	28	36	9.13	10.36	25.87	32.73	10.88	14.59	24.51	31.03
(23) All items	22.92	27.69	100	100	31.43	31.65	100.00	100.00	44.39	47.04	100.00	100.00

Note : Figures for 17th round of NSS relate to composite Punjab and those for 19th and 22nd rounds to reorganised Punjab.
Source : NSS Punjab.

rural areas, the percentage expenditure on 'fuel and lighting', 'clothing' and 'durable goods' has declined during the period 1961-62 to 1967-68. So far as the percentage expenditure on 'pan, tobacco and intoxicants' is concerned, it shows an increase from 1.35 per cent in 1964-65 to 2.18 per cent in 1967-68 in the case of rural areas and a decline from 2.09 per cent in 1964-65 to 1.19 per cent in 1967-68 in the case of urban areas.

CONCENTRATION IN CONSUMER EXPENDITURE

Concentration curves of expenditure can be used to study the degree of concentration in consumer expenditure. The concentration curve gives the percentage 100q of the total consumption expenditure by the poorest 100p per cent of the population. So the curve is absolutely independent of units of money and can readily be used to compare the concentration in consumer expenditure of the rural with the urban areas and also between different groups of commodities. Table 2 shows that more than half (51.37 per cent) of the population in the lower expenditure groups in the rural areas accounts for about one-third (34.94 per cent) of the total consumer expenditure. The upper 15 per cent of the population incurs nearly 30 per cent of the total consumer expenditure. In the urban areas

FIGURE 1
Concentration in Total Consumer Expenditure—Rural and Urban

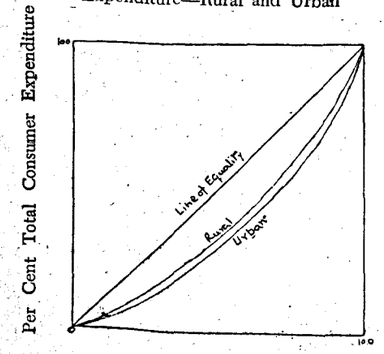


FIGURE 2
Concentration in Total Consumer Expenditure on Food and Non-Food Items — Rural and Urban

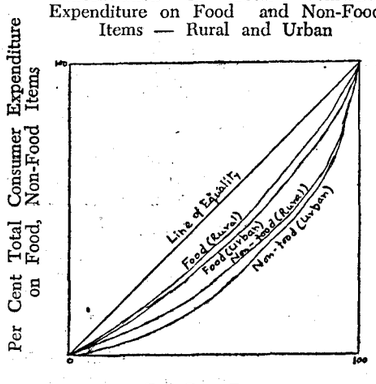


TABLE 2 : CONCENTRATION IN FOOD, NON-FOOD AND TOTAL CONSUMER EXPENDITURE

Per Capita Monthly Expenditure Class	Cumulative Per Cent Persons		Cumulative Consumer Expenditure on Food		Cumulative Consumer Expenditure on Non-Food		Cumulative Total Consumer Expenditure	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
1	2	3	4	5	6	7	8	9
8-11	0.44	0.38	0.16	0.13	0.09	0.12	0.14	0.13
11-13	1.86	4.34	0.81	1.80	0.60	0.89	0.76	1.53
13-15	4.65	9.58	2.11	4.66	1.65	1.99	1.99	3.85
15-18	11.86	20.05	6.38	10.73	4.04	4.60	5.76	8.86
18-21	22.25	29.11	13.73	17.10	8.06	8.21	12.23	14.39
21-24	33.57	38.56	22.23	24.60	14.73	13.29	20.32	21.17
24-28	51.37	52.29	38.06	35.75	26.24	23.48	34.94	32.07
28-34	71.47	71.77	59.08	55.04	42.57	40.58	54.73	50.77
34-43	84.71	86.27	75.17	74.19	56.90	60.45	70.35	70.25
43-55	93.19	91.06	86.91	81.57	74.56	67.94	83.64	77.70
55-75	97.75	96.87	95.41	91.39	87.67	82.84	93.18	88.64
75 and above	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Based on NSS data (Punjab) 19th Round.

TABLE 3 : EXPENDITURE ELASTICITIES OF DEMAND FOR DIFFERENT COMMODITY GROUPS (VALUE TERMS)

Commodity Groups	Rural		Urban		Model
	η_i	R^2	η_i	R^2	Used†
1	2	3	4	5	6
(1) Cereals	+ .504**	.947	+ .373*	.752	3
(2) Pulses	+ .457**	.939	+ .231*	.612	1
(3) Edible oils	+ .513	.252	+3.209**	.824	2
(4) Milk and milk products	+ .997**	.935	+ .837**	.937	1
(5) Meat, eggs and fish	+2.514**	.960	+1.889**	.950	1
(6) Vegetable, fruit and nuts	+ .776**	.968	+1.009**	.958	1
(7) Sugar	+1.888**	.932	+1.453*	.611	2
(8) Salt and spices	+ .582**	.951	+ .455**	.878	1
(9) Beverages and refreshments	+ .762**	.843	+2.698**	.879	1
(10) Food items	+ .808**	.980	+ .804**	.983	3
(11) Pan, tobacco and intoxicants	+2.619**	.978	+2.292**	.833	1
(12) Fuel and lighting	+1.344**	.906	+1.583**	.883	2
(13) Clothing	+1.895**	.984	+1.549**	.966	1
(14) Durable goods	+5.491*	.738	+3.856**	.865	1
(15) Non-food items	+1.435**	.975	+1.343**	.957	3

† (1) denotes linear model, (2) denotes semi-log model, and (3) denotes double-log model.
* Significant at 95 per cent level of confidence.
** Significant at 99 per cent level of confidence.

Source: Based on NSS data (Punjab) 19th Round.

also more than half of the poorest population (52.29 per cent) accounts for about one-third (32.07 per cent) of the total consumer expenditure. But the richest 14 per cent of the population incurs about 30 per cent of the total consumer expenditure in urban areas. Figure 1 shows the expenditure concentration curves for rural and urban areas. It would be seen that there is a slightly greater concentration in total consumer expenditure in urban areas as compared to the rural areas. Further, Figure 2 shows the expenditure concentration curves for 'food' and 'non-food' items. It will be observed that there is a much greater concentration in 'non-food' consumption expenditure as compared to 'food' expenditure, in both the rural and the urban areas.

ENGEL'S FUNCTION

The Engel function for an item refers to the relationship between the quantity or value of the item consumed and income. When data on income are not readily available, we can compute expenditure elasticities as a rough approximation to income elasticities. These expenditure elasticities could then be deflated by multiplying the expenditure elasticities by the elasticity of total consumer expenditure with respect to income because[1]

$$I = \frac{dq}{dy} \cdot \frac{\bar{y}}{\bar{q}}$$

$$= \frac{dq}{dx} \cdot \frac{\bar{x}}{\bar{q}} \times \frac{dx}{dy} \cdot \frac{\bar{y}}{\bar{x}}$$

$$= E.C$$

where I = Income elasticity of demand

$E = \frac{dq}{dx} \cdot \frac{\bar{x}}{\bar{q}}$ indicates expenditure elasticity

$C = \frac{dx}{dy} \cdot \frac{\bar{y}}{\bar{x}}$ indicates elasticity of total consumer expenditure with respect to income.

However, as the relevant data, i e, total consumer expenditure for the purpose of calculating the elasticity of total consumer expenditure with respect to total income are not available for Punjab, such a correction could not be carried out.

The expenditure elasticities for different items of consumption are very significant in economic analysis. These elasticities may be used:

(i) for classifying consumer goods as 'inferior', 'necessary' and 'luxury' goods, which classification provides a useful basis for determining commodity taxes, assessing the tax yield and construction of cost of living indices, etc;

(ii) for projecting future demand of different commodities to ensure proper balancing of demand and supply; and

(iii) for studying the impact of changes in the level of living on the structure of the economy.

It is, therefore, essential to obtain precise estimates of expenditure elasticities. Insofar as their magnitudes depend on the form of the Engel function, it is desirable to estimate them from the relationships which explain the maximum variation in the expenditure on different items in question.

A few important forms of the Engel function used by different researchers in the past are the linear, the semi-logarithmic and the double logarithmic. Not all of them satisfy the basic criteria of feasibility of demand functions. Nevertheless, they have been used because they have their own respective merits. The linear form ($Y = \alpha_i + \beta_i x$) has the advantage of being the simplest of all as regards the estimation and interpretation of the parameters is concerned, satisfying the adding up, the homogeneity and symme-

try conditions.[2] An item is defined as 'necessary' if η_i is positive and lies between zero and unity, as 'inferior' if η_i is negative, and as 'luxury' if η_i is greater than unity. It may also be seen that the magnitudes of η_i and α_i would be inversely related, i e, the larger α_i the smaller would be the magnitude of η_i. Further, the linear form assumes constancy of marginal propensity to consume for all individual consumers belonging to different income or expenditure groups. Besides, it implies that the income or expenditure elasticity of consumption η_i tends to unity as income (or expenditure) tends to infinity.

The most extensively used form is double-log (log $\hat{Y} = \alpha_i + \beta_i \log X$) or constant elasticity Engel curve. In this case, parameter β_i is the income (or expenditure) elasticity of consumption. Insofar as it is free of unit of measurement, it can be applied even to those Engel functions which involve dependent and independent variables differing in terms of units of measurement. It provides convex and concave curvature to the income (or expenditure) axis according as $\beta_i \lesseqgtr 1$ and straight line for $\beta_i = 1$. Besides, it also provides automatic correction for heteroscadasticity of disturbances. With slight modification in the specification it can satisfy all the Slutsky conditions.[3] Its inapplicability to the extreme values of C and $\bar{X}$ (i e, zero and infinity) is perhaps the least serious trouble inasmuch as zero values can be replaced by some very small fraction of the unit of measurement. However, because of the constancy of income (or expenditure) elasticity of consumption, it gives good approximation of the Engel curve only within a small range of incomes (or expenditures) and is not as elegant for the items having $\beta_i < 1$ as for $\beta_i \geqslant 1$.

The semi-log function ($Y = \alpha_i + \beta \log X$) gives good approximation of double-log form in the neighbourhood of average income. It implies a decline in the income (or expenditure) elasticity with rising income (or expenditure) particularly for the items having inelastic demand. It provides positive initial critical level of income although it does not have any asymptote. Despite its nearly acceptable behaviour, computational simplicity and some favourable empirical evidence, it does not command universal applicability.

Since very few forms of the Engel function satisfy the Slutsky conditions, it would be rather difficult to reject/ choose any one of them on *a priori* basis. However, we can test the reasonableness of an hypothesis by fitting the alternative forms of the Engel curve. Thus, for the present study, the future demand is viewed as a function of the average current consumption of each commodity plus (or minus) any change which will result from the expected growth of expenditure and three different forms of Engel functions, *viz*, linear, semi-log and double-log, have been tried to represent the demand relationship.

Expenditure or Quantity Elasticities

The demand analysis could be conducted either on the basis of quantities consumed or in terms of expenditure incurred on different items. Since the NSS Organisation collects information on both these variables, the choice depends largely on the objective of the study. The two approaches are complementary rather than competitive. We can compute quality elasticity of an item by subtracting quantity elasticity of that item from its expenditure elasticity. The quantity elasticities are quite useful in predicting physical consumption of various items. In contrast, expenditure elasticities are helpful in predicting the expenditure on various items. Both are useful in making policy decisions. However, if the items under consideration involve high quality differentials such that with the increase in income the consumer may shift to better quality items rather than consuming more of them, the predictions based on quantity elasticities may be very much of dubious value. Similarly, the change in the price of any item may also bring about some changes in the consumer behaviour through income and substitution effects. Thus, the expenditure elasticities may serve better for forecasting purposes than the quantity elasticities. Besides these analytical problems, the quantity approach involves some difficulties with regard to data. In the present study we have calculated the expenditure elasticities by fitting the following functions:

$$Y = \alpha_i + \beta_i X \text{ (Linear form)}$$

$$Y = \alpha_i + \beta_i \log X \text{ (Semi-log)}$$

$$\log Y = \alpha_i + \beta_i \log X \text{ (Double-log)}$$

In these equations Y denotes the monthly per capita expenditure on a particular commodity and X denotes the monthly per capita total consumer expenditure. The elasticities are worked out at the mean values of the variables.

Expenditure elasticities of demand for various commodity groups can be calculated from cross-section data either in grouped form or on the basis of individual observations. We have calculated the expenditure elasticities on the basis of grouped data. We have used NSS Punjab State Sample 19th Round 1964-65 data (unpublished) as the data for the Central sample on a full matching basis were not available. The expenditure elasticity co-efficient for each commodity is chosen from that form of the three relationships (Linear, Semi-log and Double-log) which has shown the highest co-efficient of determination between the two variables in the equation (or which generally explains the maximum variability in the behaviouristic equation) for the two types of areas studied, namely, the rural and the urban areas. It may however, be added that the use of grouped data for purposes of evaluating demand relationships overstates the correlation between the variables under study though the estimated co-efficients in the demand relationships are little affected whether we use grouped or ungrouped data.

Expenditure Elasticities of Demand

We may now examine the salient features of the expenditure elasticities obtained in this study for the selected commodities. The straight line or linear form of demand relationship has been selected for explaining the family consumption of 'pulses', 'milk and milk products', 'meat, eggs and fish', 'vegetables, fruits and nuts', 'salt and spices', 'beverages and refreshments', 'pan, tobacco and intoxicants', 'clothing' and 'durable goods'. The semi-log form has been found to be a relatively better fit for explaining the consumption behaviour with regard to 'edible oils', 'sugar', 'fuel and lighting'. The double-log form has been chosen for calculating expenditure elasticities of 'cereals', 'food items' and 'non-food items'.

The expenditure elasticity of demand for food items was found to be low both for rural and urban areas. But the expenditure elasticity for 'non-food items' was found to be quite high in both the rural and the urban areas. Within the food group, the expenditure elasticities for 'cereals', 'pulses', 'milk and milk products' and 'salt and spices' were found to be low, but the magnitudes of these elasticities were found to be slightly higher in the rural areas than in the urban areas. The expenditure elasticities for 'meat, eggs and fish' and 'sugar' were found to be

Table 4 : Projections of Demand for Selected Items for Punjab Based on Expenditure Elasticities

Commodity Groups	Annual Per Capita Expenditure in 1964-65 (Rs)	Estimated Annual Per Capita Expenditure in 1973-74 (Rs)		Estimated Total Expenditure In 1964-65 (Million Rs)		Estimated Total Expenditure In 1973-74 (constant prices) (Million Rs)		Percentage Increase in 1973-74 over 1964-65 (constant prices)		Estimated Total Expenditure in 1973-74 (current prices) (Million Rs)		Percentage Increase in 1973-74 over 1964-65 (current prices)	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
(1) Cereals	102.96	89.52	104.76	90.60	956.88	240.52	1128.48	308.16	17.93	24.00	2300.64	628.20	140.43	152.78
(2) Pulses	12.96	12.00	13.20	12.12	120.48	33.36	142.20	41.28	18.03	23.74	289.92	84.12	140.64	152.16
(3) Milk and milk products	85.44	60.72	90.48	62.52	794.04	168.60	974.64	212.64	32.75	26.12	1986.96	433.56	150.23	157.15
(4) Edible oils	12.00	21.24	12.24	23.64	111.48	58.92	131.88	80.40	18.30	36.46	268.92	163.92	141.23	178.20
(5) Meat, eggs and fish	2.64	4.20	2.88	4.44	24.48	11.64	31.08	15.12	26.96	29.89	63.36	30.84	158.82	164.94
(6) Vegetable, fruit and nuts	11.04	17.64	11.28	18.24	102.60	48.96	121.56	62.04	18.41	26.71	247.80	126.48	141.52	158.33
(7) Sugar	33.24	24.36	35.40	25.56	308.88	67.68	381.36	87.00	23.46	28.55	777.48	177.36	151.71	162.06
(8) Salt and spices	7.32	6.84	7.44	6.96	68.04	18.96	80.16	23.52	17.81	24.05	163.44	48.00	140.02	153.16
(9) Beverages and refreshmen's	11.04	18.72	11.28	20.52	102.60	51.96	121.56	69.84	18.48	34.41	247.80	142.44	141.52	174.13
(10) Pan, tobacco and intoxicants	5.04	7.92	5.52	8.52	46.80	21.96	69.52	29.04	27.18	32.24	121.32	59.16	169.23	169.40
(11) Fuel and lighting	21.60	26.76	22.68	28.44	200.76	74.28	244.32	96.72	21.70	30.21	498.12	197.16	148.86	165.42
(12) Clothing	30.84	24.12	32.88	25.44	286.68	66.96	354.24	86.52	23.57	29.21	722.16	176.40	151.90	163.44
(13) Durable goods	11.16	7.44	13.44	8.52	103.68	20.64	144.84	29.04	39.70	40.70	295.32	59.12	184.84	186.43

high in both the rural and the urban areas. But the degree of elasticity was found to be higher in the rural than in the urban areas for both these commodity groups. The demand for 'edible oils' was found to be inelastic in the rural but highly elastic in the urban areas. This is presumably because of the fact that the rural people in Punjab have a high propensity to consume 'milk and milk products' and take 'edible oils' only when it becomes essential. Similarly, the demand for 'beverages and refreshments' was also found to be expenditure inelastic in rural areas as compared to highly expenditure elastic demand for urban areas. This may be due to the fact that this item constitutes only a small proportion of the total consumer expenditure in the rural areas. And whatever quantities of it people consume in the rural areas, they will continue to consume almost the same quantities even when the total consumer expenditure increases. On the contrary, in the urban areas the expenditure elasticity seems to be quite high, possibly because of the easy availability of 'beverages and refreshments' to the town people as also because of the widespread demonstration effect in the consumption of such items in the urban areas.

The expenditure elasticities for 'pan, tobacco and intoxicants', 'fuel and lighting', 'clothing' and 'durable goods' have been found to be quite high both in the urban and the rural areas. The expenditure elasticities for 'pan, tobacco and intoxicants' and 'clothing' are marginally higher in the rural as compared to the urban areas. But the expenditure elasticity for 'durable goods' is much higher for the rural areas as compared to the urban areas. This indicates that the rural people have also now taken to the consumption of 'durable goods' and their expenditure on these items is increasing quite fast in the wake of their increasing total consumer expenditure made possible by rising rural incomes.

Projections of Demand for Different Commodity Groups

Economic development implies an increase in the level of expenditure as a result of an increase in per capita income. As expenditure on different commodity groups increases disparately, it is necessary to calculate the expenditure elasticities for different commodity groups for the purpose of projecting consumer demand. Different sets of projections would result from different sets of assumptions used. This study relates to projecting demand for consumer goods for 1973-74 and is based on the following assumptions:

(i) The population of Punjab would be 14,174,343 in 1973-74.[4]

(ii) The growth in per capita income would be 3.5 per cent.[5]

(iii) Within both the rural and the urban areas, the consumption habits will not undergo any significant change between 1964-65 (the base year) and 1973-74 (the year for which the projections are made).

(iv) The relative prices of different commodities will remain more or less unchanged.

(v) The proportion of the population as between the urban and the rural areas will change from 23:77 in 1964-65 to 24:76 in 1973-74.[6]

(vi) The price level will increase by 103.86 per cent assuming a linear growth rate.[7]

To estimate the aggregate demand for different commodity groups (in value terms) based on expenditure elasticities for rural and urban areas, the per capita demand for different commodities for human consumption in 1973-74 has been worked out by using the formula:[8]

$$Q_{rt} = Q_{r0}\left(1 + \frac{R}{100}\right)^{n_r}$$

Where Q_{r0} = per capita availability of a commodity in the year 1964-65 in the rth region (r=1 or 2 according as the region is rural or urban). The subscript '0' refers to the base period 1964-65 and 't' refers to 1973-74. 'R' refers to the expected percentage change in the per capita income between 1964-65 and 1973-74. This is assumed to be the same for both the rural and the urban areas. n_r = expenditure elasticity of demand in 1964-65 based on the per capita expenditure on the commodity in the rth region (r=1 or 2 according as the region is rural or urban).

Table 4 presents the projections of consumer demand for the year 1973-74. Columns 2 and 3 of the Table indicate the annual per capita expenditure on different commodity groups in 1964-65 for the rural and the urban areas respectively. Columns 4 and 5 provide the estimates of annual per capita expenditure, at constant prices, on these items for the year 1973-74. Columns 6 and 7 show the total consumer expenditure in 1964-65 for the rural and the urban areas on the above assumptions regarding the size and the distribution of population in the base year. Columns 8 and 9 provide the estimates of total consumer expenditure in 1973-74 on similar assumptions regarding the size and the distribution of the population in that year. Columns 10 and 11 indicate the percentage increase expected in total consumer demand in 1973-74 over 1964-65 at constant prices for different commodity groups for the two sets of areas. These columns are significant as they indicate the areas or the commodity groups for which the demand is likely to experience a sharp spurt. For example, the demand for 'durable goods' is expected to rise the sharpest in both the rural and the urban areas, i e, by 39.70 per cent in the rural and 40.70 per cent in the urban areas. The other commodity groups for which the demand is likely to rise sharply in the rural areas are 'pan, tobacco and intoxicants', 'meat, eggs and fish' and 'clothing'. In the urban areas the demand is expected to rise considerably in the case of 'edible oils', 'beverages and refreshments', 'pan, tobacco and intoxicants', 'fuel and lighting', 'meat, eggs and fish', in addition to the 'durable goods' in which the increase would be the sharpest. Further, as our experience shows that the inflationary pressure cannot be altogether avoided in a developing economy, there is need to keep a clear distinction between the estimates of demand at constant prices and those at current prices. Columns 12 and 13 provide the rough estimates of the demand for different items in 1973-74 at current prices. These estimates have been obtained on the assumption that the prices of all commodity groups will increase uniformly. [This has been done owing to the non-availability of data on prices by commodity groups for Punjab.] Columns 14 and 15 indicate the percentage increase in expenditure on different commodity groups in 1973-74 over 1964-65 at current prices and give an idea about the percentage increases in monetary expenditure on different items.

In the above analysis we have tried to project the demand for different commodity groups for Punjab on the basis of certain assumptions regarding the size and the distribution of the population between the rural and the urban areas, the rate of growth of per capita income, the stability of consumption habits, the parity in the structure of relative prices and the rise in the level of the wholesale prices, etc. These projections furnish a profile of the consumer demand in the Punjab Economy in 1973-74 and could usefully be utilised for the bilateral task of adapting resources to the structure of wants and the structure of wants to resources.

Notes

1 "Long-term Projections of Demand for and Supply of Selected Agricultural Commodities", 1962, pp 60-61, National Council of Applied Economic Research.

2 R Stone, "Linear Expenditure Systems and Demand Analysis: An Application to the Pattern of British Demand", *Economic Journal*, Vol 54, 1954, pp 511-527.

3 A P Barten, "Evidence on the Slutsky's Conditions for Demand Equations" (Mimeographed), Netherlands School of Economics, Econometric Institute, April 1965. (Quoted by Balvir Singh, "A Study of Consumption Function", unpublished PhD Thesis, University of Delhi).

4 Based on Census of India, 1961 and Census of India, (Punjab), Provisional Population Totals, Paper I of 1971, assuming a linear growth rate.

5 Compound growth rate of per capita income was calculated on the basis of Draft Outline of Fourth Plan, Punjab, p 3.

6 Statistical Abstract of Punjab, Table No 1.5 and Census of India, Punjab, Provisional Population Totals, Supplement to Paper I of 1971.

7 Based on Statistical Abstracts, Punjab, 1965 and 1970, assuming a linear increase in the Index of Wholesale Prices.

8 "All-India Consumption Expenditure Survey", 1967, Vol II, p 76, National Council of Applied Economic Research.

Twenty-five Years of UNICEF

UNICEF, the United Nations Children's Fund—originally the United Nations International Children's Emergency Fund—was created on December 11, 1946, to provide relief for the suffering children in war-devastated Europe. Today, though UNICEF continued to respond swiftly to emergencies affecting children, most of its programmes are long-term operations, closely related to the national development plans of individual countries. The main categories of UNICEF aid are health, education, training, nutrition and family and child welfare. The shift to developing countries came in the early 1950s.

The first UNICEF shipment reached India in May 1949—150 tons of skim milk powder. This was the beginning of a stream of vital supplies that were to include drugs, vaccines, seeds, garden tools, pump sets, vehicles, dairy plant equipment, science education kits, and many other items. On a rough estimate, there are 25,000 locations in India where UNICEF aid is being used for the benefit of children.

AGRICULTURAL REFINANCE CORPORATION

[Incorporated under the Agricultural Refinance Corporation Act, 1963 (10 of 1963)]

ISSUE OF SHARES — SECOND SERIES

Authorised Capital	:	Rs 25,00,00,000
Divided into	:	25,000 fully paid up shares of Rs 10,000 each
Issued, subscribed and paid-up	:	5,000 shares of Rs 10,000 each
Present Issue	:	5,000 fully paid-up shares of Rs 10,000 each

Under Section 6 of the Agricultural Refinance Corporation Act, the shares of the Corporation have been guaranteed by the Central Government as to the repayment of the principal and the payment of a minimum dividend of 4½ per cent per annum.

The issue of shares is being made under the provisions of the aforementioned Act. In terms of Section 5 of that Act, the Reserve Bank of India will subscribe for 2,500 shares and the remaining 2,500 shares may be subscribed for by central land development banks, state co-operative banks, scheduled banks, the Life Insurance Corporation, insurance and investment companies in the proportions specified below, subject to the condition that no institution will be allotted more than 10% of the shares reserved for the class of institutions to which it belongs:

Central Land Development Bank and State Co-operative Banks	1,500
Scheduled banks, the Life Insurance Corporation, insurance and investment companies and all societies which are registered or deemed to be registered under the Co-operative Societies Act, 1912 (2 of 1912) or under any other law for the time being in force in any State relating to Co-operative Societies and carrying on insurance business	1,000

Applications will be received from 8 December 1971 to 7 January 1972 both days inclusive at

(a) the Head Office of the Agricultural Refinance Corporation, Shrineketan, (Shivsagar Estate) 'F' Block, Dr Annie Besant Road, Worli, Bombay 18 WB.

(b) the branches of the Reserve Bank of India, Bombay, Calcutta, Madras, Bangalore, Kanpur, Patna, Hyderabad and New Delhi.

No subscriber can make more than one application.

Copies of the prospectus giving full particulars of the shares offered and the form of application can be had free of cost at any of the abovementioned offices. Tender of the full purchase price of the shares applied for must accompany applications.

Payments must be made by cheques or draft on a bank situated at the place at which the application is being made. Cheques and drafts should be drawn in favour of the office at which the application is presented.

K. Madhava Das
Managing Director

The Market for Graduates—A Field Report

Enno W Hommes

Nivedita Trivedi

While it is generally known that there is widespread unemployment among graduates, not much is known about the graduates themselves, about their backgrounds, or about the way in which the market for them operates.

The following paper is based on the findings of a sample study of graduates from local colleges of Bulsar in south Gujarat. It attempts to trace the character of unemployment among graduates, the procedures and influence patterns prevalent in recruitment, and the social setting which makes unemployment impinge with quite differing magnitudes on the different caste and class strata.

[This article is a field report on one of the case studies of a larger Indo-Dutch research project on modernisation processes in Bulsar. The research project has been financed by the Netherlands Foundation for the Advancement of Tropical Research and the Universities of Amsterdam, Rotterdam and Leyden.]

EVERY few months, thousands of fresh graduates enter the labour market. Many of them have studied with great sacrifices being undertaken by their families, and many with grants from the government. They all know that the employment prospects are very poor for graduates, yet they have taken the trouble to go through four years of college after their matriculation, expecting graduation to give them better access to jobs.

Although it is generally known that there is serious unemployment among graduates, not much is known about the unemployed graduates themselves: Are they unemployed because they are of a lower calibre? Do they belong to the lower castes? Are they completely unemployed, or do they have some sort of low-paid jobs? What really is the situation of the graduates, and how does the labour market for them function?

We analysed a sample of graduates of the local colleges in Bulsar in south Gujarat.* From among 735 BAs, BComs, and BScs, who had graduated in the previous three years, we selected every third student for our sample. So the sample consisted of 245 graduates. The position of these graduates on November 1, 1970, is given in Table 1. We interviewed all the students who did not go for higher studies; we interviewed them in their homes, mainly in the villages around Bulsar. We found that there is a marked difference in the position of the girls and the boys. We shall present our analysis of the male graduates first.

'Higher Studies'

Although our study is focused on the graduates who tried to enter the labour market immediately after graduation, we also collected some information on those who went on for further studies. In Table 2, the different types of higher studies which these students selected are shown. To some extent, 'higher studies' can be considered as 'disguised unemployment'. A person may go in for higher study because he cannot get a job. This is true especially of those who went in for LLB. Many interviewees told us that they went to law college, "just to pass the time". The Bulsar labour market has hardly any scope for law graduates. Yet even BScs took up study of law, although it is improbable that the double graduation would improve their chances in the labour market. Those who went for BEd, generally spent some time at temporary jobs working as high-school teachers; in selections for admission to the BEd course, preference is given to persons with some experience, and the BEd which is a one-year course is required of those who want a permanent job in a high school. The BEd cannot, therefore, be considered as disguised unemployment.

From a sociological point of view, it is interesting to know whether those who went in for higher study were mainly those with better qualifications and those belonging to the higher castes. The position is given in Table 3. About half the students from the higher as well as from the lower castes go in for higher studies. Later, we will show that the position of the lower castes in the labour market is very bad because of their lack of influence; by going in for higher studies they can avoid immediate unemployment, and the grant system makes it possible for them to take up further courses. Their families are not deprived of extra income as a result of their choice, because most of them would have been unemployed anyhow.

The figures relating to differences in quality are very striking. That many first-class students should opt for higher studies seems but natural; but many third-class students also go in for higher studies. We found that the labour market is very difficult for third-class students so that it was likely that the threat of being unemployed motivated them to go in for higher studies. The figures also indicate that caste is not relevant to the quality of the student. In fact, the results of the low-caste students were slightly better than those of the high-caste ones.

The Unemployed

On November 1, 1970, the percentage of unemployed in the three years of graduates trying to enter the labour market were:

1968: 22 per cent
1969: 42 per cent
1970: 61 per cent

One cannot conclude from these figures that there has been an increase in unemployment. They may simply indicate the slowness with which graduates get jobs. This slowness is even more clearly evident in Table 4. From this Table, it becomes clear that on an average the 1968 graduate was unemployed for 10 to 12 months. In many cases, there were intervals when the graduates had low-paid or temporary jobs. When we restrict our discussion to the 1968 generation, we cannot say that the remaining 78 per cent of the graduates have found a permanent place in the labour market. A number of them have low-paid jobs or temporary jobs. Some of them have been working as machine-operators for years and the chance that they will ever get a job to suit their education is small. From our findings it was clear that caste plays an important role in securing a job (Tables 5 to 8). Graduates from the lower castes are not only more often unemployed, but they are also on an average unemployed for longer periods.

* The law college and the polytechnic were not taken into account because they were only recently established.

Table 1 : Position of the Graduates of 1968/69/70, as on November 1, 1970

	Boys					Girls					
	Employed	Unemployed	Higher Studies	No Information	Total	Employed	Unemployed	Higher Studies	No Information	Total	Grand Total
1968											
BA	3	2	10	1	16	—	4	6	—	10	26
BCom	1	—	5	2	8	—	—	—	—	—	8
BSc	17	4	13	5	39	—	3	3	—	6	45
1969											
BA	4	4	4	2	14	1	4	6	2	13	27
BCom	5	4	5	1	15	—	—	—	—	—	15
BSc	9	5	16	2	32	3	2	4	2	11	43
1970											
BA	1	1	6	1	9	—	13	1	1	15	24
BCom	4	2	8	1	15	—	1	—	—	1	16
BSc	6	14	12	—	32	—	5	3	1	9	41
Total	50	36	79	15	180	4	32	23	6	65	245

Moreover, they have more often to accept low-paid jobs. Finally, their average income is lower than the average income of the high-caste graduates. The main reason for this situation is their lack of influence. In the section on influence patterns we will analyse this more extensively. The quality of the graduate is, nevertheless, also an important factor in getting a job. In Table 9, the effect of the difference in quality becomes especially clear in the income levels.

Low-Paid Jobs

The families of many graduates are badly in need of money, and the graduates then are ready to accept low-paid jobs. Thus a number of them are working as machine-operators for Rs 175 a month. Others are working as so-called 'apprentices' to accountants, for Rs 50-100 a month, though their work has little 'apprenticeship' quality about it and they are simply cheap labourers. The graduates, in fact, are doing all kinds of jobs; one sells vegetables in the market, another does transport work with a bullock cart, and one is selling cutlery with a hand-cart. Of all the employed graduates whom we interviewed, 35 per cent have low-paid jobs, which we defined as jobs below Rs 200 a month. The income of the others ranged between Rs 200 and 300. A normal salary for a fresh graduate is about Rs 275.

The teachers in high schools in rural areas constitute a special category of low-paid graduates. We came across a number of them getting only half-pay. Their financial position is more often than not vague and uncertain. Sometimes they get no income for months. Yet they are prepared to accept such jobs because they can get the experience which they need for admission to the BEd course. Moreover, as one informant put it: "Rs 150 is much better than nothing".

K is the son of a land-labourer. His father earns Rs 2-3 a day. To finance his study, K took a loan of Rs 1,000 from his father's employer. During his study at Bulsar, he did a number of odd jobs to earn some money on the side. After finishing his graduation he was unemployed for some months. Then he suddenly got a job in a high school in the interior. His earning would be a welcome addition to the low family income. Although he was told by others that the school paid poorly and unreliably, K accepted the job. For some months, he did not get any pay at all. After that, he got Rs 150 a month. It was a temporary job, and in seven months he earned a total of about Rs 600. When we interviewed K, he was again unemployed for some months. He had no hope of getting a job within a few months.

Some graduates, however, told us that they were not ready to accept low-paid jobs, because they are afraid that it would reduce their chances of getting a better job. When you are applying for a job as a chemist, it is no recommendation that you have been selling cutlery with a hand-cart.

Functioning of the Market

The labour market for graduates is limited in and around Bulsar. BScs can get jobs as chemists in one of the industrial concerns in the Atul complex. But, apart from that, the demand for them is very limited. Small-scale industries generally do not take graduates. Some BScs are working in banks, and high schools absorb a number of them. BComs have to rely main-

Table 2 : Graduates Who Went for Higher Studies (Boys)

MA	10
MCom	5
MSc	24
BEd	9
LLB	20
Other	11
Total	79

Table 3 : Caste, Qualification and Higher Studies (Boys)

	First Class		Second Class		Third Class			
	Higher Studies	Not for Higher Studies	Higher Studies	Not for Higher Studies	Higher Studies	Not for Higher Studies	Total for Higher Studies	Total Not for Higher Studies
High Caste	8	1	17	31	14	9	39	41
Middle Caste	0	1	2	3	0	4	2	8
Low Caste	10	3	17	29	11	5	38	37
Total	18	5	36	63	25	18	79	86

Notes :

High caste : brahmin, parsi, desai, bania, rajput;
Middle caste : e g, artisan caste;
Low caste : eg, dhodia, koli, dubla, kokna.

ly on banks, so they complain about the fact that banks also take BScs and BAs. For the BAs, *jobs in the high schools are important.*

Most of the jobs are advertised, or they are known to the graduates via the employment exchange. There is a lot of competition and it is not unusual to find 200 applications for one job. The usual procedure is that some of the applicants are invited for an interview; after that the selection is made.

Almost all the unemployed graduates whom we interviewed gave 'lack of influence' as the main reason for their unemployment. The idea that it is hardly possible to get a job without *using influence is* also generally supported by our research *findings.* About 80 per cent of the graduates who were employed admitted that they got their employment through influence. The remaining 20 per cent were either employed in their family-business or they got a job for which recruitment is organised on a regional or national basis. It seems to be difficult for most graduates to use influence at that level. For instance, in the nationalised banks, recruitment is organised on the regional level. Very few graduates have influence-channels through which they can reach the level of regional managers. We came across only one or two such cases. In the local private banks, however, recruitment takes place on the basis of local influence. Very few of the graduates got jobs in Surat, Baroda, Ahmedabad or Bombay, although quite a number of them had tried. An additional difficulty in a city like Bombay is that employers expect knowledge of English, and most of the graduates can speak hardly a sentence in English. Also, graduates do not want to go out of their villages. Recently, an all-India organisation recruited a large number of graduates from this district, but when they were appointed a number of them did not take on the job.

Influence Patterns

We asked all the employed graduates how they got their jobs. Some were reluctant to give this information, as they were doubtful about its effect on their position. We assured them that we did not want any names and that we were only interested in general patterns—whether they had got their jobs through family, caste-members, friends, people from their village, or through influential people like political leaders and social workers. When the question was framed in this way, we had no difficulty getting the information. In Table 10 we show the frequency with which the different relationships are used, either as the first link or as the second. In this Table we have simplified by giving only the most important links. In some cases, the chain was quite long. The Table represents the influence channels for different jobs. It thus becomes clear that family members are by far the most important links between the graduates and their jobs. This is especially true of the first link. In the second link, friends are more important. The very modest role of caste is interesting. This seems to contradict our conclusion that the higher castes have a much better access to the labour market. But, of course, family members are caste-members, and if one belongs to one of the higher castes then it is possible to have access to the other high castes with influential positions. An interesting phenomenon is that the graduates almost never approach influential people directly. We find the influentials in the second links, which means that they are approached through family or friends.

We would like to compare the position and influence channels of two different castes to illustrate our view of the significance of different influence channels. We selected the Desais, a dominant caste of big landowners, and the Kolis, a community of small landowners and land-labourers.

	Employed	Unemployed
Desai	12	3
Koli	6	7

Out of the six employed Kolis, four had low-paid jobs. Out of the 12 Desais, only three had low-paid jobs. So the difference in their condition is very striking. All the Desais, except one, got their jobs through family or caste-members. The Kolis had to rely mainly on friends, as they do not have family or caste-members in influential positions. We realise that these figures are small, but the differences are so great that we feel justified in using them.

What is 'influence'? This is difficult to answer. Our research material shows different ways of getting a job.

Table 4 : Average Number of Months Unemployed upto November 1, 1970 from July 1, 1968/69/70 (Boys)

BA	68	11.8
BSc		9.8
BCom		12
BA	69	8.3
BSc		8
BCom		9
BA	70	2.7
BSc		3.2
BCom		3

Table 5 : Caste and Employment on November 1, 1970 (Boys)

(Per cent)

	High Caste	Middle Caste	Low Caste
Employed	68	57	47
Unemployed	32	43	53

Table 6 : Caste and Low-Paid Jobs (Boys)

(Percentage distribution)

	High Caste	Middle Caste	Low Caste	Total
Low-paid jobs (<Rs 200)	27	33	43	35
Standard pay (>Rs 200)	73	67	57	65

Table 7 : Caste and Average Number of Months Unemployed (Boys)

	High Caste	Middle Caste	Low Caste
Number of months unemployed	5.8	9	8.6

Table 8 : Caste and Average Income (Boys)

(Rs)

	High Caste	Middle Caste	Low Caste
Average income	240	218	228

Table 9 : Qualification, Higher Studies and Employment as on November 1, 1970 (Boys)

	First	Second	Third	Total
Higher studies	18	36	25	79
Not for higher studies	5	63	18	86
Employed	4	36	10	50
Unemployed	1	27	8	36
Average number of months unemployed	5	7.2	7.4	
Average income (Rs)	292	235	188	

Table 10.: Influence Patterns (Boys)

	First Link	Second Link
Family	38	3
Caste	8	1
Influential contact	—	9
Friend	11	15
Locality	6	1
No influence	17	
Total	80	

A graduate has the strongest position in the labour market if he belongs to an influential family. Employers who have a clientele relationship with the family are simply asked to employ the fresh graduate. In sociology, this relationship is called 'patronage'; the patron (the influential) can influence his clients to do what he likes. He may not only secure jobs for his own family members, but he may also see that employers take any man he introduces. Another type of strong influence is exercised by the business relationship. A big account-holder in a bank might ask the manager to employ one of his proteges. But, in the majority of cases which we analysed, this influence channel is not strong at all. Relatives and friends have to ask employers for a favour. Whether the favour is given or not depends on the strength of the position and of the relationship of these friends or relatives with the employer. The weakest influence channel is the one that goes through friends.

The Role of Helper

What makes a man help a client, a family member, a caste-member, or a friend, to get a job? A patron favours his clients in order to increase his own power-structure. At any time in the future he can be repaid by votes, labour, or any other services. The position of the client is controlled by him:

S got a job in a high school through a village leader (caste-member), who, in his turn, approached a local politician, the chairman of many educational societies. This politician is a typical patron. He has control over many organisations. Almost daily, people go to him for his help to get a job. After some months of service, S wanted to leave because he did not like the job. But this was very inconvenient to the principal. The principal went to the local politician who in his turn called the village leader. Finally the village leader forced S to keep his job, threatening that no help would be given to him in the future if he left the job. So S decided to stay.

The 'duty' to help members of the family to get a job is one that is not only generally accepted among family members but is recognised by employers too.

More complicated is the situation with friends and with people from the neighbourhood. In explaining their motivation, we touch on the complicated system of mutual obligations that characterise the Indian social setting. The fact that one lives in the same village, goes to the same school, or works in the same factory, puts the whole system of mutual obligations into function. These obligations are basically not different from the obligations typical among family members. To help a friend to get a job is not so much a favour as a moral obligation. Most interesting is what could be called 'third party involvement'—i e, obligation extended to friends of friends or relatives of friends, or friends of family members. This 'third party involvement' is not taken for granted in Western countries. However, while friends are generally ready to keep their obligations, just sometimes they are reluctant to do so. As one informant told us: "By helping somebody to get a job, I have to ask the management for a favour, which weakens my position". Especially those who themselves have an uncertain position are reluctant to keep their obligations. Many of the low-caste graduates told us that it is for this reason that their caste-members are not ready to help them. Unemployed graduates complained about this behaviour, maintaining that it should be important to keep one's obligations.

Role of Employer

Why do the employers accept the influence patterns? The clients of influential people have to accept the graduates sent to them whether they like them or not. They have to accept them because some time they will need their patron for one thing or another. Employers may accept the influence because of business relationships; we have already given the instance of the bank manager who took a graduate sent to him by a client who had a big account. But in the majority of cases employers are under no duress; nevertheless they accept the influence pattern and take on certain candidates. The main reason why employers seem to accept the candidates who come through influence is that they hope to increase their control on their labour force. By employing a man through somebody else he already has a relationship with—preferably somebody in his own factory—the employer can increase his control over the new employee. When the newcomer does not behave according to his wishes, it is possible for the employer to control him through the man who sponsored him for the job. For this reason, a number of industrialists keep a list of their labourers side by side with the names of the people who brought them.

T, for instance, got his job in the factory through his uncle who supplies raw material to the factory. After some time, T became active in the labour union, and on behalf of this union he had to fight a case with the management. Then the manager called his uncle and told him about the 'misbehaviour of his nephew'. Immediately, the uncle put successful pressure on T to stop his labour union activities. This type of social control is, therefore, of invaluable importance to the management.

Corruption and Malpractices

Influence patterns can nullify differences in quality. When a first-class graduate and a second-class graduate are trying to get the same job but if the influence channel of the second-class graduate is stronger, it is the latter who will definitely get the job. We came across some of these cases. In one case (in an educational institution) the first-class graduate objected to this, and brought the case for consideration to a higher administrative level. The employer was then forced to dismiss the second-class graduate and to take the first-class graduate.

Though the graduates have a strong dislike of this aspect of influence, most of them accept influence as such. It is interesting that the graduates talk of 'corruption' only if money is involved. Before we started our research, we expected that lack of influence could be compensated by money. But our research findings did not support this hypothesis. Our impression is that the role of money is negligible in the labour market for graduates. Many graduates stated that money does play a role, but when asked if they could cite some concrete examples even without mentioning any names, their answer was in the negative. We came across one case where a man was asked to pay some money but was not prepared to give it. And one influential politician told us that his friends in a factory did not like it when he sent them graduates with a note from him, because then they could not ask for money. It is not impossible that the actual role played by money is greater than we were able to discover because people are understandably reluctant to talk

about it. But there are also some sound reasons why money might in fact play a minor role—the most important of them being that many jobs are temporary, or at any rate involve a trial period. Nobody would want to invest his money in a temporary job when he might be unemployed again after some months. But the story is different with permanent jobs. For instance, graduates who have temporary jobs in banks might pay money to the local manager in order to get themselves confirmed in the job. However, we do not know how often these things happen. But it is clear that money has to be employed together with influence: only when you have a good influence channel can you corrupt somebody. The reason for this is quite simple. Corruption is always risky for the recipient, and only when he can rely on an influence channel is he prepared to accept the risk. The amount of money involved is, of course, very difficult to trace. The estimates given by our informants range between Rs 500 and Rs 1,000.

A special problem is that of the graduates who work in high schools for half pay or for no pay at all but who have to sign for receipt of the full salary. Sometimes, the first three months' salary is considered a 'donation' to the high school. We did not try to find out what happened to this money, but it is relevant that the graduates themselves think it goes into the pockets of the management. This problem is, of course, well known in India and many government committees are trying to cope with it. Even when high school teachers try to get admission to BEd they come up against corruption. Many graduates told us that to get admission a 'donation' of upto Rs 1,000 may be required.

Although influence is a generally accepted pattern, many factories and other organisations still pretend to have objective selection methods. They put up an appearance of organising 'interviews'. But, in fact, the 'interview' lasts only two minutes. Understandably, the graduates hate this situation. They have to travel long distances, they have to wait, and all the time they hope that the interview is serious. One informant, who had gone through this procedure several times, said: "Sometimes I feel like taking a gun with me and forcing the manager to accept me". Nevertheless, many graduates are happy when they are called for an interview. Often, you need a good influence channel to be interviewed at all.

In this respect, graduates belonging to scheduled castes and tribes are particularly badly off. Although officially there are reserved seats for them, there are several known ways in which employers can avoid the implementation of these rules: Some of the lower-caste graduates claimed that their applications were simply removed from the files; or, of course, they 'fail' the interview. Especially high schools are disposed against low-caste graduates because—as the principals put it—"their language is very bad". We are inclined to believe that their caste is more important than their language.

Reactions of Graduates

How do the graduates react to all the difficulties that confront them? Some of the graduates had applied more than 100 times for a job, in vain. Others had applied only four or five times because they knew it would be useless to apply without influence.

Before we started our research we had believed that the graduates would have radicalised their attitudes. The student unrest in the big cities is, after all, an indication of the relation between frustration and radicalisation. We tried to measure the radicalisation in the different fields of caste, religion, and politics. Perhaps the most striking result of our research is that radicalisation is negligible among the graduates. Moreover, there is hardly any difference in this respect between the employed and the unemployed. Although more detailed analyses of our findings are yet to be done, the overall impression is clear. The difficult and partly corrupt functioning of the labour market has failed to bring about significant radicalisation. We will try to explain this situation.

In the first place, we found that the graduates are still strongly embedded in the traditional social setting, defined by joint family, caste, and village. In this situation, the graduates in many families do not bear much responsibility. The responsibility for the family, including for themselves, rests on older brothers or father or uncle. We have seen that family plays an important role in getting a job: in fact, the major responsibility for finding a job rests with the family. Consequently, the graduates are not considered blameworthy when they do not get a job, by either their family or their community. Secondly, there is the fact that, in the social environment of the graduates, there are many unemployed people anyway. It was not unusual for us to interview the 'unemployed graduate' in the presence of many other caste-members and villagers who were also unemployed. Thirdly, we found an almost complete lack of political and social consciousness among the graduates. More often than not, the graduates had almost no knowledge about the socio-economic problems of this country. When we gave them a list of the political parties and asked for their comments on them, there were some who asked us what the letters 'CPI' stood for. The lack of fresh ideas was striking. It was difficult to imagine that we were interviewing a generation that had passed through four years of college-education. Strangely, we found the older generation, too, frequently complaining about the dullness of the fresh graduates. No doubt, the educational methods in the colleges are partly responsible for the failure to stimulate critical thought.

A consequence of the inertia of the graduates is that they do not try to improve their position in the labour market in any rational way. Few take up extra courses like typing and stenography. We did not come across a single graduate who was trying to improve his English.

The present lack of radicalisation, however, cannot be projected indefinitely into the future if graduates continue to be produced without a corresponding supply of jobs. The experience in some big Indian cities proves that radicalisation can start with a comparatively minor incident. In fact, it seems likely that the problem of unemployment among graduates in and around Bulsar will become critical as the market is saturated. Industrial development has been taking place in small-scale industry, and here there is little scope for the graduates.

The Women

In our study of the graduates, we decided to treat the girls as a separate category, because we felt that their position would be qualitatively different from that of the boys — not only as regards the labour market but more so as regards their approach to employment and education itself.

Early on in the interviews, it became clear that their 'motive' for joining college was not employment. Only 10 of the 59 girls were working; most of the others never made any serious attempt to get a job. Obviously, studying with employment in mind, played little or no role in the education of most of the girls. Only a small number of the girls belonged to low-income groups. Moreover, the few who want, or need, jobs can't get them. Such difficulties are not new, but more and more girls still join college each year. The 'motive', then, may be found in the sphere of marriage.

Evidently, to the girls themselves, their education does not mean much. Excluding the small percentage who are working, the others seem to make no use of their education, nor are they very enthusiastic about it. As one girl put it succinctly, "One must have some degree". In a society where marriage for girls is a must and is often the only 'career', and where for the family 'marrying off' the daughters is important for prestige and status, it is logical to put daughters through college. Educated and well-settled men of caste want at least graduate brides. The girls are also conditioned to this way of thinking: education is part of the whole 'package' necessary for marriage, comprising good looks, good family, various accomplishments. This point is reinforced by the fact that about 75 per cent of the girls are of high caste, and an even higher number are from the higher income groups who can afford college-education. Among girls of the lower castes, this argument was much less important. Their main objective in graduation was to secure a job. Their plight was therefore worst of all: on the one hand job opportunities for girls are almost non-existent, and on the other the marriage prospects of these graduate girls become limited since few boys from their caste are graduates. This discourages other parents from sending their daughters to college.

The girls who intended to take a job chose their subject in the hope of getting a school teaching job. But most schools prefer men teachers or do not have vacancies. Banks, too, do not employ women here nor do any of the big firms — it is an unspoken, unwritten policy of most firms. One girl who had appeared for an interview at a bank complained bitterly that "some firms and banks would interview a few girls along with the boys only because they cannot declare that they do not employ women".

If women in this area had access to the labour market, which section of women would go in for jobs? It seems likely that more and more lower-caste girls would go in for college studies then and later try for jobs as well. But by and large we found the girls at present remarkably lethargic, uninterested, and unaware about many things. Few had any opinions on any of the questions on caste and politics, and most of them were startlingly pessimistic. Many made it clear that they had no interest in their subject (at graduation) and few have kept in touch with it.

Emancipation

As important as emancipation of the girls is emancipation of the lower castes. To what extent could the lower castes improve their position by entering the colleges? One of the main findings of our research is that their position is very difficult, because of their lack of influence. Lack of influence is mainly due to the fact that the lower castes are newcomers in the labour market. After 10 or 15 years, they may have a majority position and then real emancipation could start. But there are two qualifying factors here. In the first place, it is possible that the increasing shortage of jobs will lead to the higher castes monopolising the market even more. Secondly, the resultant social tensions may snowball into a radical movement. This may not be of a Leftist character. As far as we could find, such radicalisation as there has been is more of the fascist kind. Bulsar is, of course, not an island, and much will depend on the developments in India at large.

Civil Strife and Doctrine of Responsibility

A Comment on the Events in Ceylon

R S Perinbanayagam

IN the extensive coverage given to the abortive revolution or insurgency in Ceylon, the notion that the punishment that has been/is being meted out to the insurgents is unjust and immoral has been canvassed. Such a view, it seems, is based on the following assumptions: (a) the insurgents were youthful idealists; (b) the left oriented government in Ceylon had somehow deserved the insurgency; (c) uprisings and insurgencies in any country must somehow be an expression of just grievances; and (d) the insurgents were mere victims of unwarranted terror and repression. While many observers on the left have made one or more of the above assumptions in their attack on the government of Ceylon, it is Vinayak Purohit who gave it sturdy expression in a long analysis, where he concluded:

> In conclusion I must confess to my sentimental weakness for the brave and heroic deeds performed by the young in Ceylon. They fought against heavy odds and against a fantastic combination of international powers. Their timing and tactics may be faulted, but their desperate valour will probably find a permanent place in the history of their socialist movement of Ceylon. For the time being Sirimavo Bandaranaike has prevailed. She and her successors will however not be able to forget that the youth of the nation did try to make Ceylon, if not the emerald, at least the ruby of the Indian Ocean. (*Economic and Political Weekly*, Special Number 1971.)

In a more vitriolic piece, a "Special Correspondent" writing in July has also romanticised the uprising in Ceylon and painted gruesome pictures of the reprisals by the army and the police on the insurgents or those suspected to have been involved.

> In most cases the armed forces have razed villages during curfew hours, captured youths and shot them in the cemeteries. Eye witness accounts speak of hurried burials with cartridges strewn in the cemeteries ... Reports of police atrocities, army killings of civilians, public executions and savage conduct of the repressive forces of the state are pouring in. (*Economic and Political Weekly*, July 17, 1971).

These observations and the data they are based on may very well be untrue. It is not my purpose here to challenge the facts of these stories nor even to deromanticise Vinayak Purohit's heart. I do however want to challenge the thesis that youthful revolutionaries are exempt from responsibility for the privations visited upon the entire people of Ceylon (which includes the deprivation of civil liberties of the masses, virtual police and military government and, not least, the threat of a right-wing *coup d'etat*). The thesis implicit in the *Economic and Political Weekly's* treatment of the troubles in Ceylon seems to be that the government — a duly and popularly elected one — acted without morality in defending itself from an armed insurrection of a minority of the population, and turned to the only instrument at their disposal to meet such an insurrection — the army and the police. Once the insurgents begin the activity with arms and armed attack on policemen and their offices, the response of the government is also *ipso facto* predetermined by the insurgents. If, for example, the leaders of the insurgents had challenged the government to a cricket match, the

government would have arranged for such an encounter; if the challenge was for an armed contest, it is quite foolish to expect the government to field a cricket team. In other words, the moment the insurgents launched their attack and by the manner of their launching it (by attacking the police posts in outlying districts) they determined not only the nature of the conflict, but virtually cancelled the government's powers and invited the violent and brutal men of the military to become almost the rulers of the country. When a civil government of a country is driven to the expedient of calling upon the military to maintain internal peace, the government is quite literally in the power of the military whereas before such an event, the opposite was the case. To put it briefly, the government in effect abdicates all or some of its powers to the military. For all actions of the military henceforth, the government can bear only technical or legal responsibility in the hallowed tradition of the British parliamentary system. The causal responsibility however lies elsewhere: with those who created the situation in which the government had to abdicate power to the brutal men of the military on the one hand and the military itself on the other.

They Speak the Language of Violence

Once such a situation is created — one assumes that even youthful revolutionaries have the intelligence to anticipate that once the firing starts, it will be returned — and the military takes over, it can act only in the style and manner it is trained to do. The military by training is a machine that does not pause to ask Socratic questions and engage in subtle disputations. Force of action and the force of their weaponry are the only instruments at their disposal — indeed the only language they speak is violence and the only categories they recognise are friend or foe. Hence once they are let loose among civilian populations where such a language is not readily understood or these categories are not valid, one can expect only violations of the rule of parliamentary law. It is the same whether the army is one from Germany on the Russian front or Americans in My Lai or the Sinha Regiment in Kegalle or some other place in Ceylon.

Hence, the romantic yearnings of parlour revolutionaries apart, the basis of political action should be the likely consequences of contemplated activities and an examination of the cost in suffering and persecution. If such an examination yields the answer that the suffering and persecution are a necessary price to pay for future liberation or that present suffering warrants such activities irrespective of future suffering, then armed insurgents we must become. However part of the calculus must also involve the chance that the insurgency or revolution may make matters worse for the foreseeable future. Once the decision is taken, the responsibility for the actions and the consequences cease to be exclusively the opponent's. Dialectically speaking, both the enemy and the initiators would have created — with varying degrees of responsibility — the ensuing conditions.

In the end, what do we know of the insurgents? That they are young and enthusiastically committed to a revolutionary change in the society in a more egalitarian direction, to reach which goal they were willing to take to arms, is undisputed. Did they however possess and announce any systematic programme of action to achieve these goals? The answer to this question is an unqualified negative. Besides vague and mindless references to the expropriation of tea and rubber plantations and their conversion to usage by peasants, there was no theoretically informed and practically workable programme forthcoming from the insurgents at any stage of their four or five years of existence. On other matters of urgent importance facing the people of Ceylon, the JVP is no less secretive except on the question of minorities in Ceylon — Indian Tamils, Ceylon Tamils, Burghers, Christians, etc—on which question the JVP has, no doubt in pursuance of its rationalistic, internationalistic and socialistic convictions, announced a virulent Sinhala-Buddhist chauvinism reflecting the fact that almost its entire recruit-strength and social base was also Sinhala-Buddhist.

Indispensable Ingredients

A sentimental attachment to violence against the establishment *per se* has never led to a successful revolutionary transformation of a society. While passion, ardour and guts are imperative, intelligence and knowledge are indispensable in any programme of change.

LOK UDYOG

(PUBLIC ENTERPRISE)

(A monthly in English)

For authentic information on the public sector enterprises.

Includes articles by Chief Executives, eminent management experts, economists on problems of Public Enterprises management, economic and industrial development.

Some of the contributors include Shri J R D Tata, Chairman, Air India, Shri S Bhoothalingam, Director-General, National Council of Applied Economic Research, Shri P L Tandon, Chairman, State Trading Corporation of India, Shri K T Chandy, Chairman, Hindustan Steel, Dr Vikram A Sarabhai, Chairman, Atomic Energy Commission, Prof Jan Tinbergen, Nobel Laureate.

Special features in recent issues :

Management Information Systems, Industrial Relations, Techniques of Financial Management, Appraisal System.

Regular features:

Project Review * Enterprises round-up * Public Sector in Parliament * Public Sector Abroad * Book Reviews * Research & Development Statistics.

Editor :

Ajit Singh,
Director,
Bureau of Public Enterprises.

Single Copy Rs 3
Annual Rs 30

Payment : Crossed Cheque/Demand Draft/Postal Orders in favour of "Deputy Secretary (Coord), Bureau of Public Enterprises, Ministry of Finance".

Send your remittance to : Assistant Director, Bureau of Public Enterprises, (Information and Research Division), Ministry of Finance, 'F' Wing, Nirman Bhavan, New Delhi-11.

ECONOMIC AND POLITICAL WEEKLY

Founder-Editor: **Sachin Chaudhuri**

Vol VI No 51 December 18, 1971

The Dollar Link—Return to Civilian Government?—Abdicating a Distinct Role?—A New Market? 2494

Business 2496

Letters to Editor 2499

Capital View 2500

Companies 2501

From Our Correspondents

New Delhi: Problems of Aid Suspension 2504

Lucknow: Economic Development of UP 2506

Bhutan: A Friend in Need ... 2507

United States and the Indo-Pak War 2508

Soviet Union: Modest Upgrading of Plan —K Krishna Moorthy 2509

The Fourth Estate 2510

Review

Far-Ranging but Superficial —N S Jodha 2511

Special Articles

White-Collar Unions in Bombay—A Survey —S D Punekar 2513

Electricity Pricing in Uttar Pradesh —S Ramesh J L Bajaj 2519

New States and International Order: The East African States —T V Sathyamurthy 2523

ECONOMIC AND POLITICAL WEEKLY

Skylark 284 Frere Road Bombay 1

Phones 266072, 260566, 260192

Editor

KRISHNA RAJ

Assistant Editors

Rajani X Desai, Jawid Laiq

Business Manager: A Fernandes

Circulation Manager: Shiv Patil

Editorial Staff

Colin de Souza, Haresh M Advani

Shireen Heerjee, Ashok Rao

Post-War Leadership

IN terms of history this has been a most unusual war. Wars very rarely work out according to the plans of any of the protagonists. But this one, at least in its short-term consequences, has totally fulfilled the immediate aims of the Government of India. Bangla Desh is now a fact. Yahya Khan's regime in West Pakistan is in great disarray and its army is discredited in the eyes of the populace. Some of the refugees in India have already started trekking back to Bangla Desh. The Americans, in spite of the theatrical gesture of sending the Seventh Fleet into the Bay of Bengal, shied away from getting dangerously involved in the conflict. The Chinese, for all their anti-Indian and anti-Soviet rhetoric, did not provoke even a minor skirmish on their Himalayan frontier—and probably never intended doing any such thing. In all these senses, the Government of India's shrewd calculation and control of the sequence and outcome of developments during the last two weeks can only be regarded with awe. The Government and the armed forces, it can be seen with hindsight, must have carefully worked out contingency plans for most eventualities, once they began to back the Mukti Bahini seriously in September-October. And these plans seem to have been executed with a good deal of despatch and precision once the all-out fighting started with the Pakistani air attack on the western front on December 3. Of course, the collapse of Pakistan was made surer by the incredible bungling of the Pakistani regime in every sphere—internal political, diplomatic and also military.

The top layers of the army and civil service are likely to be so discredited and demoralised by their straight record of progression from one fiasco to another, that they will pass on the task of facing up to the consequences of defeat to Bhutto as soon as they can. But at a time when a leadership with the political finesse to consolidate and soothe the disenchanted people of West Pakistan is most needed, Bhutto's style of leadership, going by past experience, is likely to be a self-defeating formula of socialist slogans and more anti-Indian rhetoric.

It is not, however, in Pakistan alone, that the quality of the political leadership is likely to be the crucial element. Without detracting from the need for efficient administrators, economic planners and engineers, the prime need in Bangla Desh also is for a political leadership which will command the necessary prestige and respect to mobilise the people of the country for the tasks of national reconstruction instead of mounting reprisal campaigns against those groups which have admittedly caused much suffering in the last eight months. The Government of India cannot order the Indian army to carry out indefinitely the delicate task of restraining the Mukti Bahini and other irregular armed men from mass reprisals against Biharis and suspected collaborators. This is a task which can be fulfilled only by the political leadership of Bangla Desh. If Mujibur Rahman is still alive, it should be the Government's primary objective to get him released in negotiations with West Pakistan. We have a number of bargaining counters, including West Pakistani territory and soldiery, to demand his release. Although he proved to be extremely politically naive in his assessment of the nature of military regimes, Mujib is still probably the leader most capable of creating political calm in Bangla Desh in the initial period of its genesis. In his absence, the Awami League leaders of the erstwhile provisional government have been noticeably reticent in facing up to the tasks of providing leadership to the new nation.

On the international stage it might look as if the Russians have gained great influence in South Asia by backing the winner and the Americans have suffered a grave setback. But after the drama dies down, the Americans will in all probability work towards regaining influence in India and establishing themselves in Bangla Desh by renewing their aid programmes and soft-pedalling their hitherto pro-Pakistani postures. And the Russians are not likely to take serious exception to this as their global view precludes them from antagonising the Americans too much, especially at a time when they are seeking mutual arms cuts with the Americans and require American co-operation for a much-desired European Security Treaty. Moreover, they would want to reopen contact with Pakistan, just as the Americans would with India and Bangla Desh. The Chinese are also a super power, notwithstanding their denials, and would be looking for better relations with Bangla Desh and India. To be sure, this general lowering of tension by all concerned is hardly likely to make this an area of big power co-operation; joint interference would be a fair description of what appears to be in store.

Exchange Rates

The Dollar Link

THE critics of the United States in this country, whose numbers have multiplied so dramatically in the last two weeks, have seen the capitulation of the Nixon Administration on the issue of devaluing the dollar almost as retribution for its policies towards Bangla Desh and the India-Pakistan war. Such is the mystique about the exchange rate of a currency! Fortunately there is more to exchange rates than national prestige which makes it possible, though still not easy, for countries to bargain about them. Proof of this is the slow but steady movement, now on the verge of completion, that we have seen in the last few months from one set of exchange rates for the world's leading currencies to another set after an interlude of floating rates.

The experience has been instructive, among other things for having subjected the claims of floating exchange rates to the test of actual operation. It has been established that floating rates are no magic formula for reconciling the conflicting economic ambitions of partners in international trade. Under the regime of fixed exchange rates, the US was able, through wide-ranging governmental management, to carry through massive programmes of capital investment abroad, particularly in Europe, even as other countries' holdings of the dollar mounted to levels at which there could not be the slightest hope of their conversion at the official rate of $35 per ounce of gold. A regime of floating rates is subject to the same sort of management ('dirty floating') to insulate supposedly free exchange rates.

The US decision to devalue the dollar, announced after Nixon's meeting with President Pompidou of France last Wednesday, reflects the United States' assessment of the balance of political and economic advantage to it from return to a state of fixed exchange rates. The Nixon Administration evidently decided that it could not carry on its war of attrition against the West European countries and Japan, with the 10 per cent surcharge on imports and the buy-American tax incentive on new investments, without affecting its political relations with these countries. Nixon is scheduled to visit China and the Soviet Union early next year and he appears to have calculated that it would scarcely help him in his talks with the leaders of the two major communist powers if the US and the Western countries remained at loggerheads in their economic relations. Also material has been the fear that international currency uncertainty might affect the prospect of internal economic recovery.

The US agreement to devalue certainly removes the major road-block in the way of a return to a regime of fixed parities for the world's leading currencies. The major issue that remains to be determined is the average change in parities needed *vis-a-vis* the dollar and how this change is to be shared among the various countries, including the US. Two other related issues which the US had been insisting on settling are those of new agreements with Europe on trade and on sharing of the military burden. The US has now apparently dropped its insistence on settling these issues along with the parity realignments as a package deal. It should not be surprising, therefore, if the new currency parities are agreed upon at the meeting of the Group of Ten in Washington this weekend.

The devaluation of the dollar, when it comes, will confront the Government of India with the decision whether to maintain the rupee's link with the dollar which would require an equivalent devaluation of the rupee. As a result of its link with the dollar, the rupee already stands devalued in relation to the yen and those European currencies which have appreciated in relation to the dollar during the period of floating rates. The decision to link the rupee to the dollar was based on the consideration that the country's competitive position would be best served by preventing the rupee from appreciating in relation to the dollar and securing for it the advantage of the full extent of the appreciation of the other major currencies. Nothing has happened since then to alter the economic logic which would now require the rupee to be devalued to the full extent of the devaluation of the dollar. But politically much has changed; after the position taken by the Nixon Administration in the India-Pakistan war, the temptation would be strong for the Government of India to appear to sever with a flourish the rupee's link with the dollar. But is this a matter in which considerations of political prestige ought to take precedence over economic calculation?

Pakistan

Return to Civilian Government?

A Correspondent writes:

YAHYA KHAN'S attempt to carry on ruling Pakistan as if the surrender of his troops in Bangla Desh had made no difference at all is farcical. The people of Pakistan have yet to be told of the full extent of the military disaster that has befallen their army in the East, but the truth cannot be kept from them much longer. And once they realise what has happened, Yahya Khan will surely be saved the trouble of going through the motions of promulgating a new constitution and transferring power to a civilian government.

With the loss of East Bengal, Yahya Khan's Bengali Prime Minister-designate, Nurul Amin, has ceased to have any *locus standi* in the politics of Pakistan. With this has also collapsed Yahya's attempt to create a combination of right-wing parties to balance the People's Party of Bhutto. This, it may appear, clears the way for Bhutto and the People's Party and for the transfer of power to a civilian government without any serious hitch.

The actual course of events may not turn out to be so smooth, however. In the first place, it is ironical that in trying to find a replacement for the disgraced Yahya regime, Pakistan should pick on the one politician whose culpability for the course of events leading to the loss of East Pakistan is second perhaps only to that of Yahya Khan. Bhutto's boycott of the National Assembly on February 15, following a meeting with Yahya Khan three days earlier, made a major contribution to destroying such confidence as the Awami League had in the sincerity of the Yahya regime's moves to restore representative government in the country. Bhutto's boycott was the first step on the road which ended in the holocaust of March 25; it was followed by Yahya Khan's decision on March 1 to postpone the National Assembly session *sine die*. Nor did Bhutto subsequently oppose the government's policy of suppression of Bangla Desh. And even as the war clouds were gathering Bhutto was actively in the service of the military regime, drumming up Chinese support in Peking. It would be interesting indeed to know if he made a positive contribution to the Yahya regime's decision to launch the war by giving it exaggerated ideas of likely Chinese support.

It is not lost credibility alone which augurs badly for an effective civilian government under Bhutto's leadership. So-called civilian governments in Pakistan in the past have been fronts for the joint exercise of effective power by the higher civil service and the military top brass, both of whom serve the same economic and allied interests. Similarly, the Ayub and Yahya regimes were not pure military governments but once again instruments of joint rule by the army and the bureaucracy. And now Bhutto, with his own hands none too clean and without any particularly well established political base, will need to lean heavily on the support of the bureaucracy and those elements in the armed forces who have not been directly discredited in the war.

Given this background, it is not unlikely that the supposedly civilian government of Bhutto may go the way of earlier civilian governments in Pakistan such as those headed by Nazimuddin and Mohammed Ali of Bogra in the fifties which the then Governor-General Ghulam Mohammed, an ex-civil servant, had no difficulty in dismissing when the occasions arose. Of course, there are major differences between the situation in Pakistan at that time and now, above all in the level of political consciousness of the Pakistani people. It is nevertheless difficult to be convinced about either the viability of Bhutto's civilian government or the prospect of a lessening of the power which the civil service-military complex has wielded uninterruptedly in Pakistan almost ever since the country's independence.

The power of the entrenched bureaucratic-military complex is likely to be threatened in the present context not so much by any civilian government that might be formed but, paradoxically enough, by a military coup—not by *pucca* Sandhurst-type generals in their fifties of the Ayub and Yahya variety, but by some group of young colonels: intensely nationalistic, puritanical and, very likely, fervently Islamic. Of course, this will be the opposite of the outside world's ideas of what is good for Pakistan just now—democracy, secularism, liberalism, etc—but it stands the best chance of lifting Pakistani politics from the two decades-old morass. Is there perhaps a Nasser in the making among the survivors of East Pakistan who were pushed into fighting an unwinnable war first against fellow citizens and then against an immeasurably superior external opponent and who have suffered the humiliation of defeat and surrender?

Planning Commission

Abdicating a Distinct Role?

THE Planning Commission has apparently completed its mid-term appraisal of the Fourth Plan. From reports which have appeared in the press, it does not appear that the Planning Commission's diagnosis of the factors responsible for the low growth of industrial output goes very much beyond what the Minister for Industrial Development has been saying recently. What is particularly interesting is that the Planning Commission appears to concur with the popular view of industrial licensing as the principal villain holding back investment in industry and hence the rate of industrial growth. According to the Commission, in some important industries inadequate or delayed licensing has led to capacity bottlenecks. Two other features of licensing policy also come in for comment. First, the policy of giving licences to new entrepreneurs has apparently led to a large number of licences remaining unimplemented. Second, there have emerged imbalances in the issue of licences between substantial expansions and new units and between investment in developed and in backward areas. Isn't there some contradiction here, one wonders. If the risk of non-implementation of licences issued to new entrepreneurs is to be avoided, then the licensing authorities are likely to favour applications for substantial expansion against those for new units. The odds are weighted against new entrepreneurs also by the rigid and play-safe policies of the term-financing institutions in respect of equity-debt ratio, promoters' contribution to capital, etc.

More important is the impression which comes through the newspaper reports of the mid-term appraisal, that Planning Commission appears to regard the working of the licensing policy as a variable outside its purview. After all, licensing control is no more than one of the instruments for implementing that part of the industrial plan which is to be fulfilled by private investment. Delays in issue of licences is a procedural problem and one can appreciate that the remedy does not lie with the Planning Commission. But the major shortcoming of licensing is quite different and lies in an area which is, or should be, very much within the purview of the Planning Commission. What, more than anything else, has nullified licensing as an economic policy instrument is the wide gulf between licensing and plan strategy, priorities, and targets. The Licensing Policy Inquiry Committee commented lengthily on the complete absence of any interdependence between planning and industrial licensing. It also pointed out how this resulted from the failure of the Planning Commission to provide specific guidance on *inter se* priorities within each industry group, long-term capacity requirements, priorities within the import-substitution criterion, and the locational plans for different industries so as to meet the requirements of balanced regional development. As a result, the Planning Commission and the licensing authority have by and large worked independently of each other.

With this background of experience, one wishes the Planning Commission had made suggestions to guide the licensing authorities for closing the gap between private industrial investment and whatever remains of Fourth Plan targets. Surely, the Planning Commission cannot consider its task done by tabulating revised targets of growth of capacity and production. The Commission has to go beyond this simple exercise and formulate in detail the pattern of private investment necessary to fulfil the various and often conflicting objectives of planning — like fulfilment of plan targets of capacity and output, development of backward areas, import substitution, export promotion, promotion of new entrepreneurs, deconcentration, competition, and employment.

That the Commission should do so is particularly important now for two reasons: (i) Reacting to public criticism of the licensing and anti-monopoly controls, the Ministry of Industrial Development seems to be in a rush to clear up licence applications. Once speed becomes the only objective of licensing, in the absence of clear-cut guideliness from the Planning Commission, any coincidence between the pattern of private investment that materialises and the objectives of industrial planning will become purely accidental. (ii) The recent war and our responsibility towards the rehabilitation of Bangla Desh will surely drain away whatever resources were left with the Government for stepping up public sector investment in industry. As a result, reliance on private investment will necessarily become heavier. This will make it all the more important to ensure that the private investment that takes place is consistent with plan objectives.

Bangla Desh

A New Market?

ONE of the more curious, and least understandable, reactions to the emergence of Bangla Desh is the hope raised in a number of industries that they are in for a major shot in the arm since a large new market has opened up for their products. Among such in-

dustries are textiles, pharmaceuticals, cement, fertiliser, commercial vehicles and railway equipment, to mention just a few. To be sure, war-devastated Bangla Desh, cut off from its traditional sources of supply in West Pakistan, desperately needs the products of these and a number of other industries. Also, there can be no question that we have a major responsibility in making these products available to that country. But this is an altogether different proposition from the one which suggests that Bangla Desh provides a new market for these industries for which to expand their production, hitherto presumably held in check by the limitations of the Indian market.

Take the pharmaceutical industry, for instance. To the best of one's knowledge, it has never been claimed on behalf of this industry that its growth has been constrained by the smallness of the Indian market. How could it be, considering what large parts of the country and what large sections of the population still remain outside the pale of modern medicine? Then how does Bangla Desh become vital as a *new market* for pharmaceutical products, as spokesmen of the industry have begun to claim privately? Two possible explanations suggest themselves. First, it is likely that the industry sees the Bangla Desh market as more easily accessible than the non-urban Indian market. Second, it is possible that the industry expects Bangla Desh to be a more remunerative market since, presumably, it will not be subject to the control on drug prices. Both considerations are very material from the private profit point of view, but neither matters from the social interest standpoint.

Let us now take a different industry, railway equipment manufacture—which, it may appear, does suffer from lack of a large enough market internally. Here again the scope for expanding and improving railway transport capacity is obvious enough. However, over the last few years the Indian railways' purchases of various types of equipment (e g, wagons) has been restricted by the railways' own unhappy financial state and by the Government's inability to spare funds out of the general budget for such investment. Here what difference will Bangla Desh make? True enough, in the absence of manufacturing facilities, Bangla Desh will need to buy large number of wagons, locomotives, etc, and this will go to increase the production of Indian manufacturers. Equally true, however, these purchases will have to be financed by credits advanced by the Government of India out of its budgetary revenues. The same result could have been achieved from the point of view of the railway equipment manufacturers by the Government making comparable funds available for investment by the Indian railways. Or, to look at it in another way, the use of budgetary revenues for extension of credit for sale of railway equipment to Bangla Desh will correspondingly reduce Government expenditure on—and therefore demand for—other goods and services.

None of this is to question the case for making available to Bangla Desh much-needed consumption goods and capital equipment or for extending Government credit for this purpose, but only to question the view of Bangla Desh as a large new market to likely to trigger industrial expansion in this country. A country of 550 million people, abysmally deficient in a wide range of goods and services, ought not, unless its economic affairs have been managed very badly indeed, to suffer from lack of demand for the output of its limited productive apparatus.

BUSINESS

Steel Shortage Not to Blame

THE export target of Rs 165 crores fixed by the Engineering Exports Promotion Council (EEPC) at the beginning of this fiscal year was raised by it to Rs 175 crores about two months ago. At the time of stepping up the target, engineering exports had amounted to Rs 64 crores in the first half of the fiscal year as against Rs 59 crores during the corresponding period of 1970-71. It is difficult to understand how the EEPC expects exports in the second half of the financial year to be nearly twice their level in the first half.

Some of the reasons cited by the EEPC for raising the export target deserve mention. EEPC claims to have orders worth Rs 151 crores for railway wagons and coaches, railway track materials, wires and cables, industrial plant and machinery, structural fabrication, air conditioners, bicycles, iron and steel castings, wire ropes, electric motors, and transformers. According to delivery schedules, orders worth Rs 76 crores are to be fulfilled in the current financial year. Apart from these bulk orders, there are a large number of engineering goods that are exported on the basis of repeat orders not normally reported to the EEPC. According to the EEPC, it had plans to mobilise all efforts to ensure that shipments worth Rs 60-70 crores took place against these repeat orders.

However, the export performance of engineering goods in October does not appear to be promising enough to justify the stepped up target of Rs 175 crores. Engineering exports in the first seven months of the year, April-October, aggregated Rs 73.3 crores, reflecting an increase of about 34 per cent over exports in the corresponding period of last year. This is an impressive rate of growth, but it is unlikely that exports would average Rs 20 crores a month during the remaining five months of the year. Exports may suffer during the current month because of the Indo-Pakistani war resulting in less frequent calls by foreign ships at Indian ports. It is, of course, likely that exports would pick up now that hostilities have ceased. Also, average monthly exports of engineering goods are normally higher during the latter part of the financial year. For example, during November 1970-March 1971, average monthly exports of engineering goods were Rs 12 crores whereas they were Rs 7.8 crores during April-October 1970. In spite of this favourable trend in exports during the latter part of the year, the monthly average of engineering exports is unlikely to be more than Rs 13 crores during November 1971-March 1972. Thus, even on optimistic expectations, engineering exports are unlikely to exceed Rs 140 crores.

The EEPC has been complaining time and again of steel shortages which are said to be coming in the way of the growth in exports in engineering goods. According to the EEPC, steel requirements of engineering exporters stood at 5.4 lakh tonnes against an assured supply of 2.1 lakh tonnes (inclusive of imports of 87,500 tonnes). Thus the EEPC's estimate of the shortfall in steel supplies is 3.3 lakh tonnes. However, looking at recent trends in steel prices, one does get the impression that the EEPC is placing exaggerated emphasis on the steel shortage as a factor responsible for holding back exports. The downward movement in steel prices in the last two months is likely to continue in view of the scheduled large-

scale imports of steel and the improvement in domestic production. It is reported that orders for imports of steel through HSL/MMTC alone would amount to 7 lakh tonnes for the current year. Imported plates, which used to be sold at Rs 3,600/4,000 a tonne a year ago, are now priced at about Rs 1,500/2,200 a tonne. There has been an equally sharp fall in the prices of indigenous steel products like angles, channels, and rods and bars. Steel supplies during January-March 1972 are expected to increase by nearly 25 per cent over those of the current quarter. In view of these factors, one would expect the EEPC to come forward, later, with a more reasonable explanation for the difference between actual exports and its target.

Sugar

Identity of Interests?

THE 1971-72 sugar season started about 10 weeks ago. During this period industry pushed up ex-mill prices from about Rs 180 to over Rs 225 per quintal. The retail price increased from about Rs 2 to Rs 2.50 per kg. On December 3, the day hostilities with Pakistan broke out, the market price had dropped to Rs 221. But immediately on the declaration of the Emergency, the price rose sharply to Rs 228. This increase evoked criticism in public, press and Parliament. What has to be grasped, however, is that the government itself is responsible for the upward trend in prices since the start of the season.

At the beginning of the 1970-71 season, the sugar industry had launched a campaign making out that it was overburdened with stocks. To alleviate the 'burden', it succeeded in securing easy credit, longer despatch periods, and smaller monthly releases. In fact, the monthly quota for October 1970 was reduced from 600,000 tonnes to 400,000 tonnes; it was further reduced to 350,000 tonnes for the next five months — November 1970 to March 1971. By May 1971 sugar prices had increased from Rs 170 to Rs 206.

Later, the industry's tune was somewhat changed. It was rumoured that the area under sugarcane had declined by 10 to 15 per cent, so that production in 1971-72 might decline to 3.2 mn tonnes and, unless prompt measures were taken, there would be a sugar famine in 1972-73. Taking their cue, growers, who have not failed to notice that the industry had made profits while paying the growers only the statutory minimum price for their cane, joined hands with industry to demand a higher price for cane — with the co-operation, of course, of the major cane-growing states.

The Cabinet would not agree to increasing the price of cane directly, but employed instead the backdoor method of reducing the monthly quota from 50,0000 tonnes in October 1971 to 350,000 tonnes for November and further to 325,000 tonnes for December. Offtake during the last season ranged from 275,000 tonnes to 454,000 tonnes and averaged about 375,000 tonnes per month. A monthly release in the current season of anything less than 400,000 tonnes is, therefore, a straight technique to raise prices.

Evidently, an attempt was being made to guarantee the industry's margins. By the Food and Agriculture Ministry's own calculations, the fall in area under sugarcane is about 4 per cent and production would be about 3.6 mn tonnes. With an opening stock of more than 1.4 mn tonnes, total availability would thus be 5.0 mn tonnes. A minimum of 4.5 mn to 4.8 mn tonnes would be required for internal consumption. It was, therefore, decided to drop the 1972 export quota of 350,000 tonnes to the world's free markets, and instead to export only about 96,000 tonnes to the preferred markets of UK and US which also pay somewhat higher prices. Export of sugar, in any case, involves the country in heavy rupee losses; export of even the reduced quantity would involve a substantial loss to the exchequer.

The government has already permitted a handsome rebate, of 40 per cent, on excise duty for the whole season; most mills in UP have, therefore, stepped up crushing and are receiving adequate supplies of cane at Rs 8.50 per quintal. Since the fall in area has been only nominal, it now seems quite possible that the output of cane might in fact be almost as good as in the previous season. Secondly, Minister of State for Agriculture, Sher Singh, pointed out in the Lok Sabha on November 25, that in all areas factories were paying higher prices for cane — between Rs 8 to Rs 11.50 per quintal — in view of the high market price of sugar. Finally, as the sugar industry consumes only 25 per cent of the cane crop, changes in cane production need not get precisely reflected in sugar production. This has been conceded by the Agriculture Ministry. In the circumstances — and since in any case industry has offered to return to partial decontrol and hand over 60 per cent of production at a fixed price of Rs 150 per bag ex-duty, or Rs 190.50 per bag inclusive of excise duty so that consumers would get retail sugar at about Rs 2 per kilo — government should give up the practice of fixing monthly releases and allow mills to sell the rest of their production in the free market at the rates it can fetch.

Tea

No Will to Improve?

REPORTS have appeared suggesting that India may not be able to fulfil its share of the export quota for tea. Under the combined Indo-Ceylon export quota, fixed by the FAO Consultative Committee, 506 mn kg of tea were to be exported during the 15 months ending March 1972.

There was some scepticism about India's ability to export its share when the quota was fixed in September last year, but later circumstances seemed to indicate otherwise. There was a fall in Ceylon's tea production and also in that of some of the African countries — notably Kenya's where production fell by 6.5 mn kg in 1970 — and there has been dislocation of the tea gardens in Bangla Desh. On the other hand India's production of tea was nearly 10 mn kg higher in 1971 than in 1970, although a record crop of 422 mn kg had been produced in 1970. It seemed that India at least would fulfil its share of exports. In fact, however, India's export of tea to the UK in the first nine months of this year was only 33.83 mn kg against 52 mn kg during the same period last year. Total exports from India to all countries also declined by 3 mn kg.

Tea exports from India have been static or fluctuating around 200 mn kg a year and have failed to rise commensurately with the increase in production. Exports increased to 214 mn kg in 1967 from 199 mn kg in 1965, but in 1968 they declined again to 208 mn kg and in 1969 declined further to 169 mn kg. In 1970 export performance was better at 208 mn kg. Meanwhile, production has been fluctuating, though no exact correspondence can be seen between production and export performance. Production increased to 402 mn kg in 1968 from 375 mn kg in 1967, but declined to 396 mn kg in 1969.

In 1965 India lost its position as the largest supplier of tea to the world to Ceylon, although in 1968 and 1970

both countries exported equal quantities, *viz*, 208 mn kg. In 1968, India's share of the world market was 35 per cent against 45 per cent in 1951; in 1970 the world market shares of India and Ceylon were almost equal. Now, with Ceylon launching its five-year plan for stepping up production (about 95 per cent of Ceylon's tea is exported) and with the entry of several East African countries as suppliers in the international tea market, the threat to Indian tea exports is actually increasing.

The fall in exports is usually associated with larger domestic consumption. In the absence of any substantial increase in production, the surplus available for exports is low and exports suffer especially in the context of lower rates for tea in international markets. Domestic consumption of tea increased by an average of 7.3 mn kg per annum between 1963-64 and 1968-69. On this basis, internal consumption is expected to rise to about 230 mn kg by 1973-74.

Unless internal consumption can be checked or export prices made more attractive, exports will continue to suffer. The obvious remedy seems to be to increase the production of tea. The annual rate of growth of output is currently barely 2 per cent. The Committee of the Indian Tea Association, set up to examine ways and means of accelerating the rate of growth of production, has estimated that the industry will need to expand by 3 per cent to meet the expected increase in domestic consumption.

Poor average yield per hectare (the yield rate even in the best Indian gardens compares poorly with that in the gardens of other major tea-producing countries) is at present a major hindrance to higher growth. The need to increase productivity through the use of high-yielding seeds, fertiliser, pesticides, better drainage systems and mechanisation is vital. Moreover, sales can increase only if the quality of tea is improved simultaneously. The recent preference for East African tea is due to tea bushes in that region being younger and of better quality. India has, therefore, to concentrate on the replacement of existing bushes by newly developed varieties even as it seeks to improve the techniques of production.

Finance is a problem in launching major plans for modernisation of the tea industry. It is estimated that to achieve a 3 per cent annual growth rate the industry will need to make an outlay of Rs 250 crores. With the widely publicised dwindling profitability, internal generation of funds for modernisation appears difficult. During 1969-70 the profits of 80 tea companies, representing about 75 per cent of the paid-up capital of the industry, declined to Rs 2.3 crores from Rs 3.4 crores in the previous year. Reduced profitability and the consequent meagre ploughback of profits must force the industry to rely on external sources of funds. The industry has therefore been pleading for relaxation of fiscal levies, doubling of the replanting subsidy, introduction of development loans, upward revision of the Tea Board loan scheme, etc.

Yet paucity of funds is by no means the primary factor holding back modernisation. Foreign tea companies, which have come to believe nationalisation of the plantation industry to be inevitable, do not want to make any fresh investments but are after extracting the maximum profits from investments already made. Thus, though the tea industry is faced with problems such as severe competition in the international market, fall in export price, poor productivity and dwindling profitability, its worst problem is the lack of will among plantation owners to modernise the plantations which alone will rejuvenate the industry and promote exports.

Cotton

Varietal Breakthrough ?

GUJARAT's participation in the green revolution so far has been restricted largely to the spread of hybrid bajra. But the success of Cotton Hybrid-4, popularly known as "Shankar-4" may add a new dimension to the green revolution in the state and the rest of the country.

Released only three years back Shankar-4 is spreading fast. On farmers' fields the Shankar-4 has given an average yield of 700-1,000 kg per acre, which is much higher than the average yields of other popular cotton varieties in the state — Digvijay (150-200 kg), CO2 (250-300 kg), Gujarat-67 (300-350 kg). Further, because of its long staples, Shankar-4 is able to get a price nearly 50 per cent higher than the Digvijay and CO2 varieties of cotton.

The high returns because of both yield and price differentials have naturally tempted the business minded Gujarat farmers in the irrigated cotton growing areas to take to this innovation. In the cotton belt of Baroda, Broach and Surat the area under Shankar-4 has increased from almost nothing in 1968-69 to nearly 2,800 acres in 1969-70 and 25,300 acres during 1970-71. This year the area under the crop is expected to have further increased sharply. The most impressive aspect of the spread of the new crop as observed in the districts of Baroda and Kaira is that it is substituting not only the other cotton varieties but other remunerative cash crops like tobacco as well as vegetable and even orchard crops.

Shankar-4 has been till now mainly a big farmer's crop. Availability of water apart, the high input cost — ranging from about Rs 1,000 to Rs 1,500 per acre, due mainly to heavy and frequent use of pesticides —, high degree of risk involved and need for better management skill and overall resourcefulness (required at times also for getting the certificate of purity of the product) discourage many a small farmer from going in for Shankar-4 cotton. Field observations in central and south Gujarat confirm this fact.

In spite of high returns, the crop's vulnerability to pests may discourage many farmers. It is in this context that the Gujarat State Fertiliser Corporation is reportedly initiating a novel scheme of crop insurance on an experimental basis, to popularise Shankar-4 cotton. The LIC is reported to have agreed to participate in the project. The modest Rs 3.94 lakh pilot scheme will initially cover about 500 acres of black soil growing Shankar-4 in Baroda and Sabarkantha districts and may be extended to wider areas later. On the basis of experience gathered on its demonstration farms the GSFC has developed the idea of a 'package of practices with plant protection' to be sold as the '4-P Plan' to ensure high returns. Under this scheme the GSFC will supervise the adoption of the '4-P Plan' by the participating farmers and will guarantee to them a minimum yield of 700 kgs per acre. The LIC is likely to insure against losses due to crop failure to the extent of cultivation costs which on an average amount, according to the GSFC, to Rs 1,750 per acre. The GSFC expects an average yield of 1,500 kgs (worth Rs 3,750) of cotton and hopes that its '4-P Plan' will help in popularising the crop.

In this connection, it may be added that to make the '4-P Plan' a success and to popularise Shankar-4, it is essential that purity of seed is ensured first. It is now a well known fact that even this year a large number of farmers in central and south Gujarat suffered because of seed impurity, with all its adverse consequences for the spread of the new crop.

Price Spread and Farmer's Share

IN 'Price Spread and Farmer's Share — Oil and Groundnut in Gujarat' by B P Patel (July 17, p 1435), some important considerations have been ignored in arriving at the conclusion that the millers' share in the margin has increased throughout the period, gaining at the cost of the farmer, the wholesaler of groundnut, and retailer of groundnut oil.

(i) It cannot be assumed that the farmer's realisation depends on farm harvest prices of groundnut during the harvesting period. All surveys show that farmers in Gujarat generally market 30 per cent of the crop soon after harvesting, 35 per cent in the second quarter, and the balance 35 per cent in the off-season. The 'Jhangad' system, enabling the farmer to leave his produce with the miller with no storage charge and to sell it as and when he likes, has enabled farmers to take advantage of price increases as the season progresses.

(ii) Of the oilcake produced, 55 per cent thus has a material bearing on the relationship between oil price and seed price. Since oilcake prices do not vary to the same extent as do oil prices, seed prices obviously cannot rise to the same extent as oil prices.

(iii) Since 1964-65, a major distortion has been introduced in the relationship between oil prices and seed prices in Gujarat by the levy system, under which 15-22 per cent of the oil produced by a miller is procured by the state at artificially low prices. It is but natural, therefore, that the miller's share should widen to provide for the oil handed over to government.

It is also incorrect to take all recovery in expeller mills to be more than 42 per cent. The entire calculations of the oil trade in Saurashtra are based on 42 per cent recovery in oil and 53 per cent recovery of oilcake. Some add shells in the crushing and hence estimate a higher recovery of oilcake; but cake with high fibre content fetches lower value for extraction.

If all these factors are taken into account, the conclusion would be that the miller has not improved his margins significantly. In fact, in oil-milling, profitability depends on clever buying of seed and selling of products, rather than on any straight crushing parity.

A C CHHATRAPATI
Vanaspati Manufacturers' Association
Bombay

Character of State Power and Strategy for Revolution

I WOULD like to point out that in Radhika Ramasubban's report on the recently concluded second all-India conference of the Indian School of Social Sciences (October 16, pp 2188-9), there are some inexactitudes in regard to my position on the character of the state power in India. The report ascribes to me the view that "it was specifically the monopoly and agricultural bourgeoisie which controlled state power, *neither leading the other.*" (Emphasis added). The position as stated in my paper really was: "If the top monopolies have a firm grip over the Central Government and its policies, the agricultural bourgeoisie dominates the state governments and through the latter exerts a powerful influence on the centre too... To conclude, the state in India is essentially the organ of the dictatorship of the Indian monopoly bourgeoisie and the agricultural bourgeoisie, led by the former."

Radhika Ramasubban also says that "his characterisation of landlords as agricultural bourgeoisie seemed to overlook the complex nature of the agrarian structure..." That I did not characterise the landlords as agricultural bourgeoisie was clear from the following paragraph of my paper: "The agricultural bourgeoisie has gained its strength and consolidated its position in recent years, thanks to the agrarian reforms introduced by the state in the post-Independence period. Though in its economic mode of operation, it is largely a homogeneous class, it arises from different social streams like the former statutory landlords or holders of inferior titles like jotedars in West Bengal, rich peasants and some new entrants into agricultural enterprise from other classes."

AJIT ROY
Calcutta

No Partial Solution

IN 'No Partial Solution' (October 2, p 2080) your correspondent refers to the resignation of V V John from the vice-chancellorship of Jodhpur University. The resignation of V V John is really an occasion for some heart-searching by the intellectual and academic community in the country. The cream of our academic system in any case prefers to go into business and industry rather than into the educational field. In such a situation, the loss of academic persons like K N Raj and V V John is only an irreparable loss to the educational field.

V V John was one of our best vice-chancellors, who contributed in a large way to bridging the communication gap between the academic community and the world around. It is ironical that he became the victim of petty-politics and faction-mongering of the very sort that he despised so much. His resignation indeed highlights the erosive and destructive effect of the petty-politics nurtured by professional politicians. Unless steps are taken to prevent such activity in our academic bodies, we shall soon find that men with intellectual and academic merit shy away from them. And that will be a tragedy inflicted on our future generations.

RAJENDRA K ANEJA
Bombay

SUBSCRIPTION RATES

	Inland	Foreign (Surface Mail)		
Six months	Rs 32			
One year	Rs 60	Rs 85,	$ 11.35,	£ 4.75
Two years	Rs 110	Rs 160,	$ 20.75,	£ 8.75
Three years	Rs 160	Rs 235,	$ 30.50,	£ 13.00

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

Gunboats and Gas

Romesh Thapar

THOSE who have all along believed in the extraordinary scenario techniques of Super Power USA must really revise their ideas in a rather fundamental way. The antics of President Nixon and his battery of bright men suggest that the crudest and most underdeveloped thinking goes with the business of decision-making. How else can we explain the US posture in the United Nations and its ridiculous attempt to use the much advertised Seventh Fleet as a pressure weapon?

This combination of gunboats and gas is designed to achieve an objective far removed from the thinking of the US government, if we can so describe the circus in Washington. Nixon and Kissinger will long be remembered as the men who effectively destroyed the US position in South Asia. It will take a long time to restore it, aiding operations notwithstanding.

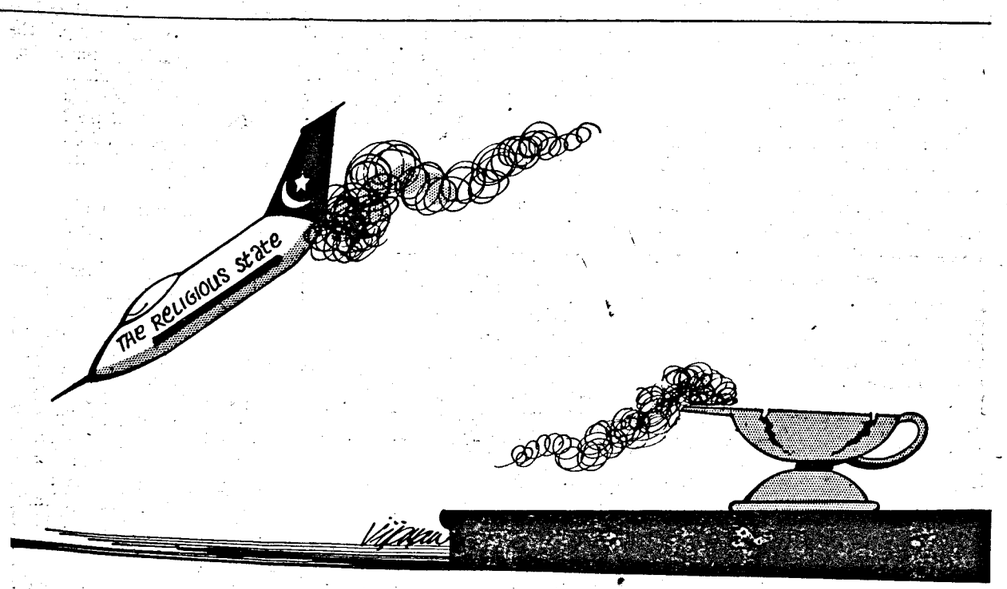
A totally false impression has been created in various international quarters that India, following the surrender of the Pakistan army in Bangla Desh, is moving to the destruction of West Pakistan—and that it is the duty of the USA to halt this mad move. Masterly, isn't it? The Indian army's strict orders not to spread the fighting on the western front are proof of Delhi's intention—a cease-fire when the job is done in the east. Nixon and Kissinger urge upon us what we have already declared. Then why the alarums and pressures? Obviously, they wish to claim that it is their reprimand which paralyses India, compels peace on the subcontinent. A sordid episode in international diplomacy.

The scenario-designers in Washington will have worked out a series of positive developments stemming from the stratagem of gunboats and gas. We will be told that Islamabad is grateful for this act of solidarity which saved West Pakistan. There will be several theses on the beneficial effects of this action on Muslim opinion from Morocco to Indonesia. There will also be backslapping about China's responses. And we will be told how the Russians were not able to get the maximum advantage from their intervention on the side of India. As if anyone is going to forget the solid and wholehearted support of the USSR.

It will be interesting to see how a number of significant powers begin to dissociate themselves from the ridiculous US position, China notwithstanding. The United Kingdom and France have already made clear that they sympathise with India. West Germany and Japan are refusing to terminate aid arrangements. Already in the UN more serious steps are being taken to end hostilities and to recognise the reality of Bangla Desh. Very soon, the Muslim world, from Morocco to Indonesia, will have to take note of the rise of a state of 75 millions, an entity larger than West Pakistan. It is not possible to wish away any of these facts.

The international projection of Bangla Desh, and its recognition by more and more countries in the shortest possible time, must become a major plank in our diplomatic activities. Any soft-pedalling on this would be damaging not only to the early revival of Bangla Desh, but also to the security of this country.

Somewhat mystified, India is being thrust into a great power role. What all this means for the future, and for the flabby internal set-up, it is too early to say. But one thing is clear: momentous days are ahead which will demand the skilful mobilisation of the nation's total resources. This is the mood in Delhi. Beyond that, little else except confidence and optimism.



Nurtured Knowhow

Hansavivek

FERTILISERS AND CHEMICALS, TRAVANCORE reports that owing to delay of about two years, phase-one of the Cochin fertiliser project — designed to produce annually 330,000 tonnes of urea — would cost Rs 54 crores. The delay was attributed to the delayed delivery of converter and catchpot from AVB, Durgapur. The union government has already accepted, in principle, the expansion of the project, for which the World Bank has agreed to extend a loan of about Rs 15 crores to meet the expenditure in foreign exchange for import of equipment, foreign collaboration fees, etc. The project is designed to make 485,000 tonnes of high grade NPK complex fertilisers, at a cost of about Rs 35.8 crores by mid-1974. In order to raise funds to meet the requirements of the two phases of the Cochin fertiliser project, it is proposed to issue additional equity capital of Rs 19.04 crores in shares of Rs 10 each. These shares are to be offered to the union government for subscription at par. The existing shares are on offer in the market at around half their par value.

During its 27th year, ended March last, FACT expanded its turnover from Rs 26.06 crores to Rs 31.70 crores; but the outcome was a bigger loss. Depreciation, aggregating Rs 66 lakhs, has yet to be provided for. These disappointing results are ascribed to substantial shortfall in targeted production — the company produced 50,323 tonnes of ammonia against 49,475 tonnes produced in the preceding year and against a target of 71,000 tonnes. Major difficulties were faced in the phosphoric acid plant, and interruptions in electricity supply impeded output. A granulated mixing plant, set up at Cuddalore, is on trial runs. The fourth stage expansion of Udyogmandal division, designed to raise the ammonia capacity to 340 tonnes per day and ammonium phosphate 20:20 to 181,000 tonnes per annum, was further delayed.

FACT Engineering and Design Organisation (FEDO) has been retained by Kerala government to do a techno-economic survey of three backward districts in Kerala and also a further study of a project for developing the tapioca and tapioca-based industries in one of these districts. It secured a contract for the Khetri acid-cum-fertiliser project, valued at Rs 12 crores. FACT Engineering Works (FEW) has secured very large orders for storage tanks with various units of Fertiliser Corporation of India and is also acting as consultant to a public-sector company of the Kerala government. The steel shortage in the country, however, is likely to restrict the prospects of rapid expansion of FEW.

INDIAN EXPLOSIVES is awaiting industrial and capital goods licences for its nitrocellulose project, the preliminary design work for which has been completed. It has received government clearance for carrying on business at the Gomia works for manufacture of detonating fuses. The equipment required for this facility was designed and fabricated locally. During the 18th year, ended September 1971, sale of urea manufactured at the fertiliser plant at Kanpur was Rs 1,896 lakhs compared to Rs 1,122 lakhs last year, but there was no sale of imported urea compared to Rs 179 lakhs in the previous year. Output of the fertiliser division was affected by labour disputes which resulted in a loss of about two months' production. Despite rise in turnover, profit-margins were affected owing to increase in price of naphtha, fuel oil, and freight, coupled with reduction in the controlled price of urea. The explosives division achieved a high level of productivity in all departments. Sales of commercial explosives were some 2,800 tonnes more than last year. Sales of safety fuse were marginally better, but it is felt that demand in the ensuing year will decline as coal mines have been asked to change over from safety fuse firing to electric firing in the interest of safety. The company continues to be the major supplier of safety fuse and gunpowder for defence requirements. A range of delay detonators, designed for use in coal mines, were introduced and these have been well received by customers.

ALKALI AND CHEMICAL CORPORATION OF INDIA is seeking manufacturing licences for expansion projects in respect of pharmaceuticals, 'Gramoxone', and rubber chemicals The company has been commissioned by Imperial Chemical Industries, UK, and by its Indonesian subsidiary, to build a paints factory at Djakarta. Work on this unit is in progress, and the factory is expected to be commissioned in July next. ACCI's participation in the project will bring in foreign exchange through the engineering and design charges and the export of paint-making machinery from India. The company stepped up exports of its products by 20 per cent to Rs 42 lakhs during the 35th year ended September 1971. Exports would have been higher still, but for the Indo-UAR trade impasse: Egypt has been the company's biggest market. Now that a new trade protocol has been signed by the two countries, export business should prosper. Efforts are also being made in Thailand, gulf ports, and the USSR to establish new markets. ACCI's sales reached a new peak last year, and profits were also higher than those of the preceding year; there was optimum utilisation of capacity in all plants. Movement of alcohol from UP and Bihar was affected by the floods and railway strikes, but the company was able to achieve an all-time record in production of polythene with the help of buffer stock of alcohol. Demand for paints from the trade sector continued to be good. The Hyderabad unit, commissioned in December 1970, made a useful contribution to the revenues. Production of rubber chemicals exceeded licensed capacity and sales were the highest achieved so far. Output of caustic soda and chlorine was lower than in the previous year, mainly due to power-cuts, restricted movement of coal by Railways, and poor quality of coal. Sales of pharmaceuticals improved despite the uncertain trading conditions brought about by the Drugs (Price Control) Order 1970. Industrial relations during the year were cordial. A wage agreement, up to the end of 1974 covering the company's employees at Calcutta, has been signed. The company declared bonus at 20 per cent of gross salary for all its employees throughout India. The Board has decided not to proceed with the proposal to merge the company with CAFI.

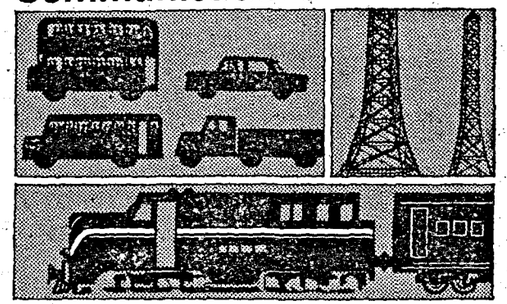
BHARAT BIJLEE, which has completed 25 years of existence, has progressed from a modest beginning to a point where it has a certain status in the electrical equipment manufacturing industry. During the year to June 1971,

ABMEL's role in the nation's economy

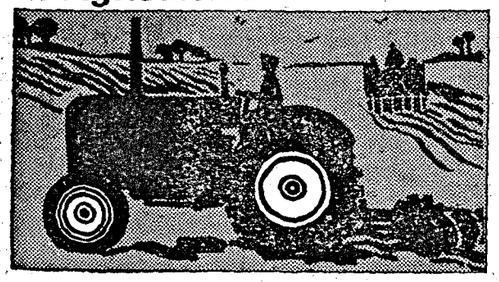
In Defence



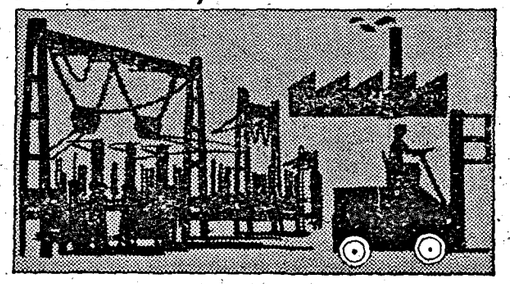
In Transport and Communications



In Agriculture



In Industry



And above all, in EXPORTS



ABMEL are the undisputed leaders in battery exports. The proof is in the consistent repeat orders from more and more countries all over the world. Twenty-four countries now insist on the unbeatable quality of batteries and components from ABMEL—and the list is multiplying.

ABMEL makers of Exide

ASSOCIATED BATTERY MAKERS (EASTERN) LIMITED

EBSC-1192

the company expanded its turnover by 54 per cent. While both production and sales increased sizeably, largely on account of contribution from the motor department, the previous year had represented only about 9 months' working. Gross profit more than doubled, but the results might have been better but for the large number of orders for transformers accepted sometime ago at 'very unremunerative' prices, which were executed during the year. These orders have been completed, and those pending are at more reasonable prices. Demand for motors from the rural sector declined, but it is hoped that demand will revive. BBL continues to make motors for special applications. Transformers for special applications are also being developed. Selling prices of products have been increased to offset the rise in costs brought about by imposts levied on materials and components in the last Budget.

ALUMINIUM CORPORATION OF INDIA is going ahead with its Orissa project. In the first phase, substantial expansion is being launched by establishing an integrated aluminium plant of 15,000 tonnes, to increase capacity to two-and-a-half times the existing one. The second phase for further expansion by an additional 15,000 tonnes will be taken up after the completion of the first phase. On completion of both phases, total production capacity of the company would reach around 40,000 tonnes per annum. The financial institutions have agreed to finance the first phase of the project, estimated to cost Rs 16.5 crores. Meanwhile, designing and engineering of the plant in consultation with the technical consultants, Swiss Aluminium, are in progress. Reviewing the company's affairs for the year ended March last, Lakshmipat Singhania, chairman, says that the results showed a slight improvement over the preceding year because of an improvement in the labour situation. The company experienced during 1969-70 "intolerable labour indiscipline and violence" leading to stoppage of production for over 103 days. During 1970-71, the plant was stopped on 11 different days due to strikes and bundhs. Singhania complains that under the Aluminium Control Order selling prices of finished goods have been reduced even from the levels prevailing in 1967, although cost of production has increased. The company's actual cost of production was examined by the Bureau of Industrial Costs and Prices, but the prices fixed by government are on an "arbitrary" basis. Prices of important raw materials like cryolite, aluminium fluoride, caustic soda, calcined petroleum coke, and fuel oil have increased considerably. Since July 1970, increased power rates have been charged which, too, have a substantial impact on cost of production.

The Week's Companies

(Rs in Lakhs)

	FACT		Indian Explosives		Alkali and Chemical		Bharat Bijlee	
	Latest Year 31-3-71	Last Year 31-3-70	Latest Year 30-9-71	Last Year 30-9-70	Latest Year 30-6-71	Last Year 30-6-70	Latest Year 30-6-71	Last Year 30-6-70
Paid-up capital	1747	1503	2148	2146	465	465	90	90
Reserves	19	19	658	571	277	250	48	34
Borrowings	5642	4551	3153	3146	716	784	228	197
of which Term borrowings	3895	3738	2820	3032	—	—	124	124
Gross fixed assets	8259	7486	6456	6325	1654	1503	246	235
Net fixed assets	7087	6487	5158	5465	700	664	180	180
Investments	36	36	5	6	6	6	4	4
Current liabilities	2709	2631	463	622	485	399	42	47
Current assets	3062	2160	1258	1014	1237	1228	224	184
Stocks	1653	1135	602	492	717	673	177	127
Book debts	1216	753	468	375	415	470	47	56
Net sales	3170	2606	3306	2546	2477	2151	420	272
Other income	53	95	24	13	19	18	1	1
Raw material costs	2099	1504	801	568	961	816	254	167
Wages	330	292	326	253	341	293	83	57
Interest	167	138	239	161	68	55	18	16
Gross profit(+)/loss(—)	—37	—8	762	616	355	335	30	14
Depreciation provision	152	159	514	333	87	97	11	11
Tax provision	—	—	3	1	164	144	—	—
Net profit(+)/loss(—)	—189	—167	245	282	104	94	19	3
Development rebate provision	—	—	67	—	20	1	—	—
Transfer to reserves	—	—	—144	210	6	26	10	—4
Dividend								
Amount	—	—	322	72	P2 E76	P2 E65	P3 E6	P3 E4
Rate (per cent)	—	—	15	15	P6.5 E17.5	P6.5 E15	P9.3 E10	P9.3 E6
Cover (times)	—	—	0.55	3.92	1.08	1.40	1.60	—
Ratios (per cent)								
Gross profit/sales	—	—	23.05	24.19	14.33	15.57	7.14	5.14
Net profit/capital employed	—	—	4.11	4.81	7.13	6.27	5.19	0.93
Inventories/sales	52.08	43.55	18.21	19.32	28.94	31.29	42.14	46.68
Wages/sales	10.41	11.20	9.86	9.94	13.76	13.62	19.76	20.95

NEW DELHI

Problems of Aid Suspension

WITH foreign exchange reserves standing at well over $ 1050 mn, including $ 130 mn of SDRS, and the foodgrains stock position quite comfortable, the suspension of a part of American economic aid has been taken without much perturbation—all the more so because stock position quite comfortable, the other major aid givers, except Japan, will follow the American lead. According to indications, even the Japanese are not very happy at what they have done and might like to end the freeze on their credits to India as early as possible.

The suspension of American aid itself is partial and is of no particular significance in the short run. All it implies is a general trend of declining flow of American aid to this country and this was something which had been already taken into account by the Finance Ministry and the Planning Commission. After all, the American aid promise for the current year in the Aid India Consortium was only half of what the country had offered last year. Further, the American decision will have no immediate impact since letters of credit had been opened with banks before aid suspension in respect of the larger part of the expected aid flow this year, that is about $ 120 mn out of the total promised aid of about $ 200 mn. The impact, therefore, will be felt only over the long run in that aid in the pipeline will thin out and there may also be some problems in repayment of past credits.

The American decision will have some impact on the arrangements for import of cotton this year. It had been arranged to import 50,000 bales of cotton under PL 480 and an agreement to this effect was about to be signed when the aid cut intervened. Also affected will be the two fertiliser projects at Kandla and Ramagundam for which Americans had been depended upon to commit about $ 15 mn. These will not be available now and alternative arrangements will have to be made for the two projects.

Looking at the overall picture of India's economic relations with the US since the mid-sixties, when dependence on American aid loomed so large in this country's affairs, the present suspension of aid for purely political reasons only emphasises a trend which had emerged over the last five years of a decline in the importance of US aid. Total imports from the US to India in 1966-67 were of the order of $ 1043.9 mn. They had come down to only $ 594.9 mn in 1970-71 and will be still lower this year. Exports to the US have remained at about the same level through these years—$ 293.3 mn in 1966-67, $ 276.6 mn in 1967-68, $ 312.4 mn in 1968-69, $ 317.2 mn in 1969-70, and $ 276.4 mn in 1970-71. The significant decrease in the adverse trade balance with the US from $ 750.6 mn in 1966-67 to less than half that figure or $ 318.5 mn in 1970-71 was entirely on account of decline in imports.

The gap between imports and exports has been filled by American aid. Grants from the US have been very small during this period and were altogether missing in the last two years. Also with the narrowing gap in economic exchanges with the US, American aid too has declined over the years, from the level of $ 803.1 mn in 1966-67 to $ 406.1 mn last year, mainly because assistance under PL 480 declined sharply as India began to attain self-sufficiency in foodgrains. From the high figure of $ 479.5 mn in 1966-67, PL 480 aid had come down to only $ 50.3 mn in 1970-71. PL 480 assistance might have lingered on at this level for some time more to enable India to import such items as cotton, edible oils, etc, but may have to be dispensed with after the aid stoppage.

While aid under PL 480 has sharply decreased in the last five years, credits under general economic assistance, including PL 480 convertible currency loans, have remained almost at the same level in gross terms. But net aid, after allowing for repayment of past loans (which rose from $ 58.6 mn in 1966-67 to $ 98.9 mn in 1970-71) has declined significantly. Net aid, excluding PL 480 aid and $ 68.4 mn of PL 480 convertible currency loans, stood at less than $ 300 mn in 1970-71. To the extent that the flow of aid from the US now shrinks further, India will have to deal with the trade gap with the US in a different way. Since there is not much chance of stepping up exports to fill the gap, imports from the US will need to be cut in a fairly drastic manner. The same will apply to Japan or any other country which resorts to aid cuts. To the extent this happens, as an official in the Finance Ministry put it, the Western 'culture' of Indian industry in the form of excessive reliance on equipment, parts and spares and raw materials from Western sources will have to undergo a big change.

This prospect had been anticipated even before the suspension of US aid. This could be seen in the remarks of the Foreign Trade Minister at the recent meeting of the Foreign Trade Advisory Council. The Minister made a pointed reference to the need for India to move closer to the centrally planned economies of Eastern Europe in the sphere of foreign trade, in addition to expanding trade with other developing countries. He set very little store by such limited measures as the generalised system of preferences for exports from developing countries which some of the developed countries of the West have adopted to achieve any significant improvement in trade between India and the developed countries of the West. Against the background of the protectionist tendencies developing among these countries, particularly the US, very little could be expected by way of expansion of exports to them.

The Foreign Trade Minister was, therefore, inclined not to rely on the developed countries of the West, specially the US, for the expansion of India's foreign trade and was quite explicit in saying that his plan was to reduce India's dependence on these countries and to concentrate efforts on increasing trade exchanges with the Soviet Union and the East European countries in addition to the other developing countries. He referred specifically to the possibilities of securing some of the pressing import requirements of the Indian economy from the developing countries by expanding trade relations with them. He said: "While today this may cover increased procurement of copper from Zambia, more diamonds from Ghana or increased non-ferrous metals from Peru, over the coming years this will no doubt cover a wide spectrum of products." He went so far as to say that he was outlining a shift in the country's trade strategy in the coming years. In contrast to the outlook of the Minister, the representatives of industry and private trade were entirely taken up with the possibilities of expanding trade with the developed countries of the West and the US and enlarging the area of economic collaboration with them generally. But now it appears that the aid cut by the US and the hurried manner in which the Japanese have fallen in line will induce Indian industry also to greatly reorient its outlook and thinking on these matters.

Another aspect of the developing situation is its likely impact on import substitution and development on the basis of self-reliance. Aid suspension at the time of the 1965 conflict with Pakistan had a significant effect on promoting import substitution on a broad front. Some of the urgency and drive in this field sagged after the so-called policy of import liberalisation backed by massive foreign aid, which had been offered as the reward for devaluation but which in fact never materialised to the extent expected. A climate was created in which the urge towards self-reliance and import substitution did weaken to some extent. Also, the extent and depth of import substitution already achieved were not fully appreciated in estimating import needs and aid requirements. After the latest experience with foreign aid, some of the enthusiasm for self-reliance and import substitution generated by the 1965 conflict and subsequent suspension of Western aid might return. That will be a good thing for the health of Indian industry, particularly when it is backed by a far stronger agricultural base of the economy.

The Indian economy is certainly far better equipped and developed at present to face the problems of aid suspension, provided established capacities can be efficiently operated and exploited. A close look at the kind of imports that are aid financed will show that except in some cases, such as crude oil and non-ferrous metals where lethargic policies have resulted in holding back progress, much of these imports can be substituted by efficient operation of established capacities. Steel and fertilisers, for instance, form a large part of imports in bulk at present and the need for importing them arises almost entirely because steel and fertiliser plants, specially those in the public sector, are operating at half their capacities. If only these plants function better and produce anywhere near their established capacities, a large volume of these imports can be substituted within a very short time.

There is thus hardly anything to worry about in the aid suspension by the US. The difficulties of a country at war and the strain that this puts on available resources are bound to be felt regardless of the aid from the US. Imports will become more costly on account of likely increases in freight and insurance costs. But these strains will have to be absorbed anyhow.

★

With a full scale war on everything else must naturally get pushed into the background. The entire frame of reference for consideration of other matters, including problems of economic policy and management, must change in these conditions. The vital amendments made in the Constitution and the ending of the purses and privileges of the former rulers in the week preceding the outbreak of the war naturally failed to cause as much excitement as they might have done in other times. Such pedestrian matters as the much awaited reappraisal of the Fourth Plan, which the Planning Minister has promised to present to Parliament shortly, and his note for discussion on economic policy matters which he presented to the Congress Working Committee on the last day of November no longer arouse much interest and will have to wait till after the present crisis is resolved before they receive any attention.

The conduct of the war itself presents many problems in respect of the management of the economy, but they relate to the smooth working of the economy, movement of supplies and stability of prices of essential commodities of mass consumption rather than to long-term economic development and reorganisation of the economy. And yet the immediate problems that have to be tackled cannot be altogether isolated from the situation as it was developing before the full scale war started. The abrupt manner in which some of the commodities in demand have disappeared from shop counters and the pressure of rising prices are cases in point. The local administration in different places is trying to handle the situation with the rough and ready administrative methods suited to the conditions of a national emergency. But shortages in the economy and rising prices were already very much a feature of the economic scene before the war started. These problems have only been aggravated and they will be found to have assumed more acute dimensions after the fighting is over.

It is in this light that the work of the mid-term reappraisal of the Fourth Plan and the note submitted by the Planning Minister to the Congress Working Committee retain their relevance and importance. What they indicate is fairly grim and the Planning Minister at least has attempted for the first time to pose some issues sharply. It is now admitted that the operation of the Fourth Plan in its first three years shows a shortfall of over 10 per cent in respect of financial targets and probably very much more in the case of physical targets. Except for agriculture, the position in all other sectors is extremely unsatisfactory. The Planning Minister has taken courage to point out that the successes in foodgrains production have hardly been exploited for overall development of the economy. On the contrary, the additional foodgrains production, which has resulted in a buffer stock of foodgrains of 8 million tonnes with the government, is today being seen more as a financial burden on public resources rather than as a surplus "for promoting better nutrition, more employment and more development". The Planning Minister has posed before the leadership of the ruling party the need for finding an "answer to this contradiction".

That the Planning Commission and the Planning Minister have finally come round to a realistic appreciation of the problems arising out of the success in foodgrains production (in contrast to the thoughtless manner in which the reports of the Agricultural Prices Commission have been treated year after year) is a good thing. The Planning Minister has rightly stressed two important aspects of this problem — something which the late D R Gadgil had so forcefully done when he was Deputy Chairman of the Planning Commission, but without getting any response from the political leadership. First, the procurement price for foodgrains has been made synonymous with the support price and it gets fixed, in the name of providing incentives for the producer, without regard to increases in production and productivity at levels higher than even scarcity prices. Second, while the bulk of additional incomes and wealth in the last few years has been generated in agriculture, no part of it has been mopped up for public investment. In this light the Planning Minister has made two suggestions. First, the policy of treating procurement and support price as the same thing and procurement as just a price support operation must now be abandoned. There must be a support price fixed at a level lower than the procurement price and only a targeted amount of food must be procured by the government or its agencies

at a price above the support price; after that prices should be allowed to find their proper level. This is a midway position between lifting all controls on foodgrains and the suggestion repeatedly made by the Agricultural Prices Commission that procurement prices should be lowered to conform to changing production and productivity conditions. Second, it has been suggested that a pattern of agricultural taxation should be evolved which is progressive and ensures that tax receipts from this source are income-elastic.

The Planning Minister has been cautious in arguing his case. He is evidently aware of the resistance that the farm lobby can put up to his suggestions. He has combined his proposals with a suggestion for lowering the ceiling on land and redistributing surplus land among marginal farmers to make their holdings economic and viable. He has also urged a firmer policy of recovering loans advanced to landowners and has warned that "our credit system, whether of co-operatives or of the public sector banks, will collapse unless the loans are promptly recovered". These warnings and complaints to which the Planning Minister and the Planning Commission have now subscribed, have been often made in the past by others. The question is how far they will be heeded in policy making and implementation and to what extent the influence of the rich farmer on these matters will be overcome. That is yet to be seen.

Meanwhile, the reappraisal of the Fourth Plan cannot but result in a fairly extensive pruning of Plan programmes and downward revision of targets — on account of stringency of resources and failure to implement programmes and projects in physical terms. The price escalation will require an additional Rs 2,000 crores to implement the physical content of the Fourth Plan while resources in sight, even if the resource raising effort so far matches the figure given in the Plan, contain a larger component of deficit financing than was envisaged. This has been a contributory factor in causing the price inflation. The Planning Commission is now engaged in a study of the progress of Plan schemes and projects and is likely to rearrange the priorities so as to fit the tasks in the last two years of the Fourth Plan to resource availability and organisational ability. All this does not take into account the burden of Bangla Desh refugees nor the additional cost on account of defence and security which the present fighting must involve.

LUCKNOW

Economic Development of UP

DUE to the national emergency, the recent seminar on UP's economic backwardness organised in Delhi by Arjun Arora, MP, lost some of its impact. All the same, Arora did get together a number of political leaders, ministers from the state and the Centre, and economists, for this useful seminar. It was a broader based forum than the 'court' organised earlier by C B Gupta. But it could have been academically better organised to give it greater unity and coherence.

Most of the seminar papers dealt with specific problems like financing of agro-industrial development (Narain Dutt Tewari, state Finance Minister); agricultural productivity and its constraints—small size of farms, low landman ratio, low doses of capital and other inputs, and weak infrastructure (A K Singh); shortage of power and inadequate Central assistance (Triveni Prasad, Secretary, Planning); inadequate fiscal resources (R N Bhargava); the problem of human resource development (M D Joshi and J C Dixit); ground water potential and utilisation of water resources (S P Singh, UP Government); impact of industrial relations on economic development (P D Shrimali). Saraswati Chaturvedi of Banaras Hindu University tabulated the caste background, educational qualifications and regional distribution of the state political leadership. It would have been more relevant to add some more variables; chiefly, the political elite's links with vested interests. Chalapathi Rau quantified the backwardness of the press in UP in terms of the circulation of newspapers—English, Hindi and Urdu—and their readership.

From the point of view of the overall economic backwardness and economic underdevelopment of UP, three papers need special mention. Kamta Prasad has done some good homework in preparing his "Industrial Development of UP: Past Trends and Future Possibilities". But, it is regrettable that the politicians did not discuss this paper. B D Sanwal, an ICS officer, brought together his experience by explaining in detail the feasibility of location of various industries in different backward regions—mini-steel, tractor and tyre works in eastern UP, a scooter factory in central UP, paper and woodwork in Nainital and Dehradun, fertilisers and petrochemicals near the Rihand Dam.

It is now for the politicians and entrepreneurs of these regions to organise themselves and start these industries by employing their resources—political pressure included. And not very surprisingly, it was an industrialist, K N Mody, who presented a short, but pointed, paper on the problems of industrialisation of the state. At the beginning his paper has two tables to show the backwardness of UP in terms of per capita income (with Rs 419, at 1967-68 prices, UP would be at the bottom of the list but for Jammu and Kashmir) and the share of industrial income in total income (with 10.5 per cent, at 1967-68 prices, the state is above Rajasthan only). Then the paper gives the plus points favouring the state—self-sufficiency in food and raw materials, large power potential and abundant labour. But it underscores the point that UP does not have an adequate number of entrepreneurs and those that there are lack the enterprise to develop its resources.

Other measures suggested in the paper are: (1) Rehabilitation of existing industries like cotton, sugar, oilseeds and vanaspati. (2) Removal of power shortage—for which no one but the state government is responsible. (3) Preparation of feasible schemes to encourage new entrepreneurs. (4) Development of industrial centres. (In the discussions it was sharply pointed out that the state government had built sheds for industrial estates, but in the absence of demand from entrepreneurs they were being used for other purposes.) (5) Elimination of red tapism and delays. (6) Appointment of a high powered cell to help break the bottleneck in starting new factories. (7) More credit. (8) Labour intensive industries to be started to produce consumer goods. (9) The state government should move to ensure industrial peace. (Of course, here Mody forgot to mention that in UP there are more lock-outs than strikes.)

It is possible that the seminar could be interpreted as a lobby for industrialisation, but with one difference. So far it has been the monopoly of the state government to criticise the Central government for neglecting UP. This time, the representatives of the Central government also had their list of accusations. The Union Housing Minister, I K Gujral, pointed out that Rs 12 crores of Central allocations were still unutilised by the state government, but even then the Union government was prepared to give more for housing and urban improvement schemes. Similarly, the representatives of the Central Water and Power Commission pointed out that they had sunk tube-wells in the most needy region of Bundelkhand but the state government had not even begun to utilise them.

BHUTAN

A Friend in Need . . .

MANY people raised their eyebrows when New Delhi piloted the Bhutanese case for membership of the United Nations; for, what with Indo-Nepal relations having turned cold, the policy of supporting the cause of small neighbours had become suspect. But evidently, in Bhutan's case that policy has paid off. Bhutan was the first to follow India in recognising Bangla Desh. Thimpu is not another Kathmandu. Bhutan was admitted to the world body only this September, which has proved very timely for India. The philosopher king of Bhutan, Jigme Dorji Wangchuk, has shown that his country's interests lie indisputably with India. There is little room for sentimentalism in the domain of diplomacy, and the diplomatic moves of any country are dictated by past events and by national self-interest alone. And, in extending its recognition to the Gana Prajatantrik Bangla Desh, Bhutan has taken this alone into consideration.

Bhutan's cordial relations with India are based on its national interests and on the realities of its geographical situation. Situated in the Himalayan ranges, Bhutan's welfare and economic development are inevitably linked with those of its big neighbour to the south—particularly with the states of Assam and West Bengal. Carefully, therefore, the King has been nurturing a pattern of democratic rule with a view to achieving greater interweaving with India. India, on its part, has been assisting in Bhutan's economic development. True this was done for Nepal also. But Bhutan has felt more wary of Chinese intrusion from the north and has, therefore, more decisively opted for association with India whose traditions and social conditions correspond more closely to what Bhutan's King would have in mind for his country.

The background of Sino-Bhutanese relations has also been different from that of Sino-Nepalese relations. Between the withdrawal in 1904 of the notorious Younghusband expedition from Lhasa and 1910, the Manchu empire of China made a supreme effort to revive the old Chinese claim to suzerainty over the Himalayan kingdoms. Besides Tibet, the three Himalayan kingdoms—Nepal, Bhutan, and Sikkim—were described by the Chinese as "molar teeth lying side by side in man's mouth". British diplomacy foiled the design implicit in the Chinese saying.

Soon after the British withdrew from the subcontinent, however, and after the capture of Tien an Mien by Mao's Liberation Army, China started renewing its claim to the entire Himalayan region, including Bhutan. After forceful Chinese occupation of Tibet in 1951, Bhutan found itself becoming host country to a large number of Tibetans who started to flee from their homeland which had cultural ties and traditional barter trade relations with Bhutan. When the Chinese started introducing reforms in Tibet, Bhutan's regime became additionally anxious about China's claims to its own territory. In their public speeches the Chinese declared that the Himalayan kingdoms of Nepal, Sikkim and Bhutan were parts of China, lost to British imperialism, but which they would liberate at the appropriate time. In a book published in 1954 by the foreign language bureau in Peking, maps were shown which clearly laid claims to Nepal, Bhutan, and Sikkim. The Bhutanese with no defence structure worth the name, were nervous and sought association with India. When the Chinese started to build roads along the Bhutanese border, Nehru was persuaded to make a hurried visit to Bhutan. (Since there was no road, he had to go on mule-back passing through the Chinese-occupied Chumbi valley in Tibet.)

Subsequent to Nehru's visit to Bhutan, events seem to have driven the Bhutanese regime into India's arms. Relations between India and China deteriorated further. The Dalai Lama's forced flight in March 1959 brought in its train a large influx of Tibetans. Harrowing tales of Chinese atrocities in Tibet further scared the Bhutanese. At almost the same time, the Chinese forcibly occupied eight Bhutanese enclaves, viz, Khangri, Tarchen, Tsekhor, Diraphu, Dzong Tuphu, Jangche, Chakip, and Kocha. These villages had been under Bhutanese administrative control for some 300 years. After some time the Chinese showed parts of other Bhutanese territory as their own. Tsongdu, the Bhutanese National Assembly, in a communication to the Government of India in 1959 said: "The Government of China have shown in their latest maps some parts of our country in north and east as parts of Tibet. These maps were studied in our Assembly and the portions claimed by the Chinese as their own were found ours undisputedly." The Tsongdu then requested Government of India to lodge a strong protest on their behalf with the Chinese government.

It was almost at the same time that Bhutan asked the Government of India to construct a road linking its isolated capital with India. In 1962, when the Chinese mounted a surprise attack on India in NEFA and Ladakh, they cut across Bhutanese territory to attack the rear of the Indian army in the Kameng district of NEFA. Bhutan had no defence structure to stop the advancing Chinese. This Chinese trespass is still vivid in the Bhutanese mind. It therefore gave the final signal to military co-operation with India.

In early 1962, at the request of the Government of Bhutan, India sent a military mission to Bhutan to train a small traditional Bhutanese army in the use of modern arms. With Tung-themphu as its headquarters, the Bhutanese army—a type of militia of about 10,000—is equipped with light infantry weapons. There is hardly any heavy artillery, and no air force. The Royal Bhutanese Army is expected to offer resistance to the invading Chinese army till other friendly countries can intervene on its behalf. It is being trained more in guerilla warfare. Most of the passes along the Bhutan/Tibet border run over an altitude of 15,000 ft above sea level. There is an overall shortage of manpower for activities such as highway construction, and this shortage has also made recruitment for defence services difficult.

While the Bhutanese enclaves mentioned above continue to be under Chinese occupation, there have been numerous other Chinese intrusions. Just last year, the Chinese crossed over to the Bhutanese side several times. Thimphu, unlike Kathmandu, cannot play the South against the North. It knows where its national interests lie and who would be its 'natural' friends.

United States and the Indo-Pak War

(From a Special Correspondent)

THE discussion in the general assembly of the UN on the problem of Bangla Desh and the Indo-Pakistani crisis was notable for two reasons. It is rare indeed for the UN to bestir itself and take notice of a problem in the first place. The crisis in Northern Ireland or the British sell-out in Southern Rhodesia have found no echoes yet in the UN. Even in the case of Bangla Desh, the world body had no contribution to make for over eight months. As such, to not only consider a problem but to deliberate on it and pass a resolution all in 48 hours shows a devotion to duty very rarely matched in the past. (Similar alacrity was shown by the Security Council in the early sixties, when it passed a resolution on the Kashmir problem even before Krishna Menon had concluded his speech.)

Death of American Hegemony

The other notable aspect of the deliberations in the General Assembly was the massive vote (104) received by the US-supported resolution about ceasefire and the withdrawal of forces. When the question of China's representation was discussed in the UN only a few weeks back, the US government could muster only about 50 votes in the general assembly in support of its position and it was assumed by many, a trifle prematurely, that this signified an end of the American hegemony over the UN. Actually, as events show now, the earlier vote accurately indicated the limited extent of the US commitment to the Kuomintang cause in the world of the seventies. The present vote has clearly brought out the fact again that the US leverage over most of the "developing" countries of the third world is as undiminished as ever and that it can be employed when the occasion demands. What had happened at the time of the debate on China's representation was merely shadow-boxing, staged for the benefit of the US home audience.

However, this does not completely absolve the Indian delegation at the UN. By now the general ineptness of the Indian government in cultivating public relations and goodwill is well known, notwithstanding the perambulations of our ministers all over the world in the past few months. For far too long, we have laboured under the erroneous impression that the UN it some kind of a super legal forum and, more often than not, the contribution to the debates from the Indian side has taken the form of highly sophisticated legal quibbling and hair-splitting. In practice, even the World Court doesn't work this way. This state of affairs has undergone some change of late, but the lack of adequate image-building, at which Pakistan was particularly successful in the days of Zafrulla Khan, still persists. This explains, at least partly, the negative votes by the Scandinavian countries, except Denmark. Of our neighbours, none except Bhutan supported the Indian position and Ceylon actually voted with the Americans and their friends. So much for propping up Sirimavo Bandaranaike with our guns!

Motivated by Self-Interest

The Security Council discussed the problem both before and after the General Assembly and on both occasions no resolution could be passed because of the Soviet veto. However, in the present context of world politics, even an adverse vote in the Security Council would have left matters very much as they were; so this is only a negative achievement at the best. Thus, the claim made by some that this is a major benefit to have flowed from the Indo-Soviet treaty is hardly justified. In fact, assuming that the Soviet Union was already converted to the Indian viewpoint, the significant feature of the debates in the Council was the abstention of the UK and France from the voting. Evidently, the European countries are coming round to the conclusion that their long-term interests will best be served by working with India rather than against it, even if this means an India significantly stronger than its neighbours eventually.

This still doesn't explain the attitude of the US government towards India, which has, of late, become even more than normally hostile. The Nixon administration, even in domestic politics, quite often appears to revel in treading over other peoples' toes. Even its close allies such as Japan are not spared. But this general woodenheaded clumsiness would not completely explain the particularly virulent attitude the US seems to be adopting towards this country.

One possible explanation is that the US faces its own variation of the problem of credibility. After all, the Pak junta is only one client of the American government, ruling its country without any reference to democratic principles. Even if the Pakistani clique were expendable in the eyes of the Pentagon, the others such as the South Vietnamese generals, the Cambodian generals, the Greek colonels and so on are not so and certainly the American government would not like the vulnerability of military rule supported by American arms to be exposed so clearly to the world.

An Alliance for Mutual Benefit

It is also likely that both Pakistan and the US have already written off Bangla Desh as lost and are now concentrating their fire on saving Pakistani possessions in the west, particularly in Kashmir. A clue to this was given in the Security Council by George Bush, who insisted that India must at once declare its intentions *vis-a-vis* West Pakistan and Kashmir. Conceivably, a military junta in Pakistan can survive the loss of Bangla Desh, but it is hard to imagine any Pakistani ruler surviving the loss of even a part of Pak-held Kashmir, not to mention parts of West Punjab. Moreover, with all of Kashmir in Indian hands, it is possible to think of a land-route from India to the Soviet Union and Afghanistan, and also to break the land link between China and Pakistan. One may be certain that both China and the US will try their best, short of war, to avert this.

Finally, one must not minimise the role sheer stupidity plays in international affairs. The publication of the secret Pentagon papers recently has shown how even the smartest generals (Maxwell Taylor) or the cleverest professors (McGeorge Bundy) can go tragically wrong in assessing a revolutionary situation. There is no reason to assume that the Nixon administration is not blessed with its normal quota of stupidity. Quite the contrary.

SOVIET UNION

Modest Upgrading of Plan

K Krishna Moorthy

THE current Soviet five-year plan for 1971-75 has been modified to approach in several respects the levels envisaged for 1970 in the plans formulated by the late Nikita Khrushchev in 1961. The announcement of the upgrading of the current plan was made by Soviet Prime Minister, Alexei Kosygin, in the Supreme Soviet towards the end of last month.

Most of the changes made in the draft of the plan approved by the 24th Party Congress a few months ago are minor. The big change is in the target for fertilisers. The new target for grain production is modest. The Soviet Government has retained the assignment of a faster growth rate for consumer and light industries than for heavy industries, an innovation in Soviet planning.

Two Reasons

The changes, made within seven months of the party's approval of the draft plan, may be due to two reasons. First, the current performance of the Soviet economy is probably better than was expected earlier this year. Second, it is possible that the draft plan was deliberately set on a modest scale, unlike the various plans of Khrushchev which were clearly unattainable.

Under the revised current plan, national income is to go up by 39 per cent, gross industrial output by 47 per cent, gross agricultural output by 22 per cent, and industrial labour productivity by 39 per cent. Even the upgraded figures for growth in the current plan are less ambitious than the actual performance recorded during the last plan for 1966-70. In the last plan period, national income rose by 41 per cent and the gross industrial output by 50 per cent. It is mainly in the agricultural targets that the current plan is slightly more ambitious.

According to Kosygin, the grain crop this year will be around 180 mn tonnes, or six million tonnes below the record level of 1970. The grain output figures were 171 mn tonnes in 1966, 148 mn tonnes in 1967, 169.5 mn tonnes in 1968 and 161 mn tonnes in 1969. The April draft of the current plan had set a target of an annual average of 195 mn tonnes. Against this, the Soviet Premier has now announced a target of 200 mn tonnes in 1975, the final year of the plan — a feasible proposition. The major input increase will be in fertilisers — 90 mn tonnes, against the April draft target of 72 mn tonnes.

The increase in capital investment in industry will be less than 40 per cent, while investment in agriculture is to rise by 68 per cent, compared with an actual growth of 67 per cent in agricultural investment in the last plan. National income grew by more than eight per cent a year in four out of the five years of the last plan period; only in 1969 did it fall below five per cent. The planned national income growth rate is 6.1 per cent in 1971 and 6.2 per cent in 1972. The targets for increases in real per capita income are 4.7 per cent in 1971 and 5.2 per cent in 1972 — lower than the levels attained in the latter part of the sixties.

For the first time in the history of Soviet planning, new recruits to the working force are to be diverted more into "non-production" activities, like education, services and administration. Out of the expected 10 mn new recruits to the working force, 5.3 mn will be found jobs in "non-production".

Frank Admission of Inflationary Trends

According to the Soviet Finance Minister's statement to the Supreme Soviet, the monetary income of the people will be more than seven per cent above the planned figure in 1971. This is a frank admission of inflationary trends in the Soviet economy. One of the ways to mop up the extra money in the hands of some sections of the people is the planned sale of more than 2.5 mn passenger cars during the current plan period. The cars will have to be paid for in advance, with a waiting list lasting some years. The sales of 2.5 mn cars will double the number of private passenger cars in the Soviet Union.

The capital investment in agriculture is to be nearly 23,000 mn roubles in 1971, or about one-fourth of the total capital investment. The capital investment in agriculture was around 16 per cent of the total in 1961-65 and 18 per cent in 1966-69.

The Soviet Union also plans to increase trade with the other Comecon countries by 50 per cent to a total of 77,000 mn roubles in the current plan period. The total planned increase in foreign trade turnover is 35 per cent. In the past decade, Soviet foreign trade with non-socialist countries increased more rapidly than trade with the Comecon countries. The present plan seeks to reverse this trend.

Khrushchev had boasted in November 1958 that the Soviet Union would soon "catch up and overtake the most developed capitalist countries". The present ambition of the Soviet leaders, as expressed by Kosygin, is for the Soviet Union to reach the 1971 US level of production by the end of the current plan. The Khrushchev plan for 1961-70 called for an annual average increase of 10.2 per cent in gross industrial product and 9.6 per cent in gross agricultural product. The annual increase was an average of 2.3 per cent in 1961-65 and 3.9 per cent in 1966-70 in agriculture and 8.6 per cent in 1961-65 and 8.5 per cent in 1966-70 in industry. According to American calculations, the value of the Soviet gross product in 1969 was 47 per cent of the GNP of the United States, compared with 34 per cent in 1950. The present plan targets for 1975 are in many respects near the targets for 1970 set by Khrushchev in 1961.

The major producer goods targets for 1975 are as follows, with the actual production in 1970 within brackets: steel 150 mn tonnes (116): coal 690 mn tonnes (624): oil 500 mn tonnes (353): electricity 1,000,000 kilo-watt hours (740,000): cement 125 mn tonnes (95): fertilisers 90 mn tonnes (55).

Reduction in Overt Defence Expenditure

The official defence budget for 1972 is to be about 18,000 mn roubles while the estimate by the Institute of Strategic Studies, London, is of the order of 55,000 mn roubles. As a share of the total budget, the overt military expenditure in 1972 will be 10.3 per cent, against 11.1 per cent in 1971.

The reduction in the overt defence budget is in line with the Soviet leaders' peace offensive for the settlement of various issues with the West. The final shape of the current plan shows that the hardliners in the Politburo have not gained any ground. At the same time, the hardliners' influence has not been brushed aside, as can be seen from the slightly higher targets for heavy industries.

'Democratic, Secular' Hawks All

Nireekshak

"IT's war", screamed *Statesman* across eight colums of its front page, on December 4. In the general scramble among newspapers for the boldest headline types and space to squeeze them into, following Pakistan's air-strikes in the west and Indira Gandhi's midnight broadcast, *Statesman* was an easy winner; its simple headline stood out as the best of all. Since that fateful Saturday, sub-editors have been having the time of their lives and, beginning with the front page, the main news pages of all major newspapers have had an eye-catching appearance. *National Herald* has added — though obviously not as an aid to good looks — one distinctive stamp of its own to enhance its wartime personality: it has resumed daily reproduction, above its masthead, of one of Nehru's favourite quotations: "Freedom is in peril. Defend it with all your might".

The outbreak of war took hardly anyone by surprise. *Amritu Bazar Patrika* seemed to let out what sounded like an audible sigh of relief when it declared: "War at last"! For *Statesman*, war was the "moment of truth", while for *Nagpur Times* it was "the fire that purifies". *Hindustan Times* regarded it as a "call of history", while *Hindu* and *Mail* both stated in a matter-of-fact fashion: "Pakistan declares war". "So now it has come", wrote *Statesman*, "what all of us till the last moment hoped to avoid, but which all of us knew that in the last resort we might have to face.... The nation will face the fact...." India has faced many trials before, observed *Hindustan Times* and survived them all. "But this could be a greater test than any before, for not only India but the whole subcontinent is being born anew and the world will be different for this tremendous change."

Commenting on Yahya Khan's statement that this would be a final war, the Delhi daily recalled that "another dictator, Hitler" had similarly once sought "to make the world safe for himself". Hitler failed, it said, adding: "This is a war of the military junta's own making. And it will be its last". *Amrita Bazar Patrika* thought that Yahya's action "illustrates not only Pakistan's anxiety to commit suicide but also his Western friends's incapacity to make him see reason". Yahya's challenge, it said, "is directed against the basic values of the Indian way of life; what is at stake is the secular and socialistic democracy which the Indian people have built up during the last two decades. They cannot allow it to be subverted by foreign bayonets." And as the *National Herald* saw it, "Yahya Khan's war... is an act of impotent fury. It could only be a mad man's war, but the man is really, consistently, sincerely (!) mad.... Nobody can save a mad man from his madness." However, it noted, "there is an Indian nation again, at a moment of crisis... and no power on earth and no combination of powers can deflect India from her goals: the establishment of an independent secular Bangla Desh and the safe return and rehabilitation of the refugees. India wants nothing else and nothing less."

Both *Hindu* and *Mail* cautioned against any vacillation on the part of the government. "This time", said *Hindu*, "our military men should not be hampered by instructions to pull their punches. Yahya Khan has chosen the path of war and he must be given a crushing reply." And *Mail* declared: "It will be hoped that having been drawn into a war, India will fight it to the finish". The Indian people, it said, will "cheerfully make sacrifices but they have a right to expect that they will not be betrayed by a weak or vacillating leadership and that when they have done with this war, Pakistan, brought to birth by fanaticism and nurtured by hatred will be no more on the map in its former form". Finally, in a signed editorial in *Indian Express*, Frank Moraes had this to say: "Emboldened and at times incited by his American friends who have been supplying him with arms until the penultimate hour, Pakistan's dictator has alternatively been flexing his muscles and cooing like a dove.... Nixon's calculating strategy to serve his own ends in America has led President Yahya Khan in Pakistan into his present desperate adventures.... India can take care of itself."

The news of India's recognition of Bangla Desh hit the press almost as forcefully as the war itself. A joyous chorus greeted the new State. "A nation is born", exclaimed *Nagpur Times*. "There is no doubt that Bangla Desh has come into being out of great travail and suffering.... Bangla Desh, unlike Pakistan, has not come into existence by the gift of a foreigner or by the negative virtue of religious hatred .... A new leaf in the history of this subcontinent has been turned", it said. "A birth, a death", commented *Hindusthan Standard*. "A new State is born and old Pakistan is dead.... What the impact of the emergence of this new State will have on the subcontinent, it is difficult to say at the moment. Bangla Desh and India are already united in the afflictions of war; the bond will become closer when the new State is in a position to implement its policy and programme fully." And as *Deccan Herald* viewed it, "December 6, 1971, is as historic a day for Bangla Desh as it is for India.... If the tumult in Bangla Desh were the birthpangs of a new nation, it also tolled the death of Pakistan that was .... India has been but history's midwife assisting the birth of Bangla Desh. In the annals of free India it is our finest hour."

One other important event that excited editorial imagination in recent days was the passing of the 25th constitution amendment bill by the Lok Sabha. It is true that Parliament, "representing the will of the people has every right to change the basic law", wrote *Times of India*, but since the proposed changes will "give the government the power to curtail fundamental rights... it owes it to the people to state far more clearly than it has done how it intends to use it .... There is no warrant for the glib assumption that only by nationalising an ever-widening sector of industry can it carry out the directive principles .... The increase in the disparities in income and wealth is the result not so much of any constitutional impediment as of the government's failure to use its vast fiscal and other powers to better purpose."

It was scarcely surprising, noted *Free Press Journal*, that in its present mood the Lok Sabha passed the bill with a massive majority. But "the crucial question now is how the cherished socio-economic reforms will be fulfilled .... The present bill, as Smt Gandhi has said, is merely a little step forward which is intended to take the country in the right direction. The country has yet to travel from 'political democracy' to 'economic democracy' and 'a more social democracy'. This means that several other roadblocks in the legislative and executive spheres have to be removed...".

Far-Ranging but Superficial

N S Jodha

Principles and Philosophy of Co-operation by P R Dubhashi; Vaikunth Mehta National Institute of Co-operative Management, Poona, 1970; pp 256 + xvi; Rs 15.
Rural Development Administration in India by P R Dubhashi; Popular Prakashan, Bombay, 1970; pp 343 + xiii; Rs 35.

THE first of these two books by P R Dubhashi is an edited version of his classroom lectures at the Vaikunth Mehta National Institute of Co-operative Management between 1967-68 and 1968-69. The second book is a collection of the author's articles published during the decade ending 1966 mainly in the *Indian Journal of Public Administration* and *Kurukshetra—the Journal of Community Development and Panchayat Raj*.

The first book, comprising 23 chapters and four annexures, covers practically every theoretical aspect of co-operation. The discussion of the principles of co-operation as reformulated by the 1966 Commission of the International Co-operative Alliance—covering co-operative membership, democratic administration, interest on share capital, and distribution of surplus, co-operation among co-operatives, and co-operative education—is comprehensive and is characterised by simplicity. Besides examining the philosophical background, the author scrutinises the practical implications of each principle.

Dubhashi argues that though, in view of technological, organisational, and ideological changes, the 1966 Commission dropped some of the original principles—such as the principles of political and religious neutrality, and of business practices (e g, purity of product, cash payment, correct weighment and measurement, etc)—they are still relevant in developing countries. The author consequently devotes considerable space to co-operative ethics, state and co-operative development, co-operatives and management principles, etc.

One feature of the book, which needs special comment, is the author's stress throughout on principles of co-operation not merely as 'moral ideals' or 'sentimental shibboleths' or 'pious wishes', but as practical rules according to which an organisation identified as a co-operative organisation operates. Yet he also candidly records the extent to which and the manner in which co-operatives in India (and in other countries too) deviate from these principles.

The book is replete with citations indicating the violation of co-operative principles as reflected in non-member businesses (p 23); provisions of special membership (pp 25-27); abuse of the principle of democracy (p 51); the bureaucratic behaviour of co-operators (p 87); mushroom co-operatives springing up through the process of registration (p 109); gross violation of the principles of voluntary association and political neutrality (pp 174-177); co-operatives' struggle for profit in competition with private agencies (p 217), etc.

In view of the fact that lectures contained in the book are meant for top-ranking co-operators, trained at what the author rightly calls the 'intellectual nerve centre of the co-operative movement' (p 120), one would have expected him to go much beyond the conventional textbook approach of 'what holds good in theory should be made so in practice', merely counting patently obvious deviations and either rationalising them as temporary aberrations or simply being regretful about them. A more useful, though perhaps a less easy course would have been to probe deeply into the fundamental issues which the co-operative movement in a country like India is facing.

The relevant questions are:

(1) Having accepted the 'doctrine of state partnership in co-operative development' can we escape its wider implications, which are partly responsible for the present state of the co-operative movement in the country? The author very inadequately touches this problem in chapter 21.

(2) Similarly, what is the scope for, and feasibility of, injecting some sort of selectivity in the official approach to patronage or support to co-operatives? Specifically, in view of the development needs, which are the cases in which co-operative principles can be sacrificed (temporarily at least) and which are the cases where state patronage and support can be kept to the minimum, leading to slow but healthy growth of co-operatives?[1]

(3) Further, in a society where egalitarian philosophy is somewhat smothered by traditional practices and group relationships and 'big men's' domination of co-operatives is the rule,[2] how far and in what manner can the democratic principles of co-operation (borrowed from an entirely different social setting) be given operational content?

The second book, on Rural Development Administration, contains essays written during different years beginning from 1956. However, the author has added postscripts to some of them to make them up-to-date. The first essay sketches administrative changes in India since Independence. The administrative changes include as far-ranging provisions as the establishment of the Partition Apex Committee at the time of Partition to the setting up of the National Building Construction Corporation, or the provision of a Presiding Officer for each polling station during elections, or the setting up of the Agricultural Prices Commission. Viewed from a different angle, the chapter gives a fairly detailed account of horizontal and vertical growth of the bureaucracy in India. The study also gives the number (exceeding a dozen) of the Administrative Reforms Commissions and Committees set up by the state and central governments, with their almost identical terms of references and recommendations.

The rest of the 17 chapters cover different facets of rural development administration, including the problem of co-ordination, training of personnel, working of local administration, relationship between administrators and elected leadership, inter-state differences, financial problems, and evaluation of the whole programme. The essays, though written at different points of time and in different contexts, are able to maintain some order of sequence and to serve as a commentary on the rural development programme in general and its administrative aspect in particular—as the programme moves from its NES stage to the Panchayat Raj stage.

The treatment of the subject is largely descriptive, however, and the accent of the discussion is generally on the formal machinery and procedures of rural administration without almost any reference to the socio-political complexities in the context of which the administration has to operate.

One of the consequences of discussing the rural administration in isolation from the hard realities obtaining in the community is that Dubhashi exudes the same degree of enthusiasm and optimism about administrative innovations

as do most government reports. For instance, while talking about NES, he says: "At the district and at state and central levels, it created a degree of co-ordination unattained before" (p 15); "Through camps, seminars and literature, NES gave stimulus to thinking and action of administrators in the field of rural reconstruction" (p 18); "In Community Development Seminars, the Development Commissioner has to exchange ideas with the Village Level Workers, since they form part of the vertically co-operating team" (p 89); "With the establishment of local democracy, the programme has developed from being a government's programme with people's participation, into the people's programme with government participation" (p 74); etc. Yet, to realise how far most of these things have remained wishful thinking, one has quite simply to refer to the successive evaluation reports of the PEO.

Some of the factors reducing the efficacy of rural programmes and restricting the ability of administration to meet the new challenges, have been recorded by several studies. More crucial are the attributes of leadership—both in the administration and in the non-official spheres. The latter, coming as they do from the upper strata of the rural community, not only dominate the programme but actually prevent the percolation of gains to the bottom.[3] The former, generally belonging to an elite group, suffer from what Edward Shils describes in another context as 'Xenophilia'—implying lack of knowledge, understanding, and appreciation, of the problems of their fellow countrymen.[4] However, these factors do not find a place in the book's discussion, thus rendering it somewhat superficial.

NOTES

1 See A H Hanson, "The Process of Planning: A Study of India's Five-Year Plans 1950-1964", Oxford University Press, 1966, p 518.

2 See, for details, Daniel Thorner, "Agricultural Co-operatives in India"; Asia Publishing House, Bombay, 1964.

3 For an interesting interpretation of the situation see, Michael Lipton, 'Strategy for Agriculture: Urban Bias and Rural Planning' in P Streeten and M Lipton (editors), "The Crisis in Indian Planning"; Oxford University Press, Bombay; 1968.

4 For details see, Wilfred Malenbaum, "Prospects for Indian Development"; Allen and Unwin, London; 1962; pp 195-202.

Books Received

Arya, P N: Survey of Export Credit Facilities in India; Export Promotion Division, 1971; pp iii+115.

Bose, S R: Economy of Bihar; Firma K L Mukhopadhyay, Calcutta, 1971; pp iv+167; Rs 15.

Clark, George: English History — A Survey; Oxford University Press, 1971; pp xix+567; £2.

Franda, Marcus F: Political Development and Political Decay in Bengal; Firma K L Mukhopadhyay, Calcutta, 1971; pp 269; Rs 25.

Grdenker, Leon (ed): The United Nations in International Politics; Princeton University Press, 1971; pp 241; $7.50.

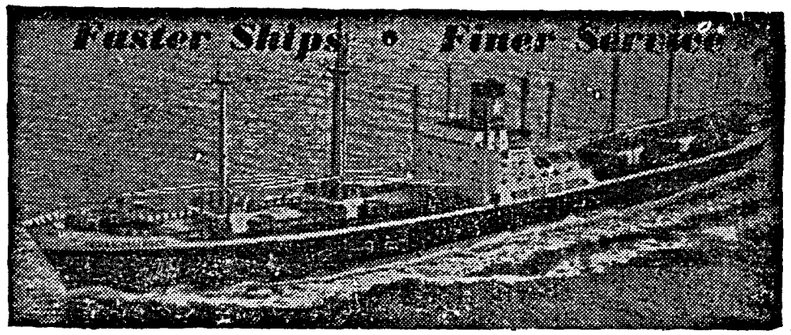
Haithcox, John Patrick: Communism and Nationalism in India — M N Roy and Comintern Policy 1920-1939; Oxford University Press, 1971; pp xiv+389; Rs 85.

Institute of Applied Manpower Research: Fact Book on Manpower — Part III — Scientific and Technical Personnel; IAMR, New Delhi, 1970; pp xxii+393; Rs 22.

Jangam, R T: Principles of Political Science; Somaiya Publications, 1971; pp viii+206; Rs 7.50.

Kumar, Jagjit Singh: Economic Analysis of Industry at Amritsar; Khalsa College, Amritsar, 1970; pp 107; Rs 10.

Kuppuswamy, B: Some Rural Problems of Mysore — A Study of Opinion; Bhatkal Books International, 1971; pp 118; Rs 10.



Our fleet of seventeen modern freighters offers fast, regular and dependable service between

INDIA—U. K. & THE CONTINENT • INDIA/EAST PAKISTAN—SOUTH AMERICA
INDIA—BLACK SEA & EASTERN MEDITERRANEAN PORTS
INDIA—POLAND Also around the INDIAN COAST

INDIA STEAMSHIP CO., LTD.
"INDIA STEAMSHIP HOUSE", 21, OLD COURT HOUSE STREET, CALCUTTA-1

White-Collar Unions in Bombay—A Survey

S D Punekar

In the years since Independence, a substantial change has occurred in the economic — and, therefore, social and psychological — conditions of white-collar workers. While industrial workers, through organised protest, managed to increase their real earnings on the eve of planning, the salaries of white-collar workers were generally eroded by the rise in prices. The white-collar workers, representing the social, cultural, and educational middle-class, were thus left with the legacy of having to maintain a certain way of life and prestige on an increasingly strained budget.

It was in this atmosphere that white-collar employees first turned to trade unionism which they had earlier shunned as not quite in keeping with their status.

This paper is based on a survey of white-collar unions in Greater Bombay. Its purpose is to trace the genesis, growth, finances, nature and functions of white-collar unions, and their affiliation patterns to the all-India level.

[The survey was carried out as part of the Labour Research Laboratory in the Tata Institute of Social Sciences. The junior students of the Personnel Management and Labour Welfare specialisation took this up as a group research project and collected data from 21 white-collar unions in Bombay during November 1970 to January 1971. The author is grateful to these students for provision of the data for this article.]

THE Second World War and subsequent post-War conditions have brought about a substantial change in the economic, social and psychological conditions of ployed persons below them. The War white-collar employees were 'middle' in the economic and social hierarchies with an 'upper' class of rich and successful professional people above them and a large 'lower' class consisting largely of industrial workers and self-employed persons below them. The War changed the economic positions. The industrial workers successfully protested against the War-time rise in prices by demanding higher allowances and bonuses; though their real earnings declined in the initial years (1941-1951), they recovered the loss on the eve of planning—by 1960, real earnings were some 14 per cent more than in 1951. On the other hand, the white-collar workers, with their fixed and small earnings, became vulnerable to the worsening economic conditions. Their real wages have throughout lagged behind the 1939 level. The managements conveniently overlooked this unhappy economic situation.

Unrelieved Economic Hardship

The plight of central government employees can be taken to illustrate this point. The First Pay Commission, set up immediately after Independence, agreed to link to a limited extent the dearness allowance to the rise in prices. However, when prices actually soared above the expected limit, the government closed the matter by paying a flat increase of Rs 10. The Second Pay Commission even refused to accept the scientific principle of linking dearness allowance to the Consumers' Price Index and recommended simply an inadequate flat increase. The Third Commission, still continuing, has given an interim relief of Rs 25, pending its final recommendations. Compared to this, white-collar employees in profit-making concerns (banks, oil companies, etc) have got their earnings improved.

On the whole, then, white-collar employees have been relegated to a lower economic category; yet, their struggle is to remain on the middle of the social ladder. Without the necessary economic means, they find it difficult to maintain their social status (or, in other words, to keep their collars white). They have the social attributes of a high rate of literacy and education, a certain established standard of living, inclination towards non-manual occupations or services, participation in cultural, social, and political affairs of the community, and a fair degree of urban bias. These social characteristics have become difficult to maintain without adequate economic resources. So, either they have to improve their economic earnings or they have to forget their social status.

White-Collar Unionism

It was in this atmosphere of darkness and despair that white-collar employees turned to trade unionism. Before Independence, they were not properly organised, except in banks and postal services; and even there, their organisation was weak. At that time, in fact, white-collar employees considered trade-unionism—with its agitational and often militant approach—to be an activity only for industrial workers strangely led by middle-class intellectuals. The white-collar gentry, with their superior social and economic status, looked down on such cheap and extrovert methods as demonstrations, slogan-shouting, and parading in the streets. The war changed this attitude. Caught in the grip of ever-growing economic difficulties and social discontent, white-collar employees were forced to exercise both their right to organise and their freedom of association. Trade unions of white-collar workers thus came into existence. They could easily overcome the initial difficulties—including the social and cultural barriers.

To understand the genesis, growth, nature and functions of white-collar unions, a survey was undertaken in Greater Bombay. For this purpose, 21 unions of white-collar employees were selected by purposive sampling. A wide cross-section of industries and services was covered, as can be seen from the following distribution:

(a) Four unions of bank employees (Reserve Bank, State Bank, and two private banks which were nationalised later on; from the State Bank, the Supervisory Staff Association, which is an officers' trade union, was selected).

(b) Five unions of employees of the central government corporations (State Trading, LIC, Employees' State Insurance, Airlines pilots, and Indian Oil; from the last,



LOTUS BRAND CEMENT Manufactured by **Shree Digvijay Cement Co. Ltd.,**
Shreeniwas House, Waudby Rd., Bombay 1.
Sole Selling Agents **Laxmi Cement Distributors Pvt. Ltd.,** Shreeniwas House, Waudby Rd., Bombay 1.
Hospital Road, Jamnagar. Digvijay Nagar, Ahmedabad. 58, Sundar Nagar, New Delhi 3.

the officers' union was selected).
(c) Four unions of employees in the central government offices (Income Tax, Civil Accounts, Railways, and Stores).
(d) Three unions of predominantly municipal employees (nurses, teachers, and clerks).
(e) Two unions of commercial employees (one in shipping and another in retail trades).
(f) Three other unions (one in a state government office, one from general insurance, and one from a private engineering concern).

There were thus different types of management in the sample: private and public, small and big, at the national and local levels. Naturally, the staff-management relations showed wide variations. At the same time, the nature and scope of these 21 white-collar unions revealed an interesting spectrum.

Origin and Growth

As discussed earlier, white-collar unionism is a recent development. The oldest union in the sample (of Income-Tax employees) was started, however, in 1928 by the 'father of Indian trade unionism'—N M Joshi. The remaining 20 unions came into existence after 1931. Most of them were started immediately before or after Independence, no doubt with the high expectation of utilising the new political opportunities. Four unions were started between 1942 and 1946; eight between 1947 and 1955; five between 1956 and 1960; only one between 1961 and 1965; and two during 1966-67. The enthusiasm, shown before and after Independence, waned after-1960.

In most cases, the immediate cause for starting a union appeared to be of little significance. For example, in a (then) private bank, a few clerks in the head office struck work because of the extra load of work; the employer filed a suit and the employees' solicitor advised them to form a union and get it registered under the Trade Unions Act. In a commercial shipping company, the employer formed a company union which, however, soon ceased to function. In a central government office, two clerks were arbitrarily transferred to Assam and the employees organised themselves to stop such practices. In a private insurance company, workers went on strike, when the *Sravan* Monday holiday was discontinued; employees formed a union for the struggle. Unionism among officers is an interesting phenomenon. In a government bank, the supervisors (sub-accountants, cashiers, and staff officers, getting more than Rs 1,000 a month) found that the clerks, through their organisation, not only got dearness allowance to compensate the rise in prices but that, in certain cases, they even got more than their supervisors. Hence the latter decided to organise—against the express wishes of the management. Similarly, officers in an oil company organised themselves in a union as a reaction to certain arbitrary decisions by the management threatening their job security. The commercial pilots, getting a few thousand rupees per month formed a union to enhance their salaries and to improve their conditions. Although the birth of a union might be due to such immediate causes, which may not always seem of much importance, the main purpose of a trade union naturally is to safeguard its members in particular and employees in general. White-collar unions, like their blue-collar counterparts, were established to secure better economic and industrial conditions.

Growth of Membership

Most of the white-collar unions grew in membership and strength; their growth is also due to the expansion in employment. Once the initial inhibition was got over, white-collar employees took enthusiastically to unionism. In most banks and government offices, membership comprises 80 to 100 per cent of the total strength. Among pilots, membership is compulsory, in spite of the high rate of subscription (Rs 15 per month). In certain other cases, regular *paid* membership is not taken into account, because of the slackness in collection of membership fee. In a number of concerns, women have taken to unionism and some of them have become active workers.

One of the important drawbacks of Indian trade unionism is the multiplicity of unions and the prevalence of inter-union rivalry. This is partly due to political unionism whereby every political party desires to have its influence in the labour field, and partly due to the majority union not being required as the sole bargaining agent. Happily, white-collar unionism is generally free from these defects. There are very few rival unions in the field. Attempts made by the managements (in banks, oil companies, shipping firms, etc,) to start company unions have failed. On the whole, white-collar employees have been loyal to their unions. Multiplicity of unions is an exception. Attempts to divide the employees on caste or communal or provincial lines have also failed.

Except for one union of central government employees, all unions appear to be financially well off. Their main sources of income are membership fees and donations. In a few cases, income is from interest on investments. A bank union collected Rs 2 lakhs through a souvenir, while a state insurance union uses this source (*Smaranika*) every year to collect between Rs 12,000 and Rs 14,000. Another central government employees' union collected Rs 2,500 in 1968 as 'emergency collection'. In a few concerns, it appears that membership dues are collected by a check-off system (which is illegal for factories). In some cases, collection of membership fees is not regularly effected. For example, in a central government employees' union, many had not paid membership fees for 4-5 years. In another office, all members, who had paid subscription at one time or another, were considered to be union members. In a railway union, Rs 5,244 had to be written off as arrears. In a municipal clerks' union, Rs 23,638 were in arrears; a full-time worker, specially appointed for the purpose, collected Rs 19,337 out of these.

The rate of subscription varies from 25 paise to Rs 15 per month. Often, it varies for the different categories of employees. In one union, for example, provision was for life membership (Rs 15), well-wishership (Rs 25), and patronship (Rs 50). In another union, an admission fee of Rs 10 was taken, though the membership fee was only Rs 5 per quarter. On the whole, the rate of subscription was not high and this was willingly paid to a union, which had considerably improved the earnings of their members. Since, in many cases non-members formed only a small proportion, the 'free-rider controversy' did not arise.

The items of expenditure were mainly establishment charges (rent, salaries, etc,) and litigation expenses. In most cases, income is more than expenditure and hence the unions have appreciable assets. Pilots have a balance of Rs 3 lakhs. Where the unions are local units of a Federation, they have to pay a proportion of their income accruing from membership fees as affiliation fee to the Federation; sometimes this fee accounts for one-third or one-fourth of total income. Very little is spent on welfare activities or on any constructive activities.

Important Activities

Most of the unions were started to obtain better earnings and better administrative facilities. Hence the usual issues on which white-collar unions have fought have included better pay scales, more fringe benefits, internal promotion, rational salary structure, and reduction



If yours is an industry dealing with petroleum, chemicals or explosive gases, there are two ways of dealing with the fire hazards. One is to get the most comprehensive fire insurance to compensate you after the event.

The other is to ensure, with Kirloskar Flame Proof Motors, that fires never occur.

What makes Kirloskar Single Phase Flame Proof Motors the best insurance against fire?

International Specifications

Manufactured to NEMA (US) Standards, and approved by CMRS (Dhanbad), CIE and Fire Insurance Pool Association, the motors are rigidly constructed with a steel shell, CI-covers and with the capacitor housed inside the cover to eliminate any possibility of sparks causing accidental explosions. Besides the perfect suitability of design and guaranteed performance, that only Kirloskar can ensure, with their two decades of experience of Indian Conditions.

So what's your problem? Inflammable gases? Combustible chemicals? Explosive petroleum? Nothing to get burned up about—if you use Kirloskar Flame Proof Motors, the only Single Phase Flame Proof Motors manufactured in India.

● Range: 0.18, 0.25, 0.33 kW continuous rated, 0.55 kW half-hour rated.
● Early Delivery.

All trade enquiries to be addressed to the Hubli Unit.

Manufacturers
KIRLOSKAR ELECTRIC COMPANY LTD.,
P.O.BOX NO. 317, BANGALORE 3 – P.O.BOX NO. 112, HUBLI-20, INDIA.

ASP-KEC-204A

of workload. For example, a bank union sought recognition from management, 10 per cent annual bonus from 1957 to 1963, promotion on priority basis, and an increment at the diamond jubilee. A commercial company union secured from the management a system of time-scale pay for various categories of staff, dearness allowance linked with the Consumer Price Index, and a gratuity and insurance benefit scheme; later, it got for its members profit-sharing bonus, reinstatement of retrenched staff, and a number of fringe benefits such as rent allowance, education allowance, leave travel concession, medical allowances, etc. By means of successive agreements with the management, the employees are now among the best paid in commercial circles, with even a peon getting monthly earnings of Rs 750 and a stenographer more than Rs 1,000. The commercial pilots have increased their earnings fourfold during the last few years; a turbo-prop pilot now gets between Rs 3,000 to Rs 5,000 per month, while a jet pilot gets nearly twice this. Most of the unions have succeeded in enhancing the earnings and benefits of their workers. In profit-making concerns, profit-sharing in the form of bonus has been secured.

In certain cases, however, employees had to struggle for even minor concessions. For example, an insurance union had to fight for its demand to reduce the weight of ledgers, which were bulky and unsuitable to handle. It also succeeded in getting the compulsory typing test removed and in having overtime allowance for work on Sundays. It also resisted the rationalisation proposed in the form of Teller and Ledger system that resulted in a reduction of employees. The fight of the LIC employees against office automation (installation of computers) is well known.

A few unions arranged for special instructions to candidates for departmental examinations and for revision of rules. Welfare activities are almost absent, except for some co-operative societies, canteens, libraries, and recreational facilities. In most cases, such work is entrusted to the employer or to the joint committee. Members have been dissatisfied with the neglect of welfare work by their unions. In one case, they complained that the joint committee has therefore relegated the union to the background.

Trade Union Methods

As noted earlier, white-collar trade unions have neglected the method of mutual insurance, even though they have the necessary funds. At least the insurance unions could have given a lead in this. With the assistance of management, white-collar unions could undertake beneficial activities in this.

The unions have also neglected the methods of 'common interest', by which the interests of the industry in which they work can at the same time be furthered—for example, through better union-management co-operation, better methods to achieve higher productivity, job evaluation, application of organisation and methods. Even the officers' unions do not adopt these desirable methods.

The method of collective bargaining is usually followed, but in a haphazard manner. The first normal step is preparation and submission to management of a charter of demands, usually with monetary demands. If this charter is neglected by the management, direct agitational methods are resorted to. In the initial stages, when organisation was weak, methods such as demonstrations during lunch-hour, mass casual leave, pen-down strikes for an hour or two, practice of work-to-rule, etc, are taken up. When the union gains in strength, strike notices are given. Most of the unions have gone on strike. The central government employees had two 'general strikes' in 1960 and 1968, though for short durations.

Employees of government had certain limitations about their unionism so far. Government Service Conduct Rules placed many restrictions on their organisational activities. They could not resort to agitational activities easily because of their responsibilities towards law and order. Lately, however, government employees' unions have increasingly taken to the agitational approach. This can be illustrated by the activities of the Confederation of Maharashtra State Government Employees, which first submitted its economic demands to the state government in a constitutional manner. Failing to get any response, it organised a one-day mass casual leave, which was followed after a few months with a similar three days' leave. Even then, the state government remained indifferent. The Confederation then launched an indefinite strike, which was backed by more than 90 per cent of the employees and marked by disciplined strength. The government employees kept themselves aloof not only from the workplace but also from violence, intimidation, and political parties, some of which tried to take advantage of the situation. A similar trend is noticeable among some of the 'service employees' like teachers and nurses. The nurses' union is officially for renunciation of the strike as a method, because it would not like to have interruption in the noble service its profession offers.

In many cases strikes, or threats of strikes, have led to negotiation, arbitration, and often to agreements. Litigation has become a common method of white-collar trade unionism, though a few unions have claimed success without litigation or strike.

In short, white-collar unions have two main methods—agitation and litigation. Members of a union also resorted to *dharna* and *gherao*. Officers of an oil company—350 of them—once took mass casual leave and used it to demonstrate before the board of directors.

Affiliation Patterns

Where the union is a local unit of an all-India organisation, the affiliation to the latter is clear. For example, a bank union in Bombay is affiliated to the All-India Banking Employees' Association. Similar affiliations are found in All-India Insurance Employees' Association, All-India Audit and Accounts Association, etc. In such cases, matters of common interest to all employees are decided at the national level, where a number of conferences are held for discussion and decisions. Local problems and grievances are dealt with at the Bombay level. In some cases, like the State Trading or State Insurance, the employing organisation has branches or regional offices at various places and hence an all-India union with regional branches can function efficiently. It follows a procedure similar to that mentioned above. In the case of one union of state government employees, the branches are at various centres in the state, with headquarters in Bombay.

Only two unions are affiliated to a central workers' organisation, namely the INTUC. One of these was started by an INTUC worker, while the other considered affiliation necessary for the reinstatement of 300 employees suspended for participation in a strike.

Though, on the whole, the white-collar unions are independent, some political influence is evident because of politicians placed in advisory roles. In many unions—insurance, commercial, engineering, nurses, etc,—outsiders are presidents or advisers. Nevertheless, it is claimed that, in spite of association with such outsiders, unions of white-collar employees are independent, at least in their internal affairs.

As white-collar unionism—particularly of its militant kind—is of recent origin, the management attitude has not been crystallised. The usual attitude

is one of opposition to this break from the traditional pattern of staff-management relations. The white-collar gentry was mild and law-abiding. When they took to the militant, agitational approach, managements took to victimisation and hostility. However, with the growing strength of unions, the futility of this attitude was evident. In most concerns now, trade unions have been accepted as representative organisations of employees; and in many government offices and also in private commercial concerns, the Whitley Councils type of machinery has been set up. Settlement by negotiations, grievance redressal machinery, development of personnel departments for staff welfare and for union-management relations, discouragement of litigation, conciliatory staff policy, and increasing monetary and other benefits to employees, are some of the happy features in recent years—though much more can be done in these fields. LIC has shown that with a competent and conciliatory Chairman, the relations between management and employees can be peaceful and conciliatory. Relationship is now based on reason and facts. Even strikes and work-stoppages become mere manifestations of labour protests.

Even supervisors, who are normally considered as part of management, found themselves in conflict with top management. In a state bank, when the supervisors adopted in 1969 'work-to-rule' practice, their four leaders were charge-sheeted for disobeying orders to pass certain cheques. Later, officers, including senior officers, took mass casual leave on June 10, 1969. Management retaliated by relieving four senior officers of their duties. The issue was, however, resolved after some bruises on both sides. The struggle led to a lot of awakening on the part of management and union, as both realised their particular weaknesses and strength. Similarly, when the officers in an oil company found that the management, took certain arbitrary decisions, threatening their job security, they drew inspiration from the successful functioning of the LIC Officers' Association, and formed their union with an eminent politician as President. The management took objection to an outsider as president and expressed its displeasure that officers should take up militant trade unionism. The union people met a central minister and the management came round.

Law so far does not provide for recognition even in the case of the majority union. However, most of the white-collar unions have unofficial recognition in that they have negotiations with management. In case of government employees' unions, recognition has been withdrawn after a strike by their members; however, recognition was granted again after some time. In case of teachers and commercial employees, there is no uniformity in recognition, as employers are numerous.

On the whole, managements now have good relations with trade unions and this is evident in the machinery utilised for prevention and settlement of grievances and disputes, provision of more benefits, grievance procedure, negotiation, conciliation, mediation, and arbitration.

The strong points of a white-collar union are: large proportion of workers as members, sound finances, internal leadership, confidence by members in their leaders, and cordial relationship with management. The educated and intelligent membership is itself an asset.

The weak points noticed include: some reliance on outsiders (politicians), lack of high quality leadership; absence of full-time, devoted office-bearers paid from union funds; indifference of 'non-involved' members; lack of social consciousness among members (such as nurses); old entrenched leadership; lack of competent leaders to argue with management; conflicts among different categories of employees (such as between turbo-prop pilots and jet pilots), preoccupation with agitation and litigation; and lack of welfare facilities by the unions. There is also little effective communication between leaders and members/workers.

Judging from recent trends, the future of white-collar unions appears to be bright. More and more employees will be white-collars, with the development of technological change. Till recently, these workers were poorly organised; however, now they can claim some strong, representative organisations. Their further progress will be faster if they could take up welfare and constructive activities—such as mutual insurance for workers and their families, productivity techniques, and scientific management.

GOVERNMENT OF INDIA

5 PER CENT NATIONAL DEFENCE LOAN 1981 TO BE ISSUED AT Rs. 100.00 PER CENT AND REPAYABLE AT PAR ON 20TH DECEMBER 1981.

5½ PER CENT NATIONAL DEFENCE LOAN 1986 TO BE ISSUED AT Rs. 100.00 PER CENT AND REPAYABLE AT PAR ON 20TH DECEMBER 1986.

5¾ PER CENT NATIONAL DEFENCE LOAN 2001 TO BE ISSUED AT Rs. 100.00 PER CENT AND REPAYABLE AT PAR ON 20TH DECEMBER 2001.

Subscriptions to the above loans will be received simultaneously and will be limited to a total of Rs 100 crores (approximately). Subscriptions may be in the form of cash/cheque. Government reserve the right to retain subscriptions upto ten per cent in excess of the notified amount.

If the total subscriptions received for the new loans exceed the notified figure plus the amount of ten per cent retainable as aforesaid, partial allotment will be made in respect of the subscriptions received and the balance refunded in cash as soon as possible.

Interest will be paid half yearly on the 20th June and 20th December. Interest on all the loans now issued together with interest on other previous Government securities and income from other approved investments will be exempt from income-tax subject to a limit of Rs 3,000 per annum and subject to other provisions of Section 80L of the Income-tax Act, 1961. The value of the investments in the loans now issued together with the value of other previous investments in Government securities and the other investments specified in Section 5 of the Wealth Tax Act will also be exempt from the Wealth Tax upto Rs 1,50,000/-.

Subscription lists will open on the 20th December 1971 and close on 22nd December 1971 or earlier without notice.

Applications for the new loans will be received at:—

(a) offices of the Reserve Bank of India at Bangalore, Bombay (Fort and Byculla), Calcutta, Hyderabad, Kanpur, Madras, Nagpur, New Delhi and Patna;

(b) branches of the subsidiary banks of the State Bank of India conducting Government treasury work except at the branch of the State Bank of Hyderabad, Gunfoundry, Hyderabad; and

(c) branches of the State Bank of India at other places in India.

For full particulars please apply to any of these offices or branches.

Electricity Pricing in Uttar Pradesh

S Ramesh

J L Bajaj

The State Electricity Board of Uttar Pradesh, like the Boards in other states, has evolved a tariff structure which aims to cover costs and earn a net rate of return of three per cent on capital. In practice a number of other considerations, too, have determined rates. The result is a complicated tariff structure which is not too clearly governed by any pricing principles nor is based on any accurate calculation of costs. In fact, the Board does not have any data on the various categories of costs, and does not keep separate accounts on generation costs from the different stations. Moreover, its finances are in the red with deficits increasing every year.

This paper describes the present tariff structure of the UP State Electricity Board and outlines the principles on which it appears to be constructed. It then discusses the lines on which the structure needs to be changed, if electricity tariff is to have any rational relation to costs and the State Electricity Board is to run as a viable undertaking.

I

IT is the purpose of this paper to discuss the present tariff structure of the UP State Electricity Board and to consider the lines on which changes or modifications are necessary in this structure. We shall briefly describe the existing rate structure and then endeavour to outline the principles on which it appears to be based.

At present the Board has separate rate schedules for: (i) lights and fans; (ii) domestic power; (iii) domestic two-part tariff; (iv) street lighting; (v) small power for private tube-wells and pumping sets for irrigation purposes; (vi) small and medium power (other than for irrigation purposes); (vii) small and medium power (seasonal), i e, on regular basis upto 6 months; (viii) small and medium power for state tube-wells, pump canals, and lift irrigation; (ix) mixed loads between 5 to 100 kW; (x) mixed loads above 100 kW; (xi) large and heavy power given at high voltage; (xii) large and heavy power (seasonal); (xiii) high voltage supply to the railways for traction loads; (xiv) grid tariff for the Board's licencees.

Apart from these generally applicable rates, the Board has specially contracted rates for certain large consumers like Hindustan Aluminium, Kanoria Chemicals, etc. Though it is nowhere clearly laid down, the following principles appear to be at the basis of the tariff-schedules:

(1) The Board is required by law not to incur any losses in its operations. Section 59 of the Electricity Supply Act, 1948, states: "The Board shall not as far as practicable and after taking credit for any subvention from the state government ... carry on its operations under this account on loss and shall adjust its charges accordingly from time to time ...". Therefore, attempts have been made by the Board to evolve a tariff structure which would meet operating and maintenance charges, allow for depreciation and reserve, and ensure a 'reasonable' rate of return on capital investment. The Venkatraman Committee, which examined the working of the State Electricity Boards (SEBs), in the country, recommended that the net return to be earned by the SEBs—after meeting the operation and maintenance charges, contributions to depreciation and general reserves, and interest on loan capital—might be fixed at 3 per cent on the capital base. This would amount to a return of 11 per cent, taking into account the electricity tax/duty levied by the state government and after meeting operation and maintenance charges and depreciation (i e, interest charges at 6 per cent, net return 3 per cent, general reserve 0.5 per cent, electricity duty at 1.5 per cent).[1] The Board has also given an undertaking to the World Bank that it would adjust its charges to enable it to earn a rate of return of 3 per cent on the capital base.

(2) Keeping in view the broad objective of meeting the total costs and ensuring a 3 per cent return on the capital base, the rates evolved have been such as to charge the various categories of consumers 'what they can bear', though it cannot be certainly said that the actual differences in rates are based on any precise study of the various demand elasticities. In the case of a power-intensive industry like aluminium, where the cost of electricity is a significant proportion of the total operating cost, the rate per unit charged is substantially lower than in the other heavy industries. Differing rates are also charged for domestic, agricultural, and industrial purposes; domestic consumers pay much higher rates than do industrial and agricultural consumers.

(3) On the supply side, cost considerations play an important role in determining rates; for example, lower rates are charged for high voltage electricity supply, where costs of transformation and distribution are lower than for low voltage supply.

(4) The rates prevailing in the neighbouring states are also to some extent taken into consideration by the Board in deciding its rates.

However, it cannot be said that these 'principles' have been fully followed by the Board. Its annual financial statements bear testimony to the deficits in its operations which have been increasing over the years. The total deficit during 1965-66 was Rs 2.03 crores, which increased to Rs 8.92 crores during 1967-68, and to Rs 10 crores during 1969-70.

Although the tariff structure has been revised a number of times, there are serious deficiencies in the manner in which the revisions have been undertaken. Practically no attempt has been made to properly determine the different types of costs; in fact, the Board does not have any data on the various categories of costs. It also does not keep separate accounts on the cost of generation from the different generating stations, though some rough estimates are made by the Board's engineers.

Costs in the electricity industry may be divided into three categories—capacity costs, energy costs, and consumer costs. Energy costs consist primarily of fuel charges at the power stations, transmission losses, and wages paid to the labour for running the power stations. These costs vary directly with total generation of energy. Capacity costs include interest, depreciations, maintenance of fixed equipment, and wages and salaries of power station operators and managerial costs not dependent on actual output of electricity but varying with capacity. The two important features of electricity supply are that it is

not technically possible to store energy in commercially significant quantities, and that demand fluctuates during different hours of the day and at different periods during the year. Capacity cost, therefore, does not vary with the total quantity of electricity produced but with the maximum rate at which consumers use electricity, i e, the peak demand of the system. Consumer cost is that part of the cost of distribution which varies with the number of consumers; it also includes the direct cost incurred when an additional consumer desires service, i e, such costs as meter reading, etc.

The three major categories of power generation—hydro-electric (run of the stream), hydro-electric (storage), and thermal—have certain well-defined characteristics, with their attendant economic and technical implications.[2] The proper and optimum utilisation of available capacity in these categories, is the fundamental objective of the electricity system. The hydro-electric 'run of stream' projects constitute the base load of the system, because the running costs of these projects is virtually negligible. The thermal generating units come into play after all the available 'run of the stream' projects are working to their full capacity. The storage type of hydro-electric project, is, however, completely different. In this type, water stored in a reservoir during the wet season is utilised to generate power during the dry season. The problem here is one of ensuring an adequate water supply during the dry season, so that the water level in the reservoir does not fall below the critical level before the wet season replenishes it. Both thermal and hydel storage projects can be used to generate power to meet the extra requirements of peak hours (known as 'peaking'). But the storage project is technically and economically more suitable for this purpose. In UP, the present position is that peaking is largely done by the hydro storage projects of Rihand and Matatila.

II

Having outlined the present structure of the electricity system prevalent in the state, we shall now proceed to consider the lines on which we believe it needs revision. A brief excursion into theory will be helpful. There will no doubt be general agreement with the proposition that the rates of supply should be equal to the cost of supply, with some provision added for securing a reasonable minimum return on capital investment. The question, however, is: What cost concept should be used to determine electricity rates? For rate-making purposes, the costs that are relevant are not the average costs per unit of any past accounting period. Difficulties of allocation of fixed costs, common costs, etc, are invariably encountered if we make the average cost of a past accounting period the basis for rate-fixation. From the economist's point of view, the relevant cost concept will be the *expected* long-run marginal costs; these costs would include energy costs, capacity costs, and consumer costs. The argument briefly is that, if the expected marginal costs are not covered fully by the tariff in every case, the output by the resources employed for electricity generation would have a lower value than if they had been employed in any alternative occupation. Pricing at less-than-marginal cost would, therefore, result in non-optimality in allocation of resources.[3]

The electricity utility industry is in the position of a discriminating monopolist, who faces mutually separate markets with demand curves of differing elasticity. Theoretically, such a monopolist can maximise his net profits by charging appropriate different prices in the separate markets. But the electricity industry is also a public utility, which is not allowed to make maximum monopoly profits. Some writers in the past, therefore, sought to defend price discrimination in the electricity industry on the ground that the output under discrimination will be increased and will also be at the socially most desirable point. But, as Joan Robinson has pointed out "... total output in discrimination will be greater or less than in simple monopoly according as the more elastic of the demands in the separate markets is more or less concave than the lowest elastic demand curve, and that the total output will be the same if the demand curves are straight lines, or indeed in any other case in which the concavities are equal."[4] No presumption can, therefore, be made for a larger output in all cases of price discrimination, even if a larger output is held to be socially desirable.

Three main kinds of price discrimination are found in most electricity rate schedules.

(a) Peak-off-peak discrimination;
(b) Block-rate discrimination; and
(c) Class-rate discrimination.

Peak-off-peak discrimination results from use of inappropriate differential rates for peak and off-peak supply. Spreading the total cost of production over the total number of units generated on the basis of some supposedly equitable distribution of overhead costs among groups of customers, would obviously be discriminatory. As already explained in our discussion of the different types of cost, the costs of electricity supply are not independent of the point of time of consumption. Non-recognition of this fact leads to discrimination among groups of customers, although the rate-schedules may appear to be non-discriminatory. The correct allocation of capacity cost should be according to the consumer's contribution to the system peak, because it is this consumption during peak hours that determines the requirement of total capacity.

Block-rate discrimination occurs when, in the block-rate schedule (where rates successively decrease with increasing consumption), certain units are charged at below marginal cost and the earlier units are charged at above marginal cost to make up for the loss on the cheaper units. Obviously, there can be misallocation of resources under this type of discrimination also.

Class-rate discrimination occurs when specially low rates are granted to new classes of customers on the ground that the customers benefit from the reduction in average cost of service—either by increasing the utilisation of existing facilities or by taking advantage of the economies of scale. To be non-discriminatory, price differentiation among different categories of consumers must be based on cost differences. The ideal tariff structure should charge, for different customers, the long-run marginal (expected) cost of supplying electricity to them with appropriately different rates for peak and off-peak hours of supply.

There are, however, both theoretical and practical difficulties in the way of implementing the policy of marginal cost-pricing in any electricity undertaking. First, the rate of return that should be earned by an electricity undertaking is usually prescribed by law, by regulations, or by the policy objectives accepted by the state. Where the long-run marginal costs are rising,[5] an industry might start making profits which are higher than the return allowed. If, as is unlikely, the long-run marginal cost curve is falling, a strict application of marginal cost pricing may result in net losses or a return lower than the minimum prescribed for the undertaking. The financial constraints, under which the undertaking operates, will have to modify the marginal cost pricing rule. Second, where social costs are different from money costs—as is often the case in an underdeveloped economy—strict

application of the marginal cost rule may reinforce the very distortions it may be the object of state policy to remove. Pricing below marginal cost in the case of certain categories of consumers, may actually increase the total benefits accruing to society and thus more than outweigh any allocational disadvantages resulting from the deviation from marginal cost pricing. This argument is usually advanced in support of low rates for agricultural power, though this is not explicitly stated. It is clear that marginal cost pricing by the electricity undertaking would not be optimal, where there is non-optimality in other sectors of the economy—including in the pricing of substitutes and complements for electricity as well as in the prices of goods and services which use electricity in production. Turvey has argued that rather than adjust electricity pricing to allow for these non-optimalities it would be better to tackle them directly wherever possible.[6] However, there will be non-optimalities in the different sectors of the economy introduced by the actual rate structures, which were so far not based on the marginal cost pricing principle and which are sought to be revised on that basis. Where, for example, the rates charged have been below marginal cost for a number of years for any category of consumers, there has in effect been a hidden subsidy to this sector which may or may not be economically justified. If such a subsidy is held to be justified by considerations of social costs and benefits involved, it might be better to give it as an open subsidy. As a practical measure we would suggest that marginal cost pricing, especially where it involves a considerable change in the existing rates, be introduced gradually over a period of years.

Apart from the above considerations there are other practical difficulties in implementing a strict marginal cost pricing which we shall discuss towards, the end of this paper.

III

Viewed in this way, there can be no doubt that the present tariff structure needs considerable revision. We do not wish to discuss the different rate schedules in detail here, but a few examples will illustrate our views.

In the light and fan schedule, for instance, all consumers are divided into two categories, *viz*, (a) consumers in the cities of Lucknow, Allahabad, and Kanpur, and (b) consumers in the rest of the state. The rates of supply are as much as 11 paise per unit higher for the second category. Obviously, the cost of supplying electricity cannot be that much higher in the second category; in fact, the difference has historical reasons. The three cities were being supplied cheaper electricity before the Board took over their supply from the private undertakings concerned. In the domestic power tariff also, the difference is 9 paise per unit. Similarly, the street lighting rate schedule imposes a higher rate (higher by 15 paise per unit) for places other than these three cities. Since the cost involved in extension of street light mains (including cost of sub-stations) in areas where distribution mains have not been laid, will be borne by the consumer, this difference is obviously not based on cost basis. The different manner in which small power for private tube-wells, other small loads and state tube-wells etc, is treated cannot be justified either on economic grounds. The criticism that can be made against the large and heavy power schedules, where supply is given at higher voltage, is much more serious. These schedules are based on the two-part tariff system, under which there is a demand charge and an energy charge. The demand charge consists of 3 block rates with the rate decreasing with successive blocks; the energy charge is in addition to this and is also divided into 3 blocks, the charge decreasing with each successive block. Even a casual reading of these schedules is sufficient to make one conclude that they have been evolved largely on considerations other than the principles we have enunciated earlier. The demand charge is based on 'billable demand' during a month, which is defined as "the actual maximum demand registered or 60 per cent of the contracted demand, whichever is higher". We have already pointed out that the cost of electricity is not independent of the time of consumption and that non-recognition of this fact leads to peak and off-peak discrimination. If the basis of the demand charge in the industrial tariff is the capacity cost, then all consumers who consume electrical energy during the system peak are co-responsible for the peak according to their consumption at that time and capacity cost should be allocated accordingly. Under the high voltage industrial tariff, however, the consumer's demand charge varies according to his individual peak. This may mean that a consumer who regularly has his peak during the system's off-peak hours is paying more than he ought to, because the cost of serving him is lower. The cost of supplying electricity to the peak hour consumer includes capacity cost but the cost of serving the off-peak consumer excludes this. Secondly, the demand charge goes down with successive bigger blocks of billable demands. It is difficult to see any rational basis for this distinction and it is impossible to justify it on any cost consideration. The capacity cost to be attributed to a consumer should be a function of the consumer's maximum rate of consumption during the system's peak—not of his maximum rate of consumption during the year, nor of his total use of electrical energy per period.

The above analysis shows that the present tariff structure needs considerable revision for bringing the rates more in the line with the cost of supplying electricity. If the tariff structure is sought to be revised on the basis of cost, this would also be in the long-run interests of the Electricity Board where today cost consciousness seems totally absent.

Two points will serve to underscore the need for the Board to keep a more watchful eye on its costs. First, the Board has no replacement policy; some of the smaller plants have outlived their useful life. If a careful study is made, comparing the costs of producing electricity from these plants with the cost of production from a new plant, it may be possible, depending upon the relative costs, to come to the conclusion that some of the plants need to be replaced. Secondly, the Board does not use any of the inventory control techniques now available.[7] The Board's present stock of inventories comes to nearly Rs 28 crores, which appears to be excessive. The Board with its present resources can hardly afford the luxury of poor inventory management. As a large proportion of the economics of an electricity undertaking is already built into the system, one of the very few areas that lend themselves to any effective control is material, which is the most important component in the cost structure. It would be beyond the purview of this paper to go into the purchase policy of the Board or into the difficulties in the way of its efficient and economical functioning.

We suggest that the Board should make a detailed study of the costs of generation from each of its generating units, *viz*, hydroelectrical (run-of-the-stream), thermal, and diesel power stations, and hydroelectric projects (stor-

age). The Rihand and Obra hydro-storage projects are used for peaking, and the thermal projects and hydel (run-of-the-stream) projects together have in effect become the base load. What is necessary for the Board is to calculate the cost of generating at high voltage from each of these projects. It would be importont to allocate the capacity costs to the peak hours. Obviously, the peak demand would vary for the different seasons in the year. The principle is obvious, and any practical tariff application to large numbers of small consumers can only reflect costs approximately averaging among the different consumers and over the different periods of the year.

Even if the costs of supply of electricity are available throughout the year, it is difficult to evolve for the different categories of consumption, rate-schedules which adequately reflect these costs. The costs of supply will obviously vary with varying voltages, the transformation and distribution costs increasing with the supply of electricity at lower voltages as well as at different periods of the year. The ideal system, which would be justified from the strictly economic point of view, has been summarised by R K Davidson thus:

> "In principle the proposed non-discriminatory rate schedule consists of a fixed monthly customer charge + the kW hour charge that varies according to the time of day. The unit charge equals marginal energy cost + marginal capacity cost during peak hours, and only marginal energy costs during off-peak hours."[8]

The load curve that is relevant for rate-making is the expected load curve for the system. Since this cannot be known with any degree of certainty and since the tariff structure cannot be revised every year, the only alternative is to predict the expected load curves for the next 10 years or so (on the basis of past records and estimation of future needs by large and small customers) and to utilise this information for determining the tariff. The ideal theoretical rate structure, as already mentioned, will be where the rates change according to the time of the day. Further sophistication can be introduced if consumption varies with the season, so as to ensure maximum utilisation of capacity. The theoretical solution is not, practically speaking, the most feasible for all categories of consumers. Perhaps a beginning could be made for large industrial consumers, where a time-of-day rate schedule can be implemented, utilising a combination Watt hour meter and time switch. Obviously, in the revised tariff structure which we are proposing, marginal capacity cost for high voltage supply would include generation and high-tension transmission costs, whereas distribution capacity and transformation capacity costs would be included for customers who buy electricity at secondary voltages.

Marginal energy cost may also vary between peak and off-peak hours : it older and less efficient capacity is used to meet peak consumption. However, it does not appear that this is the case in UP where the Rihand and Obra hydro storage projects are used to meet peak demand. In such a case, then, the fixed and variable costs of meeting the peak demand should be borne by those who demand electricity at peak time and the appropriate charge should be determined by the cost of expanding thermal capacity. This is justified because thermal power constitutes the major source of supply in the state and, except for Tehri and Maneri Bhali hydro-electric projects which are likely to take more than a decade before any power is available from them, all other major generating stations in the near future are likely to be thermal. Moreover, the potential hydro electric sites in the state are limited and the expanding requirements of electricity are expected to be greater than the supply from these sources. Greater thermal capacity would thus be needed to meet the expanding demand.

Apart from the industrial tariff, it is possible to apply this principle in respect of private tube-wells and pumping sets also. There has been a phenomenal growth in electric connections for private tube-wells and pumping sets during the last five years —from 4,729 in 1964-65 to 91,977 in 1969-70. This is largely due to the assured irrigation necessary for the new high-yielding varieties. During this period, the connected load for agricultural power has increased from 1.35 lakh kW to 7.10 lakh kW and the consumption of electricity has increased from 31 crore units to 61 crore units approximately. It is also proposed to add nearly 50,000 additional connections every year. The proportion of agricultural load to the total connected load, which increased from 13.5 per cent in 1965-66 to 31 per cent in 1969-70, is expected to increase further in the next few years; and the problem of evolving a suitable tariff for agricultural power, therefore, assumes considerable importance. The State Electricity Board claims that it loses nearly Rs 500 per tube-well per year, but this claim is not based on precise calculations of capacity, energy, and consumer costs. We know the general pattern of consumption of electricity for irrigation purposes, *viz*, that farmers generally irrigate their land during day-light hours. Sometime back the Board offered a concession of 33.33 per cent for consumption during night hours, but this facility has not been availed of by even a single rural consumer in the state. There is some reason to believe, therefore, that the pattern of consumption of agricultural power will remain constant over a wide range of rates. The known pattern of consumption of agricultural power can be utilised to evolve a tariff that reflects the cost of supplying electricity to private tube-well and pumping sets.

Similarly, street lighting occurs during certain defined hours of the day and the tariff in respect of street lighting can take this fact into account. It may not, however, be practicable or economical to enforce a time-of-day rate-schedule for domestic consumers.

The above analysis will support our contention that it is quite possible, with some modifications, to apply the economic principles that we have outlined in the earlier part of the paper. While the theoretically ideal tariff-structure may be impossible to implement in practice, that is no reason for not making a sincere attempt to base the rate-structure on acceptable economic principles.

Notes

1 Report on the Working of State Electricity Boards, Planning Commission, 1965.

2 A Harberger and N Andreatta, 'A Note on the Economic Principles of Electricity Pricing', *Applied Economic Papers*, March 1963.

3 For a fuller discussion see M J Farrell, 'In Defence of Public-Utility Price Theory', *Oxford Economic Papers*, new series, Volume 10, 1958, and R Turvey, "Optimal Pricing and Investment in Electricity Supply—An Essay in Applied Welfare Economics", George Allen and Unwin London, 1968.

4 Joan Robinson, "Economics of Imperfect Competition", Macmillan, London, Second Edition, 1969, Page 190.

5 This happens when increasing costs due to rising prices outweigh the cost reductions due to technological progress.

6 R Turvey *op cit*, pp 88-9.

7 A P Saxena, 'Inventory Control—Some Approaches and Problems', *Economic and Political Weekly*, Review of Management, Volume IV, Number 8, February 22, 1969.

8 R K Davidson "Price Discrimination in Selling Gas and Electricity", the Johns Hopkins Press, Baltimore, 1955; p 182.

New States and International Order

The East African States

T V Sathyamurthy

NEW nations are brought into existence in an atmosphere of internal and international crises. They lack the advantage of older nations which experienced the process of development while maintaining their mastery of the international environment. In a very real sense, the growth of international relations paralled the growth of these states. With the development of communications and a deeper interdependence of the different parts of the world, new states commence their independent existence in an atmosphere of heightened international activity.

A new nation is compelled to cope with an international environment fashioned, at least in part, by the former metropolitan powers. On the one hand, it has to accommodate itself to this situation; on the other, it has to create conditions which not only permit its internal development but also help secure a favourable international position for itself. Thus, except in the revolutionary situations of Russia, China, and to a limited extent Cuba, which resulted in an initial period of self-imposed isolation, a new nation cannot avoid learning the body of rules and custom regulating the conduct of international relations, European in origin, and created without reference to the conditions obtaining in the Afro-Asian world. This note is concerned with the latter category of new nations.

Upon achieving independence, new nations generally regard some form of continued association with the former metropolitan power as useful and necessary. At the same time, they strongly believe that the continuation in a new form of their ties with their former colonial masters should be accompanied by a forging of new links with other states in order to tackle the major problems of economic development and technical assistance. The important fact to note here is that, as successor states to the colonial dependencies, these states automatically assume certain obligations which they have to discharge under normal circumstances. Two important questions frequently arise: To what extent should new states accommodate themselves to the international environment not of their making? In what directions and to what degree can they influence changes in the existing environment?

The adaptation of new organisms to the contemporary international environment poses special problems. Before the Russian Revolution, the international system was essentially homogeneous in character. During the last fifty years, however, new political models based on the experience of radical change in certain countries have become available. The new states are thus naturally attracted by the prospect of incorporating the diverse virtues of radically different models into their own developmental process. At the time of independence, leaders of new states, for reasons easily understood, adopted the institutions and ideas of the metropolitan country as their political model (e g, Indonesia and Ghana). A subsequent realisation on their part that transplanted political institutions were not effective, and that the experience of radical new nations would perhaps be more relevant to their conditions, resulted in an attempt (e g, African One Partyism) to combine different features of institutions created under widely varied conditions. The mere fact of the existence of ideologically opposed models stimulates unity, however loose and tentative, among new states acting as an ideological buffer. The increment in prestige, at home and abroad, resulting from such a collective sense of identity is not inconsiderable.

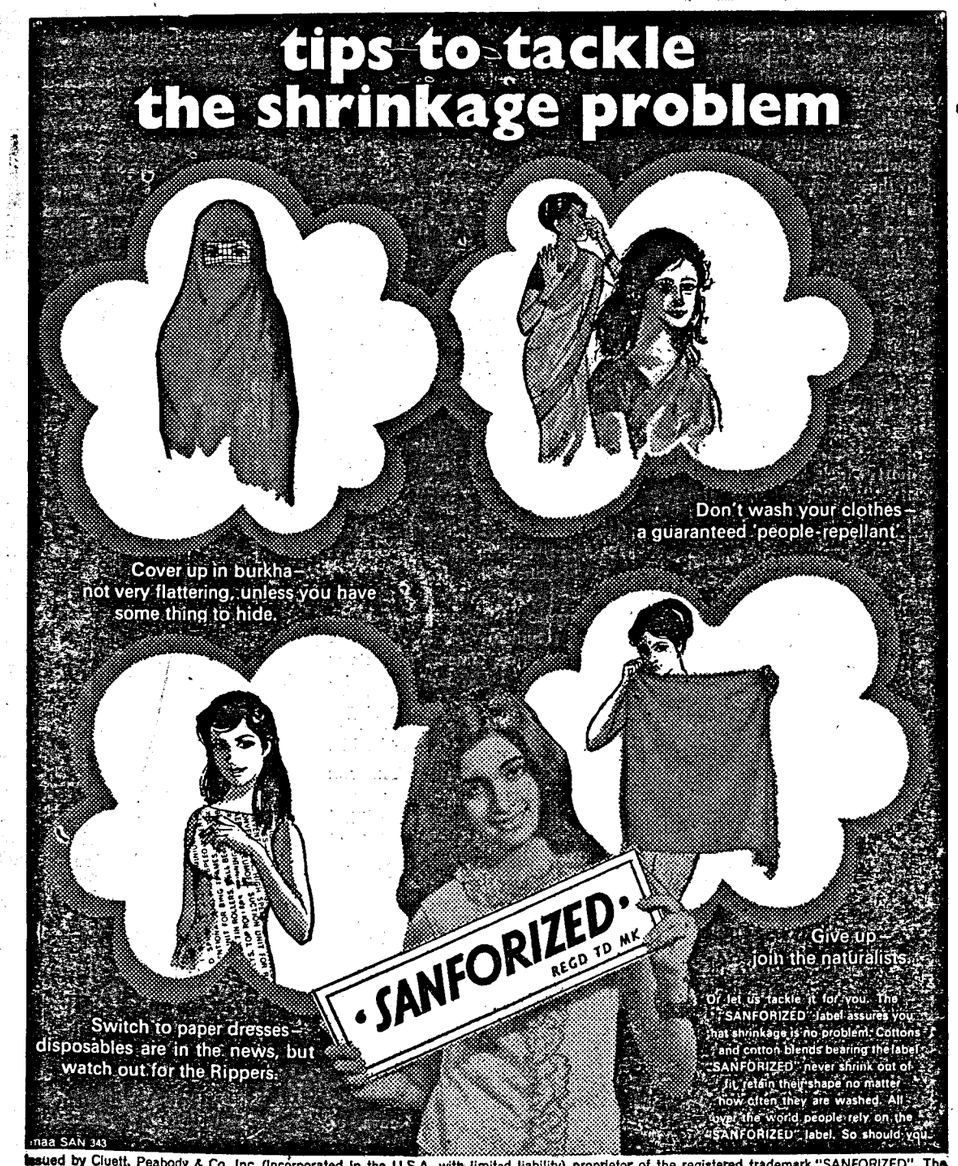
Expression of Aspirations Through Symbols

The impact of the available political models as symbols of different sets of norms, values and goals upon new nations is powerful, especially in our time. In the case of African nations we witness the phenomenon of African leaders expressing African aspirations through such symbols as "African personality", "African socialism", and "Negritude". The images bounced off by a nation (however ambivalent in character — the ambivalence itself stemming from a variety of reasons, e g, the contradictory tendencies within the top leadership as in Kenya, or the complexity of the interrelationship between different groups within the nation as in Uganda) on the international plane are vital to its international role definition.

The East African nation states achieved independence during the early sixties when the intense phase of the Cold War had subsided. By 1960, several intermediate political models had been generated (as well as, of course, the revolutionary situation in China which falls outside the continuum with which we are concerned here) in the ex-colonies of Asia and West Africa (e g, Indonesia and Ghana, both of which have undergone profound transformation within a few years of their independence). These models, however imperfect and vulnerable to internal and external forces, are attractive to new entrants to independent statehood (of societies which share many common characteristics with those which reached independence in the forties and the fifties) not only for emotional and psychological but also for practical and political reasons. Furthermore, for small nations the UN has acquired a sanctity out of proportion to its usefulness. Its chief significance for them lies in the fact that entry into it carries with it their indisputable legitimation as states. Not a few countries (e g, Zambia) make special efforts to secure as large a proportion of external technical and administrative assistance from UN sources as possible.

Should a viable definition of the international role of East African countries have to incorporate the concepts of legitimacy and identity/identification? The constraints imposed on the aim of their leaders to increase their autonomy and decrease or neutralise external pressures by the international system and its sub-systems (e g, the Commonwealth, OAU, Third World, EEC, etc) constitute an important dimension of the concept which we are exploring here. A vital difference between the central concepts of legitimacy, identity and participation and the one examined here lies in the fact that the contours of the latter are best delineated when it is not seen as a crisis. External affairs, unlike domestic politics, are pivoted to self-determination; though conditioned by such factors as the influence of colonial experiences and practices, commitments inherited from the colonial epoch, dependence on foreign powers for aid, relationship with immediate neighbours, position within the Third World, attitudes to such regional ideas as federation, common market and the relationship between domestic and foreign policies.

How do political, ideological, diplo-



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

matic and other determinants affect maximisation of autonomy? First, the idea of non-alignment, whatever its content in a given country, covers a wide range of specific aspirations while seeking to obscure potential areas of conflict between nations which share common characteristics. Second, Pan-Africanism, however diluted, still retains it emotional and symbolic significance as is reflected in the adherence of these states to the OAU and in the common struggle against racialism in Africa. The intensity of this problem is highlighted by geographical factors (e g, Tanzania which is surrounded by seven countries at various stages of political development). The usefulness of Pan-Africanism as a symbol of co-operation would seem to be a complex resultant of the scope allowed to the OAU and the foreign policies of the individual East African countries. The continued appeal of Pan-Africanism for countries with limited power and lacking in modern resources of communication and technology, dependent upon each other for a collective exercise of their influence on the international environment cannot be exaggerated. Third, account should be taken of the fact that East African countries have found that their views on colonialism, certain specific aspects of the application of the principle of self-determination, etc, have much in common with those of the slightly older Asian nations. Thus, even the tattered remnants of the Bandung spirit serve a useful purpose by providing a sense of common purpose if not solidarity in such bodies as the UN where they are compelled to seek successful solutions to problems affecting them in various spheres. The euphoria of the post-Bandung years (late fifties) was lost in the haze of problems created during the sixties (since Belgrade) by the emergence of more dynamic definitions of non-alignment in conflict with the original one fashioned by India. But the seventies (since the Lusaka Conference) would seem to hold the prospect of a more limited and more practical but also a clearer common denominator of foreign policy emerging among these nations. Here again, one is faced with substantially different variations of the theme when one studies the particular problems posed by the East African countries.

Almost all new nations are consciously committed to a policy of economic, social and political development. The resources and capital required for development have to be obtained from external sources (except in the case of China since the abrupt termination of Soviet assistance in 1960). This inevitably leads to a rivalry between Big Powers which have vested interests in the development of new nations. Despite the attempts made by the receiving states to cope with Big Power competition by pursuing a mixed strategy of economic planning (public and private sectors) and taking political precautions against "aid with strings", in reality they are subject to various influences by the mere fact that they are participating in an on-going relationship with the donor countries. Even the educational contact between foreign technicians and local technicians can be of significance. Another aspect of development concerns the balance between long term planning geared to sustained development and improving the standard of living of all and the utilisation of scarce resources — domestic and foreign aid — for expensive prestige projects of doubtful or marginal utility. To what extent a particular image projected by a new nation is conducive to its internal viability, political stability and a fruitful relationship with its neighbours is worth examining.

The foreign policies of new states are subject to an in-built pressure in the international environment in the form of the rivalry between the Big Powers. The non-aligned posture of the new states, while obviating the necessity of choice between ideological antagonists, permits them to accept aid from all sources. In all this, a new state sees as a fundamental necessity the safeguarding of its security and independence from all external interference. East African examples point to the practical difficulties involved in the simultaneous balancing of the above three factors in the shaping of a new nation's foreign policy. The 1964 US decision to assist the Congo (Kinshasa) government in their fight against the rebels along the Uganda-Congo border was viewed by Uganda as a threat to its security and has resulted in foreign policy shifts, the significance of which it would be profitable to assess. Similarly, the birth of the Republic of Tanzania was immediately followed by the problem of simultaneous representation of East and West Germany. The West German government which had only recently been involved in a serious misunderstanding of a similar nature with the UAR promptly issued a threat to cut off military aid to Tanganyika (Tanzania) if it decided to extend any kind of diplomatic recognition to East Germany. The Tanzanian government was faced with a choice between asserting its independence in foreign policy making and continuance of aid from a foreign country — a choice necessitated not so much by a psychological attitude to two different foreign states in Europe but by a concatenation of events of profound internal significance to the two parts of the new state. This case exemplifies the fact that the question of development aid is related to the overall foreign policy of a country in a series of concentric contexts (the national, the East African, African and so on). Political scientists should disentangle different aspects of policy which affect each other and ascertain limits imposed by specific internal and external constraints on autonomy in foreign policy making.

Foreign Policy and Style of Leadership

The developing style of leadership of a new nation exercises a profound influence on its perception of foreign policy problems, and is in turn affected by the external factors characterising the world situation at any given time. In general, personalities are important not only for what they do, but for what they represent to the outside world. Thus Kenyatta legitimates Kenya in the eyes of the world and Nyerere legitimates Tanzania. Here the personality of national leaders prior to independence is of crucial significance. In African countries, attention to foreign policy prior to independence was highlighted by the non-alignment of already independent Asian states. A general hypothesis suggests itself for examination: Where the struggle between the colonialist and the nationalist forces was intense and bitter, the post-independence leadership tends to be more radical and experimental in the choice of foreign policy; where it was peaceful the leadership tends to adopt a more moderate line, subject to there being little change in internal leadership patterns during the period subsequent to independence (a qualification suggested by, e g, Lesotho).

What happens *after* independence is even more important than what happened before independence (e g, the gradual radicalisation of Nkrumah and the CPP in Ghana). The case of Tanzania is particularly interesting. Tanganyika led by moderate Nyerere was forced to accommodate itself to the sudden revolution in Zanzibar. The revolution itself was quickly followed by an attempt by the military to disrupt civilian political power in Tanganyika,

Kenya and Uganda. The latter sought British assistance for their survival thus exposing their tenuousness. Nyerere attempted to retrieve his position by uniting Zanzibar with Tanganyika in an effort to contain the revolutionary character of the latter. But the union not only could not but profoundly affect the East African federation but also resulted in Nyerere changing his moderate foreign policy stance. A new legitimacy was sought to be created through the OAU which resulted in shifts in foreign policy — shifts which affected a whole series of policies of a regional character and have introduced new dimensions into the foreign commitments of Tanzania.

The Kenyan situation was characterised by a conflict between two essentially different sets of international image makers — the urban based trade union leader Mboya and Oginga Odinga, a tribal leader with a national stature. Immediately after independence, the two leaders were identified with the two sides of the ideological divide as a matter of convenience from the national point of view. Mboya's style was in keeping with the Western political idiom; Odinga, partly to avoid competition with Mboya in the West, looked to the Eastern bloc for assistance in building his international image and consolidating his international position, thus unwittingly casting himself in a radical mould. The fact that Mboya is now no more and Odinga is no longer in office does not alter the fundamental characteristic of the Kenyan political situation. Thus the foreign policy and international commitments of Kenya on the one hand, and the whole question of internal succession on the other need to be viewed against the dynamic of psychological factors generated by these two men. In the case of Uganda, however, there existed only one dominant line on foreign policy until the recent overthrow of President Obote. If the new regime is able to consolidate itself, a pattern of foreign policy not dissimilar to that which emerged during the post-Nkrumah period in Ghana may well come to surface — a possibility which perhaps lies at the root of the reluctance of other East African countries, especially the Sudan, Tanzania and Zambia to recognise the new regime.

Internal and External Policies

Though analytically separable, internal and external policies deeply influence each other. The different components of internal policy — e g, ideological self-perception, choice of development strategies, trade policies, attitude to refugees — determine to a certain degree the external policy of a state. In East Africa, all important changes of policy and internal leadership (e g, the Uganda coup of 1971) also affect federal institutions and their functions. The impact of internal policy shifts on the external commitments of a country should be investigated. Domestic factors affect not only the crisis orientations of the dimensions of penetration, participation, and distribution but also external variables. Thus, a deliberate choice of action in the domestic sphere may determine the choice of external policy preferences (e g, the Arusha Declaration 1967, though a document forging a new domestic policy, is, as has been demonstrated during the last four years, of international significance). Similarly, a choice in favour of one dominant mode of development may affect the distribution or participation crisis of the polity. It is a pity that social theorists (including such sociologists as T Parsons) have omitted the influence of external factors on internal arrangements by a wholesale transference of the thermodynamic model of adiabatic systems into the realm of social scientific speculation. This is a serious lacuna. A few political scientists have succeeded in bootlegging the internal decision-making environment as a salient factor in external policy-making; but the reverse is no less important and represents an unexplored area of research.

A few clues to an understanding of the relationship between internal and external policies are suggested here.

(a) Mass-elite continuum in new states: It is important to know whether the elite is fragmented or homogeneous, and the extent of discontinuity between the elite and the mass. Where the discontinuity is vast, a greater gulf exists between domestic and foreign policies. Where a conscious attempt is made to integrate the masses into the decision-making structure (e g, Tanzania, post-1970 Chile), a mutual sensitisation of internal and external policies leads to a bridging of the gulf. This picture can be transported to the international system where the elite-mass criteria could be applied with equal validity.

(b) The learning process to which new states are automatically subjected in the international environment is of crucial importance. Unlike the developed states which were able to build a corpus of political, administrative and diplomatic experience over a long period, the new nations lack the advantage of stored social knowledge. Domestic and international crises take place in swift succession needing immediate political attention from inexperienced politicians who find it difficult to separate the two in practice. Also, leaders of new nations are usually handicapped by their mastery of political tactics used in resisting colonial power because they lack expertise in the techniques of bargaining, negotiation and compromise which are essential to the normal running of government. In the case of East Africa, intra-African rivalries are bound to be affected by the degree to which compromise can be achieved. The style of internal politics affects the style of intra-African politics; so also tribal rivalries overlap with national integrative forces.

(c) The problems of international role definition are influenced by educational and cultural policies. In Africa, the student community is highly influential. Student organisations often tend to view problems of international importance in ways different from that adopted by the leadership. But students are leaders of the future and their attitude to politics, invariably influenced by foreign ideologies, is of great significance and may not coincide with the world-view which the leadership might like to foster in them. For instance, it is the practice of non-aligned countries to send students to both blocs for higher education and technical training. This leads to unintended and unanticipated consequences for the reason that students are affected by the whole culture to which they are exposed and often return home with radically altered norms and perspectives. In some cases, foreign help is sought for the establishment of national centres of political, administrative and technical training. The future of such institutions is often subjected to the vicissitudes of foreign policy (e g, the Lumumba Institute). Heterogeneity of indoctrination and diversity of ideological loyalties among the educated who represent an important section of the politically relevant community must be studied in an attempt to understand the way in which internal factors impinge upon external policy.

International Role Definition

The importance of the regional policy of each East African country stems from the significance — concrete and symbolic — attached to the idea of federation. Such supra-national organisations as the EARH, EACSO and EAPT were already functioning at the time of decolonisation. But as the national governments became preoccupied with domestic problems, the political aim of federation tended to be diluted despite the fact that the usefulness of existing federal arrangements have assured them an indefinite tenure. A study of the impact of internal developments on the federal intentions and capabilities of the individual countries would require an analysis of the great differences between them, ranging from their natural resources to their styles of political and economic development. The approach of each country to its internal crises of penetration, participation, legitimacy, integration and distribution will have important consequences for intra-regional relationships. Thus, important differences in approach to the crisis of penetration and distribution between Tanzania and Kenya on the one hand, and to the crises of legitimacy and identity between Kenya and Uganda on the other, may have far-reaching repercussions on the problem of federation.

A whole *genre* of problems unanticipated during the colonial period can be described under the rubric of irridentism. Uganda has to face border problems in its relations with Rwanda, the Congo, the Sudan, and Kenya with Somalia and Ethiopia. These are created by the system of defining colonial boundaries alien to the indigenous peoples, but in the context of political problems arising from boundary definitions they cannot be avoided. The political scientist should also be concerned with the phenomenon of new alignments of co-operation in specific matters, irrespective of their long term effect on regionalism. Thus the Tanzanian policy of offering hospitality to political leaders and resistance movements opposed to existing regimes in certain African countries (including Malawi) and her decision to build a railway line in co-operation with Zambia constitute two very different actions which may result in important consequences for East Africa as a whole. They also mean that Ugandan and Kenyan leaders are compelled to show interest in regional questions in which they would otherwise not have wished to embroil themselves.

An important barrier to empirical research in this general area lies in the very understandable tendency of the governments to withhold from scholars vital information affecting policy. In spite of this limitation sufficient scope exists for empirical inquiry in the general areas outlined here.

FROM THE CHAIR

The Scindia Steam Navigation Company Limited

Speech of the Chairman, Shri Krishnaraj M D Thackersey

THE following is the summary of the Speech of Shri Krishnaraj M D Thackersey, Chairman, Scindia Steam Navigation Company Limited, delivered at the Fifty-second Annual General Meeting of the Shareholders held on Wednesday, December 15, 1971, at Patkar Hall, Bombay 1.

Indian Shipping in general and your Company in particular is greatly honoured by the conferment of Padma Vibhushan by the President of India on Smt Sumati Morarjee who is the Director-in-Charge of the Company. Smt Sumatiben richly deserves the high National honour for her outstanding contributions to the cause and development of Indian Shipping.

On this occasion, I would recall the passing away of that Grand Old Man of Indian Shipping Shri M A Master on 7th January, 1970. As you know, Shri Master was one of the chief architects of your Company and was associated with it since its inception until 1948 when he retired as its General Manager. He grew with Indian Shipping and his contributions to the progress of your Company and of Indian Shipping were indeed very great.

Dividend

I am happy to inform you that your Directors have recommended payment of dividend at Rs 2.25 per share subject to appropriate taxation for the year 1970-71 as against Rs 1.75 per share paid last year. I trust this progressive trend will be welcomed by you all.

The percentage of dividend exempt under Section 80K has been provisionally determined by the Income-tax Officer at 62.88 per cent.

With an amendment to the Income-tax Rules, for the relief available under Section 80J, the basis for calculation of capital employed has been so revised as to reduce this benefit.

I had already mentioned last year the ever spiralling costs of ship operation. This tendency had continued unabated during the year. The fuel cost had gone up. Port charges/marine dues and stevedoring charges had gone up substantially in Indian as well as overseas ports. There had also been increase in the salary bills.

Your Company always aims at modernisation and diversification of its fleet which is absolutely necessary to provide efficient and fast shipping service in the face of ever-increasing competition.

New Tonnage Programme

The Company's new tonnage programme is: (a) Out of the eight East German ships already ordered out, six have been received and the remaining two are expected to be delivered in 1972; (b) two ships of 16,200 dwt each under construction with Rheinstahl Nordseewerke GmbH, West Germany, are also scheduled to be delivered in 1972; (c) the bulk carrier of 53,000 dwt ordered from Rheinstahl Nordseewerke GmbH, West Germany, is scheduled to be delivered in May 1974; (d) the bulk carrier of 75,000 dwt ordered out from Scott Lithgows Ltd, Glasgow, UK is scheduled to be delivered in 1976.

The Company sold six ships during the year.

Your Company has at present 42 steamers of 3.79 lacs GRT as compared to 255 steamers of 24.92 lacs GRT owned by all the Indian Shipping Companies.

As you are aware, the Company acquired its first bulk carrier mv Narottam Morarjee in 1968-69. I am happy to report that it has been possible to fix this ship on a three yearly charter at a good rate.

As authorised by the shareholders last year to bid for the shares belonging to Dr Dharma Teja in the Jayanti Shipping Co Ltd the Company made applications for the purchase of these shares but the Government have not given their approval. As you are aware, the Government have now nationalised the Jayanti Shipping Company Ltd.

Withdrawal of Development Rebate

The Finance Minister in his budget speech announced withdrawal of Development Rebate for assets acquired for industries generally after 31st May 1974. This decision will hit shipping industry seriously. Despite the reluctance of world's shipyards to accept Indian orders due to overbooking and difficulties to extend credit, even if the shipping companies succeed in placing orders now, none of the ships can be delivered before May 1974. The Finance

Minister's hope that the advance notice of abolition of Development Rebate would accelerate the pace of investment cannot be realised in the case of shipping industry.

With effect from February 1971, Shipping Development Fund Committee has increased rate of interest from 3 to 4.5 per cent. Further the period of initial moratorium as well as the period of amortisation have been reduced.

Practically all the maritime nations give tax concessions in one or more forms such as complete exemption from or lower rate of tax, accelerated depreciation, advance depreciation, investment allowances, tax-free reserves, etc, which cover on a conservative estimate over 70 per cent of world shipping registered under various flags.

Various Incentives Abroad

In the UK the Government have given incentives in various forms like initial deduction, investment allowance, investment grants and free depreciation. Free depreciation has been granted from April 1965 and is available only to shipping industry. Under this allowance a new vessel can be written off entirely in the first year if the profits permit. Similar incentives are given to shipping industry in Greece, Liberia, Panama, Scandinavian countries (Norway, Sweden and Denmark). It is therefore imperative that something will have to be done by our Government to enable Indian Shipping to face international competition.

The Government will have to consider alternative measures of fiscal relief, either free depreciation of ships or creation of tax-free replacement and expansion reserves which the companies can only utilise in purchase of new ships to reach the tonnage target of the Fourth Plan.

The Management of the Jalanath Insurance Limited, one of your Company's subsidiaries, has been taken over by the Government of India and a custodian has been appointed. The compensation that your Company is supposed to receive under the General Insurance (Emergency Provisions) Act, 1971 has not yet been determined.

The case filed by the BSN Co (1953) Ltd against the Maharashtra Government in respect of subsidy has still not come up for hearing.

Thanks

The present Minister for Shipping and Transport, Shri Raj Bahadur, is not new to shipping. He had rendered signal service to the development of Indian Shipping when he was Minister of Shipping before. With profound knowledge of the development problems of shipping, combined with his great zeal, dynamism and drive, Shri Raj Bahadurji will be able to guide the shipping industry to onward progress.

I take this opportunity to convey our special thanks to the Minister and Deputy Minister for Shipping and Transport, the Secretary and Joint Secretary and other officials in the Ministries of Finance and Transport, the Director General of Shipping and his officials as well as the officials of Transchart for their guidance, help and advice. Our thanks are also due to the officials of the Shipping Development Fund Committee for their co-operation and assistance.

I also thank our patrons, shippers and other well-wishers of the Company. I thank the Management, officers and staff both ashore and afloat and the agents at various ports for their devotion to duty.

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

asci administrative staff college of india · hyderabad

announces

The Seventh Seminar on

MANAGEMENT BY OBJECTIVES

at Bella Vista, Hyderabad
from March 6 to 11, 1972.

OBJECTIVE: Management by Objectives is a top management planning and control approach to improve performance of both the individual executive and the enterprise. The primary objective of this brief and intensive seminar is to provide deep understanding of this approach and to help the top executives develop commitment for Management by Objectives based on proper understanding.

CONTENTS: The Seminar will cover all the elements of Management by Objectives, including determining and achieving corporate objectives, result-oriented action plans, agreement on manager-results, performance review and the role of management adviser in the process of implementation. The seminar programme will include two exercises on (i) Identifying key result areas and setting corporate objectives and (ii) Management Job Description. There will also be a presentation of the experience of a large Indian company currently implementing Management by Objectives.

ELIGIBILITY: This is a top management seminar designed for the executives of the private and public sector enterprises as well as the Government. Only chief executives and top executives directly reporting to the chief executives will participate in this seminar.

PROGRAMME DIRECTOR: Dr. B. L. Maheshwari

FEES: Rs. 2000/- per participant. This will cover tution, boarding and lodging, and educational material for the seminar.

LAST DATE: Completed nomination forms along with fees should reach the College by January 31, 1972.

For information and nomination forms write to :

The Programmes Officer
Administrative Staff College of India
Bella Vista, **HYDERABAD-4**
Grams : BELLAVISTA . Phone : 36952/56
Telex : 015-390

REVIEW OF AGRICULTURE

December 1971

Fertiliser Distribution and Use
H B Shivamaggi

Delivery of Canal Water in North India and West Pakistan
W Eric Gustafson
Richard B Reidinger

Green Revolution and Farm Income Distribution
Uma K Srivastava
Robert W Crown
Earl O Heady

Inter-Class Incidence of Taxation in Farm and Non-Farm Sectors
S L Shetty

Expenditure-Elasticities of Intersectoral Consumer Demand
R Thamarajakshi

Capitalist Development in Agriculture
Utsa Patnaik

Investment in Agriculture: Cost-Benefit Analysis
Samuel Paul

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

Unstudied Happening

SO much has been made of the 'green revolution' and its attendant problems, such as growing rural inequalities and storage problems, that the fact of the 'revolution' itself is seldom questioned. Yet a review of the agricultural sector during the first half of the Fourth Plan must make one do just that, notwithstanding that overall performance in this sector has been better than that in the industrial sector. The average growth rate has been nearabout the targeted 5 per cent, but it has been based mostly on the already established successes of high-yielding wheat varieties. Rice, which is the major crop, accounting for twice the tonnage of wheat, is yet to see the technological breakthrough turned into a commercial success. Current indications suggest that the early technical difficulties associated with its hybrid varieties may have been solved and that the dozen or so new seed varieties may show better performance, but only after much more has been done by way of soil-testing, production and distribution of seeds, and promotional measures for fertiliser and water applications. Rice thus remains a 'major imponderable' in the foodgrains programme. Similar initiatives are necessary also for jowar, maize, and particularly pulses whose production has actually declined and in which no new varieties have been introduced.

Among cash crops, oilseeds and sugarcane have recorded significant increases, but production of cotton and jute have lagged. While in cotton some progress has been made in the form of new varieties, extension efforts and 'package programmes' have not been effective. In jute the impediments are multiple: inadequate infrastructure of credit and input supply agencies, lack of improved seed varieties and, again, indifferent extension work. Neither of these two fibre crops is likely to achieve the Fourth Plan target.

All crops, moreover, continue to be susceptible to the monsoon. The 'revolution', it seems, has an altogether narrow foundation and an unassured future. It seems to have simply 'happened' where the seeds were available, water sources established, and capital in channel. Where, as in rice, dependence on the monsoon posed problems of irregular water supplies, further technical and extension work has yet to establish the potential. More inexplicable is the stagnation in jute, the country's major foreign exchange earner and with considerable industrial capital locked in its manufacture.

Why these imbalances have occurred among the various crops, and among the states, is a question answers to which would illuminate much of the structure of agriculture in the country and suggest what it is in the present private mode of farming that makes for or inhibits growth. Yet the Mid-Term Appraisal of the Fourth Plan has little to contribute to an understanding of the forces of growth or stagnation in the agricultural sector or of the sector's linkages with industry or government. The Appraisal's analysis is limited to enumerating the levels of actual production against the targets, shortfalls of input application against their targets, and the inadequacy of research, extension, and supply services. It should be tautologous that, if production has fallen short of target, the promotional services and the input applications have been sub-optimal. What factors have led to these shortfalls, is an analysis one has a right to expect of a body that is charged with evaluation of past performance with the purpose of planning future action.

Why, for instance, do cotton growers in Maharashtra not invest in controlled water, fertiliser, and pesticides use even when prices of cotton have been rising year after year? Why has raw jute productivity failed to benefit from the use of recommended input dosages and relatively simple improved practices — despite the acute competition to the industry in international markets and Bangla Desh's success in growing far cheaper and better jute in comparable conditions? Is it simply a matter of increased investment in extension and research services? If so, why have past investments in these activities failed to yield results? Why have storage facilities lagged so pathetically behind the spurt in wheat output when the need for augmenting such capacity should have been obvious at least a year ago given the commitment to build buffer stocks and stop imports?

An exercise of this nature would, no doubt, lead planners into less quantifiable area of socio-political linkages in the economy. It may be that the inhibition to carrying out such an exercise arises from the suspicion that the implications of it might be too hurtful to the present economic order. Yet the attempt is necessary if agricultural growth is to provide a stable base to investment in the other sectors. With 20 years of planning for a mixed economy behind us, it may be time to reorientate official economic analyses to include areas and relationships which a plan in a fully centralised economy may neg-

Problems of Fertiliser Distribution and Use

H B Shivamaggi

Seminar on Co-ordinated Marketing and Use of Fertilisers and Other Inputs, 1970 — Proceedings; The Fertiliser Association of India. May 1971.

A Study on Multi-Nutrient Fertiliser Market — A Pilot Study in Guntur District, AP; Indian Institute of Management, Ahmedabad, December 1970.

THE Fertiliser Association of India has been organising national seminars on fertilisers every year since 1965. These seminars bring together all the concerned agencies, including Government, and thus provide a well-represented forum for exchange of experience and for formulation of action programmes. The volume under review contains the proceedings of the seminar on "Co-ordinated Marketing and Use of Fertilisers and Other Inputs", organised by the Fertiliser Association of India at New Delhi in December 1970. In all, 253 delegates/participants and 116 organisations participated in the seminar. There were 29 papers for discussion, written by experts and persons working in input manufacturing concerns and credit agencies. The discussions at the seminar were spread over six working sessions: (1) water management in relation to efficient use of fertilisers, (2) financing for optimum use of fertilisers, (3) mechanisation and efficient use of fertilisers, (4) improved seeds and efficient use of fertilisers, (5) plant protection in relation to efficient use of fertilisers, and (6) integrated promotion and marketing of agricultural inputs.

Key Factor

Distribution has emerged as the key factor in fertilisers. For want of proper marketing arrangements, the rising tempo in fertiliser use and farm production may peter out into stagnation. Fertiliser consumption was short of the target by 17 per cent in 1970-71, by 23 per cent in 1969-70, and by 37 per cent in 1968-69. Evidently, our present efforts to promote fertiliser use are not adequate. Lack of adequate distribution machinery is one of the main reasons for the slow growth of fertiliser consumption.

There can be no dispute about the importance of the theme of the seminar, *viz*, co-ordinated marketing and use of fertilisers and other inputs, signifying an integrated supply-service to the farmer. As F W Parker puts it, "A farmer should have reliable information on his input requirements and not have conflicting advice from different sources; that he should be able to purchase all of them from one source or location, receive advice on their proper use, and get assistance in securing such credit as he may need to purchase them" (p 36). The real question is how to bring this about. Do the proceedings of the seminar indicate the path we have to follow?

Parker himself has suggested that, at the national level, an Indian Agricultural Industries Council may be set up, consisting of members of industry, trade associations, agricultural marketing and processing bodies, and major credit organisations. Government is to be closely associated with the work of the council. At the village level, there can be 'agro-service centres' which have been developed in the Philippines. Agricultural co-operatives can serve as agro-service centres. However, where they are not up to the mark, individual enterprises and other forms of organisation could serve as centres. There may also be taluka and district level agro-service centres. These service centres will require a new type of owner or manager and technical personnel in sales and service. Parker rightly emphasised that the seminar would render a great service if it initiates action leading to the co-ordinated marketing of all industrial farm inputs and the provision of credit required for their purchase and use.

Two Basic Requirements

Assuming that extension work is properly attended to and that seasonal conditions are favourable, credit to farmers and adequate dealership promotion are the two basic requirements for promoting fertiliser use. Credit to cultivators is being made available on an increasing scale, but the real problem now is to ensure that the credit thus made available is really used to buy inputs. While the crop-loan system has a built-in arrangement to ensure purchase of fertilisers against credit available, farmers in some areas have been reluctant to make use of this facility because the concerned credit or marketing agency does not stock the particular brand of fertiliser liked by the farmers. It is here that the credit-card system, as suggested by R Rudramoorthy becomes useful. A card, indicating the credit sanctioned to the farmer, enables him to purchase fertilisers from any one of the approved dealers, ensures timely availability of inputs, avoids misuse of credit, avoids overfinancing, and trains the farmer in simple farm-accounting techniques.

Simultaneously with the introduction of the credit-card system, if the retail dealership is overhauled to pave the way for the emergence of technical sales-cum-service functionaries, fertiliser use would get a sizeable push. Such a new type of dealers would require bank support to establish themselves. It is learnt that dealers in sufficient numbers were not approaching the commercial banks for credit (p 187). However, the Agricultural Finance Corporation has already formulated schemes for this purpose.

Other Noteworthy Points

The other noteworthy points emerging from the seminar discussions are:

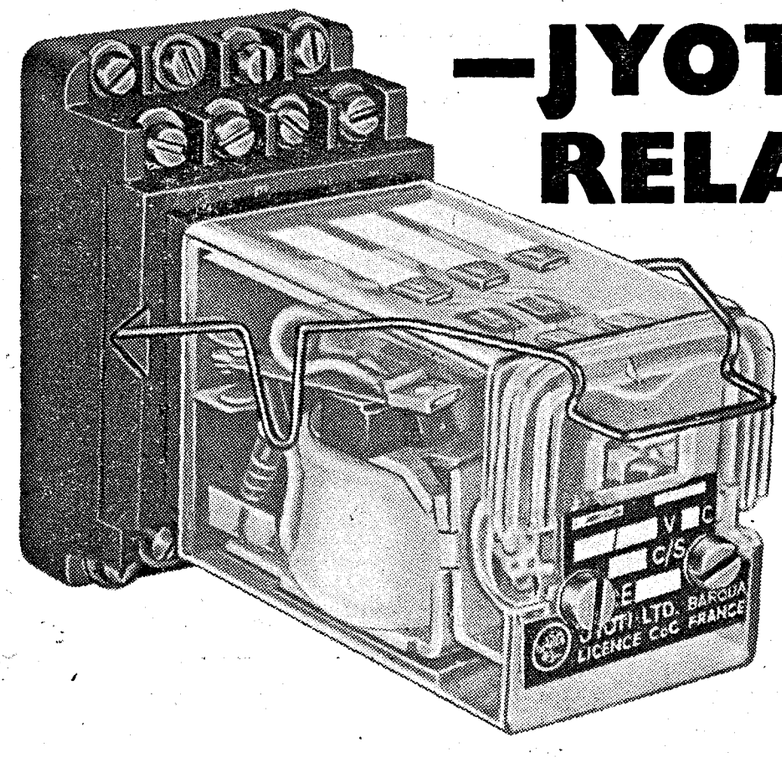
(i) A case study of a village in Tamil Nadu shows how the lead for agricultural development by a manufacturer (EID-Parry) of fertilisers, cattle-feed, etc, can help faster development. After establishing co-ordination with credit agencies, the manufacturer undertook preparation of land development plans for individual farmers.

(ii) Experience of another firm (Shaw Wallace) has shown that the ordinary dealer can handle fertilisers, pesticides, and seeds, but not the spraying and irrigation equipment. The ordinary dealer is not in a position to provide 'after-sales-services'. Discussions at the seminar implied that dealers with meagre educational background could not be expected to advise farmers about the correct use of fertilisers and other inputs. There should be trained personnel of the agencies concerned.

(iii) A study by FCI in Punjab and UP has revealed that there is a tendency for fertiliser trade to be concentrated in the hands of those dealing in other inputs, and sales are mostly in cash.

(iv) A study on distribution of fertilisers in Rajasthan (Shriram Chemical Industries) has revealed that retail trade in inputs is mostly in the hands of general merchants in the interior, grain dealers in mandis, and pesticide

Give your precious electrical equipments REFLEX-ACTION PROTECTION —JYOTI RELAYS



Jyoti relays sense faults in electrical network and initiate tripping of the circuit breaker.

Choose from the following ranges:

* Inverse definite minimum time over-current and earth fault relay.
* All or nothing auxiliary relay.
* Induction type time delay relay.
* Constant time delay and instantaneous three phase over-current relay.

JYOTI LTD. Baroda 3.
Sole Selling Agents:
JYOTI CALOR-EMAG LTD., BARODA 3.
Bombay • Delhi • Calcutta • Madras • Bangalore • Patna
Jaipur • Lucknow • Secunderabad • Poona • Jabalpur

everest/78/JY

and agricultural aid dealers in urban/semi-urban areas.

(v) Co-operatives should be given credit facilities by commercial banks to stock fertilisers and other inputs.

A review of the proceedings of a seminar cannot give an idea of all the papers presented and points discussed. Yet anyone vitally interested in the agricultural sector and particularly in the use of farm inputs, cannot afford to miss this volume. The Fertiliser Association of India (FAI) has been rendering signal service to the country by holding such seminars every year. If it could go further and formulate an action programme — holding seminars and working out plans to link credit with supply of farm inputs and extension service in selected districts (with potential for fertiliser consumption but at present lagging in fertiliser consumption) — the national seminar would, indeed, branch out to the important field level. In this task, the FAI could take the initiative jointly with the agricultural officials and the lead bank of the district. Such a tripartite arrangement, binding together the supply manufacturers, extension staff and credit agencies, would help in laying down steps to ensure improvement in the 'quality of lending', which has been emphasised by M Narasimham, in his paper on National Agricultural Credit Policy (p 47).

The second book under review deals with the problems following a change in the pattern of fertiliser consumption from straight fertilisers to multi-nutrient fertilisers (MNFs). With this qualitative change in fertiliser requirements, the problems relating to extension services and marketing have become more crucial. As it is, application of fertilisers in smaller doses than recommended is indicative of the weakness of the extension machinery as well as the marketing set-up.

Pilot Study

A pilot study on multi-nutrient fertiliser market, undertaken by the Indian Institute of Management, Ahmedabad, in Guntur District of Andhra Pradesh, has brought out path-breaking information on the characteristics of the multi-nutrient fertiliser users and on the problems of marketing of these fertilisers in the district. For the purpose of field investigation, the Institute selected 8 villages, 92 users, and 62 non-users, and the year of reference was the agricultural year 1967-68. Besides giving the economic background of the selected villages and cultivators, the study has thrown up useful information on the use of multi-nutrient fertilisers in the district. It is revealed from the study that, of the total fertiliser purchased by the users, 4 per cent was in form of MNFs while the remaining 60 per cent was in the form of straight fertilisers. The main crops for which the MNFs were used were paddy, tobacco, and chillies. Cropwise, 88 per cent of the paddy area, nearly 70 per cent of the tobacco area, 19 per cent of the chillies area, and 60 per cent of the jowar area that was treated with fertilisers was covered by MNFs.

MNFs are sold in two forms — complex and mixture. From the beginning, the distribution of complex fertilisers has not been subject to control, and has been in the hands of private trade operating through the network of wholesalers and retailers. The manufacturers of complex fertilisers were the national-level companies which operated through the wholesalers, giving them 40-45 days' credit. The wholesalers, in turn, extended credit to retailers not exceeding 30 days. The retailers did not extend any credit to the farmers. Most of the wholesalers were also dealing in other complementary inputs, such as pesticides. In addition to complex fertilisers, there were 21 producers of fertiliser mixtures in the district, who distributed their mixtures through their own set-up. In addition to the general fertiliser distributors, certain tobacco agencies also catered to the needs of tobacco growers. Thus Indian Leaf Tobacco Development, Golden Tobacco, and the Ongole Tobacco Processing and Marketing Co-operative, were some of the companies supplying fertiliser mixtures to the tobacco growers. They also provided credit, technical help, and processing services. The study reveals that most of the sample farmers purchased fertilisers from private retailers. Many members of the co-operative societies also purchased fertilisers from private retailers.

While some promotional work for fertilisers was undertaken by the national-level manufacturers of complex fertilisers, practically no promotional work was done by the wholesalers and retailers. The study has indicated that although the Government extension agency was not as effective as one would like it to be, it was doing much greater promotional work than the private agencies. However, there was no visible impact of the promotional work on the farmers. It seems that the farmers learnt the use of fertilisers more by trial and error than through any extension education process. For example, the tobacco growers applied a much higher dose of nitrogen and a much lower dose of P_2O_5 than the recommended doses. It is in this context that the significance of credit agencies and fertiliser manufacturing units joining hands, to make the fertiliser dealers extension-oriented, needs to be emphasised.

SUBSCRIPTION RATES

	Inland	Foreign (Surface Mail)		
Six months	Rs 32			
One year	Rs 60	Rs 85,	$ 11.35,	£ 4.75
Two years	Rs 110	Rs 160,	$ 20.75,	£ 8.75
Three years	Rs 160	Rs 235,	$ 30.50,	£ 13.00

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

Delivery of Canal Water in North India and West Pakistan

W Eric Gustafson

Richard B Reidinger

The canal systems in North India and West Pakistan were set up by and large to prevent mine, at a time when it seemed more effective to spread the water thinly to provide each district a n... sure of famine insurance rather than to depend on transporting grain from surplus districts to deficit districts in this largely pre-railway age.

In the context of modern agriculture in which the time of delivery of water is as important as its amount, there are significant defects in the way in which the water is delivered under this system. The farmer cannot control water delivery to ensure its taking place when he needs it, nor can he predict water timing in a particular year so that he can choose his crops and the planting, fertilising and water schedules in such a way as to make the most of the water when he gets it.

One important way in which controllability of water might be achieved in some measure would be for farmers to sell water to one another or trade in it. Water trading and water sale are not now permissible. Yet these devices permit those closest to the growing of the crops to determine when water is of value to them and when it would be more advantageous to them to sell water or to advance or postpone its delivery as made possible by complementary needs on the part of others with whom water trading or sale is possible.

The idea of small-scale water sales and swaps within a given area may seem radical to those accustomed to a system which does not now include this feature, but a number of contrasting irrigation systems in various parts of the world include such practices.

One possible development to facilitate sale and trading of water might be some form of water-users' associations, comprising all farmers on a given outlet or watercourse, which could contract with the government for timed delivery of water and then manage internally the problem of allocation among ultimate recipients.

THE coming of the Green Revolution in India and West Pakistan has made clear that we must place more emphasis on the delivery of water to farmers, a subject on which our knowledge is scant. G A Narasimha Rao, the then chairman of the Indian Central Water and Power Commission, said in 1969, "I consider it the duty of the Irrigation Engineer to supply the required quantity of water at the right time on the farm". Although the words sound simple, they really are a large order for an irrigation system not designed with that goal in mind. In this paper we propose to discuss ways in which the objective might be met, and ways in which the present operation of the irrigation systems of North India and West Pakistan block its fulfilment. We limit our discussion to these areas, in which the system of canal irrigation on a large scale dates from the nineteenth century and in which it is regulated by the North India Canal and Drainage Act (Act VIII of 1873).

The pattern of development of the canal systems was set in the nineteenth century: even modern systems retain the characteristics imprinted by the British as they developed large-scale irrigation in Uttar Pradesh, Haryana, and Indian and Pakistani Punjab. The principal factor modifying the systems has been heavy private investment in tubewells within the last ten years on both sides of the India-Pakistan border. We will argue later in the paper that in part the introduction of tubewells on a large scale reflects the institutional inadequacies of the older system, especially in the context of new crop varieties offering high returns to sophisticated water management.[1]

An idealised picture of the distribution of water for irrigation in North India and West Pakistan would run something like this. Water is distributed to the lowest level of channels in the system, called watercourses, in such a way as to make water available to these watercourses in rough proportion to the culturable land commanded by each. Water is delivered to different parts of a canal system in a rotation sometimes called a Rotational Programme of Channels, because there is not enough water to run all parts of the system full at the same time except during the monsoon season and immediately afterwards. Each watercourse receives water from a canal of the system ranging in size from the small minors to large branches and may serve an area of up to about 1,200 acres, depending on the physical conditions. An area of this size usually includes the land of scores of farmers.

Deliveries of water to the farmers are arranged by the *warabandi*, agreed upon by the farmers concerned and fixed by the relevant canal official, which allocates a particular time of a particular day of the week to each plot of land. The farmer cultivating the land is then entitled to any water available in the watercourse during his weekly turn, say Sunday morning from midnight to three. If water is available in the watercourse at that time, he gets water. If there is no water, he gets none. The rotation of water among watercourses is supposed to be such that over the season, the amount of water made available in each will be roughly proportionate to the culturable land which it commands, and thus water deliveries to the farmer will be "fair", in the sense that each will get water in proportion to the irrigable land he holds.[2]

Although intended to be fair, the system's result is an unpredictable water supply. The unpredictability can be explained by remembering, first, that the system has little or no institutional

mechanism for local control of water deliveries. Second, that the rationing of water is not done through a market mechanism, but rather through a whole chain of institutional factors about which the farmers, and to some extent the operating engineers at the level which serves the farmers, have limited knowledge at best. The trade-off between electricity production and irrigation, reservoir factors, and capacity factors are all rationing devices at the level of releases into the system, which act to create an uncertain water supply. At the lower levels, the physical design of the system, the design of watercourse outlets, and especially the canal rotations and *warabandi* systems all interact to assure a relatively unpredictable water supply from the farmers' point of view. Indian agriculture has been described as a "gamble with the monsoon". In canal-irrigated areas it is a gamble with the canal as well.

In the context of modern agriculture in which the time of delivery of water may be as important as its amount, there are significant defects in the way in which water is delivered. Although it is extremely important with the new wheats to have water at the time of crown root initiation, to pick a particular instance for discussion, the farmer can neither control whether he will have water at that time, nor even predict whether he will. The element of uncontrollability is clear: the farmer has water available to him only when it happens to be flowing during his turn; it is quite easy for water not to be available for the restricted time during which crown root initiation takes place. He cannot *control* water delivery to insure its taking place when he needs it, even though he is supposed to get his share in the course of the season.

But even in the absence of *control*, if the farmer could *predict* water timing in a particular year, he could choose his crops and the planting, fertilising, and watering schedules they imply in such a way as to make the most of the water when he does get it. In the particular instance we have chosen, if the farmer could know that he was assured water at the time of crown root initiation for the new wheat, he could pick his crop and sowing date in a way which would take maximum advantage from the fact. In the absence of such assurance, he might well be better off planting a crop with lower potential yield under assured irrigation, but higher potential returns under water stress due to random irrigation.

In the restricted areas with which we are acquainted, even the element of predictability is lacking. Although it seems that the rotations among channels could be known in advance, in fact this knowledge does not appear to be made available to the farmers, even though the knowledge would enable them to predict whether or not there would be water in the watercourse at the time of their turns. It seems clear that the combined lack of control and lack of predictability must influence cultivators adversely, and indeed they make this situation clear in discussion.

We can see the response of farmers in two ways: the first is that they change the operating procedure to suit themselves, in conflict with the law and the regulations framed under it. The second involves the use of new technology, the tubewell.

The farmers change the operating procedure by trading water among themselves, both within seasons and between seasons. In this way, for example, a farmer who gets two successive irrigations may trade the water in his second irrigation turn to a farmer who has had several successive dry turns, and can thus benefit from the second irrigation to a greater extent than the first farmer can. The second promises repayment later in the season—or conceivably even in the next. Farmers in field interviews have described both intra-seasonal and inter-seasonal trading.

Water trading and sale are illegal, except with the permission of the Superintending Engineer.[3] He supervises an area of possibly a million acres or more, so his accessibility is obviously low. It can hardly be easy to obtain the relevant permission, and it was clearly not intended that it should be; the provision for permission is for exceptional cases, not for matters of routine. Apparently canal officials generally ignore or are unaware of practices of trading and sale; but since the practices are formally illegal, exchange of water can be practised only with a restricted set of people in whom one has confidence, since reciprocal obligations cannot be legally enforced and risk is thus high. Existence of the practices of trading and sale is thus strong evidence of the demand for timely water.

The second response of farmers to uncertain canal water supply has been to install tubewells. The option of course is restricted to areas in which the groundwater is sweet and relatively close to the surface, say 30 to 40 feet. Surveys of farmers who have installed tubewells invariably indicate that they see predictability and controllability of water supply as among the leading virtues of tubewells.[4] The tubewells offer of course greater supply, but the farmers are quite clear about the value of water delivery on schedules which match the demands of their crops—which cannot be exactly known in advance, because of variations in rainfall and temperature, for instance. Since the farmers own the tubewells, they can put water on the fields when they want.

The farmers' reaction to the canal water distribution system certainly indicates that something is wrong: their attempts to change the pattern of delivery to match the requirements of their new crops clearly indicate that the system does not "supply the required quantity of water at the right time on the farm".

In the context of the problems we have just discussed, the historical development of the system is not simply an antiquarian curiosity. The form which the system took was based on social and economic forces which in many instances still prevail. Any discussion of desirable changes in the way water is distributed and applied to the land must deal with the reasons why the system is the way it is and provide ways of dealing with the real problems *and* with the anxieties which both canal officials and farmers will feel if the Government undertakes substantial change.

The canal systems in North India were set up by and large to prevent famine, at a time when it seemed more effective to spread the water thinly to provide each district a measure of famine insurance rather than to depend on transporting grain from surplus districts to deficit districts in this largely pre-railway age. The ever-present threat of famine was the driving force behind Government irrigation; deaths numbered in the millions when the rains failed. For instance, in 1866, just at the beginning of a wave of spending on irrigation and the consolidation of Governmental irrigation policy, the Government of India estimated that over one million people died of famine in Orissa in a single season.[5] Under pressure from outraged public opinion, the vast amount of human misery, the costs of famine relief, and the loss of revenue from failed crops, the Government of India placed great emphasis on the delivery of some amount of irrigation water to every district in which supply was feasible. A fundamental memorandum by Colonel Richard Strachey, written in

1867 when he was Inspector-General of Irrigation, sets out a summary of the thinking behind the policy of the Government of India:

> It appears to me that the Government having now adopted the policy of extending irrigation generally, and so far as it is possible in a manner that shall to the utmost guard against the worst effects of severe drought... in every canal, at the earliest possible period, an allotment of the available supply should be made on fixed principles to the districts traversed by it.... The first limitation of the supply of water would be with reference to the proportion of the culturable area within the reach of each canal, for the irrigation of which a provision of water should be made. This proportion might either be fixed at one uniform rate for the whole canal, say one-third or one-fourth of the culturable area, or the share of water might be made to vary in some measure according as the several districts were more or less favorably situated as regards rainfall, or the natural facilities for well-irrigation.... A certain normal standard or proportion of irrigated area should be regarded as claimable by every district to which water can be given.[6]

Strachey makes quite clear—in this quotation and elsewhere in his memorandum—that what was primarily before the eyes of the Government of India was a question of *equity*, of giving a proportionate share of the available water to each acre of land which would be able to use it. He had quite clearly in mind that in a developed canal system the available water would never be enough to give full supply to any farmer's land. Apparently modern systems follow Strachey's recommendations. The planned irrigation intensity of India's Bhakra system is 62 per cent annually,[7] or about one-third of the canal service area for each season.

So the first major consideration in the system was set. The motivation was to distribute water in such a way as to maximise insurance against drought, rather than to maximise production. And this insurance against drought was bought by getting some water to all the land under the command of a canal, although Strachey anticipated that water would then be concentrated by individual farmers on one-fourth or one-third of their holdings.

The next issue is the controllability of the supply. There is strong reason for thinking that controllability of supply at the local level was knowingly avoided by those who designed the irrigation system. The water allocation spoken of above in itself implies low control in times of drought, that is, just at the time when the marginal value of the water would be highest. But there were factors beyond design which worked against controllability. One of the principal ones was the avoidance of corruption, to which the British became quite sensitive. Richard Baird Smith, one of the great canal engineers of the nineteenth century in India, speaks of the power of subordinate canal officials: "incessant supervision is required to prevent these men from turning their power into money". The less controllable the supply was locally, and the more it was regulated by fixed rule and fixed rotation, the less the opportunity for petty officials to practise extortion on the farmers.[8]

This system has certain clear virtues—especially when viewed against the backdrop of an agriculture demanding less skill in timely water management than do present high-yielding varieties. Opportunity to receive water is rationed in a way which can be seen to be fair: each parcel gets its proportionate amount. The possibility of human intervention in the system is small, so the possibilities for corruption and favoritism are also kept small. The rules for distribution are public knowledge, and each farmer is sure of his rights—even though these are rights to an uncertain water supply.

One important way in which controllability might be attained in some measure—as we have already pointed out—would be if farmers could sell water to one another, or trade it, a procedure which has much the same implications. Early rules permitted the practice. Richard Baird Smith wrote in one of the first revenue reports of the Ganges Canal that:

> Contractors having more water than they can themselves consume are at liberty under Rule VIII to sell it to other parties not belonging to their own villages.... It seems not improbable that in such sales as are contemplated in this Rule, valuable indications of the true value of water may be obtained. If others are willing to pay what a Contractor demands for his surplus water, the price so paid is always worth noting, and may be useful to us whether it be in excess or deficit of what we charge ourselves.[9]

The difficulty embedded here (not the only one) is that a contractor would *have* surplus water. The Government of India was most anxious to see that no rights to water became established: water was the property of the Government to be disposed of for the common good, as the Government saw fit. The stipulation of "no rights" was necessary precisely in order to achieve the objective of rationing the water among present and future claimants. The Government of India was quite explicit about this principle, several years in advance of legislation enunciating it clearly:

> The Governor General in Council thinks it very necessary to guard carefully against the possible growth of any legal rights on the part of cultivators or land-holders, adverse to the exercise on the part of the Government of a full discretionary power of distributing the available water as shall seem to it best for the general interests of the community as a whole.[10]

The conflict of the possibility of sale with the Government's discretionary power over water is clear: water deliveries were to be based on what people could use. By definition, if a contractor were receiving water which he could sell, he was receiving more than he could use. If he continued undisturbed in this right, he might somehow acquire a legal right to the excess water, enforceable through the Courts, or at least a troublesome claim on the water. The result was apparently the prohibition of water sale and trade now embodied in the law.

The existing system which spreads water thinly among farmers rather than providing a few with sufficient water to irrigate all their land is clearly here to stay. Certainly the present system enables a more nearly equal distribution of income—which is a stated national objective—than would a policy of water concentration. The primary difficulty, in our view, lies not so much with the relatively limited supply for each farmer, since that merely means that more farmers share in the water, and can concentrate it optimally on their own land. Rather, the principal problem is the lack of predictability, certainty, and controllability of the canal water supply by the farmer. These difficulties directly affect his yields and returns per acre.

In terms of the income equality objective, one might even suggest that water should be shared equally among people instead of among acres, as at present. What useful purpose is served by distributing water according to the amount of land held by individual farmers? If one traces the idea back to the Strachey memorandum of 1867, for instance, one finds him referring to "the *equal natural right of all irrigable lands to share alike* in an advantage brought to them without any effort or outlay on the part of their occupants...". To make land rather than individuals the possessor of natural rights seems a peculiar perversion of

eighteenth-century political philosophy. It seems even more so in the modern context, when a major worry in current agricultural policy is the impact of the Green Revolution on the small farmer and his possible displacement from the land.

It seems to us worth serious consideration whether it might not be better to allocate water to some extent to individuals rather than to land area, so that small farmers would be entitled to more water per acre than large farmers. This objective of doing something to strengthen the position of the small farmer would not necessarily be in conflict with efficiency objectives. Indian data from many areas indicate that small farmers apparently operate at no disadvantage in productivity per acre; some observers are even inclined to credit them with higher per-acre productivity.[12] If the small landowner is going to be squeezed by the new technology (we need not necessarily concede the point at this stage), one way of combatting the problem without loss of production would be to ensure him enough water to be able to compete effectively against larger farmers. The proposal is hardly without its political difficulties, but neither is the alternative, if that is forcing small farmers into the city or into the ranks of landless agricultural labour, as Indian and Pakistani political leaders are increasingly aware.

Apart from changes directly related to income distribution—which of course are controversial—what changes are possible and desirable within the system as it exists? Let us begin with the simplest. As the system runs at present, it seems to us that there would be gains in productivity simply if knowledge were increased. If farmers could know the timing of at least a portion of their water deliveries for sure at the outset of the season, they could make better plans for the type of crop to be planted, time of planting (which is often variable by weeks), fertilisation, and other critical decisions. It seems to us that this knowledge could be given at trifling cost. Indeed, it is apparently supposed to be, but our informants indicate that it is often not. If farmers knew the Rotational Programme of Channels, they could combine this knowledge with the *warabandi* to predict at least some of their deliveries.

To some extent of course, the insecurity about water delivery is the result of the engineers' not knowing what the flow at the canal head will be. We do not presume to know the answers in this area, but would it not be feasible to schedule some secure minimum supply for each farmer for periods of time known in advance? Perhaps engineering requirements and uncertainties would make such a practice difficult if tried simultaneously everywhere on a canal. The issue needs more exploration. But surely it would be an improvement if secure deliveries would be promised even on a rotational basis, by season or year, so that, say, one-third of the farmers in any given year would have promised secure deliveries of water large enough to be significant at critical times. The group of farmers to be allowed this security could change in every year, so that "secure water", if we may term it that, would be rationed out by turns. The system as it exists now parcels out to everyone a measure of insecurity along with an amount of access to water, so that although the canal system as a whole will be certain to have water at periods critical for crop growth, no individual farmer on the system can be sure of deliveries.

Second, there should be some way of scheduling known water deliveries so that they have some connection with likely crop requirements. It might well be a mistake to approach this problem on an administrative level, partly because of the complexity of the problem. But thought should be given to it. Canal engineers are often sensitive to the problem, but they are seldom in a position to do anything about it. Their actions are constrained by a system designed to make operation as automatic as possible. In the context of the new varieties, however, the losses from automatic operation seem larger than when we think in a nineteenth-century context. What we need is a redefinition of the objectives of the system.

We have already indicated a device which would move some distance towards making water available when wanted, even without change in higher levels of the irrigation system. Water trading and water sale are not now permissible. Yet these devices permit those closest to the growing of the crops to determine when water is of value to them, and when it would be more advantageous to them to sell water or to advance or postpone its delivery as made possible by complementary needs on the part of others with whom water trading or sale is possible. In early discussion, the Government especially did not wish to permit acquisition of rights over *surplus* water. When we talk of water trades, we are talking simply of the farmer's changing the distribution through time of the water he is entitled to in any case. The historical record does not indicate that the British engineers even considered the matter of trading. What reason is there for its continued illegality?

Attitudes towards sale of water might be more difficult to deal with. At least one official of West Pakistan's Water and Power Development Authority has been heard to be highly critical of farmers selling water from private tubewells, on grounds that they are "exploiting" their neighbours (by offering them water for which they are prepared to pay!). It is clear that such feelings run deep, at least among certain people. Yet in a situation in which canal water is clearly underpriced in many areas, prohibition of sale means that lower-productivity users are compelled to use water to which they are entitled, rather than receive a share of the benefits of more productive water use by other farmers. Everyone would be better off if exchange were permitted. It is virtually axiomatic in economics that any arbitrary allocation—like that of canal water—can be improved by permitting uncoerced trading or sale. The initial distribution or entitlement can be done in a way which satisfies equity criteria, and trading or sale then can be permitted to allow farmers to improve their position as they see it, and consequently to permit higher agricultural production from fixed resources.

To protect the politically and economically weak requires the proper institutional framework. No doubt an element of the rationale for sale prohibition might be that the possibilities for coerced sale are considerable. But surely the possibility exists now for coerced water trades (or for unrequited swaps). The opportunity for legal sale or trade might help to insure that the farmer giving up water would be able to profit by so doing. Nevertheless, it might be well to prohibit permanent sale of rights to water, so that farmers would not alienate a source of future income which present ignorance, present technology, or lack of skill might lead them to undervalue.[13] But a complete prohibition of sale, softened only by the inattention of canal officials, seems to us to offer no advantages.

The idea of small-scale water sales and swaps within a given area may seem radical to those accustomed to a system which does not now include this feature, but a number of contrasting irrigation systems in various parts of the world include such practices. In Alicante, Spain, for instance, there are semi-weekly sales of rights to the water of particular irrigation runs. Some of the water is sold privately by irrigators who own entitlements to water; some by non-irrigators who happen to own such entitlements. The *huerta*, the mutual water company, which owns some entitlements to the water of each irrigation run, sells these entitlements at public auction to pay for the operating costs of the system. A farmer selling water at one run of the canal from the reservoir is likely to buy rights for another run. Arthur Maass and Raymond Anderson have done simulation studies which indicate substantial advantages in the Alicante context of this sort of distribution system over other possible systems—including ones similar to those now extant in North India and West Pakistan.[14] In some parts of the United States as well water can be bought and sold, even in some cases between farmers whose land is served by different canal companies. Recent writing in the United States indicates that there is scope for increasing production and income through much more use of such water-transfer procedures.[15]

One possible development to facilitate sale and trading of water might be some form of water-users' association. The water-users' association—comprising all farmers on a given outlet or watercourse—could contract with the Government for timed delivery of water and then manage internally the problem of allocation among ultimate recipients, perhaps on the basis of purchase and sale or trade of water for particular irrigation runs. Irrigators—as now—could be initially entitled to water on the basis of land owned (with or without some preference for small holdings), but would be able to trade or sell water with other farmers on the watercourse when it appeared to their advantage to do so. Water available to the water-users' association above guaranteed deliveries might be auctioned or sold to farmers as is done in the Alicante system, the profits then to be shared among the members or perhaps devoted to watercourse maintenance.

The water-users' associations would have the advantage that they would be in a position to express a demand for water; a body large enough to be significant could represent the irrigators in their dealings with the canal authorities. As it is now, each farmer is obviously too small to make any difference, and of course has no feedback mechanism to register his demands with the authorities in any case. The water-users' association might be in a position to express a demand for more water by offering to trade, purchase, or sell water at various times with other water-users' associations, thus improving water allocation in a larger area than just that of the particular water-users' association.

The water-users' association would face the classic difficulty in rural India and Pakistan. What would prevent them from falling under the control of dominant landlords or caste groupings? Many observers attribute the scant progress of the co-operative system in India and Pakistan to just such difficulties. We need a great deal of exploration of such problems, in part through looking at analogous institutional structures in the Indian and Pakistani context, in part through examination of water-users' associations in other countries. (Taiwan presents an instructive example from the less developed world.) Experiment should certainly be on a small scale, and probably would be best undertaken in areas where landholdings are relatively uniform.

★

The suggestions we have made are not necessarily the best or the only ones that one could make. Our primary interest is in stimulating discussion of the whole range of possible measures which might be brought to bear to improve income through better use of irrigation water, while still preserving (and possibly strengthening) the equity considerations with which the systems were initially designed. The set of mechanisms we have discussed obviously reflects our bias as economists. Engineers and agriculturists have much to contribute to the discussion and might well focus on other issues. The important point is that much more needs to be done by all groups concerned to serve the needs of the farmer for timely water supply on which he can depend.

Notes

1 Contemporary data on system operation underlying our generalisations are from Richard B Reidinger, "Canal Irrigation in North India: Microstudy and Evaluation" (Ph D thesis, Duke University, 1971). The study area was a portion of Hissar District, Haryana, under the Bhakra canal system. He is preparing portions of the thesis for publication. Historical materials are from a still unfinished study by Gustafson of the development of irrigation legislation in India. The present paper was written for an Agricultural Development Council conference on the evaluation of water distribution systems at Colorado State University in August 1971.

2 Preliminary data indicate that the amount of water actually received per acre does not correspond well with the amount of access time.

3 J L Jain (ed), "Northern India Canal and Drainage Act", second ed, (Chandigarh: Jain Law Agency, 1968), p 30. Section 5(e) of the Act reads in part: "Unless with permission of the Superintending Canal Officer, no person entitled to water of any canal, shall sell or sublet or otherwise transfer his right to such use . . ."

4 See for instance Ghulam Mohammed, "Private Tubewell Development and Cropping Patterns in West Pakistan", *Pakistan Development Review* 5:1-53 (Spring 1965). See also Programme Evalution Organisation, Planning Commission, "Evaluation Study of the High-Yielding Varieties Programme: Report of the Rabi 1968-69 — Wheat, Paddy and Jowar" (New Delhi: November 1969).

5. B M Bhatia, "Famines in India", second ed (Bombay 1967), p 69. The estimate was scarcely firm, but the order of magnitude was.

6 Colonel Richard Strachey, R E, "On the principles to be followed in determining the capacity of Irrigation Canals in Upper India; in regulating the distribution of the available water supply to the districts through which a canal passes, and to villages or individual cultivators; and in assessing the charge made for the water supplied for irrigation", 13 July 1867, in Proceedings of the Government of India, Public Works Department, September 1967, A80 (in Appendix), National Archives of India, pp 6-7, 11.

7 Nasim Ansari. "The Economics of Irrigation Rates: A Study in Punjab and Uttar Pradesh", (Bombay 1968), p 135.

8 R Baird Smith, letter of September 17, 1858 to Secretary to Government, NWP, in Parliamentary Paper 149 (HC) of 1861, p 14. Compare the following passage from a text which was standard in the training of Indian irrigation engineers: "What is required is a series of outlets in each distributary arranged so that each will deliver its full calculated discharge at the ordinary full water surface level, and that the discharges of all outlets will be proportionately reduced as the surface level is reduced. *This arrangement provides equitable distribution without any interference by the canal establishment —which is an important advantage to the irrigation communitu*".

J Clibborn, "Irrigation Work in India", revised by G T Anthony (Roorkee: Thomason College, 1924), p 146. The italics are ours.

9 R Baird Smith, "General Instructions on the Settlement and Collection of the Revenue, the Distribution of Water, and the Details of Police for the Ganges Canal", February 27, 1855, Appendix VII to Revenue Reports of the Ganges Canal for the Year 1855-56, in Selections from the Records of the Government of India, No XXI (Calcutta 1856), p ix.

10 Circular Letter Nos 142-3 I, September 13, 1867, from C H Dickens, Secretary, Public Works Department, Government of India, to Undersecretaries of the Governments of Punjab and North-Western Provinces, No A31 in the Proceedings referred to in note 6 above. The Governor General at the time was Sir John Lawrence.

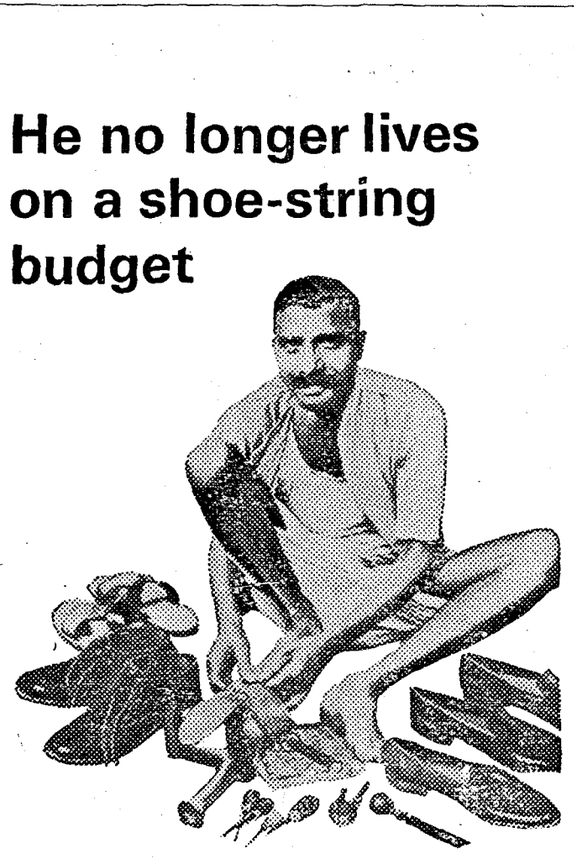
11 Strachey memorandum, p 10. Italics ours.

12 See for example the long series of articles in *The Economic Weekly* for 1962, 1963 and 1964 by Raj Krishna, Hanumantha Rao, A K Sen, R G Agarwala, Dipak Mazumdar, and others. Most of the relevant references, along with much additional material, are contained in A M Khusro, "Returns to Scale in Indian Agriculture", in his "Readings in Agricultural Development" (Bombay, 1968).

13 Strachey is quite clear on this point: "It seems therefore to be the duty of the State to prevent to the utmost the less instructed and less energetic among the cultivators being deprived in the future of advantages which they may now be unable to appreciate, by reason of the more advanced portion stepping in before them, and first appropriating the whole of the limited water supply." Memorandum already cited, p 12. We should note that this remark was made in a situation in which the Government was having difficulty persuading farmers to take water.

14 The Alicante system is described and evaluated in a forthcoming book on water distribution systems by Maass and Anderson. Clements R Markham — in a book printed by the order of the Secretary of State for India — described daily sale of water on the Elche system in 1867; he says nothing about sale in Alicante, but indicates that its system was similar. The custom apparently dated from Moorish days. See his "Report on the Irrigation of Eastern Spain" (London: T Richards, 1867), p 52.

15 See B Delworth Gardner and Herbert H Fullerton, "Transfer Restrictions and Misallocation of Irrigation Water", *American Journal of Agricultural Economics*, 50: 556-571 (August 1968).



Green Revolution and Farm Income Distribution

Uma K Srivastava

Robert W Crown

Earl O Heady

The hope had been cherished that the rapid increases in agricultural output especially foodgrains, as a result of the Green Revolution, would help trigger off general economic growth by raising the level of available savings. There was also good reason for such a hope. But crucial to its realisation is the capacity of government policy to use the Green Revolution's potential benefits to greatest advantage.

The problems that have attended the productive success of the Green Revolution have, however, yet to be surmounted. Among these, one of the most serious for economic and political stability is the unequal distribution of the gains from change and the perverse distribution of the burdens of change among those who gain least from it.

This paper examines the problem of inequitable distribution by a theoretical analysis. It centres on the distribution of income, as revealed in the changes in production-functions and derived supply-functions for farms and for the sector as a whole. The impact is discussed as it relates to (1) changes in factor shares and (2) changes in the relative income positions of farms in the different income classes. A quasi-empirical demonstration is included to assist in the exposition of the logic.

[This paper was written as Journal Paper Number J-7009 of the Iowa Agriculture and Home Economics Experiment Station, Ames, Iowa, Project Number 1558.]

THE Green Revolution has raised the hope in India and other Asian countries that, finally, rapid increases in agricultural output [22], especially foodgrains, will make it possible for more general economic development to proceed. There is hope that domestic production will eliminate the countries' dependence on United States for food aid, that surpluses might exist which could be sold abroad as a means of financing needed imports of strategic capital and maintenance goods, and that if the spectre of the Malthusian dilemma can be held in check long enough surpluses would exist to finance domestic non-agricultural growth simultaneously with a rise in rural per-capita living standards.

Early signs show that these hopes are not groundless [8, 9] if government policy is appropriate to reap the potential benefits. It is true that, both farm-sector employment and farm-sector income have risen [15, 16, 17]. But economists realise that boons generally are not given free, and this has become obvious in the second and third generation problems that the Green Revolution has created [11, 24, 25].

Of these, one of the most serious from the standpoint of stability—economic and political—is the high probability that, in spite of measurable benefits for the agricultural sector and the country's economies as a whole, the Green Revolution does not hold benefits for all the farm families which make up the sector. Thus, the Green Revolution poses the same problem for Asian countries, and India in particular today, as have all major technological changes in the history of agriculture. That is, it will create an unequal distribution of the gains from change, as well as an unequal and perverse distribution of the burdens of change among those who gain least from it.

This paper examines the problem of inequitable distributions by a theoretical analysis. The paper centres on the distribution of income, as revealed in the changes in production functions and derived supply functions for farms and for the sector as a whole. The effect of the Green Revolution is traced through these tools, and its impact is discussed as it relates to (1) changes in factor shares and (2) changes in the relative income positions of farms in the different income classes. A quasi-empirical demonstration is included to assist in the exposition of the logic.

Nature of the Green Revolution

Technological innovations in agriculture can be divided into two broad types: (1) biological and (2) mechanical. Biological innovations refer mainly to inputs that increase the productivity of a given land base. High-yielding plant varieties and fertiliser are examples. Biological innovations tend to raise total farm costs. Mechanical innovations mainly are those that cause a reduction in total cost. While biological innovations are labour-absorbing, mechanical innovations are mainly labour-saving [13].

The Green Revolution is frequently described as a seed-fertiliser technology [21]. In this sense, it falls in the class of biological innovations. But when classified so simply, its basic technological nature is obscured. Biological innovations of the seed-fertiliser type became more effective, and in some instances were possible, only with the support of mechanical innovation. Hence, the Green Revolution is better characterised as a biological-mechanical innovation. Whether the green revolution is labour-saving or capital-saving depends on the net effect of the forces simultaneously generated by the two different types of innovations. Similarly, whether total costs of production are increased or decreased depends on whether the cost increases due to biological innovation are greater or less than the cost decreases due to mechanical innovations. Based on data presented in Tables 1 and 2, Figure 1 can be used to illustrate this proposition. Figure 1 shows total cost, total revenue, and total output, with old and new techniques for agriculture taken as a single industry. The curve TR represents total revenue, C_1 represents the cost before the innovation and C_2 represents the cost after the innovation. Per-unit costs are lower with C_2 than with C_1, as shown by the lesser slope of OC with respect to OA. We assume that the normative profit maximisation motive prevails, hence the equilibrium for the industry, total cost, total revenue, and total output are U_1A, U_1B and OU_1, respectively, before the innovation. Total revenue increases as might total cost, at equilibrium under the new technique (C_2), but net profit (CD) is much larger than profit under

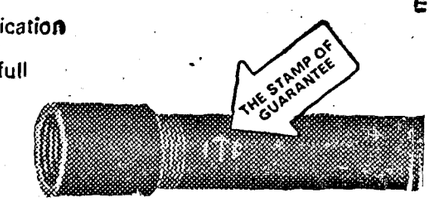


"I am looking for a length of pipe that won't crack, leak or wear out easily."

"Then remember to ask for tubes that carry the ITC stamp of guarantee for right wall thickness and correct weight. This ensures longer life."

And that's because Indian Tube exercises strict quality control right from the raw material stage to the finished tube. And the ITC stamp you see on the tube is the guarantee of correct weight ensured by right wall thickness. No wonder ITC tubes are being demanded by more and more wise house owners, farmers and other buyers.

Moreover, ITC tubes to IS : 1239 (Part I)—1968 enjoy certification by the Indian Standards Institution, a third party warranty of good quality. So when you use ITC tubes you'll always get full value for the money you invest.



ITC-119

Buy ITC tubes—made to last

INDIAN TUBE

THE INDIAN TUBE COMPANY LIMITED

A Tata-Stewarts and Lloyds Enterprise CALCUTTA BOMBAY DELHI MADRAS AHMEDABAD KANPUR

TABLE 1 : SELECTED INDICATORS OF INDIAN AGRICULTURE

Years	Production Index Numbers (1961-62=100)			Yield Index Numbers (1961-62=100)			Area under Crops Index Numbers (1961-62=100)			Prices Index Numbers (1961-62=100)		
	Total Cereal	Wheat	Rice	Total Cereal	Wheat	Rice	Total Cereal	Wheat	Rice	Total Cereal	Wheat	Rice
1961-62	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1962-63	96.7	89.3	93.1	88.0	98.3	90.6	100.6	96.5	102.8	102.9	98.4	105.3
1963-64	99.4	81.6	103.7	81.0	104.1	100.5	100.2	99.5	103.2	112.0	105.7	118.5
1964-65	108.4	101.5	110.2	101.7	108.7	104.8	101.3	98.9	105.1	135.2	137.8	127.3
1965-66	87.7	86.3	85.9	92.7	89.1	84.5	97.9	93.2	101.7	206.4	149.2	136.7
1966-67	92.8	94.4	85.3	97.2	91.9	83.9	100.1	94.6	101.6	173.7	177.7	168.6
1967-68	116.9	137.0	105.5	120.9	106.8	100.4	106.2	110.5	105.0	206.4	213.7	200.5
1968-69	117.8	154.5	111.5	124.8	106.1	104.7	106.6	117.6	106.5	195.3	204.3	196.4

Sources : [18, 19].

the old technique (AB). Thus, the agricultural sector increases its output and improves its income because of the new technology. The distribution of this gain among the various factors and among farms of various sizes, is the subject of the next sections.

CHANGES IN RELATIVE FACTOR SHARES

With the greater use and cost of inputs, the absolute income of all production factors increases. The change in factor shares, however, depends on (1) whether the technical change is neutral or non-neutral, (2) whether the sum of production elasticities varies under technical changes, and (3) whether the labour/capital ratio varies. To analyse these possibilities, we distinguish between five classes of inputs: (a) land, (b) human labour, (c) bullock labour, (d) capital inputs including irrigation charges and all farm machinery (C_1) and (e) such non-mechanical inputs as new biological inputs (hybrid seeds) fertilisers, pesticides, new cultivation techniques (C_2). With the Green Revolution, C_2 has been the major expanding factor, complemented by a more modest increase in C_1. Comparing the gross production function for agriculture, before and after a growth in C_2 and C_1, we expect that, when $\triangle C_1 > 0$ and $\triangle C_2 > 0$, output increases, and the partial elasticities of production of all factors change. We illustrate this point in the framework of the following Cobb-Douglas production function (which satisfies neoclassical notions of a 'well-behaved function').[1]

$$X = A L^{\alpha} E^{\beta}_{1} B^{\gamma}_{2} C^{\delta}_{1} C^{\rho}_{2}$$

Where A, α, β, γ, δ and ρ are constants, X = output, L = land, B_1 = human labour B_2 = bullock labour, C_1 = mechanical capital inputs, and C_2 = non-mechanical inputs. The constants α, β, γ, δ, and ρ, numerically quantify the partial elasticities of production. The ratios of the partial elasticities indicate the relative factor shares between inputs, and, as Brown shows [6, 7] for the Cobb-Douglas production function, the elasticity of substitution between the factors is unity, regardless of scale-returns. This condition implies that, changes in factor ratios (substitution between factors) leaves relative factor shares unchanged. Factor shares change only when the addition of a new input (replacing or complementing existing input) embodies a technical change.

In essence, the embodiment quality implies that the technological change is non-neutral. Let the growth in C_2 and C_1 embody a technical change (the Green Revolution). A new production function then results (the technical change revealing itself in changed parameters) as follows:

$$X' = A'L^{\alpha'}_{B_1} B^{\beta'}_{B_2} C^{\gamma'}_{C_1} C^{\delta'}_{C_2} \rho'$$

Empirical studies suggest that, an expansion in C_2 is labour-using and that an expansion in C_1 is labour-saving [2, 3, 4, 5]; hence countervailing forces prevail. The net impact of the embodied technical change will depend,

FIGURE 1: CHANGE IN NET REVENUE, (TC — TR), WITH TECHNOLOGICAL CHANGE

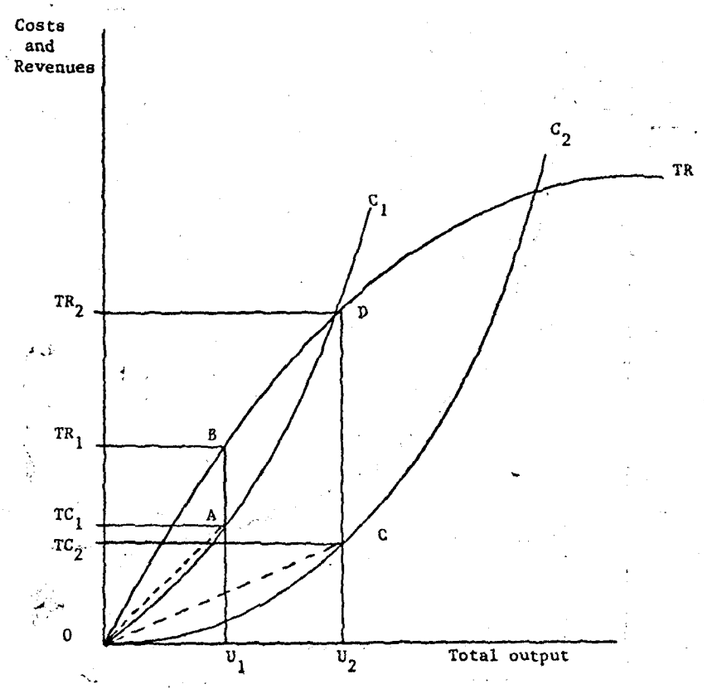


TABLE 2: CHANGES IN TOTAL COST AND TOTAL REVENUES IN WHEAT PRODUCTION OF MAJOR PRODUCING STATES IN INDIA

States	Total Cost I / Total Cost II	Total Revenue I / Total Revenue II
Uttar Pradesh	1.73	2.49
Punjab	2.93	5.79
Maharashtra	—0.66	4.54
Rajasthan	1.98	8.51

Notes: Cost I stands for the cost of production of hybrid wheat with new array of inputs made available by new technology.

Cost II stands for the cost of production of indigenous wheat with irrigation and old array of inputs.

Total Revenue I and II stands for the same as the costs respectively.

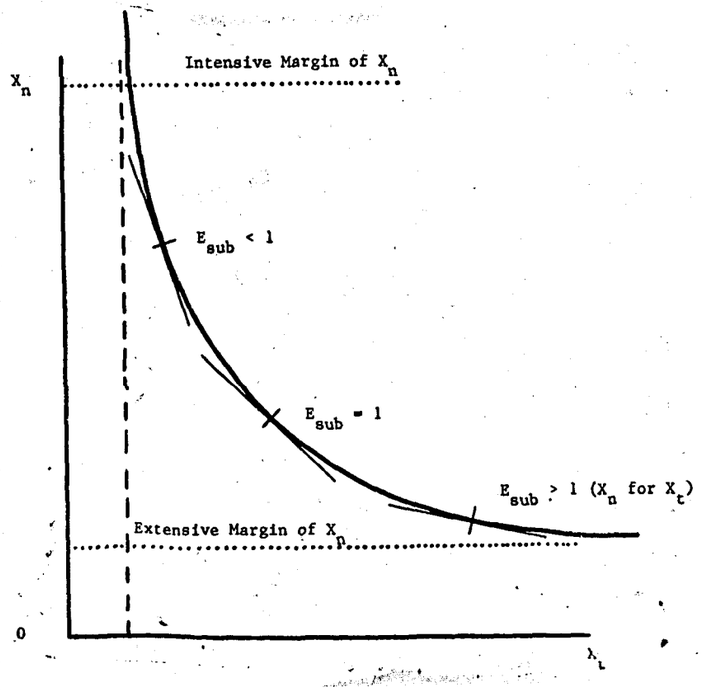
Source: [15, 16, 17, 18, 20].

therefore, on the outcome of a statistical experiment. However, a theoretical explanation of expected outcomes can be given. For example, if C_1 is a labour-saving input, [2, 3, 4, 5], we expect that $\frac{\beta'}{\delta'} < \frac{\beta}{\delta}$, and that labour's share with respect to C_1 declines. Further, if C_2 complements labour, we expect that $\frac{\beta}{\rho} \leqslant \frac{\beta'}{\rho'}$.

If the net effect of the Green Revolution is, in fact, to reduce labour's share in total, the net change has to be as follows:

$$\left[\frac{\beta}{\delta} + \frac{\beta}{\rho}\right] > \left[\frac{\beta'}{\delta'} + \frac{\beta'}{\rho'}\right]$$

FIGURE 2: ISOQUANT, SHOWING RELATIVE MAGNITUDES OF THE ELASTICITY OF SUBSTITUTION (E_{sub}) X_n FOR X_t.



INCOME DISTRIBUTION EFFECTS BY FARM SIZE

A non-neutral technical change may be sufficient to change the distribution of income over factors, but it is only a necessary condition for a change in the distribution of income by farm size. On the other hand, embodied technological change and differences in adoption rates among the different farm size groups, are sufficiency conditions for a change in the distribution of income by farm size.

For this analysis, we depart from the usual macro-economic definitions and distinguish between embodied and disembodied technological change for a specific farm firm. Technical change is disembodied when the farmer is constrained from using it only by his personal and non-economic characteristics, or through his ignorance. In contrast, an embodied technical change is one that cannot be adopted by a farmer because of economic constraints. The farmer's current income and asset position is the most likely economic constraint, since 'embodiment' implies purchase of inputs to employ the technology. The economic status of the farm is binding because the farmer cannot finance[2] new purchases and/or the basic production structure cannot profitably incorporate the new input.

Because of past decisions, a predetermined distribution of wealth, and so on, a wide disparity prevails in farm income levels. Thus farmers face a technological change, such as the Green Revolution, on unequal footing. Farmers in different income groups might be expected to exhibit diversity in behaviour, since: (a) the marginal propensity to consume could decline at higher incomes, (b) the marginal propensity to invest in new productive inputs might rise with higher incomes, and (c) the items for which the investments are made could differ among income classes, and so on.

Basic economic grounds to explain variance in adoption rates of Green Revolution technology are thus implied by the fact of embodiment, the initial diversity of incomes in the farm community, and variance of absolute and marginal spending behaviour at different income levels. Further, as we will now demonstrate, variance in adoption rates ensures that the initial income spread in the farm sector will widen.

First, we assume the absence of government programmes to make credit available at non-commercial rates for low-income farmers. The allocation of loans, then, will be based on risk-aversion and potential profit motives of lenders. If government credit programmes require collateral or a demonstration of near-term profitability before loans are made, the programme is commercially based. As will be discussed later, credit programmes of non-commercial nature are necessary to reduce the extent to which technical change is embodied for the firm. We now use a generalised algebraic example to prove that the income gap will widen under these postulates and assumptions. An illustrative numerical example will follow:

Increase in output vis-a-vis farm size groups:

Let P_y, P_x, Y, and X be the output price, the input price, the level of output, and the level of inputs used, respectively, expressed in index form. Let R be the ratio of output to input prices, P_y/P_x, so that R portrays the real profitability of production; it is a proxy for net revenue. R is also in index form.

The elasticity of supply with respect to the profitability of production can be written in the following identity:

$$\frac{dY}{dR} \cdot \frac{R}{Y} = \left[\frac{dY}{dX} \cdot \frac{X}{Y}\right] \times \left[\frac{dX}{dR} \cdot \frac{R}{X}\right]$$

In this expression, $\left[\frac{dY}{dX} \cdot \frac{X}{Y}\right]$ is the elasticity of production, and $\left[\frac{dX}{dR} \cdot \frac{R}{X}\right]$ is the elasticity of demand for inputs with respect to the profitability of using them. When a production function for a specific farm is derived, the elasticity of production will be uniquely determined as will the elasticity of demand for inputs. The elasticity of demand for inputs, as given here, incorporates both the income effect and the price effects with qualitative signs as recognised in consumer behaviour. A change in productivity of inputs can be reflected in the decline in real price per unit of input.

Now we subdivide total inputs (X) into two classes, traditional, X_t, and new, X_n. The profitability of employing these classes of inputs are R_t and R_n, respectively. Therefore, $X = X_t + X_n$, $R = P_y / \frac{1}{2}(P_{x_t} + P_{x_n})$, (where the denominator is the average cost of inputs) and $R_t = P_y/P_{x_t}$, $R_n = P_y/P_{x_n}$.

The elasticity of supply can be given as:

$$\frac{\partial Y}{\partial R} \cdot \frac{R}{Y} = \left\{\frac{\partial Y_t}{\partial X_t} \cdot \frac{X_t}{Y} + \frac{\partial Y}{\partial X_n} \cdot \frac{X_n}{Y}\right\} \cdot \left\{\frac{\partial X}{\partial R_t} \cdot \frac{R_t}{X} + \frac{\partial X}{\partial R_n} \cdot \frac{R_n}{X}\right\}$$

which is reduced to the following expression after dividing by R/Y.

$$\frac{\partial Y}{\partial R} = \left\{\frac{\partial Y}{\partial X_t} \cdot \frac{X_t}{X} + \frac{\partial Y}{\partial X_n} \cdot \frac{X_n}{X}\right\} \cdot \left\{\frac{\partial X}{\partial R_t} \cdot \frac{R_t}{R} + \frac{\partial X}{\partial R_n} \cdot \frac{R_n}{R}\right\}$$

To take an extreme case where the small farmer (a low-income farmer) does not purchase the new inputs,

$X_n = 0$; hence $\frac{\partial X_n}{\partial R_n} = 0$, $\frac{\partial X_t}{\partial R_n} = 0$, and $\frac{\partial X_n}{\partial R_t} = 0$. His change in supply is then given by:

$$\frac{\partial Y}{\partial R} = \left(\frac{\partial Y}{\partial X_t} \cdot \frac{X_t}{X}\right) \cdot \left(\frac{\partial X_t}{\partial R_t} \cdot \frac{R_t}{R}\right) = \frac{\partial Y}{\partial X_t} \cdot \frac{\partial X_t}{\partial R_t} \quad (X_t = X, R = R_t)$$

If, in addition, productivity of traditional input is not affected by the Green Revolution (another extreme assumption since it excludes in-farm economies of scale, but is totally consistent with the embodiment *postulate*),[3] and input and output prices do not vary significantly, the profitability of traditional inputs remains constant and thus $\frac{\partial X_t}{\partial R_t} = 0$. Hence the small farmer's level of production, before and after the technological change, should be the same.

By contrast, the larger farmer (a high-income farmer) is not financially constrained from buying the new inputs if their purchase is profitable. If he uses them, the following relations hold in general:

$$1 > \frac{X_t}{X} > 0 \qquad \frac{\partial X_n}{\partial R_n} > 0$$

$$1 > \frac{X_n}{X} > 0 \qquad \frac{\partial X_t}{\partial R_t} > 0$$

The new inputs can be either complements, or substitutes, for traditional inputs. In the situation where the farmer views the new inputs as strict supplements to traditional inputs (i e, cross-effects with respect to the profitability of other inputs is zero), the expression for his addition to gross output will be:

$$\frac{\partial Y}{\partial R} = \left\{\frac{X_t}{X} \cdot \frac{\partial Y}{\partial X_t} \cdot \frac{\partial X_t}{\partial R_t} \cdot \frac{R_t}{R}\right\} + \left\{\frac{X_n}{X} \cdot \frac{\partial Y}{\partial X_n} \cdot \frac{\partial X_n}{\partial R_n} \cdot \frac{R_n}{R}\right\} + \left\{\frac{X_t}{X} \cdot \frac{\partial Y}{\partial X_t} \cdot \frac{\partial X_n}{\partial R_n} \cdot \frac{R_n}{R}\right\} + \left\{\frac{X_n}{X} \cdot \frac{\partial Y}{\partial X_n} \cdot \frac{\partial X_t}{\partial R_t} \cdot \frac{R_t}{R}\right\}$$

This expression for the growth of output is clearly greater than that of the small farmers, because the individual terms on the right-hand side are all positive. Where there are no externalities, so that the traditional inputs do not gain greater productivity and when prices remain constant, $\frac{\partial X_t}{\partial R_t} = 0$. Thus, the output of the large farmer grows. This is in contrast to the small farmer's output which remains constant.

In the more likely event, however, the new inputs substitute in part the traditional inputs. The outcome, then, is less clearly defined. The existence of substitution is *prima facie* evidence that $R_n > R_t$, where P_y is constant. The signs of the cross-effects will be $\frac{\partial X_n}{\partial R_t} < 0$ and $\frac{\partial X_t}{\partial R_n} < 0$.

For output to increase, (that is for $\frac{\partial Y}{\partial R} > 0$), the following inequalities would have to be true.[4]

TABLE 3: QUALITATIVE SUMMARY OF LOGIC OF NET INCOME DISPARITY GROWTH

Demand Elasticity to Product Price		Change in Total Revenue	Change in Total Cost	Change in Net Revenue
$\infty > \left\lvert\frac{\partial Y}{\partial P_y} \cdot \frac{P_y}{Y}\right\rvert > 1.0$	Large	> 0	> 0	$\geqslant 0$
	Small	< 0	= 0	< 0
$0 < \left\lvert\frac{\partial Y}{\partial P_y} \cdot \frac{P_y}{Y}\right\rvert < 1.0$	Large	< 0	> 0	$\geqslant 0$
	Small	< 0	= 0	< 0

TABLE 4: MARKET SOLUTION FOR SMALL, MEDIUM AND LARGE FARMS, PRE-TECHNOLOGICAL CHANGE, ON PER FARM BASIS

	Small	Medium	Large
Price P_y	6.52	6.52	6.52
Quantity			
q_{si}	0.516	0.723	1.042
Q_{si}	1.291	5.426	13.022
Total revenue	8.416	35.378	84.901
Input use	.0026	0.012	0.034
Total cost	0.125	0.574	1.700
Net revenue	8.291	34.804	83.200

[2] Because of the lack of collateral, the small farmer is not a credit-worthy customer. Even if he is, the risk premium he has to pay is so high that the new purchases are not profitable.

[3] Even if the traditional inputs are subject to increasing returns to scale, the argument is not affected as long as the new inputs are not perfect substitutes for the traditional inputs.

[4] Since $\frac{\partial Y}{\partial R} = \frac{\partial Y}{\partial X_t} \cdot \frac{\partial X_t}{\partial R_t} + \frac{\partial Y}{\partial X_n} \cdot \frac{\partial X_n}{\partial R_n} + \frac{\partial Y}{\partial X_t} \cdot \frac{\partial X_n}{\partial R_n} + \frac{\partial Y}{\partial X_n} \cdot \frac{\partial X_t}{\partial R_t}$, the first two terms are positive, and the last two negative, the inequality $\frac{\partial Y}{\partial X_t} \cdot \frac{\partial X_n}{\partial R_n} > \frac{\partial Y}{\partial X_n} \cdot \frac{\partial X_t}{\partial R_t}$ would have to be true.

TABLE 5 : MARKET SOLUTION FOR SMALL, MEDIUM AND LARGE FARMS, POST-TECHNOLOGICAL CHANGE, FIRST APPROXIMATION ON PER-FARM BASIS

	Small	Medium	Large
Price P_y	6.59	6.59	6.59
Quantity			
q_{si}	0.516	0.740	1.069
Q_{si}	1.291	5.547	13.357
Total revenue	8.508	36.552	88·020
Input use	.0027	0.013	0.037
Total cost	0.136	0.652	1.835
Net revenue	8.373	35.900	86.185

$\left|\frac{\partial X_n}{\partial R_n}\right| > \left|\frac{\partial X_t}{\partial R_n}\right|$ and $\left|\frac{\partial X_t}{\partial R_t}\right| > \left|\frac{\partial X_n}{\partial R_t}\right|$

Given a constant P_y, the inequalities state that high-income (large) farmers would increase output if the growth in the demand for one type of input (say new inputs in this situation), resulting from a growth in its own profitability, exceeded the desire to reduce the use of a competing input when the profitability of the farmer input grows. These two forces tend to work against each other; the profitability of employing X_n leads to its greater use at the expense of X_t, but the marginal profitability of employing an additional unit of X_n will decrease (we suppose that the producer is in the economic range of declining elasticity for X_n). The decrease in productivity of X_n implies increasing relative profitability of marginal units of X_t. Hence a growing resistance to further substitution of X_n for X_t will prevail. The economic restraints in employing more X_n intensify because of its declining relative profitability *vis-a-vis* X_t.

The relative strengths of the conflicting forces can be observed in part by considering the elasticity of substitution of X_n for X_t. Being newly employed, it is likely that X_n is used more closely to its extensive margin than X_t is to its (Figure 2). That is, $\frac{X_t}{X} > \frac{X_n}{X}$, or traditional inputs still dominate the input mix even though both types are used. But this implies that the elasticity of substitution, X_n for X_t, exceeds unity. Under these conditions, it is expected that:[5]

$$\left|\frac{\partial X_n}{\partial R_n}\right| > \left|\frac{\partial X_t}{\partial R_t}\right|$$

Further, if we maintain the hypothesis that traditional inputs are virtually fixed in the farm sector; i e, labour will not be easily retired from agriculture, land will not be quickly withdrawn, and traditional capital will still be largely employed, then traditional input employment will at least be constant. Thus,

$$\left|\frac{\partial X_t}{\partial R_t}\right| \geqslant \left|\frac{\partial X_t}{\partial R_n}\right|.$$

Lastly, it seems intuitively true that, the potential of a rise in new input productivity to negatively influence the use of traditional inputs would quantitatively exceed (in absolute terms) the potential of changes in traditional input productivity to negatively influence the use of new inputs. Institutional pressure to expand new input use, say through government programmes, not easily solved or reversed once started, might in itself be enough to make this true. Thus,

$$\left|\frac{\partial X_t}{\partial R_n}\right| > \left|\frac{\partial X_n}{\partial R_t}\right|.$$

Under these conditions, therefore, output would expand even when X_t and X_n were partial substitutes. What is more, the expansion of output would be due to the activity of the adoption of technology who, in the situation now discussed, would be the large farmer.

Net income effect of increased output by farm-size groups:

We now consider the income distribution effects of the relative increases in output on low and high-income farms when consumer demand is elastic,

$$\left|\frac{\partial Y}{\partial P_y} \cdot \frac{P_y}{Y}\right| > 1.0, \text{ and price inelastic,}$$

$$(0 < \left|\frac{\partial Y}{\partial P_y} \cdot \frac{P_y}{Y}\right| < 1).$$

Under the price elastic conditions, an increase in output will increase the total revenue depending on the degree of demand elasticity. The increase, however, will reduce the price per unit of output. For the small farmer who does not increase output, total revenue will fall. Also, if the small farmer does not alter the input of traditional resources, $\frac{\partial X_t}{\partial R_t} = 0$, total cost (imputed as well as incurred) will not decline, and realised net income will decline. Initially the same income effect will prevail for the small farmer when consumer demand is inelastic with respect to price.

Yet, even the lower product price can lead to higher total revenues for the large farmers. Although his total cost will increase as more inputs are used, the rational producer will restrain input purchases so that the marginal revenue is not exceeded by marginal cost. His net income will rise (or at worst stay constant). Thus, income disparity between large and small farmers, will widen. These qualitative relationships are shown in Table 3.

When consumer demands are price inelastic, an increased offering lowers both price and total market revenue for the farm sector. If we maintain the claim that the small producer does not contribute to the expanded offering or reduce his input use, his total and net income position worsens. But the large producer does not necessarily lose total revenue in this case (although he might, if sectoral total revenue falls faster than the total revenue of small producers). Indeed, it is also possible for large farmers to experience rising total revenue in spite of a deterioration in sectoral revenue. In either case, the economically rational producer will only spend on new inputs and so add to total costs, to the point at which changes in net revenue are equal to or exceed zero. Again, the income gap will widen.[6]

ILLUSTRATIVE NUMERICAL MODEL

We now use a hueristic model to better illustrate the mechanics of the preceding economic reasoning. Although simplifying assumptions are used, the quantities employed are numerical approximations of current magnitudes in India. This illustrative model is applied to three stages: Stage I depicts the market solution before the technological breakthrough, State II portrays the changes resulting from the Green Revolution, and Stage III envisages the changes in income in successive production cycles. Our discussion of stages is merely for convenience and has no connection with Rostowian stages of economic growth.

TABLE 6 : MARKET SOLUTION FOR SMALL, MEDIUM AND LARGE FARMS, POST-TECHNOLOGICAL CHANGE, SECOND APPROXIMATION, ON PER-FARM BASIS

	Small	Medium	Large
Price P_y	6.39	6.39	6.39
Quantity			
q_{si}	0.521	0.784	1.190
Q_{si}	1.303	5.878	14.878
Total revenue	8.325	37.560	95.073
Input use	.0036	0.027	0.101
Total cost	0.180	1.338	5.066
Net revenue	8.145	36.223	89.997

Stage I

Suppose that equations (1), (2) and (3) represent per-acre production functions of small, medium, and large farms, respectively:

(1) $q_1 = .5 + 0.5X_t^{\cdot 5}$ (small)
(2) $q_2 = .7 + 0.6X_2^{\cdot 5}$ (medium)
(3) $q_3 = 1.0 + 0.8X_3^{\cdot 5}$ (large)

where, now q_1 (i=1, 2, 3) is physical output per acre on farm size coded i, and X_i is all inputs viewed as homogeneous mass.

Equation (3) supposes that the high-income farmer has the necessary capital, knowledge, and other fixed assets, to progress over the preceding production period; hence he will exhaust more of the potential scale economies than will the low income farmer.[7] We are, of course, aware of the long and somewhat inconclusive debate that surrounds the question of the relative efficiency of small farmers in India [1, 23]. For the time being, however, our model abstracts from the hypothesis based on previous empirical results and rests on standard theoretical logic.

A square-root form of the production function is selected for demonstration purposes, because its properties give 'easily added' supply functions (we suppose that the farmer is operating in a range of the production function, with production elasticities of less than unity) [12]. Equations (1a), (2a) and (3a) express the level of inputs used for the respective production functions:

(1a) $X_1 = (q_1 - 0.5)^2/(0.5)^2$
(2a) $X_2 = (q_2 - 0.7)^2/(0.6)^2$
(3a) $X_3 = (q_3 - 1.0)^2/(0.8)^2$

From (1a), (2a) and (3a), and the assumption of profit maximisation, the per-acre supply functions and the per-farm supply functions are derived. These are presented as equations (4), (5), (6), (4a), (5a) and (6a), respectively. In the formulation, P_X is the input price per unit of input, P_y is output price, q_{si} (i= 1, 2, 3) is per-acre supply and Q_{si} is per-farm supply. We assume that small farms (i=1) have an average acreage of 2.5 acres, medium farms have 7.5 acres, and large farms have 12.5 acres [14]. We assume, further, that intra-farm economies of scale do not exist, but that there are possible inter-farm scale economies.

(4) $q_{si} = 0.5 + 0.125\ P_y P_x^{-1}$
(per-acre supply of small farm)

(5) $q_{s_2} = 0.7 + 0.18\ P_y P_x^{-1}$
(per-acre supply of medium farm)

(6) $q_{s_3} = 1.0 + 0.32\ P_y P_x^{-1}$
(per-acre supply of large farm)

(4a) $Q_{s_1} = 1.25 + 0.3125\ P_y P_x^{-1}$
(per-farm supply of small farm)

(5a) $Q_{s_2} = 5.25 + 1.35\ P_y P_x^{-1}$
(per-farm supply of medium farm)

(6a) $Q_{s_3} = 12.5 + 4.00\ P_y P_x^{-1}$
(per-farm supply of large farm)

We suppose an agriculture composed of 60 per cent of small, 20 per cent of medium, and 20 per cent of large farms. Hence the aggregate supply function is

$Q_m = 2150 + 628.75\ P_y P_x^{-1}$ ..(7)

where Q_m is market supply (physical), P_y is output price, and P_x is input price.

Let the sector be essentially closed with respect to the trade in agricultural products, and let the regional demand function be

$Q_d = 8100 - 900\ P_y$ ..(8)

The demand function is inelastic with respect to product price[8] (but just so) over the range $9 > P_y > 0$.

The market is cleared when $Q_m = Q_d$, and the product price has the value:

$P_y = 5950\ P_x / (900\ P_x + 628.75)$ ..(9)

We assume $P_x = 50$ monetary units per purchased unit, given the current situation in India, especially in the use of high-yielding varieties. Where perfect competition exists in both input and output markets, P_y and P_x are the same for all farmers.

Prices, quantities sold per farm, total farm revenue, total farm cost, and per farm net revenue under market equilibrium are given in Table 4. Profit per large farm is 10.035 times that for small farms, and 2.391 times that of medium farms (Table 7). In turn, profit of medium farms is 4.198 times larger than that of small farms. These ratios indicate the extent of the initial income disparity.

Stage II

As a result of the Green Revolution, we suppose three exogenous shocks that can be reflected through the model. First, the price of output from farms adopting the technology, (P_{y_n}), will decline since they will produce a red-coloured grain (which consumers treat as inferior to the traditional white wheat). So we assume that $P_{y_n} = 0.8\ P_{y_t}$.[9] Secondly, the price per unit of the new input, (P_{y_n}), will exceed that of traditional inputs (P_{y_t}) (actual or imputed), thus $P_{x_n} = 1.2\ P_{x_t}$.[10] Third, the productivity of new inputs, X_n, greatly exceeds that of traditional inputs, X_t, so that one unit of new input conceptually produces the same volume of output as a multiple number of traditional input units. Therefore, $X_n = 2.5\ X_t$.[11] These equations, when substituted into the originally defined production functions, permit a comparison of pre- with post-technological change (since both situations are reduced to common terms).

The production, per-acre supply, and per-farm supply functions, for the small, medium, and large farmers, will be those given in (10), (11), (12), (13), (14), (15), (13a), (14a) and (15a).

(10) $q_1 = 0.5 + 0.5\ X^{\cdot 5}$
(per-acre production, small farm)

(11) $q_2 = 0.7 + 0.9492\ X^{\cdot 5}$
(per-acre production, medium farm)

(12) $q_3 = 1.0 + 1.2656\ X^{\cdot 5}$
(per-acre production, large farm)

(13) $q_{s_1} = 0.5 + 0.125\ P_y P_x^{-1}$
(per-acre supply function, small farm)

(14) $q_{s_2} = 0.7 + 0.300\ P_y P_x^{-1}$
(per-acre supply function, medium farm)

TABLE 7: RATIOS OF LARGE AND MEDIUM FARM NET REVENUES WITH RESPECT TO SMALL FARM NET REVENUE, ORIGINAL, AND FIRST AND SECOND APPROXIMATIONS

	Original (Table 4)	First Approximation (Table 5)	Second Approximation (Table 6)
NR_l/NR_s*	10.035	10.293	11.035
NR_l/NR_m	2.391	2.401	2.485
NR_m/NR_s	4.198	4.289	4.447

* NR_l : net revenue, large farm.
NR_s : net revenue, small farm.
NR_m : net revenue, medium farm.

(15) $q_{s_3}=1.0+0.520\ P_yP_x^{-1}$
(per-acre supply function, large farm)

(13a) $Q_{s_1}=1.25+0.3125\ P_yP_x^{-1}$
(per-farm supply function, small farm)

(14a) $Q_{s_2}=5.25+2.252\ P_yP_x^{-1}$
(per-farm supply function, medium farm)

(15a) $Q_{s_3}=12.5+6.504\ P_yP_x^{-1}$
(per-farm supply function, large farm)

(16) $Q'_m=2150+969.436\ P_y\ P_x^{-1}$
(aggregate supply function)

Here we assume that, on the planning horizon at least, no farmer will plan to leave agriculture. Thus, the post-technological market supply function, (16), is the weighted sum of the farm supply functions, with original weights. The new supply function is expressed in terms of the original prices. It incorporates the supply-increasing influences of rising input productivity, dampened by the supply-depressing influence of falling product prices and rising input prices.

If population grows by 2.5 per cent and disposable income per capita increases by a similar percentage, total demand shifts upwards to

$$Q_d = 8505 - 945\ P_y \quad \ldots(17)$$

In equilibrium, the product price is expressed in the form

$P_y+6355\ P_x/(945\ P_x+969.436)$

again in terms of the pre-technology prices.

The full market solution, given the input price $P_x=50$, is given in Table 5. The ratios of net revenue for large to small farms, medium to small farms, have increased (see Table 7), but the ratio of net revenue between large and medium farms has not changed. Thus, it is demonstrated that, the first-round impact of the technological change is to widen the income gap between adopters and non-adopters.

As a side note, we observe that the model shows that even the small farmer could realise or anticipate a slight rise in net income, possibly owing to an improvement in traditional white wheat prices resulting from the cessation of large and medium farm production of traditional grains (Table 8). But this good fortune would be short-lived even if it were actually realised. More generally, we would expect the smaller farmer to lose welfare, even relative to his former position.

Stage III

We suggested in the theoretical discussion that, farm spending behaviour was related to the farm's net income position. We now formalise those previously stated behavioural relationships and hypothesise that, the change in farm expenditure is linearly related to the change in net farm income over the proceeding period.[12] When subscripts $(t+1)$ and t indicate the present and past time periods.

$$P_x(t+1).X(t+1) - P_{x(t)}.X_t = \alpha_i\,(NR_t - NR_{t-1}) \quad \ldots(19)$$

We assume that the market price for input does not change over time; hence $P_x(t+1) = P_{xt}$. Dividing by P_x, and transposing,

$$X(t+1) = X_t + \alpha_i \frac{(NR_t - NR_{t-1})}{P_x}$$

(When $NR_t - NR_{t-1} > 0$) ..(20)

The factor α_i (i=1, for small, 2 for medium and 3 for large farms, respectively) is the product of the marginal propensity to invest out of net income and the marginal propensity to purchase non-land inputs (traditional for small farms, new for large and medium) out of investment funds. In the example, $\alpha_1=0.04$, $\alpha_2=0.07$, and $\alpha_3=0.11$. These magnitudes reflect the current behavioural situation in India, [15, 16, 17].

We emphasise that the numerical quantities used are for the post-technological change period. They reflect a set of economic relationships different from those that existed before the new technology made investment profitable for large farmers.

It is well documented that, before the Green Revolution, the average propensity to invest in non-land inputs decreased as farm size increased [20]. The reasons for this might be as follows. Under traditional technology, large farms could have come close to exhausting the potential for profitable new investment in traditional inputs well in advance of small, economically constrained farmers. Hence, large farmers' new net revenue might be spent, either on consumption goods or land, to increase absolute income in direct proportion to the number of new acres bought. Small farmers, on the other hand, could still find it profitable to invest (out of new income) in the non-land inputs which they had previously been constrained from purchasing. After the Green Revolution, it would again become profitable for large farmers to invest in new inputs, and, because of the lower marginal utility of consumption *vis-a-vis* small farmers, large farmers would demonstrate larger marginal and average propensities to invest in non-land inputs.

Because the net revenue of all producers increased in the first period, the use of non-land inputs will increase for all farmers. The solution to equation (20) shows that, small farmers should increase input use (traditional inputs) by 24.2 per cent, the medium farmers by 218.1 per cent, and the large farmers by 278.9 per cent (both on new inputs).

The resultant production functions, per-acre supply functions, and per-farm supply functions, are given in equations (21), (22), (23), (24), (25), (26), (24a), (25a), and (26a), respectively.

(21) $q_1=0.5+0.557\ X^{.5}$
(production function, small farm)

TABLE 8: RATIOS OF FARM NET REVENUES, POST-TECHNOLOGICAL CHANGE WITH RESPECT TO PRE-TECHNOLOGICAL CHANGE, BY FARM SIZE

	NR (First Approximation)* / Original	NR (Second Approximation) / Original
Small farm	1.01	0.982
Medium farm	1.032	1.041
Large farm	1.036	1.082

* NR = net revenue

(22) $q_2=0.7+1.402\ X^{.5}$
(production function, medium farm)

(23) $q_3=1.0+2.113\ X^{.5}$
(production function, large farm)

(24) $q_{s_1}=0.5+0.165\ P_yP_x^{-1}$
(per-acre supply, small farm)

(25) $q_{s_2}=0.7+0.655\ P_yP_x^{-1}$
(per-acre supply, medium farm)

(26) $q_{s_3}=1.0+1.489\ P_yP_x^{-1}$
(per-acre supply, large farm)

(24a) $Q_{s_1}=1.25+0.413\ P_yP_x^{-1}$
(per-farm supply, small farm)

(25a) $Q_{s_2}=5.25+4.914\ P_yP_x^{-1}$
(per-acre supply, medium farm)

(26a) $Q_{s_3}=12.5+1.861\ P_yP_x^{-1}$
(per-farm supply, large farm)

Again, assuming no net entry or exit from agriculture, the aggregate supply function becomes

$$Q_m=2150+2476.305\ P_yP_x^{-1} \ldots(27)$$

The demand function remains as given in (17). In equilibrium the market price of output would be given by

$$y=6355\ P_x/(945\ P_x+2476.305) \quad \ldots(28)$$

Again, with all quantities expressed in terms of the initial product and input prices and assuming that $P_x=50$, the full market solution is presented in Table 6.

The model now shows that the income disparity, even among adopters, will grow over time. The ratio of large-to-medium farms' net income has grown from 2.39 to 2.48, or by about 4 per cent (Table 7). An even more dramatic growth in disparity is seen between the large and small farms. The ratio of net incomes grew from 10.03 to 11.05, or by about 10 per cent. Further, the small farmer is worse off relative to his own former position (net income falls by about 2 per cent) (Table 8), so that one can conclude that the small farmer will be even less able (than he was formerly) to employ the new technology in an attempt to catch up. The income gap, therefore, will continue to widen in successive production cycles.

Thus, we have demonstrated, both theoretically and quasi-empirically that, embodied technical change, like that of the Green Revolution, will exaggerate existing inter-farm income disparities. The gap will grow because the initial pre-technological change income distribution means an unequal opportunity for farmers to attempt to adopt the technology. Further, the economic behaviour of farmers in different income classes differs, and differs in a way that reinforces the tendency for incomes to diverge.

SOME POLICY IMPLICATIONS

The analysis presented has some policy implications for India and other developing countries. These are not dwelt on here, but are suggested as a target towards which more inquiry should be directed.

Since mechanisation may dampen the increase in labour demand, resulting from the expanding factor of seed-fertilisers, the policies that encourage premature mechanisation in surplus-labour economies, such as India's, do not seem conducive to solving the problem of growing unemployment. The policies we question on these grounds are the indiscreet subsidisation of farm machinery and credit availability for the same. In addition, the import and foreign aid policies that encourage and facilitate the use of huge labour-displacing farm machinery also requires re-examination.

As we have demonstrated, the embodied technological innovation marked by the Green Revolution, left to itself, has an inherent tendency to widen the disparities between small, medium, and large farmers, not only in the initial stages but also in successive production cycles. This tendency can only be counteracted by Government's policy measures. Alternatives that might be studied could include:

(1) A policy measure aimed at raising the production levels of small farmers, e g, cheaper credit facilities for these farmers, subsidisation of seed/fertilisers and so on. Caution would be needed, however, for many ills have resulted in other countries which have embarked on this course (particularly the United States).

(2) A progressive system of taxation on rural incomes that are growing with the Green Revolution. There is hardly any effective measure of agricultural income tax now, although laws are on the books in several states.

(3) A comprehensive scheme of income transfers or welfare payments for the small farmers, possibly financed out of tax revenues from large farms.

(4) An effective implementation of laws pertaining to land ceilings to reduce the basic disparity in income. But again, caution is needed, for to close off the possibilities of added economies of scale by setting too low a ceiling would be counter-developmental.

These suggestions can only be placed in operational perspective, and discussed with wisdom, if the magnitudes assumed in this paper are empirically verified. Furthermore, many behavioural relationships assumed here require statistical grounding. The real evidence demanded cannot be adequately supplied by surveys, and studies based on the surveys, that were conducted a decade-and-a-half ago — however good these surveys and studies might have been. Hopefully, new statistical light will now be shed on these policy matters soon.

Notes

1 These are: (a) all marginal products exceed zero, (b) diminished marginal product exists, (c) homogeneity is guaranteed, but not specified *a priori* and (d) there is a finite limit to output as inputs increase to infinity. [6].

2 We do not wish to limit our use of the word 'finance' to the procurement of funds in the loan market or to the securing of credit from distributors of production inputs. There also could be a strong relation between the level of net income in real terms and the amount that a farmer would be willing to reinvest to finance his own enterprise. That is, the average propensity to consume may be smaller for a large farmer than a small farmer. Attitudes towards risk-taking might also be expected to vary directly with net income.

3 The present form of analysis could also be used to evaluate the situation in which disembodied technical change occurs, since in this case, the technological change could be interpreted as increasing the productivity of traditional inputs as well as adding new inputs.

Thus, $\dfrac{\partial X_t}{\partial R_t} > 0.$

In this case growth in output would be partially due to the output of small farmers as well as large. Even so, the large farmer would add proportionally more to output than would the smaller.

4 $\dfrac{\partial Y}{\partial R} > 0$, if $\left\{\dfrac{X_t}{X}\right\} \cdot \left\{\dfrac{\partial Y}{\partial X_t}\right\} \cdot \left\{\dfrac{\partial X_t}{\partial R_t} + \dfrac{\partial X_n}{\partial R_t}\right\} \cdot \left\{\dfrac{R_t}{R}\right\} + \left\{\dfrac{X_n}{X}\right\} \cdot \left\{\dfrac{\partial Y_n}{\partial X_n}\right\} \cdot \left\{\dfrac{\partial X_t}{\partial R_n} + \dfrac{\partial X_n}{\partial R_n}\right\} \cdot \left\{\dfrac{R_n}{R}\right\} + \left\{\dfrac{X_t}{X}\right\} \cdot \left\{\dfrac{\partial Y}{\partial X_t}\right\} \cdot \left\{\dfrac{\partial X_t}{\partial R_n} + \dfrac{\partial X_n}{\partial R_n}\right\} \cdot \left\{\dfrac{R_n}{R}\right\} + \left\{\dfrac{X_n}{X}\right\} \cdot \left\{\dfrac{\partial Y}{\partial X_n}\right\} \cdot \left\{\dfrac{\partial X_t}{\partial R_t} + \dfrac{\partial X_n}{\partial R_t}\right\} \cdot \left\{\dfrac{R_t}{R}\right\} > 0$

But this is true if,

$$\left\{\frac{\partial X_t}{\partial R_t} + \frac{\partial X_n}{\partial R_t}\right\} > 0 \text{ and}$$

$$\left\{\frac{\partial X_n}{\partial R_n} + \frac{\partial X_t}{\partial R_n}\right\} > 0 \text{ or if}$$

$$\left|\frac{\partial X_t}{\partial R_t}\right| > \left|\frac{\partial X_n}{\partial R_t}\right| \text{ and}$$

$$\left|\frac{\partial X_n}{\partial R_n}\right| > \left|\frac{\partial X_t}{\partial R_n}\right|$$

5 $$E_s = \frac{\Delta\left\{\frac{X_n}{X_t}\right\}}{\left\{\frac{X_n}{X_t}\right\}} \cdot \frac{\left\{\frac{P_{Xt}}{P_{Xn}}\right\}}{\Delta\left\{\frac{P_{Xt}}{P_{Xn}}\right\}} > 1.$$

$$\therefore \left|\frac{\Delta\left\{\frac{X_n}{X_t}\right\}}{\left\{\frac{X_n}{X_t}\right\}}\right| \cdot \left|\frac{\left\{\frac{P_{Xt}}{P_{Xn}}\right\}}{\Delta\left\{\frac{P_{Xt}}{P_{Xn}}\right\}}\right| > 1.$$

But $\frac{P_{Xt}}{P_{Xn}} = \frac{R_n}{R_t}$. Substituting gives

$$\left|\frac{\frac{\Delta X_n}{\Delta X_t}}{\frac{X_n}{X_t}}\right| \cdot \left|\frac{\frac{R_n}{R_t}}{\frac{\Delta R_n}{\Delta R_t}}\right| > 1$$

$$\therefore \left|\frac{\Delta X_n}{\Delta X_t}\right| \cdot \left|\frac{R_n}{R_t}\right| > \left|\frac{X_n}{X_t}\right| \cdot \left|\frac{\Delta R_n}{\Delta R_t}\right|$$

$$\therefore \left|\frac{\Delta X_n}{\Delta R_n}\right| \cdot \left|\frac{R_n}{X_n}\right| > \left|\frac{\Delta X_t}{\Delta R_t}\right| \cdot \left|\frac{R_t}{X_t}\right| \text{ (if } X_n, X_t, R_n, R_t \text{ } \textit{all} \text{ change)}$$

In the *limit* $\frac{\Delta X_n}{\Delta R_n} \to \frac{\partial X_n}{\partial R_n}$ and

$\frac{\Delta X_t}{\Delta R_t} \to \frac{\partial X_t}{\partial R_t}$. Further, since $R_n > R_t$

and $X_t > X_n$, $\left|\frac{R_n}{X_n}\right| > \left|\frac{R_t}{X_t}\right|$.

$$\therefore \left|\frac{\partial X_n}{\partial R_n}\right| > \left|\frac{\partial X_t}{\partial R_t}\right|$$

6 The implicit assumption made in this analysis is that the output of the non-adopter is indistinguishable from that of the adopter of the new inputs. In this case, consumers cannot discriminate and create a price differential for the outputs of different farms. If consumers make this distinction, as in India where the output of adopters is *red*, existence of a price differential becomes possible [10]. A higher price for the output of low-income farmers would dampen the widening of the income disparity. This aspect will not be treated theoretically, but will be built into the hueristic example that follows.

7 *In essence, we are suggesting that,* what we observe in data is the *ex-post* production function, while there is conceptually an *ex-ante* production function that incorporates *all the* 'latest' technology that could be attained. The degree to which any farmer can approach the *ex-ante* production function is determined by the *number and severity* of the constraints placed upon him by nature, *his past decisions and his* own personality.

8 The monetary units in this section are *not to* be strictly interpreted as referring to rupees or dollars.

9 *Estimated from [10].*

10 Estimated from [17].

11 *Ibid.*

12 It is quite likely that, in practice, these steps occur simultaneously with those given in *Stage II, with* decisions and responses based on anticipation, rather than on experienced fact. For the sake of exposition, however, we evaluate the *stages separately in the same manner*, as the analysis of consumer demand behaviour separates the price and income effects.

References

[1] *Bhagwati, J N, and S Chakravorty,* 'Contribution to Indian Economic Analysis: A Survey'; *American Economic Review Supplement* 59: pp 1-73, 1969.

[2] *Billings, Martin H, "Some Preliminary Indications of Changes in Rural Income Distribution"; 1960-68,* USAID, New Delhi. (mimeo).

[3] Billings, Martin H, and Arjan *Singh, 'Labour and the Green Revolution'; Economic and Political Weekly,* Review of Agriculture, 4: Number 4, December 1969.

[4] Billings, Martin H, and Arjan *Singh, 'Mechanisation and Rural* Employment with Some Implications *for Rural Income Distribution"; Economic and Political Weekly,* Review of Agriculture, 5: A61-72, June 1970.

[5] Billings, Martin H, and Arjan *Singh, "Agriculture and Technological* Change in Maharashtra (1968-84)"; Agricultural Economic Division, USAID, New Delhi, 1970. (mimeo).

[6] *Brown, Murray, "On the Theory* and Measurement of Technological Change", Cambridge University Press, Cambridge, 1966.

[7] Brown, Murray, and John S De *Cani, 'Technological Change and* the Distribution of Income'; *International Economic Review,* 4: 289-309; 1963.

[8] Cummings, Ralph W, Jr, and S L *Ray, 'The New Agricultural Strategy*—Its Contribution to 1967-68 *Production', Economic and Political Weekly,* Review of Agriculture, 4: A7-16, March 1969.

[9] *Cummings, Ralph W, Jr, Robert* W Herdt, and S K Ray, 'New Agricultural Strategy Revisited'; *Economic and Political Weekly,* Review of Agriculture, 3: A15-23, October 1968.

[10] Herdt, Robert W, 'Profitability of High-Yielding Wheat and Rice'; *Economic and Political Weekly,* Review of Agriculture, 4: A197-200, December 1969.

[11] Falcon, Walter P, 'The Green Revolution, Generations of Problems'; *American Journal of Agricultural Economics,* 52: 698-722, December 1971.

[12] Heady, Earl O, and John L Dillon, "Agricultural Production Functions"; *Iowa State University Press,* Ames, 1961.

[13] Heady, Earl O, 'Basic Economic and Welfare Aspects of Farm Technological Advance', *Journal of Farm Economics,* 21: 293-316, May 1949.

[14] India, Government of, "Tables with Notes on Some Aspects of Land Holdings in Rural India— *States and All-India Estimates",* National Sample Survey, 17th Round, 1961-62, Report Number 144. Central Secretariat, New Delhi, 1968.

[15] *India, Government of,* "Evaluation Study of HYV Programme, Report for Kharif 1967", Programme Evaluation Organisation, Planning Commission, New Delhi, 1968.

[16] *India, Government of,* "Report on Evaluation of HYV Programme — *Kharif"; Programme Evaluation* Organisation, Planning Commission, New Delhi, 1969.

[17] India, *Government of,* "Evaluation Study of High-Yielding Variety *Programme — Rabi"; Programme* Evaluation Organisation, Planning Commission, New Delhi, 1968.

[18] India, Government of, "Estimates of Area and Production of Principal *Crops in India, 1968-69" (summary* tables); Directorate of Economics and Statistics, Ministry of Food and Agriculture, New Delhi, 1970.

[19] India, Government of, *Bulletin of Food Statistics, 1970, Directorate* of Economics and Statistics, Ministry of Food and Agriculture, New Delhi, 1970.

[20] India, Government of, "Farm Man*agement in India — A Study Based* on Recent Investigations"; Directorate of Economics and Statistics, Ministry of Food and Agriculture, New Delhi, 1966.

[21] *Johnston, B F, and J Cownie,* 'The Seed-Fertiliser Revolution and La*bour Force Absorbtion'; American* Economic Review, 59: 569-82, September 1969.

[22] "Long Range Agricultural Analysis", (mimeo), USAID, New Delhi, *1969.*

[23] Lau, Lawrence J, and Pan A Yotopoulos; 'A Test for Relative Efficiency and Application to Indian Agriculture'; *American Economic Review, 61: 94-109, March 1970.*

[24] Srivastava, Uma K, and R Vaitheswaran, 'Economic and Political Effects of the Green Revolution'; *Economic Times,* June 3, 1971.

[25] *Wharton, Clifton R, Jr* 'The Green Revolution: Cornucopia or Pandora's Box'; *Foreign Affairs,* 47: 464-476, April 1969.

Inter-Class Incidence of Taxation in Farm and Non-Farm Sectors in India

S L Shetty

The existing differential in the tax burdens of farm and non-farm sectors may appear to follow from the difference between their inequality patterns. For, it may be argued that under progressive taxation the greater the inequality in income the larger the tax revenue earned by the State. But there is a false premise here. The prevailing systems of taxation in the farm and non-farm sectors are entirely different in nature and progressiveness. In fact, land revenue which is the principal direct tax on the farm sector is at best a proportional tax, whereas the income-tax on the non-farm sector is highly progressive.

Nevertheless, inter-class analysis of tax burdens is valid. Its purpose is to bring out the difference between the actual tax burden and the potential capacity at the different income levels. Moreover, the revenue potential of a sector depends not simply on the overall distribution pattern but on the distribution of income above a certain minimum. The revenue potential thus depends on the level and extent of 'big' incomes in the system.

This paper, therefore, measures the inter-class burden of taxation by juxtaposing two sets of data: the data on income distribution and the data on tax burdens at different income levels. Section I examines the two patterns of income distribution; Section II examines the distribution of tax burdens among the different income groups; Section III analyses inter-class 'equity' of tax burdens.

[*This study is an abridged version of Chapter 5 in the author's doctoral dissertation on "Tax Burden on Farm and Non-Farm Sectors in India — An Inter-Sectoral and Inter-Class Analysis", submitted to the University of Bombay in 1970. The author is grateful to the late H C Malkani, to C H Shah, E T Mathew and V M Jakhade, for their comments and encouragement at various stages of the study.*]

GIVEN a progressive system of taxation, the greater the inequality in distribution of income, the larger is the tax revenue earned by the State. It may be argued that the existing differential in the tax burdens of farm and non-farm sectors may be explained by the difference in their inequality pattern. But there is a basic flaw in this argument. The prevailing systems of taxation in the farm and the non-farm sectors—especially the system of direct taxation to which the pattern of income distribution is related—are entirely different in their nature and progressiveness. Land revenue, which is the principal direct tax on the farm sector, is said to be at best a proportional tax, whereas the income-tax levied on non-farm incomes is a highly progressive tax. Nevertheless, the inter-class analysis of tax burdens is still valid; for, its purpose is to bring out the difference between the actual tax burden and the potential capacity at the different income levels. This is not to suggest that the two sectors should have identical systems of taxation with identical rates schedules. But, any equitable system of taxation, devised for the farm and non-farm sectors under their existing patterns of income distribution, entails that the proportion of income paid as tax be equal in the comparable income groups of the two sectors.

There is yet another issue that needs to be clarified here, *viz,* the nature of the income distribution above a given minimum. Even in a progressive system of taxation, the revenue potential of a given sector does not depend merely on the overall distribution pattern; rather, it depends upon the distribution of income *above* a given minimum which may be treated as the 'exemption limit' for direct tax purposes. In other words, the revenue potential depends upon the level and extent of 'big' incomes in the system.

Against this background, we may examine initially the patterns of income distribution in the farm and non-farm sectors of the Indian economy. Basically, the measurement of the inter-class burden of taxation entails the juxtaposition of two sets of data: the data on income distribution and the data on tax burdens at different income levels. In Section I, we examine the patterns of income distribution in the two sectors; we devote Section II to examining the distribution of tax burdens among the different income groups in the two sectors; in Section III, the results of the first two Sections are juxtaposed for analysing the inter-class 'equity' of tax burdens.

I

Patterns of Income Distribution in Farm and Non-Farm Household Sectors

The most difficult part of the analysis[1] has been one of presenting reliable estimates of the patterns of income distribution in the farm and non-farm sectors. Even the Mahalanobis Committee on "Distribution of Income and Levels of Living" was sceptical about the data on income distribution in India; they said that "the required data are not available at present for a direct study of the question on income distribution referred to the Committee and no firm conclusions on the subject can be drawn".[2] However, they appended the following footnote to this observation: "It may be noted that adequate data for a thorough study of the changes in income distribution are not available even for advanced countries having better statistical systems than in India".[3] No doubt, quite a few studies have been undertaken in recent years which have a bearing on the distribution of income in India.

The only studies which bear a close resemblance to our requirements are those of Ojha and Bhatt in the *Reserve Bank of India Bulletin*[4] and the NCAER.[5] However, the NCAER studies are not available for any year before 1960 and hence the extent of changes in income distribution, in recent years over the earlier period of planning, is difficult to discern. Even among the studies it has done, only two are comprehensive, designed to obtain data on the pattern of income distribution: One is on urban income and savings undertaken for 1960 and the other on rural income and savings for 1962. Other studies are on consu-

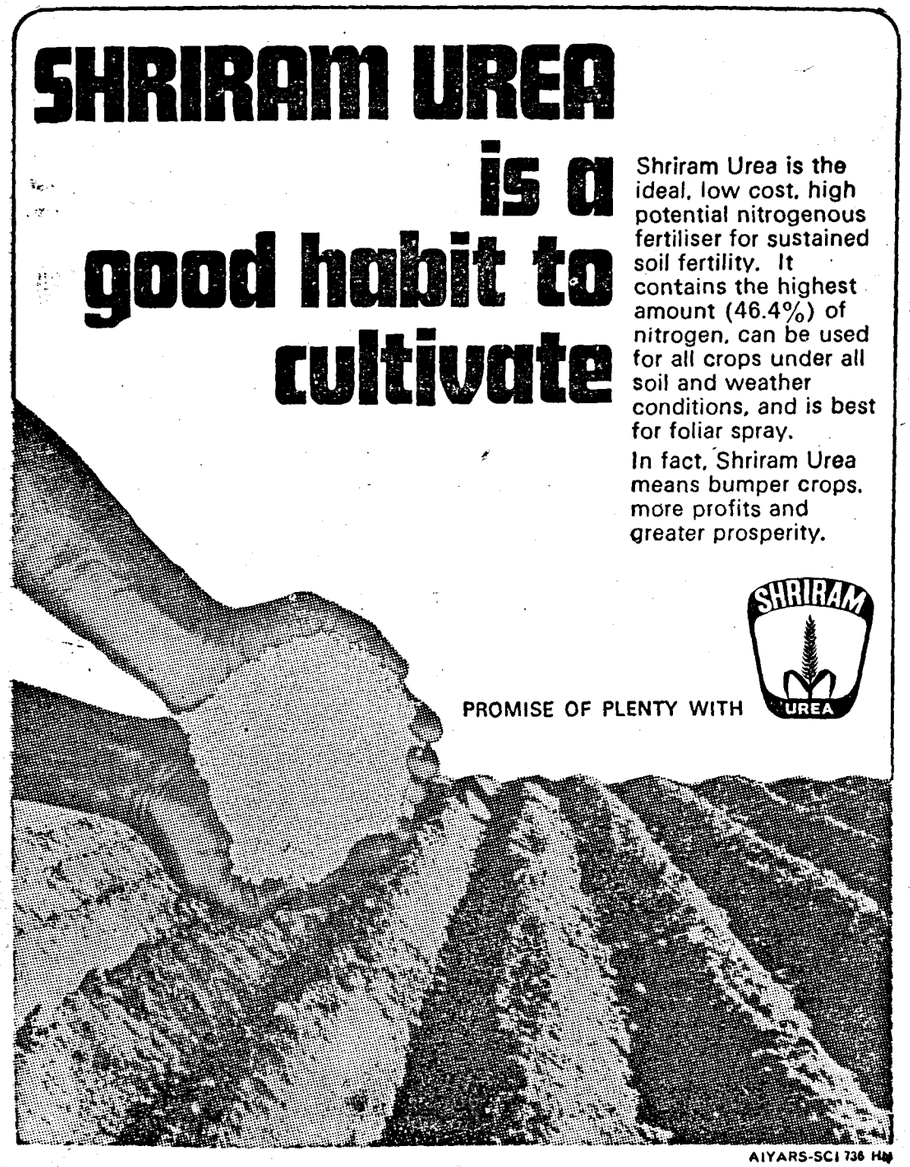


TABLE 1 : AVERAGE SIZE OF HOUSEHOLD BY MONTHLY PER CAPITA EXPENDITURE CLASSES

(in numbers)

Monthly Per Capita Expenditure Class (Rs)	Fourth Round (April-September 1952)		Twelfth Round (March-August 1957)		Eighteenth Round (February 1963-January 1964)	
	Rural Areas	Urban Areas	Rural Areas	Urban Areas	Rural Areas	Urban Areas
0- 8	5.48	5.53	5.61	6.65	5.98	6.96
8-11	5.03	6.00	5.34	5.60	5.73	6.52
11-13	4.76	5.44	5.06	5.06	5.68	6.40
13-15	5.06	4.63	5.30	5.39	5.52	5.32
15-18	5.18	5.46	5.04	5.37	5.45	5.74
18-21	5.69	5.19	4.66	4.92	5.26	5.36
21-24	4.76	5.23	4.54	4.64	5.21	5.53
24-28	4.62	4.74	4.86	4.77	4.86	5.21
28-34	5.17	4.69	3.89	4.02	4.78	4.70
34-43	4.91	4.58	3.85	3.38	4.41	3.87
43-55	4.36	3.84	4.04	3.42	4.25	3.31
55 and above	4.14	3.17	3.86	2.76	3.62 | * 3.69 |	3.27 | * 2.82 |
All classes	5.02	4.73	4.97	4.50	5.15	4.59

* The highest expenditure class is further split up into two classes, namely Rs 55-75 and 75 and above, from the 1st Round.

Source : The National Sample Survey (New Delhi : Cabinet Secretariat, Government of India): (i) Report on Pattern of Consumer Expenditure (Number 20, Second to Seventh Round : April 1951 - March 1954), pp 57 and 157; (ii) Tables with Notes on Consumer Expenditure (Number 78, Twelfth Round : March-August 1957), pp 17 and 65; and (iii) Tables with Notes on Consumer Expenditure (Preliminary) (Number 142, Eighteenth Round : February 1963-January 1964), pp 19, 20 and 92-93.

TABLE 2 : AVERAGE SIZE OF HOUSEHOLD BY HOUSEHOLD EXPENDITURE CLASSES

(in numbers)

Monthly Household Expenditure Classes (Rs)	4th Round (April-September 1952)		13th Round (September 1957-May 1958)		17th Round (September 1961-July 1962)	
	Rural	Urban	Rural	Urban	Rural	Urban
0-25	3.18	2.36	3.23	2.30	1.85	1.38
26-50	—	—	—	—	3.08	2.13
51-100	4.63	3.95	4.99	4.08	4.63	3.57
101-150	5.66	4.98	6.21	5.37	5.82	4.93
151-300	7.21	6.26	7.76	6.77	7.25	6.33
300-500	9.21	7.60	9.62	8.28	10.10	7.98
501-1000	12.24	9.00	—	—	—	—
1001 and above	—	10.76	—	—	—	—
All classes	5.01	4.62	5.08	4.58	5.12	4.65

Source : The National Sample Survey (New Delhi : Cabinet Secretariat, Government of India) : (i) Tables with Notes on Consumer Expenditure (Fourth Round: April-September 1952), pp 40 and 44; (ii) Consumer Expenditure by Levels of Household Expenditure (Thirteenth Round : September 1957-May 1958), pp 28 and 88; and (iii) Tables with Notes on Consumer Expenditure (Preliminary) : (Seventeenth Round : September 1961-July 1962), pp 12-13 and 30-31.

mer expenditure of households, and the data they contain on income distribution are in the nature of a by-product. "It would be difficult to venture any comparison between the 1962 data presented earlier and these figures as both the definition and the purpose of two studies are different. In one case, data were canvassed on consumer expenditure and in the other, on savings and income."[6]

Even the comprehensive studies, referred to above, give the pattern of income distribution in respect of 'rural' and 'urban' households, and not of 'farm' and 'non-farm' households. On *a priori* grounds, it is difficult to accept that, in the Indian context, the patterns of income distribution in 'rural' and 'urban' sectors squarely correspond to the patterns obtaining in 'farm' and 'non-farm' sectors. Any attempt to redesign the NCAER data, to get the patterns of distribution in 'farm' and 'non-farm' sectors, should be only tentative. We have done it, but only to use it as corroborative evidence. However, we cannot apply the NCAER methods and derive the results for farm/non-farm classification of households for early years, for its studies are based on extensive sample household surveys. It is also not possible to read the trends in income distribution from the Ojha-Bhatt study and the NCAER Survey results taken together, as they do not appear consistent with each other. Though the essence of the method of estimation used in the Ojha-Bhatt study is the same as that of many other studies, *viz*, the integration of the income-tax data with the NSS consumer expenditure data, it is the most comprehensive of all, it is 'ingenuous' and 'worthy of emulation'[7] and amenable to revision and fresh derivation for subsequent years.[8] The results can also be obtained precisely in respect of the sectors with which we are directly interested, *viz*, 'farm' and 'non-farm' sectors. However, the method as it was originally employed was marred by certain drawbacks. The most serious one pointed out by Ranadive pertains to the inadmissability of deriving the size-distribution of personal household income from a given size-distribution of per capita consumer expenditure.[9] This needs to be amplified.

In the relevant NSS Round on consumer expenditure, employed by the Ojha-Bhatt study, the unit of sampling and accounting was the household. But, while presenting the final results, each household's total consumer expenditure was divided by its (household) size, and thus, every household was treated as belonging to a particular *per capita* expenditure group instead of as belonging to a particular *household* expenditure group. There were 13 such per capita monthly expenditure classes. Against each class, *inter alia* expenditure per capita for a period of 30 days, proportions of population, and size of households, were given. Based on these data, the Ojha-Bhatt study had converted the per capita expenditure classes into per household expenditure classes. It was done by multiplying the per capita expenditure with the size of household in each bracket. But, this multiplication process did not surely place the sample households into their original household size classes; in fact, the whole original NSS data got tampered with. In a situation where the high-income households are associated with large household size, particularly in the rural sector, the derivation of the size distribution of household income from the size distribution of expenditures by per capita expenditure classes does introduce a downward bias in respect of incomes appropriated

TABLE 3 : DISTRIBUTION OF ESTIMATED NUMBER OF HOUSEHOLDS AND PERSONS BY MONTHLY PER CAPITA EXPENDITURE CLASSES

(in percentages)

Monthly Per Capita Expenditure Class (Rs)	Fourth Round (April-September 1952)		Twelfth Round (March-August 1957)		Eighteenth Round (February-1963-January 1964)	
	Households	Persons	Households	Persons	Households	Persons
			Rural Areas			
Below 43*	92.01	93.23	95.59	96.50	91.40	93.39
43-55	4.22	3.66	2.09	1.70	4.45	3.67
55 and above	3.77	3.11	2.32	1.80	(2.46)** (1.69)	(1.73)** (1.21)
43 and above	7.99	6.77	4.41	3.50	8.60	6.61
Grand total	100.00	100.00	100.00	100.00	100.00	100.00
			Urban Areas			
Below 43*	78.89	84.63	81.97	87.86	70.55	79.92
43-55	8.76	7.10	7.50	5.70	10.07	7.25
55 and above	12.35	8.27	10.53	6.44	(9.48)** (9.90)	(6.75)** (6.08)
43 and above	21.11	15.37	18.03	12.14	29.45	20.08
Grand total	100.00	100.00	100.00	100.00	100.00	100.00

* Lower expenditure classes are not reproduced here since they are not relevant to the subject matter under discussion.

** In the Eighteenth Round, the last expenditure class was further split up into two, namely, Rs 55-Rs 75 and Rs 75 and above. Figures in brackets are for these two classes, respectively.

TABLE 4 : DISTRIBUTION OF THE ESTIMATED NUMBER OF HOUSEHOLDS AND PERSONS BY MONTHLY HOUSEHOLD EXPENDITURE CLASSES

(in percentages)

Monthly Per Capita Expenditure Class (Rs)	Fourth Round (April-September 1952)		Thirteenth Round (September 1957-May 1958)		Seventeenth Round (September 1961-July 1962)	
	Proportion of Households	Proportion of Persons	Proportion of Households	Proportion of Persons	Proportion of Households	Proportion of Persons
			Rural Areas			
Upto 150*	80.68	69.71	84.81	75.64	80.62	70.36
151 - 300	14.79	21.26	11.90	18.31	15.48	21.94
300 and above	4.53	9.03	3.29	6.05	3.90	7.70
Below 250	90.54	83.88	92.74	87.85	90.94	84.99
Above 250	9.46	16.12	7.26	12.15	9.06	15.01
Total	100.00	100.00	100.00	100.00	100.00	100.00
			Urban Areas			
Upto 150*	72.24	58.61	77.00	64.11	68.73	54.51
151 - 300	18.80	25.47	17.20	25.42	23.11	31.47
300 and above	8.96	15.92	5.80	10.47	8.16	14.02
Below 250	84.77	75.59	88.47	81.06	84.14	75.49
Above 250	15.23	24.41	11.53	18.94	15.86	24.51
Total	100.00	100.00	100.00	100.00	100.00	100.00

* Lower expenditure classes are not reproduced here since they are not relevant to the subject under discussion.

by these high-income groups. This apparent inconsistency is evident from the results of different Rounds of NSS which present data on size of households by expenditure classes. It is widely accepted, both on *a priori* grounds and on empirical evidence—which we will presently cite—, that the size of household generally increases with income in the rural as well as urban sectors in India. On the other hand, all the Rounds of the NSS on consumer expenditure, which give their result in terms of per capita expenditure classes show that average size of households is the lowest in the last two highest expenditure classes, both in rural and urban areas. In fact, among the 13 expenditure classes, the size increases with expenditure classes initially, but thereafter it tapers off reaching the lowest size in the last two highest expenditure classes. Table 1 reproduces the results of a few Rounds to show how consistently these observations hold good in respect of both rural and urban sectors and in all the Rounds of the NSS. This shows that in the NSS classification, those households with large total expenditures but with equally large household size (much above the average) fall under lower[10] classes of per capita expenditure. Alternatively, those households which report small total household expenditures but which have equally small household size fall under higher expenditure groups.

In the Ojha-Bhatt method, the total expenditure of the high-income households is derived by multiplying the per capita expenditure of the high expenditure classes[11] by their respective household size. These are the households for which low household size is revealed in the NSS results. The total expenditure of these households with such low household size are taken as the expenditures of the high-income groups. It is precisely this that is objectionable. The total expenditures of these households may be high, but certainly not as high as the total expenditures of those households with large household size.

In this regard, in some of the NSS Rounds themselves, where the data are presented in *household* expenditure classes, there is evidence that large household expenditure groups have a bigger size of households. For instance, the data, reproduced in Table 2 from a few Rounds of the NSS, reveal how consistently size of households increases with the increase in the monthly household expenditure classes, both in rural and urban areas. It is also revealed that, against all expenditure classes, the

TABLE 5 : STATE OF INCOME DISTRIBUTION IN FARM AND NON-FARM SECTORS

Grades of Income (Rs)	1952-53/1953-54				1957-58/1958-59				1961-62/1962-63			
	Households		Income		Households		Income		Households		Income	
	Number (in thousands)	Percentage to Total	Amount (Rs crores)	Percentage to Total	Number (in thousands)	Percentage to Total	Amount (Rs crores)	Percentage to Total	Number (in thousands)	Percentage to Total	Amount (Rs crores)	Percentage to Total
					Farm Households							
Low : below 3,000	4,71,04	90.54	3,676	69.6	5,23,73	92.74	4,464	74.3	5,54,68	90.94	5,328	73.4
High : above 3,000	49,22	9.46	1,602	30.4	41,00	7.26	1,544	25.7	55,26	9.06	1,930	26.6
(i) Middle : 3,001 - 25,000	48,80	9.38	1,496	28.4	40,55	7.18	1,424	23.7	64,77	8.98	1,785	24.6
(ii) Top : above 25,000	42	0.08	106	2.0	45	0.08	120	2.0	49	0.08	145	2.0
Total	5,20,26	100.00	5,278	100.0	5,64,73	100.00	6,008	100.0	6,09,94	100.00	7,258	100.0
					Non-Farm Households							
Low : Below 3,000	1,99,39	87.05	2,890	59.5	2,27,58	90.09	3,785	63.0	2,35,97	86.66	4,476	58.7
High : Above 3,000	29,66	12.96	1,967	40.5	25,03	9.91	2,220	37.0*	36,33	13.34	3,150	41.3
(i) Middle : 3001 - 25,000	27,43	12.00	1,461	30.1	23,36	9.25	1,753	29.2*	33,95	12.47	2,311	30.3
(ii) Top : above 25,000	2,23	0.95	506	10.4	1,67	0.66	467	7.8*	2,38	0.87	839	11.0
Total	2,29,05	100.00	4,857	100.0	2,52,61	100.00	6,005	100.0	2,72,30	100.00	7,626	100.0
Grand total	7,49,31	—	10,135	—	8,17,34	—	12,013	—	8,82,24	—	14,884	—

* Certain adverse factors had brought down the share of high income urban households during these years.

TABLE 6: SHARE OF HIGH-INCOME HOUSEHOLDS (ABOVE RS 3,000 PER ANNUM) IN 'RURAL' AND 'FARM' INCOMES IN INDIA

(in percentages)

Share of High-Income Households in Total of	Ojha-Bhatt Study[1]		NCAER[2] Studies		Our Estimates		
	1953-54/ 1954-55	1955-56/ 1956-57	1960	1962	1952-53/ 1953-54	1957-58/ 1958-59	1961-62/ 1962-63
'Rural' incomes	12.7	11.3	24.0	25.8	—	—	—
'Farm' incomes	12.5	11.1	—	27.8*	30.4	25.7	26.6

* This is based on an attempt made to regroup the NCAER data, given for different types of rural households, into those for 'farm' and 'non-farm' households (within the rural sector).

Sources: 1 P D Ojha and V V Bhatt in *Reserve Bank of India Bulletin* (Vol XVI, No 9, September 1962), p 1361.

2 NCAER: All India Rural Household Survey: 1962 (A Summary Statement on Income Distribution in Rural and All-India), Occasional Paper No 13 (New Delhi, January 1965), pp 21-22.

TABLE 7: SHARE OF HIGH-INCOME GROUP (INCOME ABOVE RS 3,000) IN 'NON-FARM' AND 'URBAN' INCOMES

(in percentages)

Share of High-Income Households in Total of	Ojha-Bhatt Study		NCAER Study	Our Estimates		
	1953-54/ 1954-55	1955-56/ 1956-57	1960	1952-53/ 1953-54	1957-58 1958-59	1961-62/ 1962-63
'Urban' Incomes	34.9	41.9	50.2	—	—	—
'Non-farm' Incomes	24.5	28.1	40.3*	40.5	37.0	41.3

* This is derived by combining the NCAER's estimates of income distribution for 'urban' households and for 'non-farm' households of the 'rural' sector.

Sources: 1 See P D Ojha and VV Bhatt in *Reserve Bank of India Bulletin* (September 1962), *op cit*, p 1361.

2 See NCAER: "Urban Income and Saving" (New Delhi, 1962), p 42.

household size is higher in rural areas than in urban areas; and this difference is particularly significant in the highest expenditure class, *viz*, Rs 300 and above.

Since we have two sets of classifications (based on per capita and household expenditure classes) given by the NSS themselves, it is possible to examine the nature of bias the procedure adopted by Ojha-Bhatt study had possibly given rise to.

If the data by per capita expenditure classes are employed, the line of demarcation between low (below Rs 3,000 per annum) and high (above Rs 3,000 per annum) income groups should fall in the last expenditure class of Rs 55 and above, in both rural and urban sectors.[12] Incidentally, this assumes that there are no savings by the low-income households. When we employ the data given by household expenditure classes, the income limit of Rs 3,000 falls within the expenditure bracket of Rs 151-300, that is, at a monthly household expenditure level of Rs 250. Now, proportions of both estimated households and persons above this limit are observed to be higher in the data with household expenditure classes than in the data with per capita expenditure classes.

For instance, in the Fourth Round (where data are given in both the classifications), for the urban areas, the proportion of persons falling in the last two expenditure brackets of (Rs 43 and above) formed hardly 15.37 per cent of the total urban population (see Table 3). The same Round's data, when given according to per household expenditure classes, show that the proportion of households falling above the monthly household expenditure of Rs 250 formed about 24.41 per cent (see Table 4). This is, no doubt, based on the assumption that households within the class interval of Rs 151-300 are uniformly distributed. Even if it is not so, the difference should still be significant.

The differential distribution pattern in the two sets of classifications, described above, is found to be more in respect of the rural households. Thus, in the Fourth Round, while the per capita expenditure classification yielded only 6.77 per cent of the rural population as falling under the last two per capita expenditure brackets (Rs 43 and above), the household expenditure classification placed the proportion at 16.42 per cent, i e, only a little less than two and a half times the former. This differential is evident, almost to the same extent, even when the results of Thirteenth and Seventeenth Rounds, are placed against those of the comparable Rounds with per capita expenditure classes.

The second drawback of the Ojha-Bhatt study, which has been noticed in retrospect, is the application of data on consumer expenditure without making allowance for the widely known over-reporting in the consumption of foodgrains, particularly by the high-income rural households.[13]

The third modification pertains to only the Fourth Round (April-September 1952). The results of the first eight Rounds of the National Sample Survey on Consumer Expenditure are not comparable with the subsequent ones, mainly because till the Eighth Round the imputation of self-produced commodities was made at retail prices, and from the Ninth Round these were imputed at ex-farm prices.[14] Among the four Rounds of the NSS which Ojha-Bhatt had employed, the first two (seventh and eight) Rounds and the self-produced commodities imputed at retail prices. It was probably for this reason that they had made the following observations: "Moreover, the estimated all-India consumption expenditure on the basis of the NSS data exceeds the private income as estimated by the Central Statistical Organisation (CSO); thus the NSS data are not consistent with the National Income data".[15] It is observed that this is true for only the first of the three Rounds used here. Therefore, some adjustment has to be made for the overestimation of consumption expenditure due to imputation at retail prices. The adjustment is particularly necessary because the proportion of self-produced consumption is higher in the 'rural' sector than in the 'urban' sector. For instance, according to the Fourth Round (April-September 1952), the proportion of self-produced consumption worked out to about 44.4 per cent for 'rural' households and only 10.3 per cent for 'urban' households.

We have made an attempt to present independent estimates of income distribution in farm and non-farm sectors during certain intervals of years; for this, we have adopted broadly the Ojha-Bhatt model, but after eliminating the drawbacks cited above. Salient features of the final results are discussed here.

TABLE 8 : PATTERN OF INCOME DISTRIBUTION BETWEEN MIDDLE AND TOP INCOME BRACKETS — FARM AND NON-FARM SECTORS

(in percentages)

Income Group	1952-53/1953-54		1957-58/1958-59		1961-62/1962-63	
	Proportion of Income	Proportion of Households	Proportion of Income	Proportion of Households	Proportion of Income	Proportion of Households
			Farm Sector			
Middle : (Rs 3,001 - Rs 25,000)	93.4	99.2	92.2	98.9	92.5	99.1
Top : (above Rs 25,000)	6.6	0.8	7.8	1.1	7.5	0.9
All high-income households	100.0	100.0	100.0	100.0	100.0	100.0
			Non-Farm Sector			
Middle : (Rs 3,001 - Rs 25,000)	74.3	92.5	79.0	93.3	73.4	93.5
Top : (above Rs 25,000)	25.7	7.5	21.0	6.7	26.6	6.5
All high-income households	100.0	100.0	100.0	100.0	100.0	100.0

Note : These proportions are based on data contained in Table 3.

TABLE 9: DISTRIBUTION OF DIRECT TAX BURDEN BY GRADES OF INCOME IN RESPECT OF NON-FARM HOUSEHOLDS

Grades of Income (Rs)	1952-53/1953-54		1957-58/1958-59		1961-62/1962-63	
	Tax Burden (Rs crores)	Percentage to Total	Tax Burden (Rs crores)	Percentage to Total	Tax Burden (Rs crores)	Percentage to Total
Low : below 3,000	—	—	—	—	—	—
Middle : 3,000 - 25,000	27.52	22.6	33.65	21.5	46.40	23.3
Top : 25,000 and above	94.38	77.4	123.01	78.5	152.73	76.7
Total	121.90	100.0	156 66	100.0	199 13	100.0

TABLE 10 : INCIDENCE OF AGRICULTURAL INCOME-TAX BY GRADES OF INCOME IN SELECTED STATES, 1960-61

Grades of Income	Agricultural Income-Tax Collected				
	Assam	Madras	Kerala	Total	In Percentage to Total of All Grades
	(Rs in lakhs)				
Below Rs 25,000	1.95	20.90	74.62*	97.47	16.5
Above Rs 25,000	288.04	93.26	111.93*	493.23	83.5
All grades	289.99	114.16	186.55	590.70	100.0

* Derived by splitting up the income range of Rs 20,000-Rs 30,000.

Source : 'Agricultural Income-Tax in India', *Reserve Bank of India Bulletin* (Volume XVII, Number 8, August 1963), p 1030.

THE RESULTS

The patterns of income distribution in farm and non-farm sectors have been worked out for three periods: 1952-53/1953-54, 1957-58/1958-59, and 1961-62/1962-63. These years have been chosen on the basis of availability of the required NSS consumer expenditure data. In a comprehensive and formidable critique of the Ojha-Bhatt study, Ranadive had suggested that "the more reasonable course to follow would, therefore, be to use the original NSS data directly in terms of households".[16] This is precisely what we have done. It has been made possible because the National Sample Survey have themselves provided the consumer expenditure data in terms of households in three Rounds, namely, Fourth Round (April-September 1952), Thirteenth Round (September 1957-May 1958), and Seventeenth Round (September 1961-July 1962). The final results of our estimates of income distribution are presented in Table 5.

There are a few differences between the results of the Ojha-Bhatt study and those of the present study. The first major difference relates to the proportion of farm income appropriated by high-income households. According to the Ojha-Bhatt study, the high-income farm households (with income above Rs 3,000 per annum) appropriated about 12.5 per cent of the total farm income during the first period (1953-54/1954-55) and about 11.1 per cent during the second period (1955-56/1956-57). On the other hand, our results show that these households appropriated about 30.4 per cent during 1952-53/1953-54, about 25.7 per cent during 1957-58/1958-59, and about 26.6 per cent during 1961-62/1962-63. The most important explanation for the difference is to be found in the method employed by the Ojha-Bhatt study in deriving size-distribution of household income from the size-distribution of per capita consumer expenditure. As explained earlier, this has introduced a definite downward bias in the estimation of incomes of high-income groups both in farm and non-farm sectors, but the degree of underestimation is more in farm sector than in non-farm sector.

There is also corroborative evidence in support of our results in the survey results of the NCAER studies, which show that the proportion of income appropriated by the high-income groups in the 'rural' sector ranged between 24.0 and 25.8 per cent of the total 'rural' income during the years 1960 to 1962. True, the pattern of distribution in the 'rural' sector need not correspond to the pattern obtaining in the 'farm' sector. But, as shown in Table 6, the

TABLE 11 : DISTRIBUTION OF DIRECT TAX BURDEN BY GRADES OF INCOME IN RESPECT OF FARM HOUSEHOLDS

Grades of Income	1952-53/1953-54		1957-58/1958-59		1961-62/1962-63	
	Amount (Rs crores)	Percentage to Total	Amount (Rs crores)	Percentage to Total	Amount (Rs crores)	Percentage to Total
Low : below Rs 3,000	49.08	66.1	72.24	68.6	87.42	67.9
High : above Rs 3,000	25.16	33.9	33.34	31.4	41.26	32.1
(i) Middle : Rs 3,001-Rs 25,000	20.49	27.9	24.42	23.0	30.74	23.9
(ii) Top : above Rs 25,000	4.67	6.3	8.92	8.4	10.52	8.2
Total	74.24	100.0	106.08	100.0	128.68	100.0

difference is marginal, and, what is more, the share of income appropriated by high-income groups is estimated to be more in the 'farm' sector (27.8 per cent) than in the 'rural' sector (25.8 per cent). Significantly, our results for 1961-62/1962-63 place the estimated share for the high-income farm households at 26.6 per cent, which compares well with these estimates based on the NCAER study.

Secondly, the Ojha-Bhatt study has made the assumption that there are no households earning more than Rs 25,000 per annum in the farm sector. It is not that they have ruled out the possibility of any households in the farm sector earning more than that sum. What they opined was: "The exclusion of the small number of households in this bracket would not affect to any perceptible extent the distribution of income".[17] From the point of view of the present study, the sub-classification of the high-income farm group into middle and top-income groups is found necessary—however small the share of the top-income group may be. It is observed that the share of farm income appropriated by top-income bracket (earning more than Rs 25,000 per annum) works out to about 2 per cent, whereas the share of corresponding group in the non-farm sector generally stands at a little more than 10 per cent throughout the period under study. Incidentally, the NCAER had placed the share of 'rural' income appropriated by top-income 'rural' households at 1.92 per cent as against 10.8 per cent for the corresponding households in the 'urban' sector.[18]

The last important difference is on the share of high-income brackets in the non-farm sector. The Ojha-Bhatt study revealed that the high-income non-farm group (earning more than Rs 3,000 per annum) appropriated about 24.5 per cent of the total non-farm household income during the first period (1953-54/1954-55). The present estimates for 1952-53/1953-54 place the proportion at 40.5 per cent or, for 1961-62/1962-63 at 41.3 per cent. Here again our results seem to be on firmer ground. The Ojha-Bhatt study had understated the share of the high-income households due to the procedure adopted therein. The NCAER results also show that the share of high-income 'urban' (or 'non-farm') households should be much more than what was revealed by the Ojha-Bhatt study. Comparing the Ojha-Bhatt estimates with their own, the NCAER write thus: "As a result, the RBI data understate the concentration of income among upper income groups both at the rural and urban levels and give an appearance of relative equality of incomes in India compared with developed economies which is not warranted".[19]

Table 7 compares the share of high-income non-farm group as revealed in our study with the Ojha-Bhatt estimates, on the one hand and with those of the NCAER, on the other. Our results have a close resemblance to those of the NCAER based on field surveys. Here, it is to be conceded that, in the Ojha-Bhatt study, the extent of underestimation of the income share of high-income groups was much less for the 'urban' households than for 'rural' households because household size is larger in high expenditure 'rural' households than in high-expenditure 'urban' households. That their procedure had yielded inconsistent results may be observed from the fact that, while the share of high-income households within the 'urban' sector was as high as 41.9 per cent, the corresponding proportion for the non-farm sector was only 28.1 per cent. This is because the non-farm sector comprises 'urban' households as well as 'non-farm' rural households; and, since there was a gross underestimation of the share of the latter type of households, it brought about a downward bias in the estimates for the high-income non-farm households as a whole.

TABLE 12 : INCIDENCE OF DIRECT TAXES BY GRADES OF INCOME, FARM AND NON-FARM SECTORS

Grades of Income (Rs)	1952-53/1953-54			1957-58/1958-59			1961-62/1962-63		
	Income (Rs crores)	Tax Burden (Rs crores)	Tax Burden as Percentage of Income	Income (Rs crores)	Tax Burden (Rs crores)	Tax Burden as Percentage of Income	Income (Rs crores)	Tax Burden (Rs crores)	Tax Burden as Percentage of Income
Farm Sector									
Low : below 3,000	3,676	49.08	1.3	4,464	72.74	1.6	5,328	87.42	1.6
High : above 3,000	1,602	25.16	1.6	1,544	33.34	2.2	1,930	41.26	2.1
(i) Middle : 3,001-25,000	1,496	20.49	1.4	1,424	24.42	1.7	1,785	30.74	1.7
(ii) Top : above 25,000	106	4.67	4.4	120	8.92	7.4	145	10.52	7.3
Total	5,278	74.24	1.4	6,008	106.08	1.7	7,258	128.68	1.8
Non-Farm Sector									
Low : below 3,000	2,890	—	—	3,785	—	—	4,476	—	—
High : above 3,000	1,967	121.90	6.2	2,220	156.66	7.1	3,150	199.13	6.3
(i) Middle : 3,001-25,000	1,461	27.52	1.9	1,753	33.65	1.9	2,311	46.40	2.0
(ii) Top : above 25,000	506	94.38	18.7	467	123.01	26.3	839	152.73	18.2
Total	4,857	121.90	2.5	6,005	156.66	2.6	7,626	199.13	2.6

TABLE 13: INCIDENCE OF INDIRECT TAXES BY GRADES OF INCOME, FARM AND NON-FARM SECTORS

Grades of Income (Rs)	1952-53/1953-54			1957-58/1958-59			1961-62/1962-63		
	Income (Rs crores)	Indirect Tax Burden (Rs crores)	Indirect Tax Burden as Percentage of Income	Income (Rs crores)	Indirect Tax Burden (Rs crores)	Indirect Tax Burden as Percentage of Income	Income (Rs crores)	Indirect Tax Burden (Rs crores)	Indirect Tax Burden as Percentage of Income
Farm Sector									
Low: below 3,000	3,676	102.41	2.8	4,464	195.02	4.4	5,328	312.40	5.9
High: above 3,000	1,602	61.71	3.9	1,544	100.10	6.5	1,930	178.72	9.3
(i) Middle: 3,001-25,000	1,496	60.87	4.1	1,424	98.30	6.9	1,785	176.07	9.9
(ii) Top: above 25,000	106	0.84	0.8	120	1.80	1.5	145	2.65	1.8
Total	5,278	164.12	3.1	6,008	295.12	4.9	7,258	491.12	6.8
Non-Farm Sector									
Low: below 3,000	2,890	89.05	3.1	3,785	209.15	5.5	4,476	290.03	6.5
High: above 3,000	1,967	102.66	5.2	2,220	165.54	7.5	3,150	349.78	11.1
(i) Middle: 3,001-25,000	1,461	81.50	5.6	1,753	132.21	7.5	2,311	290.00	12.5
(ii) Top: above 25,000	506	21.16	4.2	467	33.33	7.1	839	59.78	7.1
Total	4,857	191.71	3.9	6,005	374.69	6.2	7,626	639.81	8.4

Here, it is necessary to make a little digression and to highlight the patterns of distribution of incomes above the limit of Rs 3,000 per household per annum obtaining in farm and non-farm sectors. This is in anticipation of the inter-class analysis of tax incidence to be carried out in the next Section.

It was said at the outset that the revenue potential of a group of income recipients is dependent upon the number of 'big' incomes among them. Assuming that Rs 3,000 is the possible exemption limit in a system of direct taxation for both farm and non-farm sectors,[20] it is necessary to know how the incomes above this limit get distributed. Table 8 is designed to portray this distribution in farm and non-farm sectors. The most striking feature observed from this Table is that, while the share of the top-income group in the incomes of the high-income farm households (i e, above the limit of Rs 3,000 per annum) formed about 7 to 8 per cent during the entire period under study, the corresponding share of the top-income group in the non-farm sector worked out to about 26 to 27 per cent. In terms of household distribution, while hardly less than one per cent of the households in the farm sector belonged to the top-income group, about 7 per cent of the non-farm households belonged to this group. This differential distribution pattern should have its significance for the revenue potentiality of the two sectors.

Before we conclude, it must be stated that we do not claim to have provided conclusive answers to all the problems connected with the estimates of income distribution for farm and non-farm sectors in India. We are primarily concerned with the problem of tax burden and the inter-class variations therein. However, we could not have proceeded further without succeeding in presenting fairly accurate estimates of income distribution for farm and non-farm sectors.

Certain phenomena, which are widely accepted in the existing studies to be true of the Indian economy, are also confirmed by our results. Thus, if concentration of income in the high-income groups is the yardstick,[21] distribution of income is more unequal for non-farm households than for farm households. It is also revealed that there was some reduction in inequality in the farm sector, particularly during the early fifties—possibly because of an important piece of legislation, *viz*, the abolition of intermediaries. Thereafter, there was no such policy impetus for redistribution, and the pattern of inequality seems to have remained static. In fact, there are signs of an increase in inequality in the farm sector in very recent years. For the non-farm sector, our results show that there has been no basic change in the inequality pattern, which is also revealed by the NCAER results, though their estimates belong to different time-periods. They write: "In the urban areas, on the other hand, there seems to be no definite indication of a change .... The broad conclusions from these data would be that, while there is some trend towards reduction in equality in the rural sector, this is not true in the case of the urban sector."[22] According to our results, the share of the high-income group in the total non-farm income was 40.5 per cent during the first period (1953-55) and remained at almost the same level (41.3 per cent) during the last period (1961-63). During the second period (1957-59), the share was less at 37 per cent as it was an exceptionally bad period for the non-farm households. All the relevant data—such as income originating in the sector, value-added in the manufacturing industries, savings of urban households, and share of top-income assessees in the total income assessed to income tax—suggest that the share of non-farm high-income households should be low during this period.

II

Distribution of Tax Burden by Grades of Income

NON-FARM SECTOR

Among the direct taxes applicable to non-farm households, income-tax is most important; other direct taxes are comparatively insignificant insofar as their overall burden is concerned. The Income-Tax Revenue Statistics, published by the Board of Revenue (Government of India), provide data on size-wise distribution of income-tax assessed from non-farm households. There are, no doubt, certain limitations in the Income-Tax Revenue Statistics but with respect to the distribution of the income-tax burden between different size-groups, there is no better way of obtaining it than through these Statistics.

Besides income-tax, other direct

TABLE 14 : RELATIVE INCIDENCE OF INDIRECT TAXATION BY GRADES OF INCOME—RATIO OF INCIDENCE OF NON-FARM SECTOR GROUPS TO INCIDENCE OF FARM SECTOR GROUPS

Grades of Income (Rs)	1952-53/ 1953-54	1957-58/ 1958-59	1961-62/ 1962-63
Low : below 3,000	1.11	1.25	1.10
High : above 3,000	1.33	1.15	1.19
(i) Middle : 3,001 - 25,000	1.36	1.09	1.26
(ii) Top : above 25,000	5.25	4.73	3.94
All grades	1.26	1.27	1.24

taxes whose 'direct money burden' falls on the non-farm sector are: expenditure tax, wealth tax, gift tax, estate duty, urban immovable property tax, stamps and registration duties, and profession tax. Here, certain assumptions are made regarding the distribution of their incidence among different income groups. They are:

(1) The following taxes are borne by the top-income bracket only: expenditure tax, wealth tax, gift tax, estate duty and urban immovable property tax. Their rate schedules speak for the validity of this assumption.
(2) The profession tax and stamps and registration duties are distributed among middle and top-income classes in the proportions in which income-tax gets distributed.

The final results of this distribution are presented in Table 9. The specific results are : Generally about 77-78 per cent of the direct tax in the non-farm household sector is borne by the assessees whose annual incomes exceed Rs 25,000; in other words, the direct tax burden devolved upon the middle-income group (earning between Rs 3,000 and Rs 25,000 per annum) in the non-farm sector forms less than 25 per cent of the total direct tax burden. The significance of this phenomenon lies in the fact that, in contrast, the brunt of direct taxation in the farm sector is borne by low and middle-income households (earning less than Rs 25,000 per annum), as may be observed from the following paragraphs. Incidentally, as is widely known the low-income group in the non-farm sector does not bear any direct tax burden.

FARM SECTOR

Of the central and state direct taxes, the following are directly relevant to the farm sector:

(i) Land revenue,
(ii) Agricultural income-tax,
(iii) Stamps and registration duties, and
(iv) Estate duty.

Among these, agricultural income-tax is essentially borne by households earning more than Rs 3,000 per annum. A glance at the state laws relating to the tax would reveal that all the states without exception have, in effect, exempted household earnings of Rs 3,000 or less from the tax.[23] Further, for apportioning the agricultural income-tax burden between middle (Rs 3,001-25,000) and top (above Rs 25,000) income brackets, there is some evidence in the agricultural income-tax assessment data available in respect of three states where the major proportion of revenue from this tax is earned, *viz*, Assam, Madras, and Kerala. The relevant data are presented in Table 10. It may be observed from these data that about 16.5 per cent of the agricultural income-tax in 1960-61 was paid by the assessees in the income range of Rs 3,000-Rs 25,000 per annum, and the balance by the assessees with income above Rs 25,000 per annum. It is assumed that this proportion is valid for the all-India position and also for other reference periods.

Estate duty legislation, again, makes a substantial exemption of estates, so much so that assessees earning less than Rs 25,000 are unlikely to bear the tax. Originally the exemption limit was placed at Rs one lakh worth of property, but from 1960 it was reduced to Rs 50,000.

A tricky problem which we faced here was in the allocation of land revenue burden among low- and high-income groups. As in the matter of measuring the pattern of income distribution, we have apportioned the land revenue burden the way the Ojha-Bhatt study on income distribution has done, *viz*, in the proportions of their respective disposable incomes. We could as well have employed the data on the distribution of land-holdings by size-groups. But the Farm Management data, available in respect of a few selected states, show that the land revenue rates per acre decline as farm size expands.[24] This declining rate with increasing acreage is taken account of in the distribution of farm disposable income which we have employed here. Making a thorough scrutiny of the Farm Management data, Khusro has come to the conclusion that "if acreage is taken at its (uncorrected) face value, then as acreage increases, gross output per acre O/A decreases".[25] But, since the phenomenon of decreasing soil fertility with increase in farm size was observed (based on decreasing land revenue per acre), Khusro has worked out *corrected acreage* with land revenue per acre as an index of fertility. He thus found that both gross output and farm business income per corrected acre are constant with increase in farm size.[26] Therefore, the obvious inference is that land revenue is proportional to farm income.

While the above procedure is adopted for distributing the land revenue burden between the low and the high-income groups, it is found necessary to make a slight departure from this method in further apportioning the land revenue burden between middle- and top-income brackets since the distribution of their personal incomes itself depends on the distribution of land revenue burden. Therefore, the proportions of personal (pre-tax) income distribution between middle- and top-income brackets are employed for apportioning the land revenue burdens. However, the difference between the two is unlikely to be significant.

As for stamps and registration duties, by and large, legal transactions which bear these duties in the farm sector relate to land property. For this reason and, of course, in the absence of better evidence regarding the inter-class burden of these duties, the best alternative is to assign their incidence to various income brackets in the same proportions as the ones employed for land revenue distribution.

On these lines, quantitative estimates of direct tax burden on different income groups in the farm sector are made. A summary picture of these is presented in Table 11. As may be observed from this Table, during the entire period under study, about two-thirds of the direct tax burden on the farm sector is borne by the low-income households, and the balance of about one-third is shared between the middle- and top-income brackets.

When the above distribution of tax burden in the farm sector is compared with that in the non-farm sector, the following conclusions emerge:

(i) While the low-income group, earning less than Rs 3,000 per annum, pays no direct taxes in the non-farm sector, its counterpart in the farm sector bears about two-thirds of the direct tax burden in the farm sector; and
(ii) The top-income group, which bears more than 75 per cent of the direct tax burden in the non-farm sector, is not a significant tax paying group (or income earning group) in the farm sector.

However, while these results are useful as a part of preliminary reasoning, their interpretative significance is limited unless the absolute amounts of tax burdens are brought into relation with the quantitative estimates of household incomes in respect of different income groups in farm and non-farm sectors.

TABLE 15: TOTAL TAX BURDEN BY GRADES OF INCOME — FARM AND NON-FARM SECTORS

Grades of Income (Rs)	1952-53/1953-54 Income (Rs crores)	Tax Burden (Rs crores)	Tax Burden as Percentage of Income	1957-58/1958-59 Income (Rs crores)	Tax Burden (Rs crores)	Tax Burden as Percentage of Income	1961-62/1962-63 Income (Rs crores)	Tax Burden (Rs crores)	Tax Burden as Percentage of Income
Farm Sector									
Low: below 3,000	3,676	151.49	4.1	4,464	267.76	6.0	5,328	399.82	7.5
High: above 3,000	1,602	86.87	5.4	1,544	133.44	8.6	1,930	219.98	11.4
(i) Middle: 3,001-25,000	1,496	81.36	5.5	1,424	122.72	8.6	1,785	206.81	11.6
(ii) Top: above 25,000	106	5.51	5.2	120	10.72	8.9	145	13.17	9.1
Low and middle: below 25,000	5,172	232.85	4.5	5,888	390.48	6.6	7,113	606.80	8.5
All grades	5,278	238.36	4.5	6,008	401.20	6.7	7,258	619.80	8.5
Non-Farm Sector									
Low: below 3,000	2,890	89.05	3.1	3,785	209.15	5.5	4,476	290.03	6.5
High: above 3,000	1,967	224.56	11.4	2,220	322.20	14.5	3,150	548.91	17.4
(i) Middle: 3,001-25,000	1,461	109.02	7.5	1,753	165.86	9.5	2,311	335.40	14.6
(ii) Top: above 25,000	506	115.54	22.8	467	156.34	33.5	839	212.51	25.3
Low and middle: below 25,000	4,351	198.07	4.6	5,538	375.01	6.8	6,787	626.43	9.2
All grades	4,857	313.61	6.5	6,005	531.34	8.8	7,626	838.94	11.0

III

Incidence of Taxation by Grades of Income

DIRECT TAXATION

In respect of different income groups in farm and non-farm sectors, percentages of direct tax burdens to respective income levels are worked out and presented in Table 12. As may be observed therein, the middle-income group (Rs 3,001-Rs 25,000) in the non-farm sector paid about 1.9 to 2 per cent of its income as direct tax during all the three periods under study. The corresponding income group in the farm sector has paid only a little less proportion of its income as direct tax, except during the first period when the incidence was at 1.4 per cent in the farm sector as against 1.9 per cent in the non-farm sector. During the subsequent two periods, the incidence on the farm group remained static at 1.7 per cent, as against 1.9 per cent and 2 per cent on the non-farm group during the second and third periods, respectively.

On the other hand, the top-income bracket (i e, income above Rs 25,000 per annum) in the non-farm sector paid a considerably heavier burden of direct taxation than its counterpart group in the farm sector. The incidence on the non-farm top-income group was at 18.7 per cent and 18.2 per cent during the first and the last periods, as against 4.4 per cent and 7.3 per cent on the farm group during the respective periods. It is precisely because of this that the incidence of direct taxation on the high-income group (above Rs 3,000 per annum) as a whole in the non-farm sector worked out to levels higher than those on the farm sector high-income group, i e, 6.2 per cent, 7.1 per cent, and 6.3 per cent, on the non-farm sector group during the three periods, respectively, as against 1.6 per cent, 2.2 per cent, and 2.1 per cent, for the farm sector group.

Thus, the disparity in direct tax burdens on the households of the two sectors is observed in respect of two-income groups. First, the low-income group (earning less than Rs 3,000 per annum) pays no direct tax in the non-farm sector, while in the farm sector the corresponding group does bear some direct tax burden. Secondly, the top-income group (earning above Rs 25,000 per annum) in the non-farm sector pays a substantially larger proportion of its income as tax than does the corresponding group in the farm sector. The bulk of the direct tax burden in the farm sector is borne by low- and middle-income households the incidence on which is very well comparable with the incidence on the corresponding groups in the non-farm sector. On the other hand, the bulk of direct taxation in the non-farm sector impinge on the top-income brackets whose tax burden is much higher than the burden on the corresponding group in the farm sector, but the top-income bracket does not form an important income-earning group in the farm sector, though the unequal tax burdens borne by these comparable income groups in the two sectors do involve inequity. The non-farm household sector, taken as a whole, does bear a higher direct tax burden than the burden borne by the farm household sector only because of the existence of top-income brackets to a much larger extent.

INDIRECT TAXATION

In estimating the inter-class incidence of indirect taxation, we have relied on studies by the Taxation Enquiry Commission (1953-54) and the Tax Research Unit in the Finance Ministry of the Government of India (for two reference years, 1958-59 and 1963-64),[27] which give indirect tax burdens per capita and the distribution of population by various expenditure size groups. The broad conclusions which emerge from this exercise are presented in Table 13.

All the income brackets studied (low,

TABLE 16: RELATIVE INCIDENCE OF DIRECT AND INDIRECT TAXES TOGETHER, BY GRADES OF INCOME*

Grades of Income (Rs)	1952-53/ 1953-54	1957-58/ 1958-59	1961-62/ 1962-63
Low: below 3,000	0.76	0.92	0.87
High: above 3,000	2.11	1.69	1.53
(i) Middle: 3,001 - 25,000	1.36	1.10	1.26
(ii) Top: above 25,000	4.38	3.76	2.78
Low and middle (below 25,000)	1.02	1.03	1.08
All grades	1.44	1.31	1.29

* In this Table, incidence of taxes on various income groups in the non-farm sector is taken as a ratio of the incidence of taxes on the corresponding groups in the farm sector.

middle, and top) have paid as indirect tax higher proportion of their respective incomes in the non-farm sector than in the farm sector, but the extent of these differences in their incidence pattern does not appear to be significant except in respect of the top-income group. Here, to gauge the extent of these differences, the relative position of these incidence patterns is depicted in Table 14. In this Table, the incidence of indirect tax on each group of the non-farm sector is shown as a ratio of the incidence on the corresponding group in the farm sector. When the ratio is equal to unity, intersectoral equity is achieved in the concerned income group. If the ratio is more than unity, the farm sector is relatively undertaxed, and the farther away is the ratio from unity, the higher is the degree of under-taxation.

It may be observed from this Table that, for the top-income bracket (above Rs 25,000 per annum), the ratio of incidence in the non-farm sector to that in the farm sector stood at 5.25, 4.73, and 3.94, respectively during the three periods under study. For the middle-income group (Rs 3,001-Rs 25,000), the ratio was at 1.36 for the first period; it dwindled to 1.09 in the second period; but again picked up to 1.26 in the last period. For all classes together, the ratio of relative incidence works out to 1.26, 1.27, and 1.24, respectively during the three periods.

However, besides the intersectoral differences, there are some intra-sectoral differences to be noticed. The major difference within the farm and non-farm sectors pertains to the top-income brackets *vis-a-vis* other brackets. In both sectors, the top-income brackets have less burden of indirect taxation than do the respective middle-income groups. In the farm sector, the top-income bracket paid indirect tax which was as a proportion of its income even less than the tax paid by the low-income group (see Table 13). These inter-class disparities within the individual sectors appear substantial. In the farm sector, while the incidence on the top-income group ranged between 0.8 per cent and 1.8 per cent of income during the three periods under study, the incidence on the low-income group ranged between 2.8 per cent and 5.9 per cent, and on the middle income group it ranged between 4.1 per cent and 9.9 per cent. Similarly, in the non-farm sector, while the incidence on the top-income group ranged between 4.2 per cent and 7.1 per cent, that on the middle-income groups ranged between 5.6 per cent and 12.5 per cent.

The above results may, on the surface, appear to contradict the results of the studies undertaken by the Taxation Enquiry Commission and the Tax Research Unit in the Finance Ministry of the Government of India, referred to earlier. These studies have worked out separately for 'rural' and 'urban' sectors the per capita indirect taxes as a percentage of the per capita consumer expenditure under various expenditure size-groups. Their results show that all the expenditure groups in the 'urban' sector have paid higher indirect taxes per capita, as also higher taxes as percentage of consumer expenditure, than the corresponding expenditure groups in the 'rural' sector. Moreover, these studies have shown that within the 'urban' and 'rural' sectors too, there is an increase in incidence with the increase in expenditure size. The present work is also based on the results revealed by these studies, but there is an important difference in the criterion adopted for working out the incidence patterns. While these studies have put out figures of indirect tax incidence in per capita terms and only in relation to consumer expenditure, the present study is concerned with incidence per unit of income earned by the various income groups. For instance, the top-income group has a very low proportion of the population and a high saving-income ratio, with the result that the tax per capita and the tax as percentage of expenditure per capita give a different picture compared with the tax per unit of income earned. There is thus no contradiction in their results and the results of the present study.

INTER-CLASS INCIDENCE OF DIRECT AND INDIRECT TAXES TOGETHER

The aggregate picture of direct and indirect tax burdens together on the various income groups of farm and non-farm sectors is shown in Table 15. In order to examine the extent of intersectoral disparity in the incidence patterns, the ratio of tax burdens on non-farm income groups to tax burdens on corresponding farm income groups is depicted in Table 16. The important conclusions are summarised below.

First, the low-income group in the farm sector paid generally more tax as a percentage of its income than the low-income group in the non-farm sector. Thus, while the tax incidence on the farm sector low-income group ranged between 4.1 per cent and 7.5 per cent during the entire period under study, that on the corresponding non-farm sector group ranged between 3.1 and 6.5 per cent. In terms of the ratios presented in Table 16, the ratio of incidence on the non-farm low-income group to that on the comparable farm group worked out to 0.76, 0.92, and 0.87, respectively during the three periods. The important reason for this intersectoral disparity among the low-income groups is that the non-farm low-income group paid no direct tax, and that the incidence of indirect taxation, though generally higher on this group than on the comparable farm group, did not fully compensate for the lower level of direct tax burden borne by the farm group.

Secondly, the differences between the incidence levels of the middle-income groups (Rs 3,001-25,000) in the two sectors do not appear significant except during the first period when the non-farm middle group paid about 7.5 per cent of its income as tax while the corresponding farm group paid only 5.5 per cent of its income — the ratio working out to 1.36. Thereafter, the total tax burden on these groups in both sectors has increased, the proportion of tax burden to income rising from 7.5 per cent in the first period to 14.6 per cent in the last period in the non-farm sector, and from 5.5 per cent to 11.6 per cent in the farm sector. But, because of faster growth in the incomes of this group in the non-farm sector, the relative tax burdens between the groups of two sectors have dwindled to levels as low as 1.10 during the second period and 1.26 during the last period. This phenomenon of the burden differential being marginal among the middle groups is true of both direct and indirect taxes — and hence, true of the aggregate picture of incidence.

Thirdly, the income group in which the non-farm sector parts with a far higher proportion of income than does the farm sector is the top-income group. This group in the non-farm sector generally paid about 25 per cent of its income as direct and indirect taxes together, whereas the corresponding group in the farm sector paid less than 10 per cent of its income during the periods under study. However, while there is certainly a glaring intersectoral disparity between the top-income groups in the two sectors, its significance for the revenue potential of the farm sector is limited because the size of the income in the top-income bracket in the farm sector is very small. Hence, if the top-income group is excluded as it should be since it is insignificant in the farm sector, the data do not appear to show 'inequitous' burden against the non-farm sector.

It is found that the overall tax incidence on households in the farm sector earning less than Rs 25,000 per annum worked out to 4.5 per cent, 6.6 per cent, and 8.5 per cent, during the first, second and third reference periods, respectively, as against the corresponding incidence of 4.6 per cent, 6.8 per cent, and 9.2 per cent, in the non-farm sector. Thus the relative incidence ratio has always been only a little more than unity, i e, 1.02, 1.03, and 1.08, indicating that, viewed strictly from the viewpoint of 'equity', the farm sector does not appear to have been significantly under-taxed relative to the tax incidence on the non-farm sector. True, there is the top-income group in the non-farm sector which bears the bulk of the direct tax burden, but the concept of 'equity' entails the juxtaposition of comparable income groups in the two sectors. Since the top-income group is almost non-existent in the farm sector, and in the non-farm sector the progressive system of direct taxation brings in the bulk of the revenue from this group, it is unjust and misleading to include the top-income group in working out the average incidence of taxation in two sectors. If this elimination process is adopted, empirical evidence casts serious doubt on the thesis of under-taxation of the farm sector.

CONCLUSIONS

To sum up, the conclusions of this study are:

(a) While more than 90 per cent of the direct tax burden on the farm sector is borne by its low and middle-income groups, about 75 per cent of the direct tax burden on the non-farm sector is borne by its top-income group.

(b) The intersectoral differences in direct tax burdens are observed in respect of two income groups. First, the low-income group (earning less than Rs 3,000 per annum) pays no direct tax in the non-farm sector, while in the farm sector the corresponding group does bear some direct tax burden. Secondly, the top-income group (earning above Rs 25,000 per annum) in the non-farm sector pays a substantially larger proportion of its income as tax than what the corresponding group in the farm sector does. Of the three income groups, direct tax incidence on the middle-income group (Rs 3,001-25,000) in the non-farm sector was generally only marginally higher than on the corresponding group in the farm sector.

(c) In respect of indirect taxes, not only intersectoral but also intra-sectoral 'inequity' is observed as between certain income groups. As for the intersectoral differences, all the income brackets studied, (low, middle, and top) have paid as indirect tax higher proportions of their respective incomes in the non-farm sector than in the farm sector, but the extent of these differences in their incidence pattern does not appear to be significant, except in respect of the top-income group. The major intra-sectoral difference pertains to the top-income brackets *vis-a-vis* other brackets. In both sectors, the top-income brackets had lower incidence of indirect taxation than the incidence borne by the respective middle-income groups; and in the farm sector, it was lower than even the tax paid by the low-income group. This has obviously arisen from the differences in the distribution of income between savings and consumption expenditure at various income groups.

(d) The inter-class incidence of direct and indirect taxation together leads to the following conclusions:

(i) among the three income groups, the low and middle income groups in the non-farm sector do not appear to have significantly higher incidence than the incidence on the corresponding groups in the farm sector;

(ii) the top-income bracket in the non-farm sector, on the other hand, bears a far higher incidence of taxation than does the top-income group in the farm sector; and

(iii) if the top-income groups are excluded from the overall picture on the ground that the income earned by them in the farm sector is an almost insignificant part of the whole, empirical evidence does not seem to show any intersectoral disparity in tax incidence between farm and non-farm sectors.

Notes

1 In this section we concentrate on the household income of farm and non-farm sectors. In other words, corporate entities and tax incidence thereon, which are broadly a feature of the non-farm sector, are excluded.

2 Report of the Committee on Distribution of Income and Levels of Living (Part I: 'Distribution of Income and Wealth and Concentration of Economic Power'): (New Delhi: Planning Commission, Government of India, February 1964); p 10.

3 *Ibid*, footnote on p 10.

4 P D Ojha and V V Bhatt: 'Distribution of Income in the Indian Economy, 1953-54 to 1956-57', *Reserve Bank of India Bulletin*, (Vol XVI, Number 9, September 1962); pp 1348-1363, and 'Pattern of Income Disrtibution in an Underdeveloped Economy: A Case Study of India', *American Economic Review* (Vol LIV, Number 5, September 1964), pp 711-728. See also a comprehensive and formidable critique of these Reserve Bank of India studies by K R Ranadive: 'The "Equality" of Incomes in India', *Bulletin of the Oxford University Institute of Economics and Statistics* (Vol 27, Number 2, 1965), pp 119-134.

5 NCAER: (i) "Urban Income and Saving", New Delhi, 1962, and (ii) "All India Rural Household Survey: Saving, Income and Investment", Volume II, (New Delhi, July 1965). These studies were put together and a summary of the results was published. See NCAER: All India Rural Household Survey, 1962, (A Summary Statement on Income Distribution in Rural and All India), Occasional Paper Number 13 (New Delhi, January 1965). Two more surveys were conducted by the NCAER, *viz*, "All India Rural Consumption Survey, 1960", and "All India Consumer Expenditure Survey, 1964-65". A brief comparative picture of all these four studies may be found in NCAER: "Patterns of Income Distribution and Saving" (The Sir William Meyer Endowment Lectures in Economics, 1966-67 delivered by P S Lokanathan), Occasional Paper 21 (New Delhi, August 1967) and also in I R K Sarma: 'Changes in the Distribution of Income and Levels of Living', in "Economic Development: Issues and Policies", P S Lokanathan Birthday Commemoration Volume, (Bombay: Vora, 1966), pp 204-222. All these NCAER studies give weighted estimates of the pattern of income distribu-

tion for rural and urban areas.

6 NCAER: "Patterns of Income Distribution and Saving" (Occasional Paper 21), *op cit*, p 11.

7 K R Ranadive: 'The "Equality" of Incomes in India', *Bulletin of the Oxford University Institute of Economics and Statistics* (Volume 27, Number 2, 1965), pp 119 and 133.

8 It is possible because the NSS data and the Income-tax Revenue Statistics are generally available for every year from the beginning of the fifties.

9 K R Ranadive, *op cit*, pp 132-134.

10 The phrases 'large', 'lower', 'higher', etc, are used in this paragraph in the context of the NSS data on consumer expenditure.

11 To be specific, high-income households start "from the last but one expenditure bracket". P D Ojha and V V Bhatt in *Reserve Bank of India Bulletin*, *op cit*, p 1351.

12 K R Ranadive has pointed out that a methodological error had crept in the Ojha-Bhatt study. They had assumed that the limit of Rs 3,000 per anum falls "within the last but one expenditure bracket". See P D Ojha and V V Bhatt in *Reserve Bank of India Bulletin*, *op cit*, p 1351. This is incorrect. As Ranadive has brought out, "limit of Rs 3,000 *does not fall* in the penultimate bracket in any of the years for either the rural or the urban area". In all the years, the limit fell in the last bracket of Rs 55 and above. See K R Ranadive: 'The "Equality" of Incomes in India', *op cit*, pp 127-128.

13 See P V Sukhatme: "Feeding India's Growing Millions" (Bombay: Asia Publishing House, 1965), pp 22-24; also S S Madalgi: 'Foodgrains Demand Projections: 1964-65 to 1975-76', *Reserve Bank of India Bulletin* (Volume XXI, Number I, January 1967), pp 21-35.

14 "This procedure is being followed from the ninth round onwards". See the National Sample Survey (New Delhi: The Cabinet Secretariat, Government of India): Table with Notes on Consumer Expenditure (Number 78, Twelfth Round: March-August 1957), footnote on p I.

15 Ojha and Bhatt in *Reserve Bank of India Bulletin*, *op cit*, p 1350.

16 K R Ranadive, *op cit*, p 133.

17 P D Ojha and V V Bhatt in *Reserve Bank of India Bulletin* (September 1962), *op cit*, p 1356.

18 See NCAER: All India Rural Household Survey: 1962 (Occasional Paper Number 13), pp 21-22 (Tables 7 and 8).

19 See NCAER: All India Rural Household Survey: 1962 A Summary Statement on Income Distribution in Rural and All India), *op cit*, p 13. Incidentally, the NCAER have tried to explain away the differences between the Ojha-Bhatt study and their own by referring to the former's assumption regarding zero savings among low-income households (with income less than Rs 3,000 per annum). "The basic assumption made in the RBI estimates is that rural and urban households in the lowest income brackets have zero saving on balance is clearly inconsistent with the survey results in India or with survey results in other countries, which indicate that the lowest income families in any year have net dissaving." (*Ibid*, p 13.) This is an exaggeration of the reality. From the NCAER survey results themselves, it has been observed that there is a large proportion of low-income households making positive savings. Against this, there are dissavings by "the lowest income families" referred to above. What the Ojha-Bhatt study had assumed was that the income range of Rs 1-3,000 is sufficiently wide enough to see that these two would cancel each other out, which is evident from the survey results of the NCAER themselves. While they have made no reference to the apparent inconsistency in applying the type of NSS expenditure data employed by the Ojha-Bhatt study to derive household income distribution, the NCAER have referred to the third aspect of over-reporting of expenditure on foodgrains consumption only in a footnote (*Ibid*, p 13).

20 It is possible to assume different exemption limits for farm and non-farm sectors, for it may be argued that the monetary value of per capita subsistence requirements for the farm households is lower than that for the non-farm households. But the limit of Rs 3,000 is itself considered low. Even if this limit is raised for the non-farm sector, say to Rs 4,000, the conclusions drawn here are not at all affected.

21 As against other statistical measures as the presentation in terms of quartiles or deciles, or one-statistic measures as co-efficient of variation, concentration ratio, etc.

22 NCAER: *Patterns of Income Distribution and Saving* (Occasional Paper 21), *op cit*, p 11.

23 See N C Ahuja: 'Agricultural Income-tax in India', *Agricultural Situation in India* (Volume X, Number 6, September 1955), pp 433-444. See also 'Agricultural Income-Tax in India', *Reserve Bank of India Bulletin* (Volume XVII, Number 8, August 1963), pp 1022-1033. The following observations made by the Taxation Enquiry Commission (1953-54) are also relevant here: "We recommend that, in all states, all agricultural income above Rs 3,000 a year should be made liable to agricultural income tax. The limit is the same as we have recommended for the non-agricultural income-tax; it also happens to be the one adopted by most of the states which now levy an agricultural income tax". Report of the Taxation Enquiry Commission: 1953-54: Volume III (New Delhi: Ministry of Finance, Government of India, 1955), p 222.

24 See A M Khusro: 'Returns to Scale in Indian Agriculture', *Indian Journal of Agricultural Economics* (Volume XIV, Silver Jubilee Number, Numbers 3 and 4, July-December 1964), pp 51-80.

25 *Ibid*, p 79.

26 *Ibid*, pp 79-80.

27 See (i) Incidence of Indirect Taxation: 1958-59 (New Delhi, 1961); and (ii) Incidence of Indirect Taxation: 1963-64 (New Delhi, 1969).

Blundell Eomite Paints

BLUNDELL Eomite Paints' chairman, E B Calvert, told shareholders at the annual meeting that both sales and profits for the first five months of the current year had exceeded those recorded in the same period last year. This, indeed, is satisfactory as far as it goes since during the year ended June 1971, the company achieved a 49 per cent advance in pre-tax profit following a 9 per cent rise in sales. But looking to the uncertainty following the emergency in the country, Calvert could not make any forecast of the final trading result for the year as a whole. He pointed to a number of steps the management had already taken to increase the company's share of the paints market and to enhance profitability. Notable among these has been the greater emphasis on a wider distribution of decorative materials, rendering more efficient service to stockists and users in all parts of the country. Moreover, product-range has been rationalised and non-profitable lines have been eliminated. Efforts have been aimed at improving service to industries; the company already enjoys a "substantial" share of the market for industrial finishes. In addition, owing to difficult credit problems faced by the paints industry and the highly competitive nature of the business, the placing of a private debenture issue of Rs 30 lakhs will relieve the company of the substantial annual repayments falling due under the previous loans. Substantial rebates, received as a result of completion of outstanding income-tax assessments for a number of years, would reduce the burden of interest payments on loans needed for financing the company's operations.

Expenditure-Elasticities of Intersectoral Consumer Demand in India

R Thamarajakshi

The dynamics of the agriculture-industry linkages are determined, among other things, by the relative values of expenditure elasticities of inter-sectoral consumer demand. When investments are undertaken in a developing economy, they result through the multiplier in increased money incomes.

A priori two phases may be distinguished in the consequent changing pattern of expenditure. Where average incomes are to start with very low, a very large proportion of the increments are spent on food or other agricultural consumption products; in the second phase, after the backlogs of hunger and malnutrition have been cleared, there operates an inverse relationship between incomes and the proportion spent on food.

To test this hypothesis, this paper estimates the expenditure elasticities of demand in the agricultural and non-agricultural sectors for the agricultural and non-agricultural products.

It is found that at the outset the expenditure elasticities of demand, of the agricultural and non-agricultural sectors, for the agricultural and non-agricultural products, have remained more or less stable. Against this backdrop of stability, however, the expenditure elasticities of demand of the agricultural and the non-agricultural sectors, for the non-agricultural products, have shown a tendency to rise. Moreover, the expenditure elasticities for the non-agricultural products are consistently higher than those for the agricultural products for both sectors.

[This paper is based partly on the author's doctoral dissertation "Agriculture-Industry Relationships in the Indian economy, 1948-49 — 1958-59", submitted to the University of Delhi in 1963. The views expressed are those of the author.]

THE dynamics of agriculture-industry relationships are determined *inter alia* by the relative values of the expenditure elasticities of intersectoral consumer demand. In developing economies, investments are undertaken which, through the operation of the multiplier, result in increased money incomes. *A priori*, two phases may be distinguished in the changing pattern of expenditure, consequent to the generation of new incomes. In the first phase, an economy which is in the initial stages of development may have such low average incomes that a very large proportion — or conceivably the whole — of the increments in income, might be spent on food and other agricultural consumption products. This is the pre-Engelian phase[1] when the proportion of total family outgo spent on food actually rises with increases in incomes. But after backlogs of hunger and malnutrition are cleared up, Engel's law relating income and food consumption would come into its own, and an inverse relationship would operate between incomes and the proportion spent on food.

In other words, in the first phase, the relative increase in expenditure on food would be higher than (a) the relative increase in total consumption expenditure and (b) the relative increase in expenditure on non-food items; and the income elasticities of demand for food and other agricultural consumption products would be greater than unity and higher than the income elasticities of demand for the non-agricultural consumption products. In the second phase, this position is reversed, and the income elasticities of demand for food and other agricultural consumption products may be expected to be less than those for the non-agricultural consumption products. This paper examines this theoretical hypothesis in the context of the Indian economy during 1951-61.

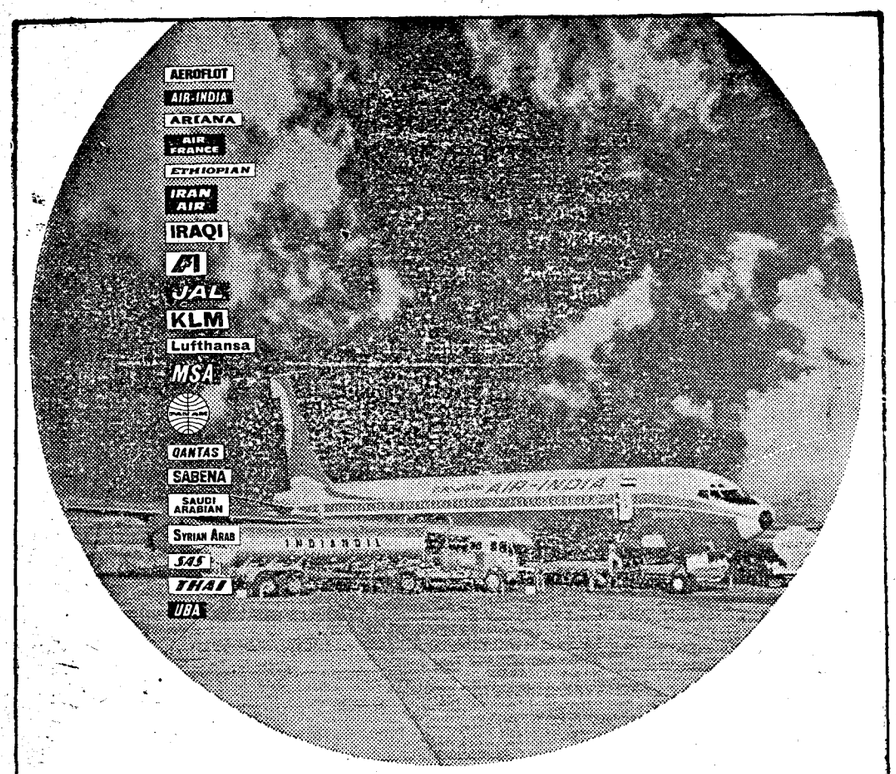
The attempt here is to estimate what may be more appropriately termed the '*expenditure elasticities*' of demand. This is because of the fact that the National Sample Survey[2] (NSS) whose information form the basis for our work, presents data on the pattern of consumer expenditure, not by income levels, but by expenditure classes. It is true that the income elasticity of demand for a product can be derived by adjusting the expenditure elasticity of demand for that product with the income elasticity of the national consumption expenditure. However, in the absence of an authentic estimate of the latter, it is decided to estimate only the expenditure elasticities of consumption. Incidentally, it may be pointed out that, to the extent that savings are effected by individuals, the expenditure elasticities of consumption may represent overestimates of income elasticities of demand.

In this study, the economy has been considered under two broad sectors, *viz*; agriculture and non-agriculture. The agricultural sector includes crop and animal husbandry, and all that is not agricultural in this sense is termed the non-agricultural sector. The classification of consumption products as

TABLE 1: EXPENDITURE ELASTICITIES OF DEMAND FOR AGRICULTURAL PRODUCTS

Year	Elasticities	
	Rural	Urban
1951-52	0.7922 (0.0351)	0.7383 (0.0158)
1952-53	0.7615 (0.0432)	0.7417 (0.0266)
1953-54	0.7206 (0.0257)	0.7330 (0.0205)
1954-55	0.6946 (0.0463)	0.7261 (0.0203)
1955-56	0.7769 (0.0309)	0.7529 (0.0145)
1956-57	0.6972 (0.0353)	0.7157 (0.0292)
1957-58	0.7496 (0.0236)	0.7560 (0.0166)
1958-59	0.7477 (0.0335)	0.7533 (0.0175)
1959-60	0.7164 (0.0313)	0.7682 (0.0154)
1960-61	0.7416 (0.0344)	0.7823 (0.0193)

Note: Figures in brackets indicate standard errors.



KEEPING A NATION ON THE MOVE

As many as 20 airlines of international repute avail of INDIANOIL's expert refuelling service. In the growth of India's transport and communications, INDIANOIL has been playing a distinct role. But that is not to belittle its contribution to the nation's agriculture and industry.

In a short span of a decade, INDIANOIL has emerged as the biggest oil refining and marketing organisation in India—meeting more than half of the nation's total requirements of petroleum products.

With a chain of refineries processing indigenous crude, a vast pipeline transportation system, and a countrywide storage and distribution network, INDIANOIL has ensured an uninterrupted flow of oil for India's defence and development.

As part of the nation's planned development INDIANOIL ceaselessly strives to take the country towards self-reliance and self-sufficiency in petroleum.

INDIANOIL

a national trust for economic prosperity

INDIAN OIL CORPORATION LIMITED

B. Dattaram -IOC-71

TABLE 2: EXPENDITURE ESTIMATES OF DEMAND FOR NON-AGRICULTURAL PRODUCTS

Year	Elasticities	
	Rural	Urban
1951-52	1.2601 (0.0336)	1.2685 (0.0142)
1952-53	1.2839 (0.0330)	1.2645 (0.0190)
1953-54	1.4000 (0.0311)	1.3822 (0.0295)
1954-55	1.3748 (0.0219)	1.3134 (0.0186)
1955-56	1.3235 (0.0289)	1.3152 (0.0145)
1956-57	1.4301 (0.0212)	1.3595 (0.0120)
1957-58	1.3906 (0.0157)	1.3294 (0.0137)
1958-59	1.3992 (0.0234)	1.3512 (0.0116)
1959-60	1.4244 (0.0213)	1.3203 (0.0119)
1960-61	1.5102 (0.0287)	1.4273 (0.0126)

Note: Figures in brackets indicate standard errors.

TABLE 3: EXPENDITURE ELASTICITIES OF DEMAND FOR AGRICULTURAL PRODUCTS

Year	Agricultural Sector	Non-Agricultural Sector
1951-52	0.7922	0.7531
1952-53	0.7615	0.7471
1953-54	0.7206	0.7296
1954-55	0.6946	0.7175
1955-56	0.7769	0.7594
1956-57	0.6972	0.7107
1957-58	0.7496	0.7543
1958-59	0.7477	0.7518
1959-60	0.7164	0.7543
1960-61	0.7416	0.7714
Average	0.7398	0.7449
Standard deviation	0.0308	0.0182
Co-efficient of variation	4.1660	2.4382

TABLE 4: EXPENDITURE ELASTICITIES OF DEMAND FOR NON-AGRICULTURAL PRODUCTS

Year	Agricultural Sector	Non-Agricultural Sector
1951-52	1.2601	1.2661
1952-53	1.2839	1.2698
1953-54	1.4000	1.3871
1954-55	1.3748	1.3301
1955-56	1.3235	1.3175
1956-57	1.4301	1.3787
1957-58	1.3906	1.3460
1958-59	1.3991	1.3641
1959-60	1.4244	1.3483
1960-61	1.5102	1.4495
Average	1.3797	1.3457
Standard deviation	0.0701	0.0525
Co-efficient of variation	5.0809	3.9013

agricultural and non-agricultural has been made with reference to the major commodity groups given in the Reports of the NSS. The NSS gives the pattern of consumer expenditure in rupees per person, for a period of 30 days, by 12 major categories of consumption, and by monthly per capita expenditure classes for rural and urban areas. This study is based on the published reports of the NSS for 16 rounds of survey, spanning 1951-52 to 1960-61. For the purposes of our study, the items foodgrains (or cereals and cereal substitutes), milk and milk products, meat, egg and fish, and other food, are included under 'agricultural products'; the remaining items, *viz*, edible oil, sugar, salt, clothing, fuel and light, rent, taxes, and miscellaneous goods, have been taken to constitute non-agricultural products.

It is then assumed (i) that the pattern of consumer expenditure, observed by the NSS in the rural areas, is representative of that obtaining in the agricultural sector and in the less organised sub-sectors of the non-agricultural sector (*viz*, forestry, fishery, small enterprises and construction) and (ii) that the pattern observed by the NSS in the urban areas is true of the rest of the non-agricultural sector as well (i e, constituted by the sub-sectors of mining and quarrying, factory establishments, services, etc). This has had the following procedural implications for our study. By the above assumption, expenditure elasticities estimated for the rural sector are also the elasticities for the agricultural sector. As for the non-agricultural sector, since it consists of organised and unorganised sub-sectors, the expenditure elasticities for the non-agricultural sector may be deemed to be an average of the estimates for the rural and the urban sectors.

With these clarifications, we may now proceed to estimate the expenditure elasticities of intersectoral demand for agricultural and non-agricultural products.

The double-log function of the form log $y=a+b \log x$, where x is the per capita expenditure on all commodities, y the per capita expenditure on agricultural/non-agricultural consumption goods, and b the elasticity co-efficient, was fitted to the family budget data of the NSS for 1951-61, and for the rural and the urban sectors. It was found that the log-linear function provided a good fit and explained more than 97 per cent of the variations in the dependent variable. The derived

TABLE 5: PERCENTAGE OF TOTAL EXPENDITURE SPENT ON AGRICULTURAL PRODUCTS

Per Capita Expenditure Classes	Rural Sector	Urban Sector
0-8	82.43	81.48
8-11	81.50	79.55
11-13	79.17	75.48
13-15	78.26	75.29
15-18	78.32	73.12
18-21	74.55	70.48
21-24	76.88	70.25
24-28	70.21	67.19
28-34	65.38	65.68
34-43	63.46	60.14
43-55	54.09	56.40
55 and above	42.09	45.57
All classes	61.71	60.96

Source: Based on the sixteenth round of the NSS.

estimates of expenditure elasticities are given in Tables 1 and 2.

As already mentioned, the elasticities of the rural sector may be deemed to be the elasticities of the agricultural sector too. On the other hand, the expenditure elasticities of the non-agricultural sector have been derived as a weighted average of the rural and the urban elasticities, weights being the population in the unorganised and the organised sub-sectors of the non-agricultural sector during this period.[4] The expenditure elasticities of the agricultural and non-agricultural sectors for agricultural and non-agricultural products for 1951 to 1961 are given in Tables 3 and 4.

The following inferences may be drawn. At the outset, the expenditure elasticities of demand of the agricultural and non-agricultural sectors, for the agricultural and non-agricultural products have remained more or less stable during this period — as may be observed from the low standard deviation and co-efficient of variation in each case. Against this backdrop of stability, however, the expenditure elasticities of demand of the agricultural and the non-agricultural sectors, for the non-agricultural products, have shown a tendency to rise.

Secondly, the expenditure elasticities for the non-agricultural products are consistently higher than those for the agricultural products; this is true of both the sectors, for the individual years, and hence for the entire period of the study. In fact, whatever be the sector, the elasticities are higher than unity in the case of the non-agricultural products and less than unity in the case of agricultural products. This implies (a) that the marginal propensity to spend on the non-agricultural products

TABLE A

Round of Survey	Period of Survey	Year to Which the Information Has Been Taken to Correspond in this Study.
4th	April 52 — December 52	1951-52
5th	December 52 — March 53	1952-53
7th	October 53 — March 54	1953-54
8th	July 54 — March 55	1954-55
10th	December 55 — May 56	1955-56
11th and 12th	August 56 — August 57	1956-57
13th	September 57 May 58	1957-58
14th	July 58 — June 59	1958-59
15th	July 59 — June 60	1959-60
16th	July 60 — August 61	1960-61

is higher than the average propensity to spend on these products and (b) that the average propensity to spend on these products is rising with the total expenditure on all products. In the case of the agricultural products, on the contrary, the marginal propensity to spend is lower than the average propensity to spend, and hence the average propensity to spend on the agricultural products must decline as total expenditure rises. This becomes clear when we study the percentage of consumption expenditure on agricultural consumption goods in the different expenditure classes of the rural and the urban sectors of the economy during 1960-61 (i e, the sixteenth round of the NSS).

TABLE B: ESTIMATES OF POPULATION IN THE SUB-SECTORS OF THE NON-AGRICULTURAL SECTOR OF THE INDIAN ECONOMY 1951-52 TO 1960-61

(in Millions)

Year	Population in Forestry, Fishery, Construction and Small Enterprises	Industry and Rest of the Economy
1951-52	28.41	75.20
1952-53	28.95	76.89
1953-54	29.50	78.62
1954-55	30.06	80.38
1955-56	30.63	82.19
1956-57	31.22	84.03
1957-58	31.82	85.01
1958-59	32.43	87.83
1959-60	33.05	89.80
1960-61	33.68	91.81

It may be observed from Table 5 that, in both sectors, the percentage declines *almost* consistently with rising total expenditure levels, thus indicating a declining curve of average propensity to consume agricultural products *vis-a-vis* total expenditure.

Notes

1 On the basis of a study of expenditure of a group of German families, Ernst Engel found that "the poorer a family is, the greater is the proportion of the total outgo which must be used for food", C C Zimmerman, Ernst Engel's "Law of Expenditures for Food", Q J E, November, 1932, pp 78-101.

2 Government of India, Cabinet Secretariat, Reports of the National Sample Surveys of Consumer Expenditure (NSS).

3 The period of the NSS Survey, and the year to which the information has been taken to correspond in this study, are given in Table A.

4 The estimates of population in sub-sectors of the non-agricultural sector have been worked out by the author in a different paper. For details, see R Thamarajakshi: 'Inter-Sectoral Terms of Trade and Marketed Surplus of Agricultural Produce 1951-52 to 1965-66'. *Economic and Political Weekly*, Volume IV, Number 26, Review of Agriculture, June 28, 1969. These estimates are given in Table B.

Capitalist Development in Agriculture

Further Comment

Utsa Patnaik

I AM glad to see that Ashok Rudra has been sufficiently provoked to reply to my critique; but disappointed to see that his reply (November 6, pp 2291-2292) does not answer my main methodological criticism, which clearly has not been understood. Perhaps my exposition was unclear; let me restate the central point at dispute as simply as possible.

Consider the following two propositions:

Proposition 1. There exists among the various classes within the non-capitalist agrarian economy, a small but growing class which may be identified as capitalist.

Proposition 2. Agriculture is characterised by complete or near complete polarisation into two main classes, capitalists and wage-labourers.

To a Marxist, these propositions are the same as the following statements, respectively: (1) Elements of capitalist development may be identified within the given mode of production, which is non-capitalist. (2) The non-capitalist mode of production no longer exists, but has been transformed into the capitalist mode.

Clearly, proposition 2 is infinitely stronger than 1. To my knowledge, those who have talked of capitalist development have referred always to 1 and *never* to 2.

Now, Rudra stated that his objective was to see whether in Punjab, among peasants with more than 20 acre holdings, it was possible to "define scientifically and identify empirically" a category of capitalist farmers. In short, his declared aim was to examine proposition 1. At no time did he formulate proposition 2 or state that it was to be examined.

The statistical criterion of strong positive association between the various variables set out by him, however, is *not* relevant to proposition 1. It is relevant *only* to the completely different proposition 2. This argument is set out at length in my Note and this is my main theoretical criticism of Rudra's work. Rudra has put forward his 'negative' results as being relevant to proposition 1, whereas all that these results show is that polarisation has not occurred in Punjab, i e, proposition 2 does not hold. The results have no relevance to the question of whether a category of capitalist farmers can be "defined scientifically and identified empirically", because his statistical method is misconceived as a proof or otherwise of this question.

To sum up, Rudra set out to throw light on 1, but actually disproved 2, while thinking he had disproved 1. To say that your results prove or disprove one thing when they do not and are relevant to something quite different, is surely highly misleading.

From his reply, it is now clear why Rudra thinks he has proved something he has not. He takes propositions 1 and 2 to be identical. For him, the development of a capitalist class within a given non-capitalist mode of production, is the same as polarisation and transformation of the entire mode of production into a capitalist one. So for him, the truth of 1 cannot be established unless we first establish the truth of 2. He treats proposition 2 as a necessary condition for proposition 1. Unless polarisation has occurred and production relations have been transformed, we cannot talk of a capitalist class. Thus, he states "... *as long as there is no polarisation*, we cannot say that capitalist development has taken (sic) place .... the changes that have taken place *are largely of a quantitative order, within the framework of the production relations and class structure as has been existing from before. The emergence of a new class would imply that the transformation of quantity into quality has taken place.* I would suggest that such a transformation is yet to take place." (My italics; no one except Rudra says capitalist development "has taken" place; what is argued is that a process of capitalist development is taking place — a very different emphasis.)

On what theoretical basis does Rudra take proposition 1 and 2 as identical; what is the implicit theory of historical development which leads him to think that we cannot talk of a new class emerging unless production relations have been transformed already, and that class is already dominant? It is certainly not Marxist theory. Marxists recognise the growth of a bourgeois class within the feudal mode of production in W Europe, for example, for some centuries before feudal production relations and the feudal mode was transformed. Qualitative changes can take place *within* a given "framework of production relations", without necessarily transforming that entire framework. We can certainly talk about a new capitalist class emerging within a given non-capitalist mode of production. I have argued that the nature of this capitalist development may be such in Indian agriculture that the mode of production may never be transformed into a capitalist mode. In short, while proposition 1 might hold today proposition 2 may never be true at any time. Certainly no Marxist would dream of taking 1 and 2 to be identical, as Rudra does.

Rudra's implicit theory turns up again when he defines classes, and insists that "all the important variables relating to farm economics" grouped by holding size, must show discontinuities at the same points before we can talk of classes. (Like Moliere's bourgeois who talked prose all his life without knowing it, says Rudra, Marxists have been talking of such discontinuities without knowing it.) Let us be quite clear on one point: Rudra's concept of class has nothing to do with the Marxist concept, although again he *thinks* he is talking of the Marxist concept. Rudra says "one talks of classes *based on size* (of holding) ... in Marxian literature". What does size of holding have to do with the Marxist concept of class? Which "Marxian literature" is he talking about? Where did he get this strange idea from?

The Marxist concept of class is *not* an empiricist one, i e, it does not look at data grouped by holding size and then define classes on the basis of discontinuities in the data. The Marxist concept of class is derived from Marxist theory, which looks at every producer in the light of his position within the system of production relations — the conditions of ownership of the means of production, of employment of labour, and appropriation of the product. Three classes in agriculture may be defined on the basis of the type of production relation involved: (1) the capitalist farmer possessing means of production and employing wage-labour for profit, or the rural bourgeoisie. (2) The self-employed peasant possessing the means of production and producing with family labour, neither hiring-in labour nor hiring-out except to a small degree: or the rural petit-bourgeoisie. (3) The landless peasant possessing no means of production and hiring-out for wages: or the rural proletariat. In addition semi-feudal relations are represented by the big landlord leasing out his land to petty tenants of type (2) and (3) and deriving rent from them.

The entire agricultural population in the real world would not be exhausted by the above pure conceptual types or classes; for there would be large numbers of holdings which produce with a combination of family and hired labour, and which represent intermediate categories. As I have pointed out, "classes do not and cannot exist only in their pure form".[1] Thus we have (a) poor peasants, who do possess limited means of production but are primarily exploited through wages or rent. Thus a household may have 1 acre of land, but be forced to labour for wages to a larger extent than working on this land; or it may take 2 acres on crop-share, paying the product of half or more of its labour-days as rent to the jotedar. These groups may be regarded as a semi-proletariat. (b) rich peasants, who may work in their fields, but who employ wage-labour to as great or greater extent than they work themselves (or who obtain as rent as much as they produce themselves). These groups may be regarded as a proto-bourgeoisie (or semi-landlords).

The "main variables relating to farm economics" grouped by size, would never show discontinuities at the same two points for each variable, in any country at any time, (except as a matter of a remote chance). Whether or not such discontinuities exist, is irrelevant to the Marxist concept of class. When Rudra says that the actual data grouped by size must show discontinuities, he is putting forward *his own* empiricist definition of class which has nothing to do with the Marxist concept of class. All his talk of discontinuities, etc, springs from a fundamental and serious misconception, that Marxists define classes "on the basis of" farm-size. It is not really my job to give elementary lectures on Marxist concepts; anyone who wishes to find out what the concepts are can easily do so, and if he wishes to criticise the concepts in public like Rudra, he would be well-advised to first make sure that he has got them right. I fear that Rudra is in a worse position even than Moliere's M Jourdain; he thought he knew what he was talking — Marxist prose — whereas all along he has been declaiming non-Marxist poetry of his own composition.

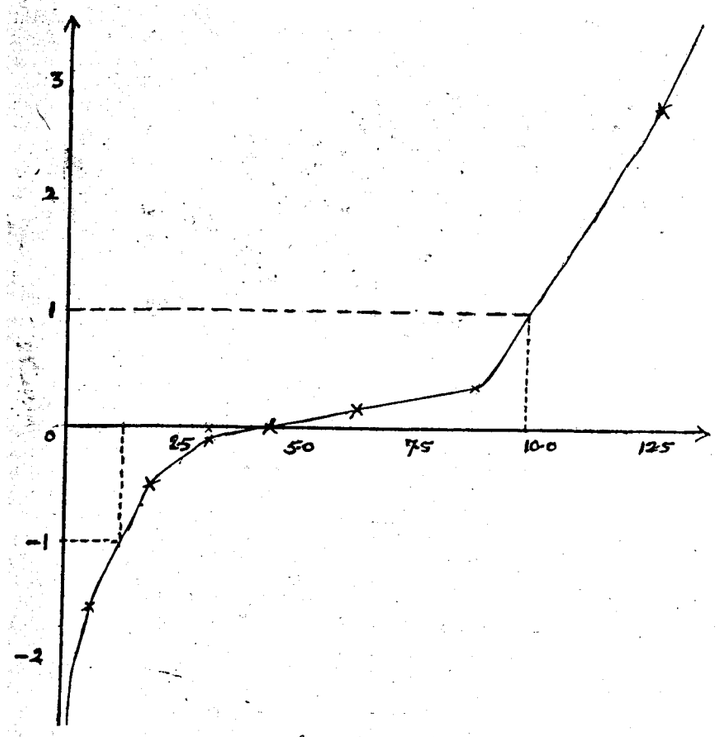
Given data on labour-exploitation, we can always put forward empirical dividing-lines between rich, middle and poor peasants — again, whether the data is discontinuous or not, is irrelevant. As an illustration take the data on labour-hiring for West Bengal, 1956-57, from the Studies in the Economics of Farm Management (Table 1). From this we can derive the ratio of net labour-days hired-in to family labour-days on farm (y) and plot it against farm size (x). The function f(x) is continuous, and cuts the x-axis (Figure 1). According to Rudra, there are no rich, middle or poor peasants, since he asserts "if in actual statistical analysis one failed to discover discontinuities one will have to give up the idea that there are indeed three classes ... If there are no discontinuities then f(x) would intersect the x axis at some point. In that case there would not be a class of middle peasants."

Applying a Marxist concept of the rich peasant, as one who exploits as much or more labour as he and family

* I thank Maurice Dobb and Amiya Bagchi for comments on my original article. The views expressed in that article and here are my own.

FIGURE 1

$$y = \frac{\text{net labour-days hired-in}}{\text{family labour-days on farm}}$$



x=farm size, acres.

members work on their land, for rich peasants $y \geqslant 1$. Poor peasants perform labour for others to as great or greater extent than they work on their land, so for them $y \leqslant -1$. Middle peasants, while they may hire-in or hire-out labour, do so to a smaller extent than they work on their land; for them—$1 < y < 1$. From the graph (Fig 1) rich peasants operate on average 9.8 acres or more, poor peasants 1.25 acres or less and middle peasants are in between. (Note: this table understates the numbers of poor peasants and overstates that of middle peasants because it does not include data on sharecroppers. The latter pay the output of half or more of their labour-days to the jotedar. Many peasants operating more than 1.25 acres would be sharecroppers and therefore should be included in the poor peasant rather than middle peasant category.) For the totally landless labourer, y is infinitely low; for the capitalist employing no family labour in field work at all, y is infinitely high. When capitalist development is taking place, sections of the rich peasants turn themselves into capitalists, sections of the semi-proletariat get pushed down into the class of landless labourers, and sections of middle peasants join the ranks of the semi-proletariat. With complete polarisation with capitalists and labourers, the curve would no longer exist.[2]

Please note that while we are putting forward "discontinuities" at the *conceptual* level between rich, middle and poor peasants based on the degree of labour-exploitation, we do not need any discontinuities in the actual data to define these categories; nor is our definition "based on" size of holding. If the data on labour-hiring was grouped by some other index — say annual value of output — we could categorise rich, middle and poor peasants equally well by applying the criterion of labour-exploitation, as above.

Rudra declares that he is not going to "accept any hypothesis even if it were propounded by Marx or Lenin, unless it passes the test of empirical verification". Very good. But surely, if Marxist propositions are to be empirically tested, a minimum requirement is that the investigator must know what those propositions are, the meaning of concepts such as 'class', 'mode of production', etc, which Marxist theory employs? We do not question the need for empirical verification of hypotheses: we do insist however that the hypotheses must be correctly stated. To substitute one's own empiricist concepts for Marxist concepts, as Rudra does, and then to declare that there is no empirical proof of 'Marxist' propositions, is really a bit too much for anyone to swallow. Behind every empirical study is a theory, which determines what questions are asked and how one sets about answering them. Rudra never made his theory explicit in his original article; we had to work backwards, as it were, from his statistical method to show that the implicit theory underlying it was non-Marxist. From Rudra's reply to my comment it is now clear that he is using his own concepts which are not derived from Marxist theory. We have no objection to anyone holding to a non-Marxist theory of historical development or employing a non-Marxist concept of class: but when the person concerned insists that he is talking about Marxist concepts, this becomes very misleading and the source of confusion must be pointed out.

In fact Rudra's implicit, non-Marxist theory would land him, logically, in a very strange situation. In no country, in no historical epoch, would the statistician ever find discontinuities in the important variables relating to farm economics grouped by size, at the same points for each variable.[3] He would therefore *never* be convinced of the existence of classes. The proletariat in alliance with the poor peasantry might overthrow Tsarism in Russia; the poor and middle peasants might overthrow feudalism in China. But through it all, the statistician poring over his $y=f(x)$ and trying to make "best estimates" of non-existent discontinuities, would remain convinced that no classes existed because — on his definition of class — there was no "empirical proof" of their existence. It is a sad thought.

The remaining points are subsidiary to the basic methodological difference between Rudra's approach and what I understand to be the Marxist approach. Unfortunately my arguments have been so misrepresented by Rudra that they require restatement, tedious though this is for all concerned.

(1) "Let us go to a village consisting of all very small farmers, say an Adivasi village .... For each of the variables concerned there will be some average and ...some above the average. All these farmers should be regarded as capitalists of a certain degree, whatever be the absolute values of these variables, however low the average and, therefore, however low the observations falling above the average. The richest peasant...must there be treated as a pure capitalist." How absurd! And if this had been the criterion for identifying capitalists than I had put forward, it would indeed be absurd. Here, Rudra has distorted and misrepresented my criterion (without wishing to, I trust), by lifting it out of its context and by interpreting it in a way one would not have believed possible. Ironically, he has even distorted his own criterion in the process:

(a) Firstly, both Rudra and I are dealing with peasants with more than 20 acre holdings, which made up the top 5-10 per cent of all holdings in any village. The vast majority of peasants are excluded at the outset. The cultivators in the Adivasi village who are "all very small farmers" would not even enter my sample, or his. (*Unless* I had independent information that one or more of them cultivated intensively using more hired than family labour and using machinery: in which case I might include these particular peasants in my sample.)

(b) In my 'long lecture' on concepts, I set out the *necessary* conditions for a peasant to be considered potentially capitalist: namely, rich peasant status at least (primarily or entirely wage-labour based production), sale of most of output (more than 50 per cent), and investment in productivity-raising techniques, (positive values for fertilisers and machinery): I had not considered it essential to set out these conditions afresh when criticising Rudra's criterion, especially since he himself had put forward "modern capital equipment" as a variable.

All holdings which do not satisfy these necessary conditions drop out of the sample and we are left with the set of potential capitalists. (In my sample all holdings were rich peasant at least; seven had no machinery and were excluded, one more sold less than half its output and was also excluded). Even the richest peasant in an Adivasi village is not likely to satisfy these conditions, particularly the one of possessing machinery (e g pump-set, power-tiller, tractor, thresher, powered cane-crusher, etc).

(c) The 'average' values of variable in my criterion refer to the average for this truncated sample, made up of potential capitalists. To qualify as a pure capitalists, I suggested, a holding must have, for each and every one of the 6-7 variables specified, values higher than the average value (calculated for the holdings satisfying the necessary conditions in 6). This criterion is highly restictive: of 58 potentially capitalist holdings in my sample, only 9 qualified as 'pure' capitalists.

This method of identifying capitalist farmers may not be the best one: if anyone can think of a better method, I would welcome the suggestion.

(2) How is it any better to group data by annual value of output rather than size, Rudra asks, and why should grouping by size of holding blur scale effects? It is better to group by value of output because this is a more accurate index of the bigness of the farm as an economic unit, than in area; it also gives a better idea of the differentiation within the peasantry into rich and poor peasants.

Clearly, size of farm in itself is not an indicator of rich, middle or poor peasant status; the direct indicator is the extent of hired relative to family labour. All the available data grouped by size (e g, the Farm Management Studies) shows however, that above a certain level of farm size which varies regionally, hired labour predominates over family labour; the limit may be 10 acres in Bengal, while it is 40 acres in Punjab. Therefore it seemed reasonable to Marxists to take the farms above these limits as roughly corresponding to the rich peasant holdings in the absence of direct data on labour-hiring. (This incidentally may be the source of Rudra's misconception that Marxists "talk of classes based on size of holding".)

My argument is that size of farm even as a rough indicator of rich peasant status, is no longer good enough in the present situation when techniques are changing and intensive cultivation by some groups is taking place. If production techniques are intensified (more irrigation, triple cropping, mechanisation) then a farm may get smaller in terms of area, and *at the same time* get bigger as an economic unit, expand in terms of output and the extent of use of hired relative to family labour. To illustrate this point I gave the example of the intensively cultivated 8-acre holding in my sample which produced more, used more hired labour, and invested more, than the 53-acre farm which qualified as a rich peasant holding. Clearly the 8-acre holding is rich peasant too: if grouped by size, however, it would never be included with the 53-acre holding. If grouped by value of output, however, it would be correctly classified along with or even above the 53-acre holding. We could then go on to apply our criterion for identifying capitalist holdings to both.

This point is important since typically the areas of fastest capitalist development are around growing provincial towns in India. High-value vegetables, fruits and dairy products for urban markets can be produced by intensive methods on small areas. A holding growing these products may be quite small in area but large as an economic unit, in the value of output, extent of hired labour, etc. A 10-acre holding of this kind can be more

TABLE 1

x Operated Holding, Acres	Labour-Days Hired-In Per Farm	Labour-Days Hired-Out Per Farm	Net Labour-Days Hired-In Per Farm (1—2)	Family Labour-Days Per Farm*	y (3÷4)
	1	2	3	4	5
0.01- 1.25	10.37	101.07	— 90.35	57.83	—1.56
1.26- 2.50	37.48	84.42	— 46.94	92.66	—0.51
2.51- 3.75	53.56	74.15	— 20.59	151.50	—0.14
3.76- 5.00	86.10	89.50	— 3.40	160.65	—0.02
5.01- 7.50	131.26	91.67	+ 39.59	253.61	+0.16
7.51-10.00	118.49	11.58	+106.91	306.60	+0.35
10.01-15.00	478.80	0.50	+478.30	171.33	+2.79
above 15.00	823.28	—	+823.28	NA	NA

Source: Studies in the Economics of Farm Management, W Bengal, 1956-57. Directorate of Economics and Statistics, GOI Cols 1 and 2 from Table 3-30, p 33. Col 4 from Table A-11, p 197, and Col 2 (see below).

NA = not available.

* This is the estimated family labour-days spent on farm work (crop production and other work) per farm; the total labour-days per farm is first derived from col 2 and data on percentage of total labour-days hired out (Table A-11); the percentage of total labour-days spent on farm work, from the same table, is then applied to this.

good banking and social welfare through their guidelines. It is gratifying to note that, in spite of the guidelines provided by them, several banks have gone ahead with schemes for financing investments like tractors for purposes of 'custom service'. They finance not only farmers but even those who do not own any land to buy tractors and provide services to others in respect of both farm and non-farm uses.

Notes

1 Jakhade and Gadgil, 'Investment in Agriculture: A Cost-Benefit Analysis — Reply', *Economic and Political Weekly*, April 10, 1971, p 802.
2 S Paul, 'Investment in Agriculture: A Cost-Benefit Analysis', *Economic and Political Weekly*, May 16, 1970, pp 810-11.
3 Gaikwad, Gupta and George, "Water Utilisation and Agricultural Development in Western UP" Indian Institute of Management, Ahmedabad, 1971, (Unpublished).
4 S Paul, *op cit.*
5 *Ibid.*
6 Jakhade and Gadgil, *op cit.*
7 Jakhade and Gadgil, 'Production-and-Repayment-Capacity-Oriented Lending for Farm Investment', *Reserve Bank of India Bulletin*, January 1970, p 72.
8 *Ibid*, p 77.

UBI NOW INTRODUCES

Monthly Income Fixed Deposit Scheme

ENJOY INTEREST INCOME EVERY MONTH AT FIXED DEPOSIT RATES

All you have to do is to deposit with UBI Rs. 3,000/- or above for a minimum period of 3 years. You start getting the benefits from the very next month.

This is how it works

★ Draw interest every month; no more waiting for longer periods.
★ Ensure regular income month after month...
★ Supplement your income.
★ Enjoy fixed monthly income keeping your principal intact.

DEPOSITS	MONTHLY INCOME ON DEPOSITS FOR		FIXED DEPOSIT INTEREST RATES
	3 YEARS	ABOVE 5 YEARS	
Rs. 3,000	Rs. 16.25	Rs. 18.12	3 years... 6 1/2 % p.a.
Rs. 10,000	Rs. 54.17	Rs. 60.42	3-5 years... 7% p.a.
Rs. 50,000	Rs. 270.83	Rs. 302.08	Above 5 years. 7 1/4 % p.a.

United Bank of India
(A Government of India Undertaking)

UBF-30-71

ECONOMIC AND POLITICAL WEEKLY

Founder-Editor: Sachin Chaudhuri

Vol VI No 52 December 25, 1971

Crushing the Corollary—Water Is Wealth—In the Ring—And Now Price Control 2530
Business 2532
Fourth Plan: Mid-Term Appraisal 2534
Capital View 2536
Letters to Editor 2536
Companies 2538
From Our Correspondents
Significance of Bangla Desh —Dhananjoy 2541
American Concern for Kashmir 2543
Singapore: Reactions to the War —Harish Chandola 2545

REVIEW OF AGRICULTURE
A-153 - A-196

Nationalism and Marxism —Vinayak Purohit 2547
London: Ripple and Wave but Not the Tidal Current —Farrukh Dhondy 2549
The Fourth Estate 2551
Review
Indian Communists and Foreign Policy —Mohan Ram 2553
Special Articles
Sheikh Mujib and Deja Vu in East Bengal: The Tragedies of March 25 —Harry W Blair 2555
On Rural Poverty: A Tentative Hypothesis —Ranjit Sau 2563

ECONOMIC AND POLITICAL WEEKLY
Skylark 284 Frere Road Bombay 1
Phones 266072, 260566, 260192

Editor
KRISHNA RAJ

Assistant Editors
Rajani X Desai, Jawid Laiq

Business Manager: A Fernandes
Circulation Manager: Shiv Patil

Editorial Staff
Colin de Souza, Haresh M Advani
Shireen Heerjee, Ashok Rao

Partial Perception

WHAT is the purpose of the customary mid-term appraisal of every five-year plan? The obvious answer would be that these assessments enable pinpointing of shortfalls in performance and suggest major corrections of course necessary to achieve the objectives of the plans. In practice, however, things do not quite work out like that. By the time the mid-term appraisal is completed three of the five years of the plan are over and it is too late for significant corrections of course or for major new investment start-ups to have an impact during the plan period. This is, of course, particularly true of the mid-term appraisal of the Fourth Plan, presented to Parliament this week, which has been overtaken by such cataclysmic events as the influx of refugees from Bangla Desh and the India-Pakistan war. As the Minister for Planning admitted in his statement to Parliament, "it will not be realistic at the present time to formulate a reasonably clear outline of the prospects for the remaining period of the Plan". In the circumstances, the major utility of the Planning Commission's effort is likely to be in the contribution it could make to the formulation of the basic approach to and the broad strategy of the next plan.

If the mid-term appraisal is to be seen from this standpoint, then the painstaking examination of shortfalls in individual areas or industries cease to be its most interesting aspect. Instead, when the experience of the plan so far is seen in the whole, what stands out is its failure to pull the economy out of the low-saving, low-investment stagnation into which it had settled some half a dozen years ago, towards the end of the Third Plan. The plan had aimed at raising the rate of investment from 9.9 per cent of net domestic product at market prices (NDP) in 1968-69 to 13.1 per cent in the 1973-74 and the rate of saving from 8 per cent to 11.9 per cent, implying a decline in dependence on foreign saving from 1.9 per cent of NDP to 1.2 per cent. In fact, however, there has been a slight decline in the rate of investment and only a marginal increase in the rate of saving during the first two years of the plan. The mid-term appraisal notes that the rate of saving in the household sector, which accounts for the bulk of the savings in the economy, is barely 7-8 per cent of household disposable income and concedes that there are formidable constraints on household saving. At this point, the appraisal appears to momentarily put its finger on the crux of the problem when it says that several of these constraints "relate to the rather high degree of inequality obtaining in society". The upper strata of the population, particularly the new rich thrown up by the two decades of planned development, have the means to afford "living standards and patterns obtaining in the highly developed countries" and, what is more, they "set in motion a chain reaction which eventually engulfs even those who cannot afford one square meal a day".

The Planning Commission deserves to be complimented for discarding the common notion that inequality of distribution of incomes has at least the merit of yielding a higher rate of saving. Unfortunately, this insight does not get reflected in the appraisal's approach to dealing with the problems posed by the plan's working so far. Surely, what it has to say about the impact of the consumption levels of the upper strata of the population has some relevance for the sort of structure of production which should be created in industry and elsewhere? Commodities and services consumption of which set in motion the kind of "chain reaction" mentioned above should have no place in this structure. And yet, when it comes to discussing the slack in growth of industrial output the appraisal simply joins in the chorus for liberal issue of industrial licenses and indiscriminate expansion of capacity.

If, in the above instance, the Planning Commission fails to recognise the threat to a higher saving and investment rate from the structure of production, elsewhere it also does not grasp the opportunities for stepping up investment created by particular successes in the sphere of production. In its discussion of the prospects in agriculture, it talks of the threat of "accumulation of excessive stocks of cereals" as a result of the relatively successful experience in cereals production so far in the plan. Now, the use of food stocks for stepping up the rate of economic growth has been a much-discussed subject ever since the inception of planning in the country. Surely, if the present stocks of cereals appear excessive, it is only because a very substantial proportion of the population whose intake of cereals is well below the bare minimum necessary for survival, has not the money incomes to get at these "excessive" stocks at the going prices? The Planning Commission, instead of adding its voice to the complaints about the burdensomeness of the food stocks, should be concerned with devising ways to use the so-called "surpluses" of foodgrains (and of a few other necessities of life which could be deliberately created) to push up investment and expand employment in the economy.

Yugoslavia

Crushing the Corollary

TO satisfy to some extent the local aspirations of its various peoples, after the Second World War Yugoslavia was declared a federation of six republics by Tito. In the sixties, a great measure of economic and political decentralisation was granted to the republics under pressure from local Communist Party units. Decentralisation was also seen as a means of increasing productivity at every level including the factory shop-floor. Greater political freedom followed as the obvious partner to the decentralisation policies. Tito and his Party thought that they had opened a new chapter in the development of socialism and in the resolution of the problem of nationalities. The encouragement of greater productivity by such proven capitalist methods as bonus incentives and profit-sharing created a momentum of its own.

Croatia as well as some of the other republics began to demand, through their Communist Party units, greater shares of national investment and foreign exchange. In Croatia, the demands were much more pointed and specific and called for a radical decentralisation and liberalisation of the Yugoslav foreign trade, foreign exchange and banking system. The Chairman of the Croat Communist Party and professor of economics, Savka Dabcevic-Kucar, told her Party Central Committee that Croatia accounted for 28 per cent of the country's export earnings, 59 per cent of its transport revenues, 72 per cent of tourist revenue (most of it in foreign exchange) and 34 per cent of the foreign exchange remittances from Yugoslav workers abroad. The implications of Dabcevic-Kucar's recital of statistics was clear: Croatia should have a much greater say in how and where the foreign exchange was to be allocated. From the Croat viewpoint, the foreign exchange earnings should have been ploughed back into the areas that had earned them. Finer Marxist sentiments like considering whose need was greater were completely forgotten and so was the fact that four of the other republics (Slovenia being the exception) have lower per capita incomes than Croatia.

The Croat demands are, however, not merely nationalistic. They are symptomatic of a wider malaise which has followed in the wake of Yugoslavia's neo-capitalist policies — the growth of a highly acquisitive, consumer-oriented society, greatly attracted to Western goods and fashions. The Croat demands are only natural in the context of Yugoslav policies. But instead of countering these demands by process of re-ideologisation, Tito has chosen to regard them only as a threat to his power structure and to meet them with repression. In the Yugoslav happenings of 1971 there are certain parallels with what happened in Czechoslovakia in 1968. There also, the Communist Party encouraged the growth of a grasping, acquisitive society. The logical demands flowing from such a growth were crushed by the Russians. In Yugoslavia, it is not the Russians but the initiator of the whole process, Tito, who is now repressing the corollary to his own peculiar variant of 'socialism'.

Irrigation

Water Is Wealth

IN their article in the Agriculture Review section of this issue, Eric Gustafson and Richard Reidinger point out how the spread of the use of new seed varieties and modern inputs in agriculture has put a premium on predictability and controllability of water supply and how this has led, in areas where ground water conditions permit it, to farmers turning to the tubewell as a preferred source of irrigation. Confirming this, the Mid-Term Appraisal of the Fourth Plan, released this week, reveals that in the first three years of the Plan (1969-72) extension of minor irrigation is expected to cover 4.26 mn hectares while major and medium irrigation projects are likely to account for only 1.56 mn hectares.

Of course, 'minor irrigation' is a ragbag which covers all schemes costing less than Rs 25 lakhs. But the spurt in minor irrigation in the last few years has been the result mainly of private investment in tubewells and in energisation of wells. Thus in the three-year period 1966-69, a total of 175,000 private tubewells were bored. This compares with the total number of such tubewells at the end of the Third Five-Year Plan which was only 80,000. Subsequently, another 190,000 tubewells are estimated to have been added in the first two years of the Fourth Plan. Similarly, the number of pumpsets in operation increased from 6.5 lakhs in 1966-67 to 10.9 lakhs in 1968-69 and further to 16.4 lakhs at the end of 1970-71. The proliferation of private tubewells has taken place not only in areas which are without any other source of irrigation but also in the alluvial tracts already commanded by existing canal systems where ground water is available in copious quantities, making the sinking of tubewells by individual agriculturists an attractive proposition. Thus, from being largely a publicly-owned and provided service, irrigation is rapidly becoming a privately-owned facility and an object of very large private investment.

The inequalities in agriculture based on differences in size of holdings are now getting magnified by possession of private means of irrigation or the lack of them. This consequence of the introduction of new crop varieties and use of modern techniques of cultivation should have been obvious enough at the outset. Yet while financial institutions like the Agricultural Refinance Corporation, the Land Development Banks, the Central Co-operative Banks and now the commercial banks have been pressed to provide the wherewithal for the sinking of private tubewells and energisation of wells, little attention has been paid to the provision of controlled irrigation to farmers whose holdings are too small to justify private tubewells or who do not have access to institutional finance for the purpose.

Pakistan

In the Ring

THERE has been a spate of directives flowing from the President of Pakistan's office since Zulfikar Bhutto took over. Passports of the infamous 20-odd families have been impounded. The princes in Pakistan, too, have been deprived of their purses and privileges. The ban on the National Awami Party (NAP) led by Wali Khan has been withdrawn. Several top generals have been dismissed, although one of the two most aggressive generals, Gul Hassan, has been made acting commander-in-chief of the Pakistan army and the other, Tikka Khan, has been kept on, in spite of being the officer most responsible for the debacle in East Bengal.

Does all this amount to any significant diminution in the power of those two groups which in unison have so far controlled the destiny of Pakistan—the landed Punjabi gentry who predominantly make up the officer-class of the army and the bureaucracy, and the big business families based in Karachi, many of whom are migrants from among the mercantile Muslim communities of coastal Kutch and Gujarat. For the army, the loss of East Bengal has meant a disastrous loss of prestige but for the business families the damage has been far more tangible in the shape of the loss of a major field of exploitation—an area which supplied some cheap raw materials, much foreign exchange and, most important, a captive market for the products of West Pakistani industry. While the industrial units remain in the West, their products will become increasingly difficult to sell in a substantially reduced market and the loss of foreign exchange is likely to mean that these units might have to do without vital spare parts and modernisation of their machinery. Deprived of their easy takings from East Bengal, the business families could blame the army for bungling in Bengal and come to a tacit agreement with Bhutto whereby he could take up radical postures regarding the business houses but in substance avoid hampering—if not actually furthering—their interests. But since the business houses of Pakistan have been used to operating in a much more direct manner with the congenial encouragement of the army, it is unlikely that they will be able to work out a more 'sophisticated' and devious mode of operation with Bhutto, who will have to take several symbolic measures to assuage public opinion, a quantity on which he is much more dependent than are the army or the business elite. The danger is that the businessmen may take the symbols to be the substance and react by cementing their bonds with an army which has been defeated but is not devoid of power. To prevent yet another army take-over—this time, perhaps, by younger and more politicised officers—Bhutto is likely to keep the army occupied by maintaining tension with India, both diplomatically and by engaging in minor border skirmishes.

Since the level of political consciousness in West Pakistan is not very high, Bhutto's radical postures will probably lull many of those who voted for him for quite some time, especially in view of the fact that India can always be said to be the reason for economic stagnation in Pakistan. And economic stagnation there will be, as Bhutto cannot risk cutting down the very high level of defence expenditure because this would alienate the armed forces. Apart from the army, the other focus of opposition to Bhutto is likely to be the fissiparous tendencies of the tribal provinces of the North-West Frontier and Baluchistan. By releasing and consulting the most popular leader of the North-West Frontier Province, Wali Khan, Bhutto has tried to head off regional troubles but once economic disaffection grows, resentment is likely to take the form of regionalist demands. In this connection some more per capita income figures, province-wise, may be relevant. The 1968-69 figure for what was then East Pakistan was Rs (Pakistani) 460, for the North-West Frontier Rs 360, for Baluchistan Rs 455, for Punjab Rs 614 and for Sind (including Karachi) Rs 854.

The Press

And Now Price Control

SO far the Government's overt objectives in relation to the Press have been limited to encouraging small newspapers and discouraging concentration of ownership of newspapers. To this list has now been added the protection of newspaper readers against being overcharged. On Monday last the Government introduced in the Lok Sabha a Bill, which was passed the next day, taking powers to control the prices of newspapers. The statement of objects of the Bill referred to the fact that a number of newspapers had recently raised their prices much in excess of the two-paise excise duty (on newspapers and journals with a circulation of over 15,000) which came into effect from mid-November. An appeal had been made to newspapers, through a statement in Parliament, not to increase prices by more than the excise duty. This had little effect, except on papers published from Calcutta which revoked price increases which they had earlier announced. Even in the case of these papers, however, it was not so much the appeal by the Government as the strike by newspaper vendors which had the desired effect. Thus having failed to persuade newspapers, the Government has now taken statutory powers to fix prices "in order to make available to the public newspapers at fair prices".

And how are these "fair prices" to be determined? The task has been simplified by in effect assuming the prices prevailing on the eve of the levy of the excise duty to be "fair" and limiting the regulatory power to increases in prices over these levels. Even so since, as mentioned above, a number of newspapers have hiked up their prices after the levy of the excise duty and many more may be expected to do so during the two-year life of the present legislation, it would be interesting indeed to see how the Government proceeds to determine what is "fair" and what is not in all these cases. Clearly, the price per copy—which does not as a rule cover costs, the difference being fully or partially made up by advertising revenue—cannot be judged in isolation from the total economics of the newspaper business in question. And in the context of the recent Supreme Court judgment on the prices of passenger cars, the imagination boggles at the kind of elaborate cost investigations that may be called for before any orders of the Government regulating newspaper prices may be expected to stand the test of judicial scrutiny.

There is, however, an even more interesting aspect of the matter. In the course of the debate on the Bill in the Lok Sabha, the Minister of State for Information and Broadcasting agreed with the suggestion of a Member that the price-page schedule ought to be reintroduced and said that the Government was aware of the need to fix a relationship between the price and the number of pages of a newspaper. Now, the objective of the price-page schedule is to create a price differential in favour of the smaller newspapers by *forcing* the bigger ones, which offer a larger number of pages, to charge a higher price. The reasoning runs roughly as follows: the bigger newspapers with their larger advertising revenues are able to offer newspaper readers a larger number of pages for the same price; the resultant gain in circulation enables them to secure further advertising. By compelling newspapers offering a larger number of pages to charge a higher price, the expectation is that the higher circulation-larger advertising cycle can be made to work in favour of the smaller newspapers.

How does all this fit in with the Government's present attempt to control the price of newspapers? If a number of the bigger newspapers in the country have raised their prices—as they have—this should, according to the logic of the price-page schedule, have widened the price differential in favour of smaller newspapers, thereby affording them the opportunity for making a bid for higher circulations. But as far as one can gather what appears to have happened is that the smaller newspapers have followed the lead given by the larger ones, preferring the bird in hand (larger circulation revenue from a given level of circulation) to the two in the bush (eventually larger advertising revenue following a rise in circulation). And for all one knows about the price-elasticity of demand for newspapers (and of demand for particular newspapers), they are probably right.

What all this seems to suggest is that the Government needs to acquire a far better understanding of the circumstances of the functioning of the Press than it has today, before it launches on legislation in fulfilment of ambitions, though altogether laudable, objectives—whether these be the encouragement of smaller newspapers or the snapping of the ownership nexus between industry and the Press.

Fragile Work of Art

THE United States which began by appearing to fight off a devaluation of the dollar has ended by fighting for, and securing, a larger devaluation than its international trade competitors in the Group of Ten were initially prepared to concede. The United Kingdom and France, for instance, have, by agreeing to the 7.9 per cent devaluation of the dollar, while leaving their old gold parities unchanged, conceded a competitive advantage to the United States which is definitely larger than what both countries were prepared to countenance even a few weeks ago and which both might soon discover is larger than they can afford. The Belgians and the Dutch have also accepted larger-than-expected appreciation of their currencies (13.5 per cent) in relation to the dollar. The currencies to appreciate the most have been, of course, the yen (17 per cent) and the D-mark (13.5 per cent), though there is a lurking suspicion that this leaves the D-mark still undervalued. In any event, the franc's advantage over the D-mark has been cut from about 12 per cent to 5 per cent. It has been estimated that, in return for abandoning the 10 per cent surcharge on imports and the buy-American tax incentive for investments, the US has on average secured a 9-10 per cent appreciation of the major currencies against the dollar which could lead to a $7 billion improvement in its current balance.

In retrospect, it does appear that the US was wise not to insist on tying up revision of exchange parities with major trade concessions by the European Economic Community. Its immediate expectations of the Community are modest and more substantive trade concessions have been held over to be negotiated later with the expanded Community. The US has also not accepted any commitment on the convertibility of the dollar so that the proposed price of gold of $38 per ounce will remain an accounting price. Instead, the Group of Ten have called for negotiations through the IMF for evolving an international monetary system based on man-made reserve assets instead of on reserve currencies or gold. As an immediate measure of reform, the 'band' of permissible fluctuation of exchange rates has been widened to 2.25 per cent on either side of the fixed rate. The contribution that this is likely to make to the viability of the new exchange rate structure can be, however, exaggerated. Movement of currencies even within the permissible limits is bound to give rise to complaints of 'unfair' attempts to secure trading advantage. All in all, therefore, the West German economics minister, Karl Schiller, was right to describe the new structure of parities as "a fragile building, a fragile work of art".

The Rupee

'Going Stable'!

WHILE the US has bargained to secure as large a devaluation of the dollar and as large a depreciation of its value in relation to the currencies of its major trading partners as possible, the Government of India has gone to great lengths to avoid giving the impression that the rupee was being devalued. Of course, the Government's critics have been as ridiculously sensitive about the devaluation of the rupee. More than one Member of Parliament has taken the Government to task for having devalued the rupee under "political pressure of some Western countries".

This may well have been one instance when there was perhaps no direct political pressure on the Government; nevertheless political considerations appear to have mainly determined the decision to snap the rupee's link with the dollar established in August this year, when the world's major currencies were 'floated'. Yet it would have been ridiculous to go back to the pre-August 15 parity of Rs 18 to the pound since, among other things, this would have resulted in an 8.6 per cent appreciation of the rupee in relation to the dollar; so the fish-nor-fowl solution was decided on of settling for the rate with the pound which had been reached on the eve of the announcement of the new parities for the major currencies by the Group of Ten. This gave us the emotional satisfaction of the rupee actually appreciating by 3 per cent in relation to the dollar while in relation to the other currencies it depreciated by between 4 per cent (in relation to the Italian lira) and almost 12 per cent (in relation to the Japanese yen). And yet, of course, the rupee had not been devalued!

In fact, all this sensitiveness about the devaluation of the rupee was entirely uncalled for. It should have been obvious that what had happened was a realignment of the values of the world's most industrialised capitalist countries. We were under no compulsion whatsoever to immediately react to this development. In the circumstances, the link with the dollar could have been maintained (or, to use the Finance Minister's coy expression, we could have continued to "go stable with" the dollar). As a result, the rupee-dollar rate would have remained at Rs 7.50 and the rupee would have benefited to the full extent of the appreciation of the other major currencies in relation to the dollar. Any immediate problems this gave rise to in respect of individual items of export or import could have been taken care of by changes in export incentives or export-import duties. The Government could then have waited and watched the impact on our balance of payments of the new structure of exchange rates of the currencies of the industrialised countries in the context of developments such as the drying up of US economic aid or UK's entry into the European Common Market. This would have also made it possible for the Government to consider, against the new exchange rates, the pros and cons of a major reform such as the introduction of a dual exchange rate with a more attractive rate to induce, say, larger private remittances and tourist earnings (significant proportions of both of which, one suspects, today flow into the 'unofficial' market for foreign exchange).

Deposits

In Aid of Non-Banking

IN 1966, the Reserve Bank prescribed a ceiling on the 'clean' deposits which non-banking, non-financial companies collect from the public, confining them to 25 per cent of the paid-up capital and reserves of the borrowing company. The measure had three aims: first to limit use of clean loans and so to offer some protection to the depositing public; second, to ensure that the cushion of clean loans did not neutralise the control on commercial bank advances; and, finally, to compel the companies accepting public deposits to report regularly to the Reserve Bank.

These aims were largely defeated because the ceiling on deposits did not cover 'unsecured loans' which companies take from their shareholders and from the public against signatures of

their directors or former managing agents. Consequently, a company wanting to overtrade or facing a margin squeeze could still have recourse to unsecured loans. In fact, according to the latest available data, against deposits of about Rs 275 crores with reporting non-banking, non-financial companies, their unsecured loans from the public were Rs 125 crores.

It was only when certain public and private limited companies recently defaulted on repayment of deposits and loans that the issue was again brought into public view. The Reserve Bank has now imposed a ceiling on unsecured loans of 25 per cent of paid-up capital and reserves, to be effective from January 1. The ceiling applies to unsecured loans from the public and shareholders, but not to loans from directors who may tap loans from the public and shareholders. The ceiling does not embrace firms or HUF businesses which tap public funds. The ceiling is in addition to the 25 per cent prescribed for deposits. In fact, unsecured loans are now to be covered by the term "deposit" and be for a minimum term of a year.

Is the ceiling on unsecured loans a corrective measure? It may be viewed as such since the scope for resorting to unsecured loans from the public is being legally circumscribed. In the process, however, the Reserve Bank is now regularising unsecured loans tapped in excess of the deposit ceiling! In effect, the Reserve Bank is doubling the ceiling on "deposits". Here, account should also be taken of the time the new regulation allows for liquidation of unsecured loans in excess of the ceiling —that is, in excess of the deposit-cum-unsecured loan ceiling of 50 per cent of capital and reserves. The excess has to be worked off in three annual instalments by April 1, 1975.

This general criticism apart, the point to be noted is that the Reserve Bank "regulates" deposits and unsecured loans, but exercises no control over them. The Reserve Bank's concern is confined to prescription of ratios and does not extend to how the funds tapped from the public by companies are used. This is the essential difference between the Reserve Bank's regulation of banking companies and of non-banking, non financial companies. The distinction between the two is not clear to the public. In fact, the public tends to assume that since deposits (and now unsecured loans) are regulated, their funds with companies are as safe as with banks. The Reserve Bank in its wisdom has asked companies soliciting deposits and loans to give out certain information to the public about their financial position. The companies give this information and boldly advertise that they are conforming to the Reserve Bank's regulations—a clear case of hidden persuasion! What is not so widely known to the public is that the Reserve Bank does not really keep a tab on the borrowing companies. Perhaps the Reserve Bank should make a modest investment in publicising this fact as also the fact that its system of information collection yields it company data that are at least three years out of date.

Given the system of data collection, the Reserve Bank cannot with the best of intentions (the phrase is used here loosely) either minimise the risk of the lending public or prevent borrowing companies from using non-banking funds to get around credit control. Indeed, one wonders why the Reserve Bank encumbers itself with such perfunctory regulations. Instead why does it not straightaway refuse to allow companies in the organised sector, which have ready access to commercial bank funds, to tap non-banking funds? After all, the Reserve Bank's purpose is to spread banking—not non-banking.

Leather Exports

Market Diversification

LEATHER and leather manufactures have become important foreign exchange earners for the country. In terms of foreign exchange earned, they rank very close to commodities such as iron and steel, engineering goods, and iron ore. Their demands for import entitlements or cash subsidies are almost negligible. After the 1966 devaluation, like exports of engineering goods, exports of leather goods too rose remarkably.

Exports of leather were worth Rs 95 crores in 1969-70. In 1970-71, however, they declined to Rs 80 crores, on account of the cyclical trend in exports reflecting changing fashions and the tight monetary conditions in Europe. During the last few years, there has been a shift in favour of exports of semi-finished and finished leather goods and away from exports of raw hides and skins. Exports of finished leather and leather manufactures increased from Rs 28 crores in 1967-68 to about Rs 37 crores in 1970-71. The East European countries — particularly, the USSR and Czechoslovakia — which have emerged as prominent markets for Indian leather and leather goods accounting for nearly three-fourths of the total exports, import mainly chrome tanned leather and footwear. The West European markets, too, have recently shown increasing preference for finished leather garments, especially suedes of all types made of cow and goatskin. During the 1960s there was also considerable market diversification. The share of the UK declined from over one-half of total leather exports in 1961-62 to about one-fourth by 1969-70. The USSR, Italy, and France, emerged as important markets, absorbing about two-fifths of the total exports of these goods in the last two years.

The 10 per cent import surcharge by the US, now removed, adversely affected exports of leather and leather goods directed to that country as well as re-exports of our leather from the European countries manufactured there into end-products and then directed to the US market. Exports of leather and leather goods earned foreign exchange worth Rs 45 crores in April-September 1971 as against the target of Rs 100 crores for the whole year 1971-72.

It is too early to say whether this target can yet be reached in the disturbed conditions consequent to the dollar devaluation. The Fourth Plan target for leather and leather goods is Rs 125 crores by 1973-74, but possibilities of pitching it higher, at Rs 160 crores, are also being discussed. The Rs 160 crore target appears rather unrealistic, however, in view of the inadequate infrastructure for producing the desired finished goods in sufficient quantities and of required high qualities. Even the export target of Rs 125 crores by 1973-74 is based on the assumption of a substantial shift in favour of finished leather and fabricated leather products including leather footwear. The industry is still dependent on imported machinery for manufacture of finished leather and leather goods suitable to market preference of the West, so that import licences would have to be adequately and promptly issued for it. Recently measures have been taken, like provision of subsidised air-freight to some categories of leather goods, the demand for which changes swiftly with changing fashion. Even so, steps would be necessary to remove some of the anomalies in the rate structure of air-freight, if this facility is to contribute much towards augmenting exports of some of the varieties of leather goods dependent on rapidly changing fashions in world markets.

Overall and Sectoral Rates of Growth — Fourth Plan Estimates and the Actual Performance, 1968-69 to 1970-71

(Net value added in Rs crores at 1968-69 prices)

	Sectors	Fourth Plan Estimates			Latest CSO Estimates*			Annual Rate of Growth (per cent)		
		1968-69	1973-74	Implied Rate of Growth (per cent)	1968-69	1969-70	1970-71	1969-70	1970-71	1970-71 over 1968-69
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1	Agriculture	14864	18951	5.0	14502	15238	16039	5.1	5.3	5 2
	Agriculture	14250	18212	5.0	13859	14583	15372	5.2	5.3	5.3
	Forestry and logging	449	539	3.7	470	480	497	2.1	2.5	2 8
	Fishing	165	200	3.9	173	175	180	1.2	2.9	2 0
2	Mining and manufacturing	4118	5966	7.7	4064	4266	4403	5.0	3.2	4.1
	Mining and quarrying	317	465	8.0	316	335	331	6.0	(—)1.2	2.3
	Large-scale manufacture	2242	3490	9.3	2192	2322	2405	5.9	3.6	4.7
	Small-scale manufacture	1759	2011	5.2	1556	1609	1667	3.4	3.6	3.5
3	Electricity, gas and water supply	237	370	9.3	243	266	287	9.5	7.9	8.7
4	Construction	1142	1722	8.6	1289	1376	1417	6.7	3.0	4.8
5	Transport and communications	1309	1785	6.4	1313	1391	1444	5.9	3.8	4 9
	Railways	469	595	4.9	470	494	496	5.1	0.4	2.7
	Communications	181	265	7.9	174	182	194	4.6	6.6	5.6
	Others	659	925	7.0	669	715	754	6.9	5.5	6.2
6	Real estate and ownership of dwellings	675	797	3 4	700	723	747	3.3	3.3	3.3
7	Trade, storage and hotels, etc	3105	4357	7 0	3132	3286	3427	4.9	4.3	4.6
8	Public administration and defence	1308	1444	2.0	1339	1442	1559	7.7	8.1	7.9
9	Banking, insurance and other services	2313	2914	4.7	2300	2402	2520	4.4	4.9	4.7
	Banking and insurance	440	554	4.7	459	501	544	9.2	8.6	8.9
	Other services	1873	2360	4.7	1841	1901	1976	3.3	3.9	3.6
10	Net domestic product of factor cost	29071	38306	5.7	28882	30390	31843	5.2	4.8	5.0
11	Net factor income from abroad	(—) 270	(—) 408	..	(—) 258	(—) 259	(—) 274	..	..	..
12	Net national product at factor cost**	28801	37898	5.6	28624	30131	31569	5.3	4.8	5.0

* CSO estimates at 1960-61 prices have been reworked, for each sector, at 1968-69 prices.
** Net national product at factor cost = national income.

Production Targets and Achievements: Industrial Sector

	Item	Unit	1973-74 Target	1969-70 (Actuals)	1970-71 (Actuals)	1971-72 (Anticipated)	1973-74 (Likely-achievement)	Surplus/ Shortfalls 1973-74
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Core Sector							
1	Steel ingots	Mn Tns	10.80	6.43	6 11	6.75	8.25	—2 50
2	Finished steel	Mn Tns	8.10	4 80	4.47	5.60	6.70	—1.40
3	Pig iron for sale	Mn Tns	3.80	1.40	1.25	1.40	3.30	—0.50
4	Alloy and special steel	1000 Tns	220.00	140.40	200.0	200.0	247.00	+27.00
5	Aluminium	1000 Tns	220.00	185.00	168.70	179.80	210.00	—10.00
6	Copper	1000 Tns	31.00	9.80	9.33	9.50	26.00	—5.00
7	Zinc	1000 Tns	70.00	23.70	23.40	30.00	38.00	—32 00
8	Chemical machinery	Rs Mn	275.00	133.00	170.00	220.00	325.00	+50.00
9	Printing machinery	Rs Mn	80.00	2.40	3.60	6.60	24.00	—56.00
10	Machine-tools	Rs Mn	650.00	272.00	280.00	420.00	600.00	—50.00
11	Nitrogenous fertilisers	1000 Tns	2500.00	715.00	930.00	1130.00	1800.00	—700.00
12	Phosphatic fertilisers	1000 Tns	900.00	221.50	229.00	300.00	458.00	—442.00
13	Agricultural tractors	1000 Nos	50.00	17.10	20.00	35.00	50.00	—
14	Newsprint	1000 Tns	150.00	38.92	40.00	55.00	65.00	—85.00
15	Iron ore	Mn Tns	51.40	28.00	28.00	30.00	40.00	—11.40
16	Coking coal	Mn Tns	25.40	17.00	18.18	19.00	21.00	—4.40
17	Petroleum (crude throughput)	Mn Tns	26.00	16.20	18.00	19.00	21.50	—4.50
18	Petrochemicals							
	DMT	1000 Tns	20.00	—	—	—	18.00	—2.00
	Caprolactum	1000 Tns	23.00	—	—	—	—	—23.00
	Acrylonitrite	1000 Tns	16.00	—	—	—	—	—16.00
	Synthetic rubber	1000 Tns	70.00	28.60	30.00	31.00	36.00	—34.00
	Non-Core Sector							
1	Cotton textile machinery	Rs Mn	450	204	315	3000	400	—50
2	Cement machinery	Rs Mn	190	98	89.3	100	150	—40
3	Sugar machinery	Rs Mn	210	124	152.8	170	190	—20
4	Steel castings	'000 Tns	225	46	52	75	155	—70
5	Steel forgings	'000 Tns	220	60	69	80	100	—120

Continued

Production Targets and Achievements (continued)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
6	Power-driven pumps (organised sector)	1000 Nos	450	333	280	400	450	—
7	Diesel engines	1000 Nos	200	188.4	67.4	70	60	—120
8	Commercial vehicles	1000 Nos	85	35.5	41.5	45	60	—25
9	Bicycles (organised sector)	1000 Nos	3200	1914	2084	2300	2700	—500
10	Sewing machines (organised sector)	1000 Nos	600	327	235	380	500	—100
11	Electric fans (organised sector)	1000 Nos	3000	1552	1720	2000	2500	+500
12	Storage batteries (organised sector)	1000 Nos	1800	927	1000	1100	1500	—300
13	Radio receivers	1000 Nos	3800	1749	1830	2250	3250	—550
14	Electric transformers (above 38 KV)	Mn Kva	8.4	2.5	3.0	4.0	6.4	—
15	Electric transformers (38 KV and below)	Mn Kva	5.5	3.8	6.5	7.0	5.5	—
16	Electric motors (above 200 HP)	Mn HP	0.68	0.2	0.3	0.4	0.68	—
17	Electric motors (200 HP and below)	Mn HP	2.72	2.42	3.0	3.5	3.82	+1.1
18	Sulphuric acid	1000 Tns	2500	1129	1116	1350	1750	—750
19	Paper and paper board	1000 Tns	850	724	756	800	850	—
20	Cement	Mn Tns	18	13.81	14.36	15.50	18	—
21	Automobile tyres	Mn Nos	6	3.99	4.15	4.5	6	—
22	Cotton cloth (mill sector)	Mn Mtrs	5100	4192	4200	4300	4500	—600
23	Jute manufactures	'000 Tns	1400	944	1050	1100	1400	—
24	Sugar	'000 Tns	4700	4260	3765	3400	4700	—
25	Vanaspati	'000 Tns	625	477	525	550	625	—

Selected Physical Targets and Achievements: Other Sectors

	Items	Unit	Fourth Plan Target	Progress		1971-72 Target/ Anticipated Achievement	1973-74 (Likely Achievement)
				1969-70 (Actual)	1970-71		
	Agriculture and Allied Programmes						
1	Foodgrains	Mn Tns	129.00	99.50	107.82	112.0	122 to 125
2	Oilseeds	Mn Tns	10.50	7.73	9.12	9.50	9.50 to 10.00
3	Sugarcane (gur)	Mn Tns	15.00	13.78	13.19	13.17	13.50 to 14.00
4	Cotton	Mn Bls	8.00	5.23	5.56	6.20	6.20 to 6.60
5	Jute	Mn Bls	7.40	6.65	4.91	6.40	6.00 to 6.20
6	High-yielding varieties programme	Mn Hctrs	25.00	11.41	14.61	18.00	25.00
7	Multiple cropping (additional)	Mn Hctrs	9.00	1.52	1.59	1.90	9.00
8	Minor irrigation (additional)	Mn Hctrs	7.20	1.21	1.47	1.58	7.20
9	Soil conservation (additional)	Mn Hctrs	5.65	1.05	1.25	1.25	5.65
10	Consumption of fertilisers : Nitrogenous (in terms of N)	Mn Tns	3.20	1.36	1.49	1.78*	2.60
11	Phosphatic (in terms of P_2O_5)	Mn Tns	1.40	0.42	0.46	0.64*	0.81
12	Potassic (in terms of K_2O)	Mn Tns	0.90	0.21	0.23	0.34*	0.52
13	Plant protection	Mn Hctrs	80.00	34.61	43.20	50.76	80.00
14	Short and medium term loans advanced	Rs Crs	750.00	588.50	601.06	650.00**	75.00
	Irrigation—Major and Medium						
15	Potential (Gross) (Cumulative)	Mn Hctrs	23.3	19.15	19.75	20.39	22.9
16	Utilisation (Gross) Cumulative)	Mn Hctrs	20.9	17.14	17.68	18.36	NA
17	Installed capacity	Mn Kw	23.2	15.441	16.49	17.67	21.15
18	Pumpsets energised	'000 Nos	2337	1354	1629	1959	2337
	Village and Small Industries						
19	Production of handloom, powerloom and khadi cloth	Mn Mtrs	4250	3600	3760	3810*	3900
20	Raw silk	Mn Kgs	3.0	2.30	2.85	3.00*	3.20
	Transport and Communications						
21	Railways : traffic originating	Mn Tns	265.0	207.9	199.0	208.0*	240.00
22	Major ports : traffic handled	Mn Tns	77.0	54.6	56.0	61.0*	76.7
23	Shipping tonnage	Mn GTR	3.5	2.3	2.4	2.5*	2.83
	Education						
24	Additional enrolment in Classes I-V	Mn Nos	13.80	2.22	2.77	2.64	2.70 (13.08)†
25	Additional enrolment in Classes VI-VIII	Mn Nos	5.46	0.79	0.84	0.97	1.05 (4.65)
26	Additional enrolment in Classes IX-XI	Mn Nos	3.27	0.45	0.68	0.69	0.75 (3.27)
27	University education (Arts, Science and Commerce Courses)	Mn Nos	1.08	0.17	0.22	0.17	0.22 (0.92)
	Health						
28	Hospital beds	'000 Nos	281.6	262.4	266.0	270.0	—
29	Family Planning : Sterilisation	Mn Nos	—	1.42	1.28	—	—
	IUCD insertions	Mn Nos	—	0.46	0.46	—	—

* Anticipated achievement.
** Target of states and union territories for 1971-72 amounts to Rs 677.66 crores.
† Cumulative total.
Source: "The Fourth Plan: Mid-Term Appraisal", Planning Commission, Government of India, December 1971.

CAPITAL VIEW

A Moment of Profound Change

Romesh Thapar

HOW the focus shifts from point to point.... Now, we are in the midst of intense speculation about what goes on in Islamabad. Much will depend on the composition and character of the civilian-cum-military (you cannot really separate them in Pakistan!) group which will begin the process of restoring the shattered structure left behind by a discredited military junta. These developments have a vital bearing on the future of the cease-fire announced by India following the liberation of Bangla Desh.

The Yahyas and the Bhuttos will come and go, and so too will the juntas of various description, but we have at last arrived at a point in the modern history of this subcontinent when a somewhat lasting solution has to be found to the costly confrontation between India and Pakistan. At this moment of decision and change, the cease-fire will become a tenuous thing if the new realities are not accepted by the new rulers of Pakistan. Bangla Desh has come to stay. And Kashmir cannot be treated in the old terms, and on a basis which permits renewed hostilities as and when the Pakistani Army has been re-equipped by Washington or Peking. Briefly, the results of the recent war are seen to provide the possibility for a prolonged peace on this subcontinent—China notwithstanding.

The higher direction of the war, and the steps taken following the collapse of the Pakistani Army in the East, suggest that there is a full understanding of the fact that this is a moment of profound change. To think otherwise would be tragic folly. Fortunately, we are not ruled by Jan Sanghis who have already disassociated from the ceasefire and begun a fevered, underground agitation for the subjugation of West Pakistan. By and large, sanity prevails and makes a mockery of these political adventurers.

It will be difficult to derail thinking in India. Apart from the fact that Indira Gandhi is not easily controverted today—to put it mildly—there are at least these new dimensions to political consciousness which have developed over the last few months:

First, there has been a tremendous impact on the mind of India of the startling fact that a majority of the people of Pakistan opted for friendship and brotherhood with us. A year ago, no one would have believed in this possibility. The scenes of fraternisation in Bangla Desh between the Indian Army and the people are extraordinary. Imagine what this means to the future of this subcontinent, if we nourish the seed that is sown.

Second, it is becoming clear that large opportunities now open to the Muslim masses of India to shed their fears (genuine and otherwise) about their future and to find the opportunity to work actively in the building of a genuinely just, secular and democratic society. The stirring has already begun and is likely to have wide repercussions.

Third, there is at political levels a better realisation of what caused the break-up of East and West Pakistan. In this there are many pertinent lessons for the thinking Indian. We, too, belong to a sensitive federal structure and must learn to respect the inherent rights of our many cultures. The chauvinists, whatever their pretensions, must be located and stamped out by concentrated political and educational activity. When we forget our fundamental commitments and allow emotion to run away with us, as in the matter of language or eating habits, we spark tremendous tensions. Let the story of Bangla Desh be a warning to these potential genocidists.

Indira Gandhi, in the coming months of consolidation for economic tasks and electing the new state assemblies, is likely to build solidly on these new dimensions of political consciousness. No quarter will be given to those who hamstring policy and implementation with vapid euphoria, loud-mouthed chauvinism and the slogans of Right and Left which are rooted in thinking which has little relevance to the realities of present-day India. This is the moment of profound change our many millions have been waiting for in formidable tolerance and patience.

Already mobs of flatterers and fawners are besieging the citadels of power. This is only normal nad natural. We watch to see what fate befalls them. Only when we know the results of these skirmishes will it be possible to point to the trends of the future. As in war, so in peace the higher direction must be broadly above reproach. Then, and only then, will we have emerged into the sunlight.

Dreaming? Yes—and why not! After all, 1972 is upon us, and we are in the twenty-fifth year of our freedom.

December 20

LETTERS TO EDITOR

Domestic Resource Cost

IT is not clear to me whether the 'Reader' who wrote a letter in your issue of December 4 on "Domestic Resource Cost" agrees with the view that the shadow exchange rate provides the acceptable upper limit for domestic resource costs. The rest of us would have benefited a great deal if he had indicated his position and the reasons therefor before posing questions for others to answer. Since I did not raise the questions on shadow exchange rate and on the use of the domestic resource cost criterion for evaluation of capital projects, let me leave the task of clarification on these points to Messrs Dave and Subramanyam in case they feel inclined to do so. I shall only add that the objective of my first article ("Competitiveness of Indian Steel Exports", May 29, 1971) was modest in that I merely applied the concept of domestic resource cost to evaluate the export competitiveness of few steel products. While this evaluation could also have been done using the usual rate of return approach, I suspect that the project analysis required for this purpose would have entailed the use of price, cost and technological data which are more difficult to come by. On the other hand, I feel that the use of the domestic resource cost criterion is simpler and easier to apply although it has its own limitations.

I should comment briefly on the Reader's concern about my failure to acknowledge the earlier economic work on the subject of domestic resource cost. This indeed is a regrettable omission except for the fact that the focus of my earlier article was on the evaluation of certain exports and I brought in the domestic resource cost criterion only as a tool to aid the analysis. Since many variations of this concept exist, and are reasonably well known, I did not think it necessary to take up space to trace the antecedents of the concept and survey the literature on the subject. I might mention that in a short paper I presented on "Measurement of Comparative Advantage" at the Bombay University Seminar on 'Industry in the Fourth Plan' held in March 1971, I had attempted a brief survey of this sort in which appropriate tributes were paid not only to Bruno, but also to Belassa, Gorden and others. I say this only to assure the Reader that I have not claimed in my writings any proprietary interest in this concept. Lesser people might be pardoned if they use terms like "my" or "our" to distinguish between variations of criteria which they might have adapted or applied in specific contexts.

SAMUEL PAUL

Ahmedabad

[With reference to the letter by "A Reader", S A Dave and V V Bhatt point out that the following footnote to Table 1 of their article "Criteria for Evaluation for Capital Projects" (Review of Management, August 1971) had been inadvertently omitted in printing:

"The criterion suggested here is based on an earlier work by Michael Bruno. See his 'The Optimal Selection of Export-Promoting and Import-Substituting Projects' in UN, 'Planning the External Sector: Techniques, Problems and Policies', Report on the First Interregional Seminar on Development Planning, Ankara, Turkey."

The omission is regretted.

Ed.]

Prospero Is Stunned

LIKE the Indian Maoists who want to import revolution into India from China, Farrukh Dhondy wants to import the black revolutionary struggle into Britain following the way the Black Panther party has conducted its struggle in the United States. In one of his pieces ("Prospero Is Stunned" November 13, 1971, pp 2309-11), he gives an example from the Black Panther programme dealing with court trials: "We want all black people when brought to trial to be tried in a court by a jury of their peer group or people from their black communities as defined by the Constitution of the United States." This demand by itself is admirable, but one point which the Black Panthers seem to have forgotten and which Dhondy has also very conveniently overlooked — tried under what system of justice and in whose courts? Under a system of justice, whereby the ruling classes protect their domination through their courts, will black juries make a difference? Black juries can also be bought off.

A closer reading of other points of the Black Panther Party programme further reveals the misconception — equality for blacks but essentially within the same socio-economic framework, i e, the same exploitative, racist system. And this is why, in spite of all their rhetoric (and good organising work), the Black Panthers in the United States are now split down the middle and a spent force. Dhondy's article seems to follow the same rhetoric and slogan-mongering. For instance, "Mangrove Nine", the "man", — words and phrases borrowed from the US Black Panther vocabulary.

While Dhondy has clearly exposed (as if it needs any more exposure) the white racist nature of British society, he wants to fight it by black racism, by viewing everything in terms of black and white and thinking no further. At least the US Panthers did come down heavily, theoretically anyway, on black racism. (Bobby Seale, "Seize the Time — The Story of the Black Panther Party", London, 1970; see the chapter on "Why We Are Not Racists".) But many of the more avowed black racists in Britain in positions of leadership of some black organisations do not belong to the ranks of the poor oppressed black worker, who accounts for roughly 85 per cent of Britain's black population. They are, in fact, owners and operators of small shops, garages, restaurants, etc — part of the bourgeoning black petty bourgeoisie in Britain. While a black bourgeoisie has existed for some time in the United States — Garvey, du Bois, Booker T Washington being their earliest spokesmen — it is just beginning to rise in Britain. This black petty bourgeoisie also feels oppressed and discriminated against because of its skin colour and its tiny economic status, and can shout very loudly against the system; but when it comes to organising and fighting for the real interests of the much worse off majority of fellow blacks (who have the most obnoxious jobs, like stoking furnaces and sweeping streets), the farthest it can go is to opt for social democracy. In such instances, where the basis of the racist nature of Britain society can be exposed by illustrating the clearly racist bias of institutions like the police and the courts, all they can think of is black juries.

In this and another article ("Tory Nationhood Defined", April 24, pp 861-2), Dhondy talks in glowing terms of 10,000 black people marching last March against the latest Immigration Bill. Surely Dhondy has lived long enough in London to know that black people have been marching and signing petitions and memoranda since 1961. This was the year of the first bit of racist legislation in the form of a private bill of a Conservative MP, Cyril Osborne. Ten years later, in spite of innumerable marches, petitions and memoranda, the laws have got progressively more racist. Viewed in this perspective, voluntary repatriation (an unofficial form of which already exists) followed by compulsory repatriation is on the cards. Also, the British police, past masters in subtlety and sophistication, have by now perfected the art of turning a demonstration, even if 10,000 strong, into a ritual to allow the demonstrators to let off steam and ease their conscience. Dhondy deludes himself and others if he thinks a demonstration moving down deserted shopping centres and the West End of London on an empty Sunday afternoon could have stopped the Bill.

Dhondy is very conscious about promoting the solidarity of the black people in Britain with other oppressed peoples all over the world, but a solidarity built from above is not going to serve the purpose he desires. How about first thinking and working towards solidarity with other oppressed people in Britain. Since this requires a far greater amount of hard work it's so much easier to see things in terms of black and white.

JEHANGIR MERWANJI

Bombay

United Asia Publications

Announce the release of Three Outstanding Titles...

Mahatma Gandhi — The Man and His Mission

By U. R. Rao Price Rs. 15/- $3/-

Computer and Labour Problems in India

By K. R. Bhandarkar and Raja Kulkarni

Price Rs. 25/- $5/-

France and the World

By Dr. Girija K. Mookerjee

Price Rs. 25/- $5/-

Please order your copies from

United Asia Publications
12, Rampart Row,
Bombay - 1.

Despite Capacity and Markets

Hansavivek

ASSOCIATED CEMENT COMPANIES' production of cement, at 5.42 million tonnes during the year to July last, was almost the same as that in the previous year — despite capacity having been increased from 6.2 million tonnes to 6.68 million tonnes by extending capacities at the Kymore, Chaibasa, Wadi, and Chanda works, which were thus in operation for the whole year. Production might have been 'substantially higher' but for the accumulation of clinker stocks because of transport difficulties for the outward movement of cement and the inward movement of coal. 'Acute' wagon shortage also impeded despatches. Sales were higher. Yet gross profit was lower owing to cost inflation. Dividend distribution was, therefore, once again short-earned. Having completed all major expansion schemes which added some 3 million tonnes of annual capacity, the company is now concentrating on rehabilitating and modernising its factories. Recently, it applied for industrial licences for expansions at Bhupendra and Wadi works and for establishing a new cement plant in Rajasthan.

Good progress has been made in the installation of the cement grinding and packing plant on a turn-key basis for Kuwait Cement, which is expected to be commissioned soon. For the export contract with the State Organisation for Industrial Design and Construction in Iraq, for the supply, erection, and commissioning of a wet process plant with a capacity of 700 tonnes per day, import licence has been received and orders placed abroad for delivery of the necessary units directly at site as well as for import of components for incorporation into machinery to be made in India. A number of other tenders have been submitted for complete cement plants abroad. At the same time, satisfactory progress has been maintained in the execution of indigenous orders. The company has undertaken erection of two bauxite calcining kilns for **Bharat Aluminium**, replacement of the live-ring and shell section of the Krupp kiln at Satna Cement, erection of Lepol grade cement plant with a capacity of 1,000 tonnes per day for Saurashtra Cement, and erection of rotary dryer for Indian Copper.

A 'letter of intent' has been secured from Hindustan Copper for supply of a copper ore crushing, grinding, and beneficiation plant of 1,000 tonnes per day capacity to be installed in Bihar. This is an entirely new field, which holds promise of further business as demand for machinery required for the ore-processing industries is likely to grow in the future. The second unit of the iron ore pelletising plant, supplied to TISCO, is under erection. ACC has received government approval to make rubber machinery in collaboration with a Czech firm and is seeking approval for collaboration with an Edinburgh firm to manufacture paper machinery.

ACC-Vickers-Babcock, in which ACC has 49.8 per cent interest, earned a lower net profit compared to the preceding year owing to labour unrest at Durgapur that forced a lock-out for 70 days. Tata-Robins-Fraser, whose 20 per cent equity capital is owned by the company, has shown better results. At the year-end, TRF had contracts and merchandise orders on hand worth about Rs 10 crores.

The company has withdrawn its application to government for permission to pay a remuneration not exceeding one per cent per annum of the net profits with a limit of Rs two lakhs to be paid to the Directors (other than the managing director and whole-time directors) as the directors say they have decided not to avail of this remuneration. Also, the board has decided to pay commission at 0.01 per cent of the net profits to the managing director and the whole-time directors together subject to a maximum of 50 per cent of their respective salaries, instead of 0.25 per cent per annum as already sanctioned by shareholders. As remuneration in excess of specified limits would now become disallowable by virtue of the amendment to the Income-tax Act by the Finance Act 1971, it is felt that almost the entire commission would be disallowed to the company while conferring only a 'nominal' benefit on the recipients after tax.

KESORAM INDUSTRIES experienced long-drawn-out strikes in its textile and rayon sections. Finding the price structure of grey or unprocessed cloth 'completely uneconomical', installed capacity of the various processing departments is being increased to about 90 per cent of total production. The new processing machines are expected to be commissioned by the middle of next year. With the adoption of the National Water Supply Scheme by the union government, demand for cast iron spun pipes has improved appreciably. The company has also maintained a reasonable level of exports. The management is considering manufacture of ductile pipes, as the world trend is changing in favour of these pipes. The labour situation at the spun pipes and foundries section also deteriorated last March and there was a partial strike, followed by lock-out, for about 6 weeks during the following two months. The refractory plant's working showed some improvement, following satisfactory demand. An agreement has been concluded with the workers' union on the closure of the engineering section whose assets are to be sold out. The cement section performed well, consequent to higher production of clinker and cement and increased despatches of cement. The second unit of the plant has been commissioned after unduly long delays in deliveries of machinery by suppliers. Full production is expected to be achieved soon. The possibility of setting up a cement factory in Rajasthan is being explored. Mining lease has been secured from the state government. An industrial licence and clearance under the MRTP Act is being sought. The working of the registered office at Calcutta remains suspended.

RICHARDSON HINDUSTAN proposes to offer a gift of shares to the shareholders on a five-for-fourteen basis, besides keeping the dividend unchanged at 10 per cent for the seventh year ended June last, following further improvement in results. The whole of the dividend is exempt from tax. To encourage cultivation of mentha arvensis in the Terai region of UP, the company has developed and launched community farming and scientific farming programmes. Demonstrations are given to farmers on proper use of fertilisers, suckers, pesticides and improved tools and implements. Fertilisers, suckers, and technical help, are also offered to those who wish to cultivate mentha arvensis under these programmes. Nearly 3,000 acres have been brought under mentha cultivation, thereby providing employment to 15,000 farmers and labourers during season. Plans are under way to extend this coverage substantially. The company's agricultural research centre at Bilaspur has formulated plans for evolving new disease resistant strains of menthol. The chemical research centre at the Kalwa factory has perfected certain modifications in the process for manufacture of menthol which would result in increasing the yield of menthol from mentha oil by about 5 per cent. The centre has also developed peppermint flavour of international quality from locally grown mentha arvensis which has replaced the imported flavour. The pharmaceutical research centre has evolved a manufacturing process for local manufacture of certain imported ingredients used in the company's products. Export sales rose from less than Rs 3 lakhs to over Rs 8 lakhs during the year.

MYSORE CEMENTS has appointed Bharat Chemical Agency as regional agent for the sale and distribution of cement in Maharashtra on an overall commission of Re 1 per tonne on sales effected by it or through its stockists. The firm consists of three partners who are the wife and two sons of D P Mandelia, a director. The appointment is subject to the consent of IDBI. Moreover, section 33 of the MRTP Act may require registration of the agreement. During its 13th year ended June 1971, Mysore Cements' clinker production increased from 3.68 lakh tonnes to 3.70 lakh tonnes and cement output from 3.65 lakh tonnes to 3.99 lakh tonnes. Cement despatches were up from 3.59 lakh tonnes to 4.07 lakh tonnes. Both sales and profits were also higher. The directors, however, complain that profitability is being adversely affected by further increases in the manufacturing cost, withdrawal of tax credit certificates, and removal of the cement industry from the 'priority' list. The company has applied for permission to set up a new plant with a capacity of 4 lakh tonnes at Itarsi or Damoh. A ropeway is proposed to be installed at a cost of Rs 1.30 crores for transport of limestone, and certain modifications to the plant are to be carried out at a cost of Rs 50 lakhs to raise production by about 50,000 tonnes per annum. Both these schemes are expected to be completed by mid-1973. The company claims that its cement is in good demand in the Middle East countries and that it had signed an agreement with STC in 1970 for export of cement but that STC has not arranged the shipping so far.

GENERAL ELECTRIC COMPANY OF INDIA has received government consent for issue of 35.50 lakh equity shares as bonus shares on a two-for-one basis. The company has also been sanctioned issue of 11.62 equity shares of Rs 10 each at a premium of Rs 6.50 per share. The latter issue is expected to be made soon after the accounts for the year ending March 1972 are ready. A further announcement in this respect will be made by the company.

The Week's Companies (Rs in Lakhs)

	ACC		Kesoram Cotton		Richardson Hindustan		Mysore Cement	
	Latest Year 31-7-71	Last Year 31-7-70	Latest Year 31-3-71	Last Year 31-3-70	Latest Year 30-6-71	Last Year 30-6-70	Latest Year 30-6-71	Last Year 30-6-70
Paid-up capital	2848	2848	420	420	70	70	250	250
Reserves	2310	2124	573	622	84	59	162	119
Borrowings	3221	3443	1255	1082	99	62	324	388
of which Term borrowings	1710	1687	548	429	39	47	291	328
Gross fixed assets	10462	10194	2516	2264	207	188	831	817
Net fixed assets	5403	5544	1431	1278	153	136	599	628
Investments	502	504	50	50	—	—	—	—
Current liabilities	2489	2101	355	347	78	74	111	101
Current assets	4962	4468	1118	1145	238	191	247	223
Stocks	2981	2792	681	601	153	107	123	120
Book debts	1914	1591	372	507	78	79	115	98
Net sales	8164	7563	2082	2127	483	358	543	457
Other income	139	125	49	49	2	1	1	16
Raw material costs	2055	1920	816	749	146	110	86	85
Wages	1295	1201	474	499	73	59	27	24
Interest	290	300	104	87	6	5	30	30
Gross profit(+)/loss(—)	1196	1307	83	146	82	63	120	115
Depreciation provision	474	505	98	102	17	14	47	47
Tax provision	449	204	—	—	33	19	—	—
Net profit(+)/loss(—)	273	598	—15	44	32	30	73	68
Development rebate provision	51	425	—	—	1	4	50	10
Transfer to reserves	—120	—169	—	3	24	19	—6	29
Dividend								
Amount	342	342	P11 *E15*	P11 *E30*	7	7	P7 E22	P7 E22
Rate (per cent)	12	12	P10&9.3 E5	P10&9.3 E10	10	10	P9.50 E12.50	P9.50 E12.50
Cover (times)	0.64	0.50	—	1.10	4.43	3.71	0.73	2.33
Ratios (per cent)								
Gross profit/sales	14.65	17.28	3.98	6.86	16.97	17.59	22.09	25.12
Net profit/capital employed	3.26	7.11	—	2.07	12.65	15.75	9.92	8.98
Inventories/sales	36.51	36.92	21.27	28.25	31.67	29.89	22.65	26.26
Wages/sales	15.86	15.88	22.76	23.41	15.11	16.47	4.97	5.25

ANNOUNCEMENT

We announce change of brand name

Spartan

to

Addisons

for all our paints and ancillaries known to you for over 20 years. In future, ask for all our products under the brand name ADDISONS. The same excellence and superfine quality of all our products will continue to be maintained as hitherto.

ADDISONS PAINTS & CHEMICALS LTD.
SEMBIAM, MADRAS-11.

Significance of Bangla Desh

Dhananjoy

IT may be too early to assess the full implications of the emergence of Bangla Desh as a sovereign independent republic. Much will depend on the nature of the elite that will determine the policies and programmes of the new state. The task of ensuring political stability, economic development and social change in that war-torn land is going to be enormously difficult to accomplish and it is not impossible that Bangla Desh will have to experiment with a variety of political systems before it finally settles for one that will be meaningful for its impoverished people. Equally formidable would be the problem of defining the international role of Bangla Desh. It is obvious that the birth of Bangla Desh means the death of the South Asia policies of quite a few great powers. The Indo-Pakistani balance could not be sustained by them despite their best efforts; its collapse could appear to them as the beginning of precisely the kind of fluid situation in which they have to pursue their rivalries and competitions with redoubled vigour. The foreign policy of Bangla Desh will have to be conducted with a high degree of skill and efficiency to ensure that it does not become the hotbed of international intrigue. In any event, it is certain that there will be many moments of anxiety about the future of Bangla Desh in the minds of those who wish to see it evolve along their preferred ways.

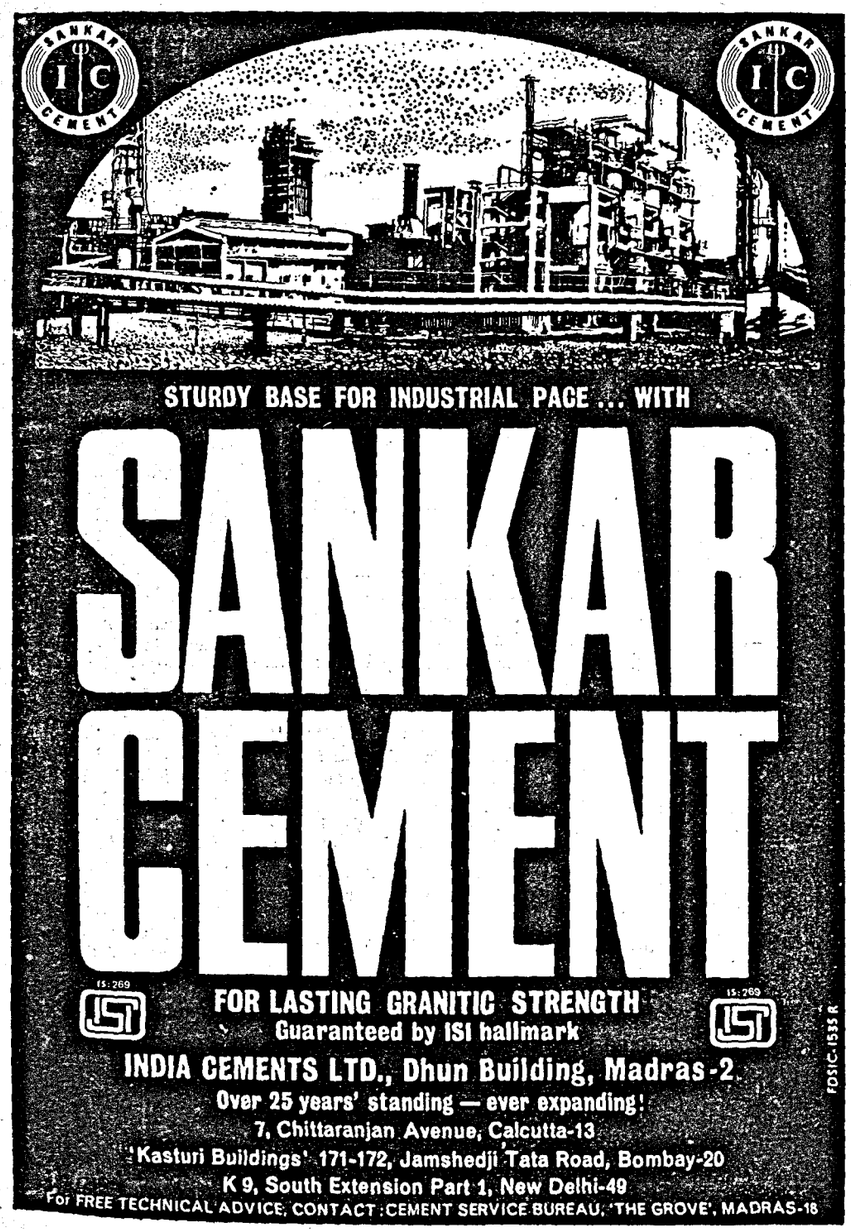
Yet it would be utterly wrong to permit these and other uncertainties to detract one's attention from the historic significance of this momentous event. In fact, it may be difficult for us who have just lived through this experience to grasp the revolutionary content of what has been achieved at perhaps too insignificant a price. For one thing, Bangla Desh is the product of a successful armed struggle the like of which had not been witnessed by the peoples of this region in their recent history. From the Meerut Mutiny of 1857 to the Calcutta uprising of 1969, the lesson derived was that armed struggles do not succeed. This was further adding to the built-in cultural preferences of our people for political apathy and inaction. By demonstrating that such struggles need not always end in failure, Bangla Desh may have already made a great difference to the political culture of the peoples of this region. There is another sense in which Bangla Desh may well turn out to be a revolutionary phenomenon. By attaching far too great an importance to the inviolability of the integrity of the existing states—however illogical or irrational their structures—, the international community had evolved an ethos which was fundamentally conservative. The emergence of Bangla Desh has dealt a deadly blow to the prevalent international bias in favour of the *status quo*.

Far More Dynamic than Pakistan

Such broad generalisations apart, it is possible to enumerate more specific considerations which should make the emergence of Bangla Desh an event of historic significance. Unless the Bangla Desh revolution is totally betrayed, this new state will find its rightful place among those nations of the world which are struggling to eradicate the various sources of inequity and injustice in the structure of today's international society. Many of the 104 states who virtually voted against the birth of Bangla Desh may soon be pleasantly surprised to have in their midst a vigorous young nation whose international stance is far more dynamic than Pakistan's. Of equal relevance would be the patent reality illustrated by the birth of Bangla Desh that cynically conceived combinations of great powers can do but little to alter the course of history. The period of struggle for Bangla Desh was also the period of a basic realignment of international forces. That at least one segment of the realigned forces wished to prevent the success of the struggle in Bangla Desh is obvious enough. Their defeat symbolises the defeat of the idea that old style power politics, which takes little account of the deep-rooted urges and aspirations of downtrodden peoples, could still be of some relevance.

Potentially the most hopeful of all the implications of the emergence of Bangla Desh is that it might mark the beginning of a new pattern of relations among all the states of this region and all the peoples who inhabit this peninsula. Because we had got used to it, we hardly ever realised the evil consequences of the utterly unproductive relationship between India and Pakistan. Faced with its unresolvable crisis of identity, Pakistan found it impossible to conceive or even agree to the evolution of normal friendly and co-operative relations among peoples who had so much in common with each other. A restructuring of this subcontinent was necessary, if only to liberate the peoples of India, Pakistan and Bangla Desh from their debilitating commitment to the politics of fratricidal conflicts. Bangla Desh has exploded the two-nation theory; in doing so, it has created the conditions for a fundamental rethinking regarding our mutual relations—not only in Bangla Desh and India but also in Pakistan. In fact, no matter what may or may not happen to India and Bangla Desh, the traumatic experience of December 1971 is bound to modernise and radicalise political attitudes in West Pakistan. There is every reason to hope that such developments will pave the ground for the creation of friendly, co-operative and purposeful relationships among the peoples of this region.

Nothing is of greater importance for the future than India's policies and postures towards Bangla Desh. We have helped Bangla Desh to its freedom and heaven knows that there are too many people with the fervour of the half-educated in this country to make one feel reassured that we shall not mess up this task of creating friendly and fraternal relations with the highly sensitive people of this young nation. It is idle to deny that the breakdown of Pakistan makes India the most important and effective power in this area. That is what makes the need for self-restraint and moderation even greater than before. So long as the arrogance of the Indian was the arrogance of the weak it posed no special problems for our relations with our neighbours. The slightest evidence of arrogance in this hour of India's triumph will unite the rest of the world against us. Bangla Desh must be left entirely free to work out its destiny; any Indian suggestion that it may know the problems of Bangla Desh better than the Bengalis can only end up in disaster.



American Concern for Kashmir

(From a Special Correspondent)

THE deliberations of the Security Council are always tinged with a shade of unreality. This is because everyone, including the speakers, know that whatever the pious platitudes uttered or the resolutions passed there, no effective steps are taken by the UN unless there is at least a tacit agreement among the big two over the course of action. Moreover, when it comes to backing the resolutions with military action, this can be done only with the support of at least one of the two major powers.

In these circumstances, the debate in the Council on the military conflict in the Indian subcontinent, resumed after the completion of the Indian military objectives in Bangla Desh and the unilateral cease-fire thereafter, had an even greater air of unreality. For one thing, the military operations were already ended, without any role being played by the Security Council in their termination. Secondly, it was clear by then that no supporter of Pakistan, whatever the oratory of its representative in the UN, felt sufficiently strongly to mount a rescue operation in aid of that country. After all, Pakistan did not accept cease-fire happily but was forced to do so by the turn of events. Hence, even though in the resolution finally passed by it the Security Council decided to remain seized of the matter, it is reasonable to suppose that it will not be in a hurry to discuss this problem again.

Significant Resolution

The resolution adopted by the Security Council is, therefore, significant not because it tells what the Council will do next but because it reveals the latest thinking of the various countries regarding the Indo-Pakistani problem. As the deliberations progressed, it became evident that most of the supporters of Pakistan had already written off Bangla Desh as lost to Pakistan. This was suspected by many even earlier and the debate and the subsequent resolution and the fact that it nowhere mentions East Pakistan by name only helped to confirm this view. What the US and its associates seemed to be concerned about was the preservation of the western part of Pakistan, together with the parts of Kashmir it holds, as one entity. This was also borne out by the American officials at the UN and elsewhere, who, in their background briefings to the press, claimed credit (partly by the *Enterprise* showing the flag in the Bay of Bengal) for forcing peace on India and preserving the western part of Pakistan.

Geopolitically Intolerable

The resolution bears out the American concern for Pak-held Kashmir. It specifically asks both sides to fully respect the cease-fire line in Jammu and Kashmir as agreed upon in 1948. Pakistan has gained only minimally in Jammu in recent hostilities whereas India has made notable gains, particularly in the Kargil sector. Thus it is clear that the force of the resolution is directed against India. Actually, a cease-fire line is just what its name implies and has not the sanctity of an international frontier. So if after a fresh bout of hostilities, it changes somewhat, this should not create any special grievance. But the fact that the UN resolution mentions by name only the changes in the Kashmir cease-fire line is noteworthy. It again confirms the view that in the eyes of US and China, Kashmir as an integral part of India and the consequent physical separation of Pakistan and China on the one hand and the contiguity of India, Afghanistan and the Soviet Union on the other would be geopolitically intolerable. One may expect active hostility of the US, in addition to that of China, if the Kashmir question comes up again for discussion. A major gain from India's point of view was that the resolution does not ask for an immediate withdrawal of forces to their original position but only for a withdrawal as soon as practicable. This again show that the Americans have reconciled themselves to the realities of the situation.

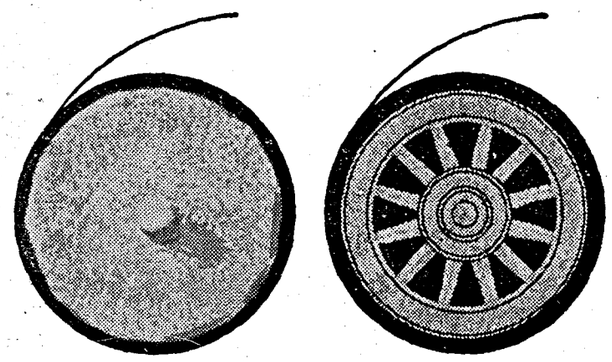
An incident worthy of notice was the speech made in the Security Council by Ceylon, a non-member, by its own request, essentially reversing its earlier vote in the General Assembly cast in opposition of the Indian position. Perhaps it was a genuine change of heart, or the result of the mounting public opinion on the Ceylonese government at home. But it could also be a portent for the future about the course of events on this subcontinent, where India has emerged as the only local power that counts. It is conceivable that hereafter its neighbours would be more careful of India's susceptibilities.

All in all, the discussions and the resolutions in the General Assembly and in the Security Council of the UN showed once again that the best way to succeed diplomatically is to succeed militarily first. Our diplomats had comparatively an easy time because the armed forces completed their task in good time. By offering to cease fire unilaterally in the west also, the Indian government not only kept the initiative in its own hands but also won the support of many countries who would rather avoid facing an issue as long as there are no actual hostilities.

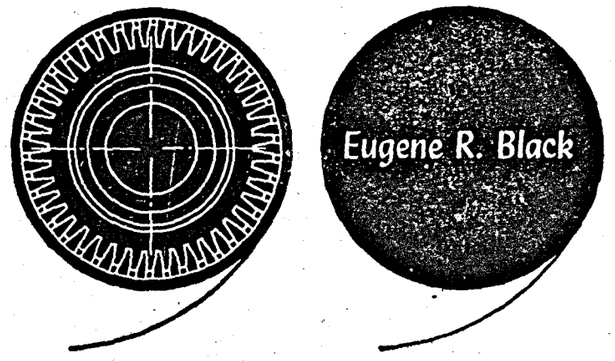
This, however, is not likely to make India any more popular with the US. A big power can hardly consider itself big if it can have no direct hand not only in making war but also in making peace in a part of the globe. More seriously, the US government must have realised that by stopping all aid and by parading the gunboats along the Indian coast, it had used its last card against India short of actual physical intervention. On the other hand, India still holds a few aces in its hand, notably the threat to freeze American assets in India.

The Dulles of the Seventies?

Just as one of the reasons at least why Anthony Eden launched his Suez misadventure was his looking upon himself as a latter-day Churchill, similarly it is conceivable that Nixon looks upon himself as a Dulles of the seventies. After all, in the fifties when Nixon was the vice-president, by bluster and worse, the US government did succeed in getting its way in Guatemala and Iran, to name only two cases. Moreover, it has to be conceded that India's past record was such that an American president could reasonably believe that the bluster and the threats would work. If the inside stories (since made public) are to be believed, the Indian government was wavering till the very last moment at the time of liberation of Goa. With such past history, the high degree of sophistication in diplomacy and the firmness exhibited this time by the Indian government (quite apart from the military prowess) is worthy of respect, though of course the strong and consistent support of the Soviet Union was a major contributory factor.



Development is proceeding in spite of the cultural attitudes, social institutions and political conflicts which sometimes seem to be such immovable barriers. It is not a smooth, uninterrupted progression, to be sure; rather, growth appears more as a series of fits and starts. "And yet," as Galileo is supposed to have said, "it moves!"



MAHINDRA & MAHINDRA LTD.
BOMBAY CALCUTTA DELHI MADRAS

PRESTN

SINGAPORE

Reactions to the War

Harish Chandola

SINCE the beginning of this month, over two million people of Indian origin in Malaysia and Singapore have been spending a good deal of their time sitting hunched over their radio sets, listening eagerly to every scrap of news from the India-Pakistan war front. Their conversation centres on the war and they openly express their joy and satisfaction over the tidings of Indian victories in the eastern sector. They feel proud that India is able to wage a successful war and their chauvinism while backing a country they have long ago forsaken knows no bounds.

The attitude of about nine million Chinese in Malaysia, Indonesia and Singapore is generally sympathetic to India. But this has been a negative kind of sympathy, born out of the Chinese dislike for the Muslims, who besides being the 'original' people of this region, also constitute its majority. The Chinese find themselves overwhelmed by the Muslims, a situation they dislike, but have to accept.

Of late, however, the Chinese newspapers in this region have been playing up Russian support to India. The result is that the Chinese are slowly coming to believe that the war is the result of Soviet incitement. If one asked a Singapore Chinese taxi driver what he thought about the war, he would probably say that the Soviet Union was behind it. The Muslim population of this region is of course greatly worried about the result of this war. They wonder whether Pakistan will lose its status of an Islamic state.

More important than the reaction of the population, is the attitude of the governments of this region towards the conflict. Except the Singapore Government, all the others have appealed for an immediate cease-fire, and two of them — Indonesia and the Philippines — have offered their good offices to bring the fighting to an end. The Singapore Government has officially said nothing, but its abstention from the UN General Assembly cease-fire resolution of December 8 is definitely an indication of its sympathy for India. Privately, both in Delhi last month and here earlier, the Singapore Prime Minister, Lee Kuan Yew, had made no secret of his support for India on Bangla Desh and also on its other problems with Pakistan.

The Military Government of Thailand has banned all comments on the India-Pakistan fighting in its newspapers. It has stated that both countries were its friends and it would not want to offend either. Thailand's biggest English-language daily, *Bangkok Post*, has however carried comments which were favourable to India, from other newspapers like *The Guardian* of London. The Indonesian Government, too, wants its newspapers to refrain from commenting on the Bangla Desh struggle or the India-Pakistan fighting. Jakarta newspapers have, however, printed guarded comments expressing their anxiety about the future of Pakistan. Because Malaysia and Indonesia have not come out on the side of India in the present crisis, one cannot say that they have adopted an anti-Indian attitude. They are still sympathetic to India. In spite of their overwhelming Muslim populations they have not taken a pro-Pakistan position.

Both these countries have to contend with rabid Islamic political parties. The religious leadership, consisting of teachers and preachers of Islam, and the Islamic political parties find it difficult to accept the possibility of the disintegration of Pakistan as an Islamic State. They are fully aware that without the religious sentiments of its population, Pakistan would lose its present basis of existence. This prospect of Pakistan not remaining a staunch Islamic state frightens the politico-religious leaders in Malaysia and Indonesia. These leaders would like their governments to come out in favour of Pakistan. But the Malaysian and Indonesian governments have withstood these internal pressures.

Surprised by Indian Resolve

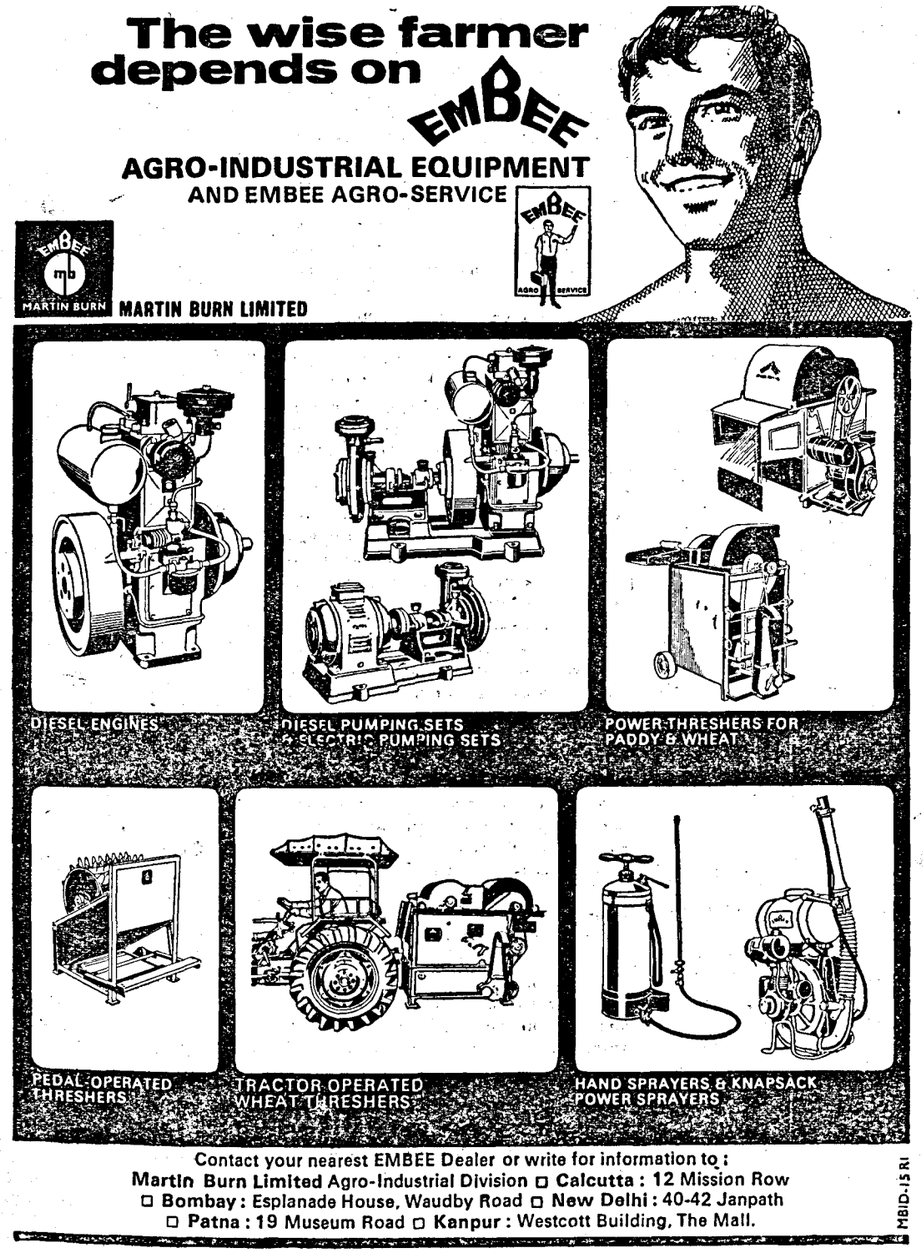
There is no doubt that the South-East Asian countries have been surprised by the determination India has shown in militarily helping the people of Bangla Desh to establish a country of their own. They are still more surprised to find India not reacting to the UN General Assembly resolution for a cease-fire and withdrawal of forces. They believe that this is a marked departure from the usual Indian pattern of behaviour. There is, however, great concern over the possibility of the conflict becoming a long drawn out affair or of other powers getting involved in it. This would create a serious situation in the area, they think, and might even drag some of them into the conflict directly or indirectly. This, they believe, would be a tragedy because only last month the five (Indonesia, Malaysia, the Philippines, Singapore and Thailand) who form the Association of South-East Asian Nations (ASEAN) had declared this area a region of peace, freedom and neutrality at their Foreign Ministers meeting at Kuala Lumpur. They were considering seeking guarantees of non-interference from the super powers in the internal affairs of the region when the India-Pakistan fighting broke out. This conflict has been a setback to their plans for creating a neutralised South-East Asia.

All of them believe that one of the super powers — the Soviet Union — now fully backs India. One Thai newspaper, in spite of its neutral position on the fighting, has called on the Soviet Union to "disengage itself from its conflict and leave the area alone". Indonesia resents the Soviet military presence in the area and its leaders have made several statements in the past against the growing naval strength of the Soviet Union in the Indian Ocean. These countries believe that if the fighting continues, the Soviet naval presence in the Indian Ocean is bound to increase, thus jeopardising the chances of neutralising South-East Asia. Therefore the leaders of these countries are all the more keen to seek a cease-fire and get the conflict stopped. It would not be correct to consider this attitude as anti-Indian. It would be more accurate to call this an attitude of concern.

In contrast, the US attitude of holding India responsible for starting the fighting is reflected in the publicity material widely circulated by the US Information Service in this region. For instance, the USIS has been circulating only those US newspapers editorials which criticise India and predict dire consequences for it. The USIS also gave prominence to the speeches of the US Ambassador to the UN, George Bush, in which he accused India of being the first to send troops "across the border of East Pakistan". US commentaries favourable to India have not been included in the USIS handouts.

(More despatches follow the Review of Agriculture.)

[This was written before the cease-fire.]



Nationalism and Marxism

Vinayak Purohit

THAT the demand for the dissolution of Vishal Pakistan was not a neo-imperialist urge of the puny compradors of India, that American imperialism had recently taken too many body blows from Vietnam to pursue successfully its out-of-date policy of preserving the *status quo* in South Asia, that the Soviet Union had coolly calculated upon the non-viability of the old Pakistan and had no hesitation in utilising an opportunity for exposing the Sino-American collusion to its own advantage, that in the conditions of nuclear stalemate it was possible for the biggest post-War liberation movement to succeed in Bangla Desh, that with its 55 crores India was in a position to throw its weight decisively into the scales whether it was a permanent member of the Security Council or not, these and other aspects of contemporary reality were lost sight of by some elements of the Indian Marxist movement.

Historically Conditioned

Now, like all errors committed by thinking beings the errors of Indian Marxists are historically conditioned and their lack of sympathy for nationalist feeling is the root cause of their short-sightedness. Though Marx had written a good deal about India in the *New York Herald Tribune* and elsewhere, the direct impact of his writings on India during the late nineteenth century and early twentieth was minimal. It was the indirect impact promoted by the Communist International that finally overtook India. This happened in the twenties. Thus the version of Marxism that reached India was *ab initio* Stalinist, a version that centred upon "the theory of socialism in one country", upon preservation of the nationalist interests of the Soviet Union underneath a specious plea of international solidarity and requiring the sacrifice of national interests by non-Russians. The next two high tides of Indian nationalism coincided with the ultra-left and people's war periods, respectively, of the early thirties and forties. During the ultra-left period of 1928 to 1933, all the non-communist progressives, including socialists and anti-imperialists, became "social-fascists" and during the 1942 movement, Comrade P C Joshi was, according to ex-Comrade Batliwala, hand-in-glove with Home Secretary Maxwell. It was also during the forties that the CPI welcomed, and agitated in favour of, the Pakistan of yesterday. (Parenthetically, we may even note that the term "social imperialism" is derived from ultra-left Stalinism — the source of much of Mao's thought.)

Two other feebler Marxist currents lapped the shores of India during the middle thirties and forties. The earlier assumed the shape of the Congress Socialist Party in 1934 and the latter resulted in the formation of the Bolshevik-Leninist Party of India, Burma and Ceylon in 1940. The Trotskyist stimulus was largely imported from Ceylon and was not to strike deep roots in our native soil. The Socialists started well. So well that their 1934 Draft Programme would today horrify Limaye-Raj Narain and Co by its extremist stance. It must also be conceded that the Socialist appreciation of the Indo-Pak problem, particularly the position taken by Lohia, was far more sensitive than that accepted by any other Indian Marxist trend. Nevertheless, the Socialists soon enough fell prey to conflicting pulls exercised by Stalinism and Reformism.

Bogus Cosmopolitanism

The Stalinist and Reformist seeds did not fall upon entirely infertile soil. Already within the Indian intelligentsia there flourished a bogus cosmopolitanism which masqueraded as large-hearted big-minded thought systems. "India's destiny to synthesise the scientific culture of the West with the spiritual culture of the East", "India's role as the bridge between the West and the East", and such other variants were in the air. Just as Marx saw in the rise of German philosophy the failure of the German bourgeoisie to conquer the spheres of economics and politics, so that the conquest of heaven became a substitute for the helplessness on earth, similarly the Indian compradors rationalised their acceptance of and desire for British collaboration in the joint exploitation of India by advocating Indian aptitude for assimilation of diversity, by disguising pro-British feelings with internationalist small-talk, by characterising as fissiparious every tendency that disrupted the partnership of international finance capital with local banias and dubashes. Of course the precise terms of collaboration were negotiable. There were two principal alternatives that were explored. The first we may briefly term as the 'Babu Culture Syndrome' which found its home in the eastern and northern parts of the country, in the area largely covered by the Permanent Settlement land tenure system. Here the Stalinist overlay covered a pseudo-internationalism sported by the rootless scions of landlord families, anglicised offsprings employed by managing agency houses and sophisticated members of 'the steel frame'. The second we may term the 'Bania Culture Syndrome' located in the western and southern parts of the country, where the ryotwari land tenure prevailed. By and large the victims of this Bania complex were the Socialists who elevated Gandhi's non-violence and decentralised democracy into absolutes and who deluded themselves by exaggerating the partial struggles launched by the Congress into matters of life and death ("Do or Die" was quite a popular slogan with them some years ago!). It is possible that up to a point the Banias were more militant than the Babus, because the traders and industrialists of Bombay had pitched their demands a little higher. But the Bombay Socialists were as mistaken in treating the Congress as a truly nationalist organisation as the Bengali communists were in treating the Third International as the representative of the world proletariat. For the world had changed.

Prevailed against Overwhelming Odds

After the eighteenth century it became increasingly difficult for the bourgeoisie to carry out bourgeois-democratic tasks. And in the twentieth century, the proletariat, supported by the poor peasant, appeared as the carrier of historical compulsions. Socialist and bourgeois-democratic tasks were henceforth telescoped and national liberation struggles had to be waged more and more often by armed Marxists. In fact wherever the Marxists did succeed in combining nationalist and communist platforms they prevailed against overwhelming odds. Every successful revolution of this century revealed this pattern and there was not one case where this pattern was contradicted. The gains of the Great October Revolution would have been lost, equally in 1917-21 as in 1941-45, had the Bolsheviks failed to galvanise the masses on the basis of passionate

nationalism. The performance of the Maoists against the Japanese certainly showed up the hollow gestures of the Kuomintang and induced the people to shift allegiance to them. Vietnam could not have fought so long without patriotic fervour. Cuba did find anti-Americanism to be a very useful tool in its struggle for survival. Yugoslavia could not have remained a unified nation had it not addressed an anti-Russian nationalist appeal to its constituents.

Capitalism's Weakest Links

Unfortunately, though rather inevitably, the capitalist system had been breaking up at its weakest links, in backward Russia, Asia, Latin America and Africa. The planned economies that emerged in an unbroken series — Russia, Eastern Europe, North Korea, Mongolia, China, North Vietnam, Cuba, Tanzania — were beset with such acute problems of peace, primitive accumulation, industrialisation and foreign trade that they were the least capable of practising true international fraternalism. Thus we are faced with a complex dialectical situation. The march of the socialist revolution creates conditions in which workers and poor peasants come to lead national liberation movements. These whilst performing socialist tasks within their own national boundaries at the same time seek to retard liberation movements elsewhere. On the other hand, the exhaustion of the capitalist system creates conditions in which make-shift 'Latin-Americanised' regimes emerge, which at greater or lesser speed move on to socialist tasks.

The weakness of the Indian Marxist movement has been that it has not yet shed its colonial cosmopolitanism, not yet discarded its legacy of Stalinism, and not yet discovered the gearing mechanism whereby nationalist energy can be used for major social engineering purposes. Timorousness in the face of nationalist challenge has been its bugbear. It the Marxists retain their faint-hearted attitude in the new conditions confronting them at the end of the latest Indo-Pak war, they will surely go under, at least for quite a while.

It is obvious that if the royalist Government-in-exile led by Prince Sihanouk can be a progressive force, Mujibur Rahman's petty-bourgeois party could be treated as still more progressive, if not as almost revolutionary! It is certain that the Chinese masses did not make tremendous sacrifices to place in power a clique which condones genocide in Bangla Desh, encourages Bandaranaike to murder young Guevarists in Ceylon and aids the assassins of innocent trade-unionist, in Sudan. Further, it is possible for India to have correct diplomatic relations with Peking without participating in a sell-out of Vietnam and Laos that the Chinese nearly succeeded in achieving in Geneva in 1954 and 1962. In short, from a purely nationalist Marxist angle, friendly feelings towards the Chinese people are compatible with disapproval of some of the policies of the Chinese government.

Similarly, without losing sight of the long series of betrayals of revolutionary movements by the government of the Soviet Union (including the Chinese Revolution of 1925-7, the Spanish Revolution of 1935-7, of the Greek Revolution of 1945-7, and the Czech Liberation Movement of 1968). Marxists could welcome Soviet help in reconstructing Bangla Desh. If they would only think out problems to the end, it might become apparent that the most sanguine amongst the "social-imperialists" was hardly likely to aim at 'colonising' the vast Indian subcontinent. It may be that in a most treacherous manner the Russians failed to deliver nuclear knowhow to the Chinese after promising to do so in the late fifties. It may be that they have signed "unequal treaties" with China sanctifying territorial acquisitions. Indian Marxists can have precious little interest in such quarrels since they are in no position to redraw the map of the world, at least for the time being. And by the time that they could make helpful suggestions about the alignment of frontiers beyond the Great Wall, the world would surely have changed beyond recognition.

Self-Defeating Tactic

The Leninist tactic (it was only a tactic, let us emphasise) of "revolutionary defeatism", of placing the task of defeating the bourgeoisie at home at the top of the programme, was apposite in the imperialist Europe of 1914. It was even more appropriate for the Russia of 1917 which was an empire harbouring a score of oppressed nationalities. But to apply this tactic mechanically in the semicolonial India of 1971 would be self-defeating. The discomfiture of the home bourgeoisie is an element of importance in any Marxist programme. (Nay more! Some may even desire chaos in order to expedite the birth of the Nietzschean "dancing star", in the language of Ram Manohar Lohia.) However within the reality that is India the problem of poverty is as intractable as the problem of genuine national freedom. To liberate the country from the grip of foreign capital, to determine politically our terms of trade, to escape from the controls imposed by the World Bank, and the International Monetary Fund are tasks that are as incapable of being resolved in the existing set-up as the task of freeing the masses from the burden of grinding poverty. To achieve genuine independence, India will have to go socialist.

That there is some danger in uncritical nationalism is not denied. For instance, Madhu Limaye, who is these days very fond of lecturing to gatherings of Rotarians and Lions, has said that "even at the risk of concentration of wealth, the Government should permit big industries to exceed their licensed capacity at this juncture." (*Times of India*, December 16, 1971.) But any Marxist tyro could guard himself against such shameless reformism — for war means planning and planning demands more nationalisations and expropriations, and effective planning certainly does not permit "concentration of wealth". In any case, Limaye does not belong to the category of committed Marxists.

Given the background of the Babu and Bania syndromes, the dangers of allowing Chinese and Russian chauvinism to play a role in the internal politics of India is greater than comprehended by simple-minded reformist nationalism. The CPI and CPM hardly lag behind the Socialists in propagating parliamentary illusions. Reformists and Stalinists, even the best of Stalinists who are known as Maoists, have often in the past joined forces and will do so again. (We cannot digress here to examine the possibilities of the Italo-Chilean path of evolution. The writer pleads guilty to the charge of having visualised in 1967 such a possibility in India. In the context of our absurd level of per capita income, such a course, it now appears to me, to be excluded.)

Danger of Reformist-Stalinist Alliance

The danger is greater because the recent Indo-Pak war has firmed up certain trends that were taking shape. The Sino-American rapprochement has been wide-ranging. Gittings has reported from Peking, through *The Guardian* (London), that according to the Chinese the principal contradiction in the world today is that between Russian social-imperialism and the revolutionary movements of the third world. This new contradiction has replaced the earlier one between US imperialism and the awakening peoples of three continents who swayed world politics in the fifties and the sixties. If this is so, and if Japan is induced to join the Sino-American game, then the progressive role of China in South-East Asia has ended.

At the other end of the super power triangle, Russia has hardly two more years in which it might seriously endeavour to keep her two major adversaries off-balance. By 1975, Russia would have made a far-reaching deal with a resurgent West Europe and thereafter would neither be willing to, nor allowed to, make independent forays into Africa and the Middle East, if not generally in the developing world. Thus, since Pakistan is now a Middle Eastern state, the Russo-Afghan drive to free Pakhtoonistan must be got under way within the next two years. The problem may be taken as urgent for other reasons as well. The new Pakistan of Bhutto will be seeking revenge and will be unstable. If the Libyan and Egyptian parallels hold good, the pleasure-loving volatile Bhutto already compromised by association with the Bangla Desh debacle is going to prove unsatisfactory. A more puritanical and fanatical colonel will surely be found sooner or later. At the same time the US and China will be seeking ways and means of rehabilitating their lost prestige in this part of the world. The best defence being offence, a free Pathanland is the need of the hour for Soviet foreign policy. At worst the terrain from Gilgit through Peshawar to Quetta offers excellent prospects for tying down American and Chinese forces in an endless guerilla war, provided, of course, puffed up India keeps out of this superpower imbroglio. Otherwise India would bleed to death on the Khyber Pass much sooner than the others. Whether the Pushto-speaking tribals of the region really desire such independence and whether they have also been exploited as ruthlessly as the Bengalis during the last quarter century, are questions which need investigation. Let us hope that Indian Marxists will interest themselves in these problems dispassionately.

Nothing save the debris of the colonial and Stalinist past should make the Indian Marxist feel despondent. After the euphoria of the moment has evaporated it is more than likely that a confident self-reliant populace will aspire higher and make impossible demands upon the Indira government. "The 'revolutionary urge' increases either when a steady rise in the standard of living is sharply checked and turned into a painful and obvious decline; or when a gradual rise in the standard of living comes after a period of great discomfort. In the latter case the working man has recent memories of suffering and a small increase in comfort and leisure gives him energy and strength to express his resentment" (Raymond Postgage, "How to Make a Revolution", p 43). In this perceptive statement, we might substitute "nationalist pride" for "standard of living" for, as we all know, man does not live by bread alone.

LONDON

Ripple and Wave but Not the Tidal Current

Farrukh Dhondy

ON the front page of the Sunday newspapers a few weeks ago, a photograph appeared of six white beauties, entrants from various countries in this year's Miss World contest held in London. The caption under the picture told you that the second from the left — light-skinned, straight-haired and fashion-nosed — was supposed to be Miss Jamaica. She wasn't black; yes, she was beautiful, and unlike Naipaul, she wasn't a winner.

V S Naipaul is to the literary tradition of English, what Miss Jamaica is to the world of beauty contests. Given the standards set, his proportions are impeccable, his gifts evident. We have them again in his latest book*, the fresh eyes and aquiline nose of well-formed prose down which he looks, this time at several creatures he's captured and set loose on alien, confusing continents.

The book is a sequence of three stories sandwiched between two slices of a personal diary. The journal prologue takes Naipaul from Greece to Alexandria on a sort of ship of fools, the epilogue gives him a few days in tourist Egypt. The first story brings a domestic servant from Bombay to Washington, the second transplants two brothers from the Caribbean to London and the title story follows Bobby and Linda, two English people, on an itinerary of argument and cultural paranoia in a trouble-torn republic of Africa. The characters are defined for the most part in negatives, by the gentle crises of their lives revealed in semi self-consciousness, by their lacks and by their losses. Only in the diary does the controlling consciousness surface, aware of and attendant to the ripple and wave of several cultures, uninterested in the tidal currents that underlie them.

The journal fragments give the reader the sort of experience from which the stories grew, and leave me with the feeling that somehow the writer cannot stand the pressure of his own critical heart beat, that had he been able to expand these fragments into a thesis, we would have had another area of shade if not of darkness. The fragments would have been collated into yet another indictment of a continent under western eyes.

As it is, the book takes the safer way out. It works within the limits Naipaul has set himself as a novelist, in a territory of pathos with political judgments secreted in the spleen of the writer's manner. The dust jacket claims that the book is a political-moral statement. Well... yes. In the way that Evelyn Waugh's novels about Africa are political, but lacking that security of standpoint which makes Waugh's characters symbols of political energies he disapproves of. Naipaul's opening is reminiscent of Waugh : "In this country in Africa there was a president and there was also a king. They belonged to different tribes. The enmity of the tribes was old, and with independence their anxieties about one another became acute. The king and the president intrigued with the local representatives of white governments. The white men who were appealed to liked the king personally. But the president was stronger; ..." For Naipaul, this political fairy tale suffices for a context within which to tell the story of Bobby, a gay boy from Oxford who works for the president, and Linda, the wife of a hack London broadcaster who

* "In a Free State", Andre Deutsch, London, 1971; £ 1.75.

becomes something big in republican radio. Bobby gives Linda a long lift home to the security of the expatriate 'compound' on the day that the king, secessionist, makes a break for it from the potbellied soldiers of the president. Bobby's consciousness as he drives picks out this and that, man and mud, strains away from the racist jokes, cliches, generalities, banalities which make up Linda's life and the life of the compound. The strain gives him being. Through Linda's contradictory texture of memsahibness, Naipaul causes the basic humanness to settle. As they drive the kaleidoscope of the fairy tale is replaced by the traveller's flistamatic and we get snapshots of a road-crash, military lorries, soldiers with rifles, smiles, frowns, an American 'adviser' directing traffic past the wreckage. We realise, with the characters, that the president's army have found the king. The whole scene takes with precision the fragmentariness of the political event. And yet, the political framework of the fairy story remains. All Naipaul's implicit pronouncements arise out of its structure and neither Bobby and Linda nor the narrator can avoid them.

When he writes about the Caribbean again, in 'Tell Me Who To Kill, the second story of the sequence, he deepens the insights of "Miguel Street". The Caribbean writer looks again with sharp eyes into the mechanics of soul of a black family, its humble status, its simple social tragedy. Two brothers come to London from the islands, one studies and the other supports him. For the first time Naipaul is looking not at the emigre but at the immigrant, uneasy, unfamiliar and locked within himself. Almost imperceptibly, convincingly, Naipaul brings to life a ghost of hatred in the elder brother. "Tell me who to kill" he asks? But the writer gives him no help. He doesn't want to tell him. May be he doesn't know.

Who does know? Will they tell the mystified reader of Naipaul? And why proceed with these absurd questions while reviewing a book? For the reason that we go to Naipaul with a certain expectancy each time. We, the expatriates he's talking about, do and must. Whether Naipaul likes it or not we are his essential audience. We read him as the American in exile reads Henry James. We read him because if he is dealing with us relevantly, we have sometimes asked ourselves whom we must kill. From Franz Fanon or Aime Cesaire or George Lamming, one comes away with the feeling that they know, the feeling that the secret will be passed on and one day their sons will shout it. Not because they are rhetoricians in a cause, not even because, as developments of a continental tradition, they are engage. Something much more fundamental than that. Through the works of Fanon ond Cesaire and Lamming, one sees the essential antagonisms that have shaped the souls of the people they are talking about. Supreme moral-political vision (to use the words of the blurb). If we demand that ultimate sympathy of sight from a novelist for the people he is talking about, if we demand insights into the social crucibles of their being, it is to these writers we must go rather than to Naipaul.

It is Naipaul himself, through all his work as novelist, journalist, historian, who demands this comparison. By taking the Bombay domestic servant of his first story, "One Out Of Many", to America and studying his bewilderments, Naipaul has set up a comic conversation between cultures. Santosh, cook, bearer, pavement sleeper, ganja smoker, is transplanted in his master's diplomatic baggage to Washington. After some trouble with the toilet in the plane (one of Naipaul's recurrent focuses of cultural comparison) Santosh lands in what he feels is a city overful of *hubshis*. He adventures through a misunderstanding of a black girl's affection for the smell of weed that haunts his body, through a guilty sexual encounter with the black sister who cleans his master's flat, through a misevaluation of a group of Lord Krishna's valets who freak out in the public squares of the city, through a black riot, the city burning, through a job as a cook in an Indian restaurant and finally to alienated rest in the home of the *hubshi* woman he marries for a passport. No doubt Santosh is supposed to be symptomatic and not representative. But symptomatic of what? Does anything here or elsewhere in Naipaul tell us anything valid about the alienations he recreates? Like all Naipaul's characters, Santosh comes alive not in the charm of sympathy, but in the spell of a sneer.

This is perhaps because Naipaul's characters are all emergents from a transient planetary age of mimic men. If we understand his characters better than he does, as I feel I understand Santosh and the other benighted of an Area Of Darkness, it is because the world has caught up with mimic men and is steadily decreasing their significance and the significance of looking at people through this assumption. Its moment of importance has gone. We demand of an artist, especially a writer, that he have his finger on the pulse of the essential creation of his time, more so today than ever before. The sustenance that Naipaul drew from the English literary tradition is now inadequate and starves his vision. His inclusion of characters from a Chinese circus visiting Egypt in the epilogue, is tantamount to an admission that he has no way of dealing with the creatures of this new creation. Naipaul is a writer struggling to keep pace with the changing myths of his times. He has the keen eye of the lame boy left out of the ball game: "Then all the Chinese rose and chattering, laughing softly, shuffled out of the echoing hut with their relaxed, slightly splayed gait. They didn't look at me; they appeared scarcely to notice the hut. They were as cool and well-dressed in the desert, the men in suits, the girls in slacks, as they had been in the rain of Milan. So self-contained, so handsome and healthy, so silently content with one another: it was hard to think of them as sightseers."

On this last page of the book he has come up against the inadequacy of the tradition he has espoused. How to ask a man to desert the mistress he has been married to? How to prescribe for him, without encouraging intellectual bigamy, the other waiting in the wings for a long time, and tell him that she must be the mistress of his house before it is put in order?

Just Released ...
New Outstanding Publication

SPOTLIGHT ON BANGLA DESH

A Thrilling inside story of Bangla Desh Freedom Struggle!
Hitherto unrevealed facts and unanswered questions!
Articles oh different aspects.

Edited by G. S. Pohekar
Price Rs. 15/-

Please order your copy from

United Asia Publications,
12, Rampart Row, Bombay-1.

Editors Agree

Nireekshak

JUDGED by the resentment, bordering not unoften on revulsion, that has been expressed by newspapers against the American stand on the war in the subcontinent, the greatest casualty of the war—besides Pakistan itself, of course—has been the American 'image' in the Indian editorial mind. The disenchantment with American 'democracy' has been complete, and when a lone voice was raised in its defence the owner of the voice, D F Karaka of *Current*, immediately attracted the provisions of the Internal Security Act. Karaka's offence, obviously, was not that he expressed his belief in the virtues of American democracy and 'aid' as that he doubted some of the values of the Indian way of life. This might conceivably have passed muster in normal times but could not, as he found to his cost, in times of emergency. Karaka is probably the only journalist whose freedom of expression has been curtailed by physical detention during this war.

The Press Council did put out an announcement advising editors and correspondents to exercise 'restraint and moderation' in their writings so as to avoid publication of 'prejudicial information' that may strengthen the enemy's resolve or provide him material for demoralising propaganda. However, the announcement came on the same day as the headlines proclaimed the surrender of the Pakistani forces in Bangla Desh and the offer of a cease-fire in the west by Indira Gandhi. It was too late a reminder for the editor of *Current* if he needed one and, as the war ended the next day, apparently useless also for the others. In any case, this damp squib of the Press Council was not the most interesting fall-out of the war. That distinction, as Lyceus of *Bharat Jyoti* hinted, should probably go to the statements of the Indo-American Chamber of Commerce criticising Nixon's attitude to India.

Anyhow, whether or not the "shrinking of Pakistan ... represents in a very real sense the shrinking of American influence in South Asia", as *Fress Press Journal* asserted in an editorial summing up the 'consequences' of war, there is little doubt that Indo-American relations have taken a steep plunge. "No rhetoric of President Nixon's hired intellectuals", *Free Press* snorted, can hide the reality of the American loss. "And in this context the feverish movements of the US Seventh Fleet in the Indian Ocean project only the image of an America whistling in the dark." As for Indo-American relations, "it is just as well that the Nixon Administration has bared its teeth against India in a manner that leaves no room for ambiguity, for behind the smile of yesteryears the reality was no different", it said.

Ammunition from the UN

It was the UN debates on the war situation, both in the Security Council and in the General Assembly, that provided ammunition for most comments on American policy. The General Assembly resolution was "a vast irrelevance", said *Hindustan Times*, adding: "It is totally unrealistic, completely outdated, incomplete, and biased". A few days later (December 15) the Delhi daily was even more forthright in expressing its annoyance. "Look, look! another ostrich", it commented. "Mr George Bush did not mask what is increasingly revealed as the United States' undisguised partisanship on a complex issue the merits of which it is determined to ignore." The US attitude is "shocking, surprising and sickening" exclaimed *National Herald*. "Mr Nixon and his administration have been so coarsened by the brutal war they have been waging in Vietnam ... that they have become so dead to human rights (and) recognise nobody's right to freedom except their own and that of their stooges ...".

"The UN resolution may be safely ignored", remarked *Amrita Bazar Patrika*, for "Bangla Desh is a reality which no UN resolution or Big Power frowns can obliterate ... But what cannot be ignored is the emergence of a new Axis—Washington-Peking Axis ..." For, while "the immediate target of the Axis may be India ... it may have its global strategy as well". China and the United States are "partners in annoyance", according to *Statesman*. Their interests "may not be identical, but evidently both find it annoying that something should happen to disturb the existing Asian scheme when they are on the point of deciding how the scheme should be perpetuated or modified to their mutual advantage ... They cannot bear the thought of the obscure millions of East Bengal creating a major distraction when the shape of the world is going to be changed by a Sino-American rapprochement." As the paper saw it, "China may not have a great deal of goodwill to lose in this part of the world; but the damage Mr Nixon has done to USA's long-term interests in this subcontinent is beyond belief."

There were a few comments also on the withdrawal of American military and economic assistance. "It is no surprise that the Nixon regime has frozen all aid to India", noted *Deccan Herald;* "the surprise would have been if it had not. New Delhi would certainly have anticipated this arm-twisting exercise ... It clearly betrays the psychology of a bully, who thinks that by blackmail and strong-arm tactics he can compel submission by what he thinks are his weak victims .... [However] the days when the US could manipulate the affairs of other nations through overt and covert bribery are clearly over", it added. "What price aid?", asked *Nagpur Times*. The suspension of aid by the US and Japan are "in the nature of international pressures on India to toe the line .... It suits everybody's purpose if India continues to be weak, divided, and dependent on foreign powers. But India is no longer in a mood to oblige .... Disillusioned and grown wiser by experience, India has realised that while it is desirable to win friends wherever possible the greatest friends who can stand by us are ourselves."

And *Times of India* wrote: "Mr Nixon is making a greivous mistake if he thinks he can make this country reverse the course of its policy in regard to Bangla Desh by such means. India will be only too glad to do without aid which is used in this cynical manner to maintain an untenable balance of power in the region and deny it its place in the sun ... The Indian people will in fact welcome the US decisions insofar as it forces the country to learn to stand on its own feet and play a role in the subcontinent proper to its size, stable polity and potential strength." But then, does "a dunderhead like Nixon", as the most widely recognised friend and champion of America in the Indian press, Frank Moraes, has described him, understand all this? Nixon has even the temerity to "unfortunately lead the great American people", Moraes moaned. Well, whaddya know!

Pavlovsky, "Soviet-Indian Co-operation," *International Affairs*, January 1970, p 46.)

Two controversial corollaries of the theory of peaceful co-existence—peaceful transition to socialism and the concept of national democracy—were part of the CPI's thinking before they were incorporated into the body of international communist thinking. These concepts originated in the CPI under obvious Soviet inspiration. For instance, before the 1957 statement of 12 communist parties in Moscow referred to the possibility of peaceful transition, the CPI had initiated action for such transition immediately after the 20th Congress of the Soviet party in 1956 which had first referred to it. In 1957, the Chinese delegation put up a stiff fight against the dangerous revisionism implied in this Khrushchevite innovation. The Soviet leadership wanted to make peaceful transition the general rule while the Chinese were prepared to concede it at best as an exception, as latter-day polemics disclosed. In 1957, India and Indonesia were among the countries holding out the best prospect of peaceful transition, according to the Soviet leadership. About ten years later, the Soviet leadership saw similar chances in Burma.

The concept of national democracy is claimed to be a distinct Indian contribution to Khrushchevite revisionism because the CPI had been advocating a national democratic front in India even before the 1960 meeting of world communist parties mentioned national democracy in its declaration. The 1960 declaration described national democracy as a form of transition to socialism in developing countries of the peace zone where the national bourgeoisie played an objectively progressive role and deserved socialist economic and diplomatic support. The national democratic state was one that won complete economic independence from imperialism and was ruled by a broad anti-imperialist front that included the national bourgeoisie. Though the Chinese were signatories to this declaration, their assessment of the character of the national bourgeoisie in the Third World underwent a significant change in 1959. They thought the liberalism in the national bourgeoisie in general had spent themselves out and there were comprador tendencies in the national bourgeoisie in general. It would be well to remember that the CPI-M's main difference with the CPI relates to the programme and the CPI-M is for a people's democratic revolution while the CPI wants a national democratic state. The more specific issue is the place of the national bourgeoisie in the front to secure the tasks of democratic revolution. The CPI is even prepared to let the national bourgeoisie and the working class share the leadership of the national democratic front albeit during a transitional period while the CPI-M is firm about the hegemony of the working class throughout. Nizami's book has no place for these issues which are relevant to the CPI's foreign policy. After all, a party's attitude to the government's foreign policy depends on its understanding of the class character of the government in question.

Sino-Soviet Dispute

To a large degree, the Sino-Indian border conflict was a function of the Sino-Soviet ideological dispute in which peaceful co-existence (with its two corollaries, peaceful transition and national democracy) was one of the main issues. Thus the contrasting attitudes of the two communist giants to India's ruling classes became one of the factors in the Sino-Soviet differences. The Soviets had regarded India as one of the best show-cases of a national democratic state in the making.

In the escalating ideological conflict, the Chinese challenged the Soviet positions on a higher plane in 1965 through Lin Piao's theory of people's war which was a counterblast to the theory of peaceful co-existence and its corollaries.

It is significant that when the Chinese called for the implementation of the strategy of people's war in the Third World (mid-1967), they chose to call for the overthrow of the regimes in three countries where the Soviets had regarded peaceful transition possible—Burma, India and Indonesia. In India, the Naxalbari peasant uprising provided the Chinese the occasion to call upon the CPI-M to repudiate the parliamentary system, get out of it and embark on armed struggle.

The international communist movement today is indeed polycentric. Between a bloc of parties in total agreement with the Chinese ideological positions and another bloc in total agreement with the Soviet ideological positions there are ruling and non-ruling communist parties which have asserted their ideological independence of the rival blocs. The CPI-M happens to belong to this category while the CPI's alignment with the Soviet positions has never been in doubt. The CPI-ML, India's first regular Maoist party formed in 1969 endorses the Chinese positions *in toto*. But even the Maoist movement is becoming polycentric and several Maoist groups and parties find themselves at odds with Peking.

The author's detatched unconcern for all this makes his study a sterile exercise in splendid academic vacuum. It fails to understand the correlates of a communist party's foreign policy.

Books Received

Asthana, B N: Financial Management of Indian Railways; Ramesh Book Depot, Jaipur; pp ii+206; Rs 30.

Chakravarti, N R: The Indian Minority in Burma — The Rise and Decline of an Immigrant Community; Oxford University Press, 1971; pp xxiv+214; £ 3.25.

Gosavi, M S: Management Gap in a Developing Economy; Progressive Corporation, Bombay, 1971; pp xvi+140; Rs 16.

Krishnanath: Impact of Foreign Aid on India's Foreign Policy, Economic and Political Development and Cultural Change; Rammanohar Lohia Samata Vidyalaya Nyas, 1971; pp vi+359; Rs 30.

Latif, T A A: Marketing Management in Developing Countries — Some Facets; Hemkunt Press, 1971; pp xvi+173; Rs 20.

Madan, G R: Social Change and Problems of Development in India; Allied Publishers, 1971; pp xvi+142; Rs 15.

Malhotra, P C and A C Minocha (ed): Studies in Capital Formation, Savings and Investment in a Developing Economy; Somaiya Publications, 1971; pp viii+256; Rs 25.

Mukherjee, S K: Bangla Desh and International Law; West Bengal Political Science Association, 1971; pp 55; Rs 4.

Ostergaard, Geoffrey and Melville Currell: The Gentle Anarchists—A Study of the Leaders of the Sarvodaya Movement for Non-Violent Revolution in India; Oxford University Press, 1971; pp x+421; £ 5.50.

Reisman, Michael: The Art of the Possible — Diplomatic Alternatives in the Middle-East; Princeton University Press, 1970; pp 161; $ 1.95.

Sanjivi, K S: Planning India's Health; Orient Longman, 1971; pp viii+119; Rs 8.

Sen, Lalit K, Sudhir Wanmali, Saradindu Bose, Girish K Misra and K S Ramesh: Planning Rural Growth Centres for Integrated Area Development — A Study in Miryalguda Taluka; National Institute of Community Development, 1971; pp xiv+245; Rs 30.

Sharma, B L: Kashmir Awakes; Vikas Publications, 1971; pp viii+292; Rs 28.50.

Spencer, Robert F (ed): Religion and Change in Contemporary Asia; Oxford University Press, 1971; pp v+172; Rs 45.

Sheikh Mujib and Deja Vu in East Bengal

The Tragedies of March 25

Harry W Blair

In the White Paper that the Government of Pakistan published in August 1971, it was asserted that the Awami League of Sheikh Mujibur Rahman plotted in conspiracy with India an uprising that was to take East Bengal out of the Republic of Pakistan.

Reports from the scene indicate otherwise.

There seem to have been no contingency plans at all in case Yahya decided to crush Bangla Desh by force, and resistance to the West Pakistan troops in those early days of March and April was almost non-existent.

Why did Sheikh Mujib and the Awami League not include some plan for the worst? It is the thesis of this paper that they did not because the whole chain of events that took place in March of 1971 repeated almost exactly a similar sequence from March of 1969.

Everything must have looked almost the same to Sheikh Mujibur Rahman in early and mid-March of 1971 as it did two years previously. As to the immediate future, imposition of martial law, forced cessation of political activity, and even a few firings on protesting mobs of students and workers had become the standard fare of politics in East Pakistan, after all, and would only set things back for awhile. After the hiatus, there would be time enough for continuing the Awami League drive for autonomy. In any event, the election showed that the League was uncontestably the will of the Bengali people, a will that would surely in the end prevail. Preparations, then, were not made for what to do in case the army wanted to do more than merely keep order.

But instead of reimposed martial law came cataclysm.

IN the White Paper that the Government of Pakistan published in August 1971,[1] it is asserted that the Awami League of Sheikh Mujibur Rahman plotted in conspiracy with India an uprising that was to take East Bengal out of the Republic of Pakistan. "The operational plan was worked out in meticulous detail: it was arranged that on a signal from the Awami League headquarters in Dacca, the armed uprising would begin... Early hours of Friday morning [March 26] were fixed as the zero hour for the armed uprising." It was only a few hours before this "zero hour", the White Paper continues, that President Yahya Khan ordered the army into action to forestall the plot, put down the insurrection, and thwart the treasonous secessionists.[2]

Reports from the scene indicate otherwise. There were a number of foreign correspondents present in Dacca at the time to cover the talks going on between the Sheikh and President Yahya over the formation of a government and constituent assembly, and there is a consensus among their despatches that the Awami League could not have made any serious plans for insurrection and secession.[3] As the army was fanning out over the city of Dacca to strike in the early evening of March 25, the Sheikh himself was in the process of issuing directives to get the jute exports moving again after the administrative paralysis of early March. When he learned that the army was shooting up the city and hunting down all Awami League members, he waited calmly at his home to be arrested.[4] There seem to have been no contingency plans at all in case Yahya decided to crush Bangla Desh by force, and resistance to the West Pakistan troops in those early days of March and April was almost non-existent.

Why did Sheikh Mujib and the Awami League not include some plan for the worst? It is the thesis of this paper that they did not because the whole chain of events that took place in March of 1971 repeated almost exactly a similar sequence from March of 1969.[5] In both years the regular bureaucracy throughout the province had come to a complete halt in its activities, and there were stories of peasant *jacqueries* in the countryside. Actually, these stories were highly exaggerated, for a parallel *de facto* government under Awami League-oriented student groups managed to keep order in most of the rural areas while they defied curfews and demonstrated in the cities. Sheikh Mujibur Rehman addressed huge public throngs, and became the symbol of Bengali resistance to rule from the western wing of the country. Yet in some ways he was more led than leader, for student pressure forced him into taking a more radical stance in his negotiations with Islamabad than he would have preferred. Mujib's strongest political rival in the West, Zulfikar Ali Bhutto, accelerated the crisis by boycotting efforts to return the country to popular rule. Against this background, the army steadily increased its troops and firepower in the East through emergency airlift and by ship, and in the end the military intervened.

The denouement came on exactly the same day in both years, March 25. In 1969 it was the imposition of martial law and a temporary cessation of political activity, but soon afterward the Sheikh was able to resume his campaign for provincial autonomy. When the same pattern of events reappeared in 1971, he may well have thought that at worst there would be another period of martial law after which things would be back at the starting point. He was wrong. Instead of martial law came the slaughter of hundreds of thousands, the expulsion

Milk co-operatives as an instrument for social change



In Kaira, people of all castes line up in the same queue day after day.

Social changes are not easy to bring about by legislation. Especially in tradition-ridden, custom-bound villages. But equal partnership in a milk co-operative seems to work miracles. When people of all castes learn to stand together in a queue at a milk collection centre—day after day after day—another blow is struck at social inequality and intolerance. And a life style slowly begins to change—for the better.

Amul has shown the way.

ASP/ABF/SP.13

of millions from the country, and the spoliation of the province.

The underlying causes in both sequences were much the same, but the immediately precipitating factors were somewhat different. In November 1968 pent-up resentment at the decade of authoritarian rule of Ayub Khan finally broke loose with a series of student riots in Rawalpindi. Supported by the charismatic Zulfikar Ali Bhutto, students and intellectuals elsewhere in the western wing joined in the dissent, and despite Bhutto's arrest, soon the rebellion had spread all over the province.[6] In December the unrest appeared in the East, and several general strikes occurred, first in Dacca, and then in the province as a whole.

Mujib was in jail at the time as part of the "Agartala Conspiracy Case" that the Ayub government was pressing, charging that Rahman and others had plotted with Indian government officials to detach the eastern wing of Pakistan. Leadership in the anti-Ayub agitation fell to his leftist rival Maulana Abdul Hamid Khan Bhashani, who organised and publicised the general strikes.[7]

As 1969 began, opposition leaders from both wings of the country formed a centre-right Democratic Action Committee to conduct more co-ordinated agitation against Ayub, and student groups in East Pakistan converged to establish a Student Action Committee to do the same at the student level. Politicians, students and labour unions all participated in the growing crescendo of general strikes and demonstrations that paralysed the province. Events in the western wing proceeded at more or less the same pace, and after initial reluctance, Ayub announced on February 1 that he was willing to meet with opposition political leaders at a Round Table conference to discuss the current crisis and possible solutions. Bhutto was releaed from prison on February 11, and Ayub proposed to allow the Sheikh to attend on parole from prison (meanwhile continuing the Agartala Conspiracy Case against him!). Bhutto declined to participate and, after some hesitation, Sheikh Mujib refused the offer also, demanding that the charges against him be dismissed altogether. Agitation continued to escalate in the East, and on the night of February 18, thousands of people ignored the army curfew in Dacca and roamed the city, the first such large-scale defiance in Pakistan.[8]

On February 21, Ayub announced that he would withdraw from politics after his present term of office, and the next day he dropped the Agartala case and released Sheikh Mujib. The Sheikh then agreed to attend the Round Table talks (though Bhutto still refused), held on February 25 and again beginning on March 10.

In the second chain of events, Sheikh Mujib was active from the outset. National elections, postponed from their original date in October because of serious flooding in East Pakistan, were held in December, with those elected to be under a mandate to draw up a new constitution for the country.[9] December 7, then, which in 1968 saw the first of the general strikes in East Pakistan, was in 1970 the date of the first direct franchise national election ever held in the country. The Sheikh's Awami League won an overwhelming victory, capturing some 72 per cent of the votes and 167 of the 169 seats allotted to East Pakistan in the assembly, over half of the country's total of 313 seats.

The fact that the Awami League had an absolute majority in the assembly upset a number of calculations quite badly. When Yahya agreed to conduct an election in which seats would be allocated on the basis of population, no one thought that the Awami League would win virtually all the seats in the eastern wing. When this did happen, Sheikh Mujib had the chance to form a government strictly confined to his own party, and write his own constitution. Bhutto's Pakistan People's Party, though the largest group from the West with 84 of its 144 seats (including about two-thirds of those assigned to Punjab) could be shut out entirely. On February 15, Bhutto served notice that his party would boycott the National Assembly when it was due to begin meeting on March 3. Yahya, faced with the possibility of a constitution that would leave Punjab's interests out of account, announced 48 hours before the assembly was to meet that the meeting would be postponed.[11] The mood of the Bengalis changed immediately from euphoria to outrage. Shejkh Mujib called a general strike, which completely paralysed the province for several days and precipitated a number of firings by the army.

Both the anti-Ayub agitation and the smashing electoral victory of the Awami League sprang from the same root, the increasing discontent and resentment in the East over perceived exploitation by the West, especially the Punjab. During the first 20 years of Pakistan's independence, the bulk of investment and budgetary resources had gone to the western wing, a disparity that was reflected in differential growth rates.[12] In the summer of 1968, for example, official figures were released showing that while in the West per capita income had grown from Rs 366 in 1959-60 to Rs 463 in 1966-67, it had increased in the East from Rs 278 to only Rs 313 over the same period.[13] Certainly the fact that much of this western development was financed by the retention of foreign exchange earnings from East Pakistan's jute exports did nothing to lessen feelings of exploitation. And Bengali underrepresentation in the bureaucracy added considerably to these feelings. Despite repeated official proclamations in favour of parity for the two wings in government service recruitment, East Pakistanis amounted to only 36 per cent of the members of the elite Civil Service of Pakistan in 1968, and in other branches of the bureaucracy, similar disparities prevailed, and Westerners, mainly Punjabis, filled most of the positions.[14] Against this background, the Awami League's Six-Point programme for provincial autonomy had great appeal in the East,[15] and it was on the basis of the Six-Points that the Sheikh built his campaigns both times.

In both years, as March began to unfold, the patterns of events became more and more alike. In 1969 the general strike had created an almost complete vacuum of authority in the province. Monem Khan, the Governor, refused even to step outside his headquarters during March, and his authority did not go beyond his office door. Police and civil servants stayed away from their posts, partly in obedience to the strike call, partly out of fear of peasant reprisals against those who had supposedly used their positions under the Ayub regime to exact exorbitant bribes and protection money from the citizenry. Stories of lootings, arson, rape and summary executions by "people's courts" spread quickly.[16]

Soon, however, it became apparent that the whole province had not become consumed in an orgy of mob violence. The rampages, in fact, were confined to only four of the more than 70 subdivisions of the province. For the most part, the Student Action Committee, with its 300,000 and more adherents under the direction of Tofail Ahmad, a law student at Dacca University, managed to keep the peace. Except for several well-publicised incidents, student "peace committees" were able to keep peasant discontent in check.[17]

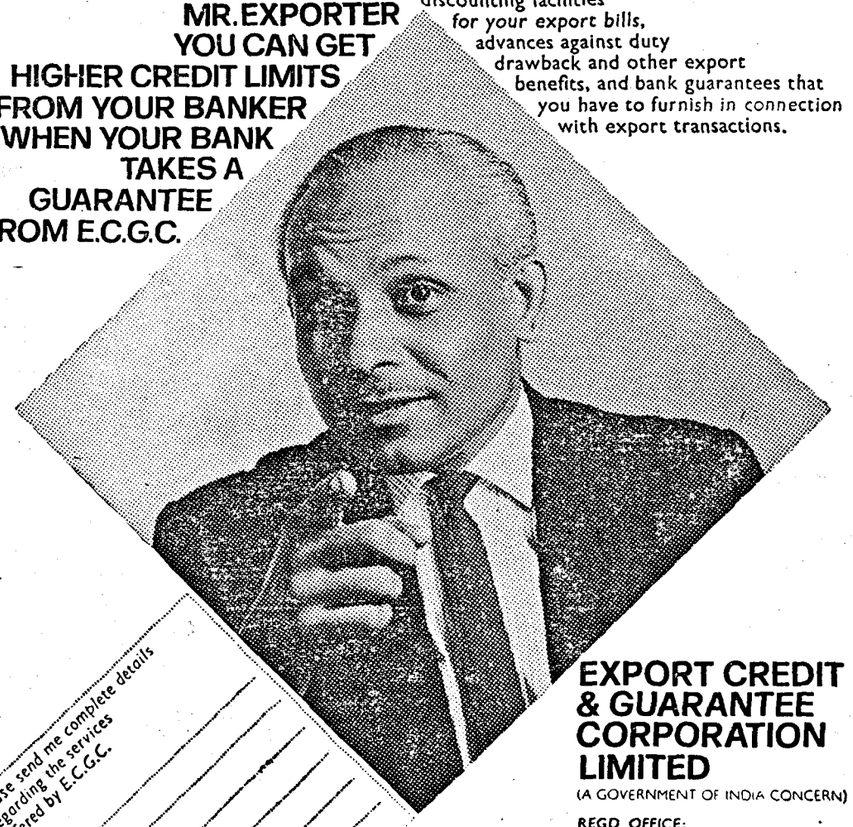
In the 1971 sequence, the halt in

Your export business depends to a large extent on how much credit you get from your banker. But the credit limit that your banker allows you may fall short of what you require to expand your business.

What you probably do not know is that your banker may be willing to raise your credit limit substantially if he can get your borrowings covered under an E.C.G.C. guarantee.

E.C.G.C. guarantees can help you in securing: packing credits, discounting facilities for your export bills, advances against duty drawback and other export benefits, and bank guarantees that you have to furnish in connection with export transactions.

MR. EXPORTER YOU CAN GET HIGHER CREDIT LIMITS FROM YOUR BANKER WHEN YOUR BANK TAKES A GUARANTEE FROM E.C.G.C.



Please send me complete details regarding the services offered by E.C.G.C.

NAME

ADDRESS

DEPT.

For complete details mail the coupon to your nearest branch office.

EXPORT CREDIT & GUARANTEE CORPORATION LIMITED

(A GOVERNMENT OF INDIA CONCERN)

REGD. OFFICE:
10th Floor, Express Towers, Nariman Point, Bombay 1 BR

BRANCHES:
BOMBAY 4, Rampart Row, Bombay-1
CALCUTTA Tata Centre, 10th Floor, 43, Chowringhee Road, Calcutta-16
NEW DELHI Chaudri House, 10-A, Curzon Road, New Delhi-1
MADRAS Indian Bank Bldg., 1st Floor, 17th North Beach Road, Madras-1
ERNAKULAM Chathuruthi Bldg., 1st Floor, Mahatma Gandhi Rd., Ernakulam-11.

AIYARS-ECGC. 27

bureaucratic activity was even more complete. Immediately after Yayha's postponement of the National Assembly, Sheikh Mujib called for a general strike. He renewed the call several times and then at a mass rally in Dacca on March 7 requested a week-long strike over the whole province. The first evidence of the totality of the response came the very next day, when the Chief Justice of the Dacca High Court (the highest judicial authority in the province) refused to administer the oath of office to Yahya's new Governor for the East, General Tikka Khan.[18] For the remainder of the month, civil servants abandoned their official posts. The province was governed through a series of directives issued from Awami League headquarters. These directives spanned the entire spectrum of public activity from keeping all schools closed to specifying the hours during which banks could communicate with the western wing by teleprinter.[19]

There were numerous charges from the West that mobs of Bengalis were rampaging through both city and countryside in a manner reminiscent of the alleged atrocities of 1969. Non-Bengalis and those who resisted the Awami League directives were beaten, robbed and killed in another orgy of violence, according to government reports.[20] In fact, there does seem to have been considerable violence and even mayhem perpetrated against non-Bengalis after the catastrophic events of March 25, but before that, the Awami League with its student allies had the province under an almost complete parallel government, which kept the peace reasonably well.[21]

As a crowd drawer, Sheikh Mujib has had few equals anywhere. In the subcontinent, where perfervid political oratory is still a widely practiced and popular pastime, crowds of one hundred thousand are not uncommon. Mujib's audiences have been variously estimated at up to two million.[22] Even allowing for the hyperbole that is a part of crowd counting, his popularity has been immense.

His remarkable hold on the public affection did not give him the ability to act as a free agent in either sequence of negotiations with the leaders of the West, however. Just after his release in February 1969, he found that the price of the enormous support he received from the Student Action Committee was the widening of the Awami League's Six Points to include an eleven-point list of student demands. The added points included such items as nationalisation of banks and big industries, and withdrawal from the CENTO and SEATO security pacts, scarcely matters close to the heart of the middle-class oriented Sheikh.[23] In his negotiations with President Ayub at the Round Table conferences, Mujib appears to have found himself rather boxed in by his followers. Ayub is reported to have offered Mujib the prime ministership if only he would moderate his autonomy demands. But if the Sheikh were to retain his political future, the least he could have settled for was full autonomy for the East according to the Six Points (which included provincial control over taxation and assignment of tax revenues to the central government's military forces) and a directly elected legislature based on population. Ayub refused to concede this much, and the Sheikh had to return empty-handed to Dacca in mid-March.[24]

Indeed, there is some indication that Mujib's very freedom from jail was a result of his giving in to the will of his following. Several sources report that at first he was willing to attend the Round Table conferences on parole, but his militant followers would have none of it: he would attend as a free man or not at all. Accordingly, the Sheikh refused to come to Rawalpindi unless all the Agartala Conspiracy charges were dropped.[25]

In 1971 there was a good deal of speculation that the Sheikh's followers would pressure him into declaring independence right away when, on February 28, Yahya postponed the National Assembly meeting. There were certainly indications that something momentous would occur at a rally planned in Dacca for March 7.[26] In the event, Mujib steered shy of proclaiming independence. Instead, he demanded that Yahya turn over power immediately to the elected National Assembly, rather than waiting until the assembly wrote a constitution, as specified in Yahya's Legal Framework Order setting up the election and assembly.[27] During the next few days the Awami League virtually took over the administration of East Pakistan, and on March 15, President Yahya flew to Dacca to confer with Mujib on the possibility of opening the National Assembly on March 25.

The available accounts of the conferences are confusing. From the beginning on March 16 down to the end on the 25th, contradictory reports of progress, virtual agreement and deadlock emerged from Dacca.[28] It appears that Bhutto refused to countenance any scheme whereby the Awami League would form a government, whether constituent assembly or parliament, without him and his Pakistan People's Party. Mujib in turn, standing on customary parliamentary procedure, would not accept the prime ministership of a coalition government, but claimed his right to organise the assembly by himself, since he had an absolute majority of seats.[29] Probably as a compromise, the Sheikh then broached a proposal described later by Yahya as a scheme

> whereby Martial Law would be withdrawn, Provincial Governments set up and the National Assembly would, *ab initio*, sit in two committees — one composed of members from East Pakistan and the other composed of members from West Pakistan.[30]

When both the provincial committees had finished their constitution drafting, they would meet as a National Assembly to frame the constitution for the country as a whole.[31] The two men seem to have tentatively agreed to this plan, but Bhutto, who arrived in Dacca on March 21, objected strongly, insisting that the proposal be changed so as to provide that

> no law or constitution could be *presented* in the National Assembly unless approved by a majority of the members of *each* wing.[32]

In this way Bhutto would hang on to a veto power for himself, the Punjab and presumably the rupee-hungry army budget, which regularly consumed well over half of federal expenditures, and which would probably be cut severely by a Bengali-dominated parliament.[33]

The Sheikh was unwilling to back down, and at this point, with a substantial portion of his supporters clamouring for an immediate declaration of independence, he probably could not have given in. Thousands of workers and students were demonstrating daily in Dacca and elsewhere, and the annual "Pakistan Day" celebrations scheduled for March 23 almost turned into a Bangla Desh independence day. Bangla Desh flags went up all over Dacca (including Mujib's house), and demonstrators tore up the national flag.[34] It would have been difficult indeed to give the West a veto power over Bengali hopes for autonomy at this stage.

Throughout both months of March, there was a steady influx of troops by air and sea to beef up the small contingent of soldiers on regular duty in the East. At the onset of the 1969

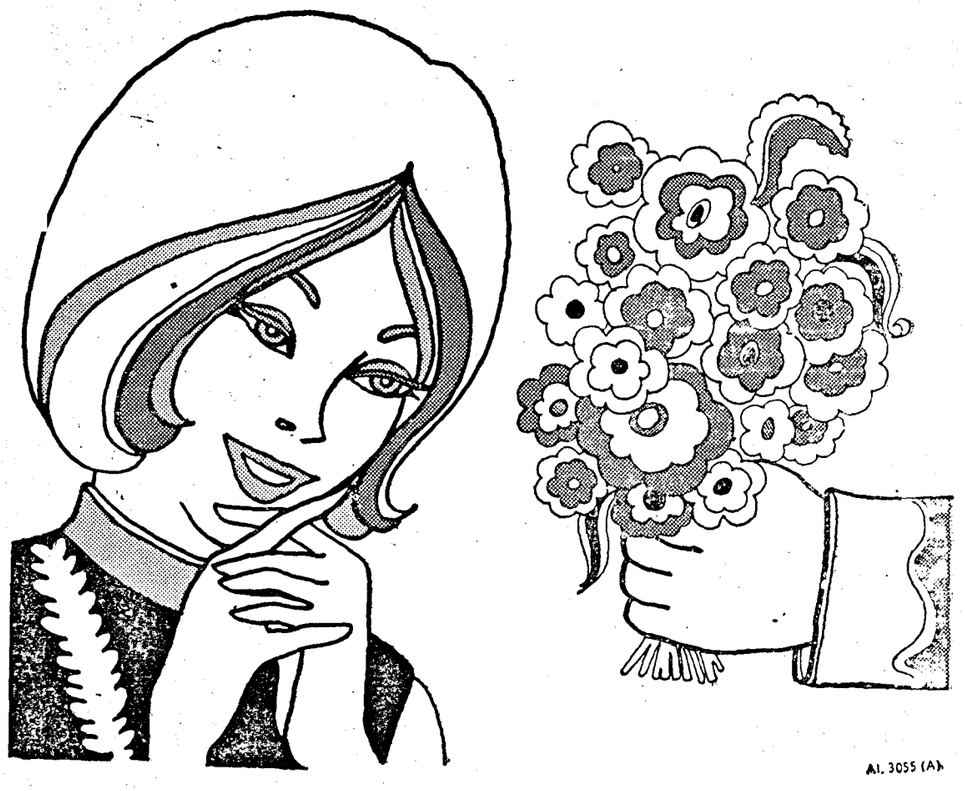
The East is a Feast !

Bangkok • Hong Kong • Tokyo
A choice of 5, yes 5, flights a week.

Air-India gives you a choice of
5 daytime flights to see
what the East has achieved.
The finest of hotels, food and drink—
magnificent shopping value.

Monday & Thursday:
Bombay—Delhi—Bangkok
Hong Kong—Tokyo
Wednesday, Friday & Saturday
Bombay—Calcutta—Bangkok
Hong Kong—Tokyo

AIR-INDIA
the airline that loves you



AI. 3055 (A)

crisis, only the 14th Division of the army was stationed in the East, but as the month wore on, C-130 transport planes from the Pakistan Air Force were used to ferry in additional troops, and there were reports of soldiers travelling in civilian clothes being flown across India on commercial flights of Pakistan International Airlines.[35] In addition, several shiploads of troops and equipment sailed the long route around India to reinforce units in the eastern wing.[36]

In 1971 it was again the 14th Division that was on hand in the East when the crisis began to build up.[37] This time it was a good deal more difficult to fly in reinforcements from the West, though. On January 20, several hijackers had forced a plane of the Indian Airlines Corporation to fly to Lahore in West Pakistan, and had demolished the plane after it had landed. In retaliation, the Indian government banned Pakistani overflights, a prohibition still in effect in March.[38] Thus Pakistan had to fly its troops all the way around Cape Comorin to the eastern wing. Still, available planes and ships were pressed into service, and thousands of soldiers were flown in, again in many cases dressed as civilians for the flight.[39]

In sum, everything must have looked almost the same to Sheikh Mujibur Rahman in early and mid-March of 1971 as it did two years previously. As to the immediate future, imposition of martial law,[40] forced cessation of political activity, and even a few firings on protesting mobs of students and workers had become the standard fare of politics in East Pakistan, after all, and would only set things back for awhile. After the hiatus, there would be time enough for continuing the Awami League drive for autonomy. In any event, the election showed that the League was uncontestably the will of the Bengali people, a will that would surely in the end prevail. Preparations, then, were not made for what to do in case the army wanted to do more than merely keep order.

Instead of reimposed martial law, came cataclysm. Karl Marx observed that

> Hegel remarks somewhere that all facts and personages of great importance in world history occur, as it were, twice. He forgot to add: the first time as tragedy, the second as farce.[41]

Marx may have been wrong as well. Perhaps he should have said, "the first time as tragedy, the second as catastrophe".

Notes

1 Government of Pakistan, *White Paper on the Crisis in East Pakistan*, referred to hereafter as the *White Paper* (Islamabad: Ministry of Information and National Affairs, August 5, 1971). An earlier and shorter version was circulated by the Government of Pakistan as "The Present Crisis in East Pakistan: A Statement by an Official Spokesman" (Karachi: Department of Films and Publications, May 5, 1971).

2 *White Paper*, p 40.

3 Some of the more detailed eyewitness reports were filed by Martin Adeney, "Why Mujib Failed", *Manchester Guardian Weekly*, April 3, 1971; Henry S Bradsher, "East Pakistan in Agony After the Storm", (Washington); *Evening Star*, March 29, 1971, Simon Dring, "Dacca Eyewitness: Bloodbath, Inferno", *Daily Telegraph* (London), republished in *Washington Post*, March 30, 1971; Peggy Durdin, "The Political Tidal Wave That Struck East Pakistan", *New York Times Magazine*, May 2, 1971; and Selig S Harrison, "Eyewitness: Bloody Blitz of Dacca", *Washington Post*, March 28, 1971. See also Peter Hazelhurst, "Secret Catalogue of Guilt and Disaster Over East Pakistan", *Times* (London), June 4, 1971; and Martin Woollacott, "Pakistan in Perspective", *Manchester Guardian Weekly*, July 17, 1971. It will be a long time, if ever, before versions of the March 1971 events are available from any of the participants other than Yahya Khan, and in the meantime we are dependent on newspaper accounts.

4 Bradsher, *op cit;* also Gerard Viratelle, "Pakistan — The Week of the Bloodbath", *Le Monde* (Weekly English Edition), April 1-7, 1971. The account of the Sheikh's surrender is carried in Dring, *op cit*, and P Durdin *op cit.*

5 It is interesting to note that the events of March 1969 that put Yahya Khan into power were in many ways similar to those that resulted in Ayub Khan's assumption of power in 1958. See Robert LaPorte, Jr, "Succession in Pakistan: Continuity and Change in a Garrison State", *Asian Survey* IX, 11 (November 1969), 842-861.

6 A thorough, though somewhat biased, account of the student role in the overthrow of Ayub Khan is given by the expatriate student leader Tariq Ali, who returned from Britain to take part in the anti-Ayub agitation. See his "Pakistan: Military Rule of People's Power", (New York: William Morrow, 1970), esp pp 156-216.

7 Tariq Ali details his role in *ibid*, pp 174-179.

8 There are a number of accounts of the events of February 18. See *inter alia*, *ibid*, pp 207-209; Selig S Harrison, "Ayub's 11th Hour Move Failed", *Washington Post*, March 31, 1969.

9 The plan for elections and a new constitution were laid out in President Yahya's "Legal Framework Order 1970", which is reprinted in the *White Paper*, pp 18-35 of the appendix.

10 For an account of the 1970 elections, see Craig Baxter, "Pakistan Votes—1970", *Asian Survey* XI, 3 (March 1971), pp 197-218; also Sharif al Mujahid, "Pakistan: First General Elections", *ibid* XI, 2 (February 1971), pp 159-171.

11 For an insightful analysis of Bhutto's role in the 1971 events, see Hazelhurst, *op cit*, and his "Pakistan on Brink of Violent Split After Compromise Fails", *Times* (London), March 5, 1971. Also Mohammed Ayoob, "From Martial Law to Bangla Desh", in Pran Chopra, ed, "The Challenge of Bangla Desh: A Special Debate", (New York: Humanities Press, 1971), pp 40-59 at 51-54.

12 See *inter alia* Arjun Sengupta, "Planning for Disparity", in Pran Chopra, *op cit*, pp 79-101; Edward S Mason, Robert Dorfman, and Stephen A Marglin, "Conflict in East Pakistan", in *ibid*, pp 151-159; Richard S Wheeler, "The Politics of Pakistan: A Constitutional Quest", (Ithaca: Cornell University Press, 1970), pp 83-86, 184-186, *et passim*; Aijaz Ahmad, "The Bloody Surgery of Pakistan", *Nation*, June 28, 1971.

13 Wheeler, *op cit*, p 185. By 1970, this disparity had not changed significantly; see Mason *et al*, *op cit*, p 154.

14 Wheeler, *op cit*, pp 129-130. See also Ralph Braibanti, "Research on the Bureaucracy of Pakistan: A Critique of Sources, Conditions and Issues, with Appended Documents". (Durham: Duke University Press, 1966), pp 44-55.

15 An account of the Six Points is given in M Rashiduzzaman, "The Awami League in the Development of Pakistan", *Asian Survey* X, 7 (July 1970), pp 574-584.

16 See, for instance, Cyril Dunn, "Peasants Take a Bloody Revenge", *Observer* (London), March 23, 1969; Peter Hazelhurst, "Pakistan Admits Mob Rule Prevails", *Times* (London), March 20, 1969; Ernest Weatherall, "Pakistani Fragmentation" *Christian Science Monitor*, March 19, 1969.

17 Joseph Lelyveld, "Violence Ebbing in East Pakistan", *New York Times*, March 25, 1969; Harrison, "Ayub's 11th Hour Move", *op cit*. Also Rehman Sobhan, "What Follows Ayub's Abdication?" *New Statesman*, March 28, 1969, and his "East Pakistan's Revolt Against Ayub: Old Resentments and New Needs", *Round Table*, 235 (July

Economic Research has an estimate of the *net* value of agricultural income per acre of land, by states. The net value of agricultural output for individual states has been computed by deduction on account of (i) cost of seeds, (ii) cost of manure, (iii) cost of repair and maintenance of implements and other operational costs (*not* wages), (iv) water charges, (v) cost of feed of livestock, (vi) marketing cost, and (vii) depreciation of implements and other fixed assets used up in the process of production, from the respective estimates of gross value of agricultural output.[4] In other words, it is simply the so-called *net value added* per acre of agricultural land.

These data, in terms of index number, appear in column 7 of Table 1, where the all-India index is set at 100. Surprisingly, columns 3 and 7 again have a positive relationship: the higher is the productivity of land, the larger is the percentage of rural population below the level of subsistence.

III

Table 1 is not a random sample; nor does it satisfy the essential assumptions of correlation analysis. Nevertheless, without imputing any probabilistic connotation, we present in Table 2 the rank correlation co-efficients simply as a succinct statement of the positive relationship observed between the rural poverty on one hand, and four significant factors, on the other. Furthermore, for whatever may be its worth, it may be mentioned that all these correlation co-efficients are "statistically significant at 10 per cent level of significance".

IV

To sum up, we are therefore led to the following tentative hypothesis: Geographically, the higher productivity of agricultural land is associated with a higher concentration of land holding. Consequently, in those areas the employers of rural labour have a superior bargaining power which they exercise so as to drive a large proportion of rural population below the line of poverty. To put it differently, it is not the productivity of land, but the exploitation of man that goes a long way in accounting for the staggering dimension of rural poverty in India.

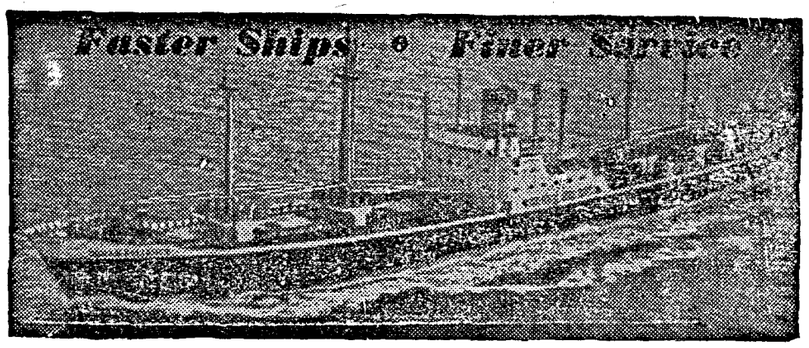
Notes

1 V M Dandekar and N Rath, "Poverty in India: Dimensions and Trends", *Economic and Political Weekly* (January 2, 1971), pp 25-48.

2 *Ibid*, p 33.

3 The Gini concentration ratio is the ratio of the area between the diagonal line of complete equality and the Lorenz curve of land distribution to the entire triangular area under the diagonal.

4 National Council of Applied Economic Research, "Agricultural Income by States: 1960-61" (New Delhi, 1963), pp 12-26.

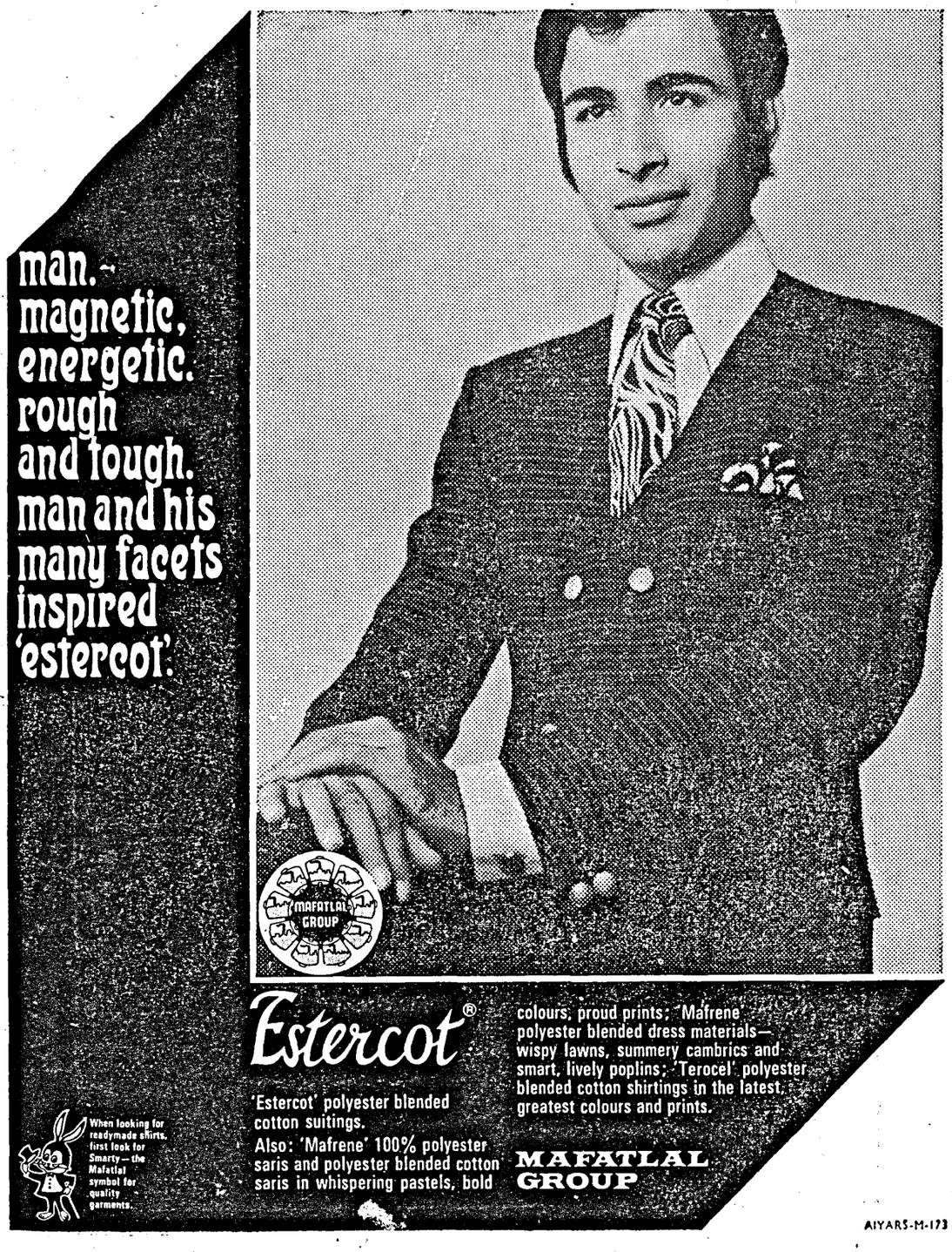


Our fleet of seventeen modern freighters offers fast,
regular and dependable service between

INDIA—U. K. & THE CONTINENT • INDIA/EAST PAKISTAN—SOUTH AMERICA
INDIA—BLACK SEA & EASTERN MEDITERRANEAN PORTS
INDIA—POLAND Also around the INDIAN COAST

INDIA STEAMSHIP CO., LTD.
"INDIA STEAMSHIP HOUSE", 21, OLD COURT HOUSE STREET, CALCUTTA-1





Printed by Krishna Raj at States' People Press, Janmabhoomi Bhavan, Ghoga Street, Fort, Bombay-1, and published by him for Sameeksha Trust from Skylark, 284 Frere Road, Bombay-1.