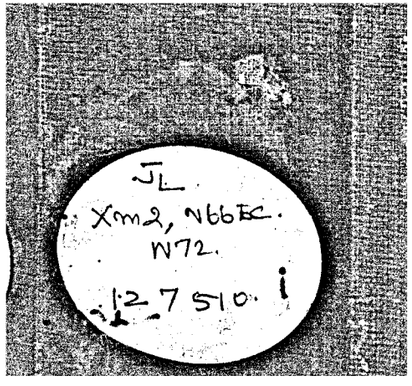

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ECONOMIC AND POLITICAL WEEKLY

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WHO WON IN WEST BENGAL?

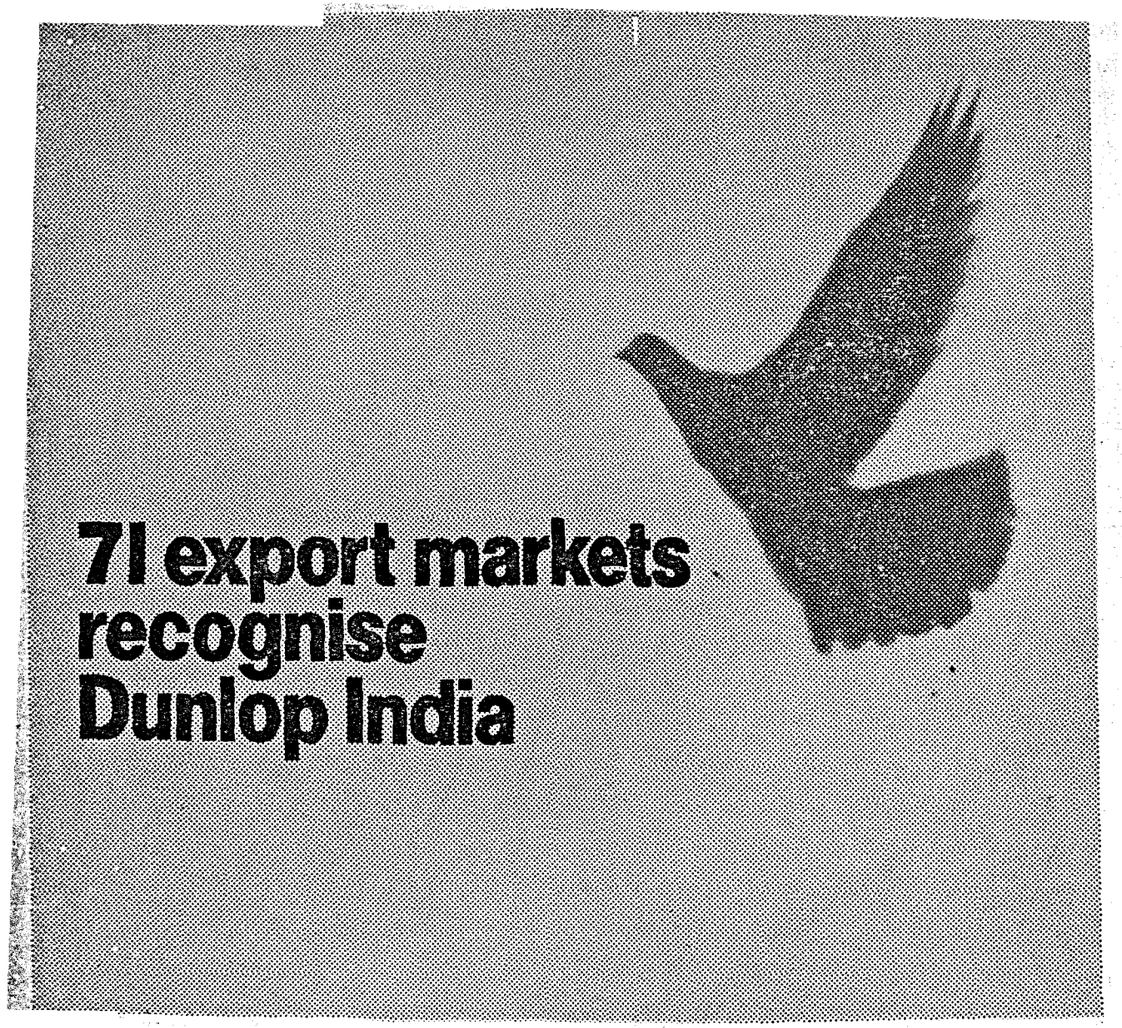
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ECONOMIC AND POLITICAL WEEKLY

Founder-Editor: Sachin Chaudhuri

Vol VII No 14 April 1, 1972

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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

All Fluff

THE developments in relation to cotton in recent weeks are a rather good example of how government policy is more often than not shaped by opposite pressures exerted by different vested interests. If at last the government has now taken some steps to stem the fall in prices and speed up the marketing of cotton, this has been the result of pressures from a few state governments, cotton growers, cotton trade and the textile industry. Earlier in the marketing season, when there were cries of distress from cotton growers in Punjab, the government acted to exempt cotton from certain districts of Punjab from the Reserve Bank's credit control regulations and also activated the Cotton Corporation of India to make purchases of cotton in that state. But it appeared to have no premonition at all then that a similar situation might soon develop in Gujarat, calling for more or less similar steps. It has taken some agitated discussion in Parliament, an air dash by the Gujarat Agriculture Minister to New Delhi and numerous statements and counter-statements by representative bodies of growers, trade and the textile industry to persuade the government to come forward with another round of credit liberalisation and to raise mills' cotton stock limits by one month and direct the Cotton Corporation to enter the market once again, mainly in Gujarat this time. Also it has been announced that cotton imports in the current season would be cut by 2.5 lakh bales — though it is not clear whether the cut is being made in deference to the larger crop or would have had to be made anyway on account of the non-availability of US PL 480 assistance.

What stands out in all this is, first, the lack of an integrated and consistent policy towards prices and marketing of different agricultural products and, second, the failure to estimate the size of the crop and anticipate its likely consequences. For a number of foodgrains, and for wheat particularly, the government has followed a policy of large-scale purchases by the Food Corporation of India at predetermined procurement prices. And in the case of wheat certainly procurement has come to mean price support, which the Agricultural Prices Commission in its latest report estimates will involve a subsidy of Rs 132 crores in the current financial year. In the case of sugarcane, acreage under which have been subject to wide fluctuations, the government has sought to ensure certain minimum prices for growers by working these prices into the prices of sugar. To take a somewhat different instance, the government has fixed floor prices for natural rubber at levels higher than the prevailing market rates and sustained these prices by requiring major consumers to stock up large quantities of rubber.

By contrast, the government has been content to let market forces determine the prices and marketing of cotton, supplemented by credit and other restrictions, such as those on mills' inventories, intended to exert a general downward pressure on prices. When the decision was taken to set up the Cotton Corporation it was entrusted with the task of regulating purchase and distribution of imported, not indigenous, cotton. This approach was conditioned by the persistent shortages of cotton year after year and so the estimated rise of almost 20 per cent in the cotton crop this year was something for which the government was clearly unprepared. In the first place, the government's ideas of the size of the crop have, as always, followed those of other interested parties. The cotton trade puts out its own estimates of the crop mainly with the objective of influencing prices in the direction in which it wants to. The officially-constituted Cotton Advisory Board, which is headed by the Textile Commissioner, met towards the end of October last and came to the conclusion that the crop would be slightly below 55 lakh bales. Since then the trade has changed its views and puts the crop at 63 lakh bales. The government now accepts this figure. The fact is that the actual size of the cotton crop becomes known only when the season is finally over.

As with output, so with prices. Having exerted little influence on prices in the years of rising prices, it has few ideas on what constitutes an acceptable price level now when a particularly sharp rise in output is pressing prices down. And so we find the Deputy Minister for Foreign Trade denying in Parliament on March 24 that there has been all that steep a decline in cotton prices since the present prices, while lower than those of last year, were still comparable to those prevailing in 1969-70, a normal cotton year, whereas only two days earlier the Minister of State for Agriculture was sharing the concern of many members of the Rajya Sabha over "the continued fall in cotton prices in recent months" and accepting the suggestion that the Cotton Corporation should enter the market in a big way to protect the interests of the cultivators.

If the decline in prices over the levels of last year is not such a serious

STC's Operations

(Rs crores)

	1968-69	1969-70	1970-71	1971-72 (Planned)
Operations				
Imports	114.1	150.18	141.90	175.0
Exports	48.5	55.15	70.58	90.0
Domestic	4.6	5.39	5.36	5.8
Total	167.2	210.72	217.84	270.8
Trading profit	15.0	16.24	9.98	
Major Export Items				
Railway wagons	9.41	—	—	
Human hair	7.34	4.85	2.35	
Jute goods	4.66	8.26	10.40	
Shoes, etc	3.58	3.97	5.72	
Cotton textiles	3.41	1.77	1.44	
Textile machinery	—	5.12	5.16	
Knitted woollen garments	—	5.09	9.60	
Art silk fabrics	—	3.56	4.87	

forward budgets, and no longer complains about shortage of finance. Unlike his bureaucrat predecessors, Tandon has used business techniques to 'make money work harder'. Complaints about incompetent business deals too — such as purchases of nylon yarn at peak prices, etc — have become few and far between. These are significant improvements.

Yet, an analysis of the trend in STC operations, shows up that these have remained unenterprisingly traditional, and improvements here have been achieved largely due to State patronage and State monopoly. Thus, while its exports increased from Rs 48.5 crores in 1968-69 to Rs 70.6 crores in 1970-71 (and are expected to increase to Rs 90 crores according to STC's performance budget for 1971-72), the Corporation essentially remains an importing agency, its imports being Rs 114.1 crores in 1968-69, Rs 141.9 crores in 1970-71, and Rs 175 crores (planned) in 1971-72. And the commodity composition of its trade is also primarily traditional — jute goods, cotton textiles, etc. Similarly, the direction of its trade has stayed mainly oriented to Europe.

It is in this context that Tandon's suggestion for separate trading organisations for import and export needs to be considered. The main advantage of a single organisation for import and export trade would be that 'market power' can be used to increase market share. In fact, the Japanese trading houses operate exactly in this way. STC's operations also bring out this situation. Its margins on overall trade are inversely related to its exports. The separation of export and import trade would automatically lead to stagnation of exports and large losses on them.

So, what is needed is not a separation of import and export trade, but adequate exercise of STC's trading leverage. The STC has neither penetrated new markets, such as in Africa and Asia, nor pushed non-traditional goods in old markets. This it could well do by exercising its trading leverage. In fact, now that STC has a performance budget, it should be given clear tasks: say, increasing India's trade with African countries to 40 per cent of total trade, or increasing India's exports of non-traditional goods to 60 per cent of total exports.

It is not that STC does not have the manpower; recently Tandon complained at a seminar on unemployment that he could do the same business with one-third the staff. If so, he should use the remaining staff to improve STC's operations in the country's interest. Issuing bonus shares or reducing bank borrowing is not the only criterion of economic efficiency. Nor is splitting of STC into separate import and export corporations a remedy for the country's international trade problems. STC needs to have wider perspectives for its operations.

Sugar

Free and Sweet Play ?

THREE decades of 'sugar control' have failed to carry the country much towards cheap and adequate supplies. Reports have it that much of the official sugar policy is formulated in private meetings and D O letters between the government and industry. The interests of cane-growers are also well-guarded by a parliamentary lobby and by the Chief Ministers of UP, Bihar, Maharashtra, etc. And, if there was any question of the consumers raising a hue and cry, the industry looks after that too by looking after the press at its 'news conferences' and ensuring that facts are depicted as they would like them seen.

Almost half the current season is over. Before it began, a scare had been raised of an impending 'sugar famine'. Since then, the industry has been periodically revising upwards its figures of the area under cane. The estimate issued early in December 1971 showed a 4 per cent fall; the second estimate issued on January 6, 1972, shows a 3 per cent fall only. Meanwhile, the *RBI Bulletin* for February 1972, received on March 22, unhelpfully prints at this late stage the final estimate of the 1970-71 season!

The first estimate of sugar production by government placed it at 3.6 mn tonnes; and the second one raised it to 3.8 mn tonnes. About 180 sugar factories were working at the beginning of the current month and, on a conservative estimate, production for the season would be at least 3.3 mn tonnes. Sugar prices have continually moved upward. During the 14-day war, the industry, fearing public and government wrath, voluntarily offered to operate the partial decontrol scheme. This has become effective from January 1972. Under the scheme, 60 per cent of the output is taken by government at an ex-mill rate of Rs 150 per quintal and distributed through fair price shops at Rs 2 per kg. Industry has been permitted to sell the remaining 40 per cent in the free market. But a large section of the industry refused towards the end of December to supply levy sugar to the states. Sugar prices increased sharply from Rs 220 to over Rs 290 per bag; government itself had contributed to this by increasing tariff value for free sugar by Rs 15, to Rs 150. Further, and less pardonably, government has helped the up-swing in prices by increasing the levy prices month by month, and by restricting the monthly releases to 325,000 tonnes over the last six months — in addition to gradually advancing the release date from the 19th to the 7th of the previous month.

In February, prices moved within a range of Rs 15, varying between Rs 270 and Rs 285 per bag. The tariff value for February was increased to Rs 165. In the current month, prices hit a new high because the tariff value was raised further to Rs 190 and because rumours had it that there would be an increase in excise duty, from 30 per cent to 40 per cent. The price for D-30 increased to Rs 305. But the budget left the excise duty unchanged, and the price is now hovering between Rs 295 and Rs 300.

In the midst of the 'storm' over prices, government is reported to be considering raising the share of levy sugar to 80 per cent of output. (In 1969-70 this was 70 per cent.) This may well work out; but after that, the free market price must be allowed to touch the level it can sustain.

Price of Modernisation, Diversification

Hansavivek

BOMBAY DYEING experienced a sharp contraction of margins during 1971, as reflected in a 4 per cent decline in gross profit (after taking away the non-recurring gain of Rs 45 lakhs against Rs 8 lakhs on sale of land) despite a 27 per cent advance in sales. The increase in sales value is attributed to increased cost of manufacture, particularly on account of the higher prices of cotton, as well as further diversification of the product-mix — particularly in the field of superfine saris, synthetic shirtings, and industrial fabrics. Exports amounted to Rs 5.48 crores, as against Rs 4.92 crores in 1970 and Rs 6.69 crores in 1969. Recovery in exports was mainly due to considerable improvement in exports of finished goods to Australia, New Zealand, and the UK, and also due to some improvement in exports to West Europe. The management considers the future outlook for exports 'uncertain' in view of the fluctuating cotton prices and the "Government's changing export policy". With the sharp increase in customs duty, from 2.5 to 30 per cent, by the Australian government on all unprinted and unraised wide sheetings below 3½ oz per square yard from August last, about 25 per cent of the company's exports to Australia and New Zealand would be affected. The British Government has imposed from January last an import duty of 15 per cent on cotton textiles imported from India. For the present, however, the UK has continued the import quota system which will ensure a market for Indian textiles in that country.

During 1971, Bombay Dyeing installed new machinery worth Rs 90 lakhs, of which Rs 40 lakhs will be payable in deferred instalments over 5 years under IDBI's scheme for financing the purchase of indigenous machinery. For the past several years, the company has been rationalising and modernising its machinery and equipment and this has stood the company in good stead. The management is now considering replacement of looms at the textile mills which have long passed their useful life. Neville N Wadia, chairman, assures shareholders that they will be able to reap the benefits of this major step in the years to come.

SIEMENS INDIA, which completed its 15th year in September last, came in public focus in March last year when it floated a public issue of six lakh equity shares of Rs 10 each at par. The issue was oversubscribed by about 19 times. This issue notwithstanding, the parent company, Siemens Asia Investments AG, Zurich, still owns 51 per cent of the share capital. Siemens' association with India dates back to 1867 when the collaborators, Siemens AG of West Germany, laid the first direct telegraph line between London and Calcutta. During its career, the Indian company too has associated itself with several important projects in the country. It is now diversifying with a view to further broadening the scope of its activities. It has secured a 'letter of intent' for railway signalling equipment and also expects to

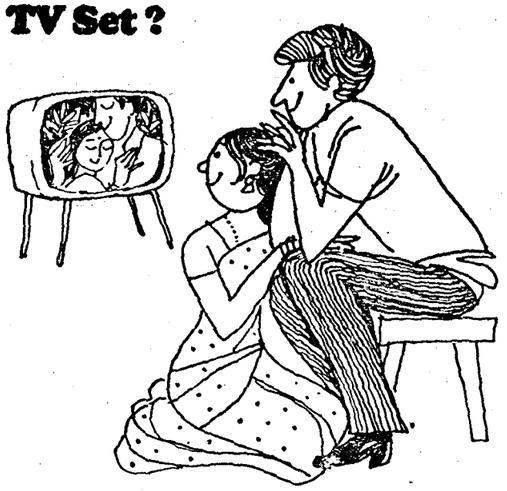
The Week's Companies (Rs in Lakhs)

	Bombay Dyeing		Siemens		Lakshmi Machine	
	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 30-9-71	Last Year 30-9-70	Latest Year 31-12-71	Last Year 31-12-70
Paid-up capital	361	361	240	120	251	246
Reserves	387	355	336	250	170	98
Borrowings	1213	1098	1093	1257	529	496
of which Term borrowings	250	250	517	312	428	385
Gross fixed assets	2078	2000	810	776	561	538
Net fixed assets	529	537	398	446	404	385
Investments	39	39	1	1	7	7
Current liabilities	631	442	708	476	149	155
Current assets	2024	1680	1961	1653	707	585
Stocks	1503	1254	954	901	345	252
Book debts	518	424	943	619	359	332
Net sales	3359	2648	3212	2421	549	515
Other income	54	56	92	82	44	78
Raw material costs	1790	1301	2229	1662	160	100
Wages	814	691	388	316	57	46
Interest	138	101	103	105	40	34
Gross profit(+)/loss(—)	225	195	345	221	131	153
Depreciation provision	95	95	81	94	42	41
Tax provision	51	48	114	—	—	—
Net profit(+)/loss(—)	79	52	150	127	89	112
Development rebate provision	18	10	10	36	112	—
Transfer to reserves	14	—5	116	69	—53	88
Dividend						
Amount	47	47	24	10	30	24
Rate (per cent)	13	13	14	8	12	10
Cover (times)	1.30	0.89	5.83	7.90	—	4.66
Ratios (per cent)						
Gross profit/sales	6.69	7.36	10.14	9.13	23.86	29.71
Net profit/capital employed	4.03	2.86	8.98	7.80	9.37	13.33
Inventories/sales	44.74	47.35	29.73	37.21	62.84	48.93
Wages/sales	24.23	26.09	12.08	13.05	10.38	8.93

receive one for power line carrier equipment. Its application for a 'letter of intent' for electronic control equipment, however, has been turned down by government, but fresh efforts are being made to secure it. Siemens proposes to invest Rs 6 lakhs in 'British Physical Laboratories India' and Rs one lakh in 'Electronic Research' — which make 'Siemens' design products — to ensure closer association with these companies. During 1970-71, the company expanded turnover by 33 per cent to exceed the Rs 32-crore mark and also stepped up profits — enabling the dividend to be raised from 8 per cent to 14 per cent, even though there was a much larger tax liability. The 14 per cent recommendation included a 2 per cent public participation bonus dividend. According to K M D Thackersey, chairman, turnover in the current year has been running some 25 per cent ahead of the performance in the same period last year, and orders booked were 30 per cent better. Thackersey has, however, pointed out that the fiscal imposts outlined in the recent Budget proposals would have a "definite bearing" on production costs. The company will also have to contend with a still higher tax burden this year in view of the proposed withdrawal of tax reliefs to priority industries. He has therefore declined to promise maintenance of dividend.

LAKSHMI MACHINE WORKS is considering the starting up of a second unit for additional production of ring frames and is also taking up new lines of textile machinery not produced at present in the country. The company has also been assured a 'letter of intent' for the manufacture of automatic pirn winders with Swiss collaboration. It has since delivered the first complete blowroom line. Production of combers and lap machines has been taken up, and the first set of machines are expected to be ready during the latter half of the current year. Efforts continue to be made to further improve the quality of existing products. Last year, the company exported machinery and spares worth Rs 28 lakhs and completed the second and third contracts with the UAR. A contract for further export of machinery and spares of the value of Rs 2.2 crores to UAR has been finalised, but the contract is kept pending since the financial terms between the governments of India and the Arab Republic of Egypt are yet to be finalised. In spite of loss of production of about a month, on account of a lock-out necessitated by a strike by workers on the question of bonus, LMW could increase its turnover during 1971. But margins shrank and gross profit turned out to be lower than in the last year. Dividend, however, is stepped up by two points, to 12 per cent. The directors say that, after the lock-out, relations with labour have been cordial. The order book position of the company is also said to be satisfactory.

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Who Won in West Bengal?

Ashok Rudra

EVEN the most optimistic political forecaster could not have forecast, and none did forecast, the surrealistic electoral victory of Indira's Congress in West Bengal. Even the most confirmed CPM hater can hardly explain to himself how it has been possible for the giant party to be defeated so abjectly. And, of course, nobody is in a position to say how much of a loss of mass support for the CPM this defeat in elections indicates.

Whatever the CPM party leaders say, there is no doubt that there has been a genuine swing away of votes from CPM to the Congress; that Indira's military victory over Pakistan has overwhelmed the ideological predilections of the Bengali voters; that glory has prevailed against revolution. While that is true, it is also no less true that there has been widespread intimidation of voters coupled with false voting on a truly gigantic scale. It is true that in many areas CPM agents could not go near the booths; Congress 'volunteers' went from house to house warning people known to be CPM sympathisers not to go out on the election day. It is true that election officers had been carefully selected to collaborate with Congress goondas. It is true that armed ruffians entered booths and cast false votes before the very eyes of the guardians of law and order. However, such organised intimidation and false voting could have taken place at Baranagar; it could have taken place at one or two dozen constituencies; but, surely, not in all the 100 constituencies where CPM lost seats?

The reaction of liberal opinion in the country has been to laugh at the discomfiture of the CPM. This opinion is not much concerned with rejecting the CPM complaints regarding organised violence by Congress goondas and the forces of law and order. "What! What! CPM protesting about violence! CPM protesting about false voting!" One may indeed not waste any sympathy on the CPM — it has been paid back in its own coin, one may say. But liberal opinion, stopping at that, reveals its hollowness. If it were sincerely concerned about the parliamentary process being jeopardised by the CPM's tactics, if it were genuinely worried about the violence indulged in by CPM cadres and Naxals, then its composure and equanimity before the pervasive violence unleashed by the Congress betrays hypocrisy. Politics of violence decried only when indulged in by extreme Leftists and condoned when resorted to by the Congress in the name of others having done it before reveals not abhorrence of violence, but antipathy towards extreme Leftism.

Not only liberal opinion, something else stands thoroughly exposed. It has been the posture adopted by the CPI that it had to part company with the CPM because of the intolerance of the latter and its practice of strong-arm tactics. This holy non-violence however did not prevent the CPI from making a common electoral front with the Congress precisely when the Congress goondas, with the active help of the police, first flushed out the Naxals from all their strongholds and started the process of physical intimidation and liquidation of CPM cadres everywhere. Nor has this party got any qualms now over having got more Assembly seats than ever before with the help of genuine Congress voters' votes as well as false votes cast by the Congress goondas. The CPI has got what it wanted in West Bengal. It is a very modest party; all it wanted were a few more Assembly seats for itself and all its strategy and tactics in West Bengal were directed at reducing the strength of the CPM. It has got both — not by its own effort, but as gift from Indira Gandhi. It has got the seats and the CPM is indeed reduced to nothing, at least in the parliamentary arena, which is the only arena that concerns the CPI.

The CPI will probably face some embarrassment now. After all, what forces will it fight? By a curious process of dialectics the CPI had made the CPM its main enemy and the Congress its ally. As no other Right-wing parties exist in West Bengal and as the CPM is out of the parliamentary scene, it would be entertaining to watch what the CPI would do now. It cannot oppose the Congress, having won the elections with Congress votes. One supposes it would guide the Congress MLAs from the ranks of jotedars to enforce land reforms and distribute land above ceilings among landless labourers and exercise friendly persuasion on the Congress goondas to give up violence.

The defeat of the Left in West Bengal cannot however be ascribed to the CPI's apitulation to and collaboration with the bourgeoisie. The CPI is not a Left party in West Bengal and it cannot possibly do any harm to the Left movement. The setback of Leftism in West Bengal is due to some criminal errors committed by the two genuine Left forces in West Bengal, namely, the force represented by the CPM and the force constituted by the Naxals. The fatal error of the two parties consisted in failing to recognise that the roles assumed by them were complementary rather than contradictory. They not only mistook them to be contradictory but acted as if they were antagonistic, so that much of their energy was wasted in mutual annihilation. The CPM officially declared that the Naxals were agents of the ruling class, and killed them or helped the police to kill them or arrest them. Naxals retaliated by making killing CPM cadres the main programme in their annihilation campaign, mainly in the urban areas. It is futile to argue who started the suicidal process and who scored a higher number of kills. There cannot be any doubt that the net beneficiary of the process was the Congress. The police held its hands sufficiently long to allow the forces on either side to be depleted. Then it swooped first on the Naxalites, while the CPM kept watching. Having more or less eliminated the Naxals the police and the goonda forces under its protection turned upon the CPM. The result: the incredible and pathetic spectacle of the CPM complaining that its leaders and cadres cannot enter their erstwhile strongholds!

But it is not just that the forces of the Left got depleted by the suicidal killings of the CPM and the Naxals. There was an ideological failure in either party insofar as neither recognised the positive role played by the other, complementary to its own. The failure of the CPM is due to its having only talked of armed resistance but not having made the slightest preparation. It is ironical that it protests today that its leaders and cadres are helpless victims of Congress violence. That hardly is any failure of the police; the police in a bourgeois state is not supposed to give protection to a supposedly revolutionary party. The failure is that of the party organisation which is such as to provoke violent onslaughts on it and yet does not make the slightest preparations for its self-preservation. The CPI required — in addition to its trade union and peasant fronts — a guerilla front which it did not have. It

is in this sense that the Naxals were potentially complementary to the CPM organisation.

The undoing of the Naxals, on their part, has been that while they built up, in an incredibly short time, a fantastically efficient underground organisation and recruited into their ranks human material of such high quality as the communist movement in the country has rarely known before, they were completely isolated from all mass movements and mass organisations. Consisting almost exclusively of guerilla squads, they moved secretively and acted terroristically, as a result of which they were incapable of doing ideological or organisational work among the masses, especially among the industrial working class. The Naxals required a wing to participate in mass struggles and do educational and propaganda work among the masses, a wing they did not have, and it is in this sense that the CPM mass fronts were potentially complementary to the guerilla front of the Naxals.

It is late, but not too late. The chances of survival of the Left in West Bengal reside in the CPM and the Naxals not only coming to a no-war agreement, but actually forging a working alliance. The CPM cannot but realise now that marking time at the dead end of parliamentarism and constitutionalism was frustrating for its supporters and provocative for its opponents. It has either to advance towards armed insurrection or retreat towards the CPI line of class collaboration. The Naxals cannot but realise now that they cannot get the masses to take up arms under their leadership unless they work among them to give them political education and participate in all their struggles.

But is it the time to talk of such a fighting alliance? Is there any such possibility now when both the CPM and the Naxals seem to have been liquidated and routed? But this precisely is the time. If the election results show anything, it is the total absurdity of electioneering in West Bengal. Surely, no student of politics, whatever side he takes, can possibly pretend that the West Bengal Assembly as it stands now is a representative body of the people of West Bengal. No economist, whatever political views he holds, can pretend that the Congress government is going to solve any of the economic and social problems of West Bengal that had given rise to extreme Leftism in the state.

It is no interpretation of the election results to say that the Congress has won and the CPM has lost. What has lost is Left parliamentarism. The CPM had continued with its important parliamentarism way beyond the point at which it became redundant. It is difficult to imagine it continuing to have any hold over its supporters and cadres if it still restricts its activities to preparing for yet another election — the only activity it has indulged in since 1967. CPM's half-hearted parliamentarism has now to be treated as dead and buried. And what has won the elections? We have given one answer to the question at the very outset: glorification of the Indian nation state in a brilliant military victory over Pakistan and an impeccable political victory over Washington and Peking at one and the same time. But that is only one answer. The other thing that has won is Naxalism — the philosophy that no further progress can be made on the Left without opening a guerilla front at selected areas where conditions are ripe for such a front. Naxalism is dead at the moment — if by the term one means actual actions carried out by the Naxals. But if by Naxalism one means the path of armed insurrection, it has become all the more valid, all the more immediate after the elections have shown what the masses who have all these days supported the CPM have come to think of its strategy and tactics of sitting pretty on its Assembly seats.

FROM OUR CORRESPONDENTS

NEW DELHI

Joint Sector Becomes Respectable

THE striking feature of the annual session of the Federation of Indian Chambers of Commerce and Industry this year, as the Prime Minister herself noted in her inaugural speech, was a "more cheerful note of co-operation" between government and business. The leaders of business and industry were at pains to underline their acceptance and appreciation of political realities and the government leadership, on its part, was graciously willing to show understanding of businessmen's position and problems. There was no suggestion of an exchange of accusations, such as have taken place so often in the past, that private business was on strike so as to put pressure on government to change its policies or that business was not being allowed to function by all manner of unreasonable controls and restrictions. The mood of mutual understanding extended so far that no particular demands were put forth by business and industry, except indirectly and with considerable circumspection.

For the rest, the proceedings of the session yielded very little that was new or enlightening. Besides outlining the general approach and outlook of her government, the Prime Minister's speech once again underlined the government's anxiety to achieve some concrete results in the next three or four years — that is, before the next general elections become due. How far this sense of urgency that Indira Gandhi has been expressing repeatedly in the last few weeks will get translated into purposeful and well directed activity is, of course, another matter.

But a more noteworthy feature of the session — more important than the mood of cordiality and the sense of urgency, so far as the policy-frame for private business, particularly big business, is concerned — was the attention that was given to the concept of what has come to be known as the "joint sector". Both the government spokesmen at the session and the leaders of FICCI seemed to suggest that the joint sector was probably the best form of organisation for larger enterprises in the private sector to function safely and profitably in the present political and social situation. As it has been elaborated over time since its inception in the report of the Dutt Committee on industrial licensing, the concept of the joint sector, which is still far from being fully defined and made a practical proposition, appears to have lost much of its fearfulness for business people. Indeed, businessmen appear to be beginning to look upon it as a useful device to go forward and expand their role in the economy.

The idea of the joint sector was put forward in the context of the large financial support extended by public financial institutions to private business, specially the larger houses. In effect, the joint sector idea suggests that public financial institutions should also participate in the risk capital of these ventures, even converting existing loans into equity. A share in equity for these institutions would involve a share in management as well and to that extent it would imply extension of public or government control over private enterprises. When the proposition was first put forward, the managers of the public financial institutions were themselves somewhat sceptical about it since it would saddle them with additional responsibilities while the returns on finances committed by way of loans may not remain secure when they are converted into equity. Businessmen, for their part, denounced the idea as amounting to back-door nationalisation. Since then, while action in the direction of making the joint sector a reality has been studiously avoided and only enabling powers have been assumed by the financial institutions in respect of new financial assistance, the idea itself has been further refined and appears to have now found wide-ranging acceptance.

This refinement of the concept of joint sector has taken the form mainly of the assurance that there is no intention to take over the management of enterprises even when sizeable proportions of shares in them may be held by the public financial institutions. Management remains the responsibility of the private entrepreneur, who is assumed to possess greater management skills and expertise than public authorities can be depended upon to provide. This assumption is strengthened by constant reference to the poor performance of public sector undertakings. Thus the joint sector concept does not make much difference so far as the management and actual running of enterprises are concerned. It merely means closer liaison between the private sector management and the public financial institutions which extend financial support. In this form, the joint sector does not remain a frightening proposition, nor does it smack of back-door nationalisation or anything of the sort. The references to the joint sector at the FICCI session and the demonstrative display of understanding between the government and business have to be judged in this light.

The Prime Minister made it quite clear that there was no intention to threaten big businesses in any way. On the contrary, they had a useful role to play. This role was particularly significant in the core sector which, considering the importance and size of projects in this sector, might even involve their becoming bigger and more powerful. All that was intended, the Prime Minister said, was that when the big houses took loans from public financial institutions, these institutions should have a say in the management of these resources. To this the response of the FICCI President was a positive one. He described the joint sector idea as "a welcome innovation in the context of the need for economic growth and the social and political environment prevailing in the country". Only, he went on to argue that private business could already be regarded as being in the joint sector because government was in full control of all the levers of power and control in the economy. If this control was to extend further, he suggested, this should be done in such a way as not to impair efficiency.

Later, in the course of the discussions at the session, the Chairman of the Industrial Credit and Investment Corporation appeared to offer the assurance that the FICCI President seemed to have asked for. Through the concept of the joint sector, he said, was proposed to combine the vast financial resources of the State and the considerable managerial and other skills and resources of private industry. Where a unit, he said, was run efficiently and was well managed, there was no reason why the government or the financial institutions should interfere with its management. It would appear that just as, after the country had gained independence, foreign capital very quickly became keen on collaboration arrangements with Indian capital as the safest form of investment, Indian capital is now beginning to see the virtues of the joint sector.

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The report of the Agricultural Prices Commission on price policy for the coming rabi crop has once again argued for reducing the procurement price of wheat. Made wise by its past experience, it has suggested a moderate decrease of only Rs 4 per quintal for the Mexican and indigenous (common white) varieties and a somewhat bigger cut of between Rs 5 and Rs 8 for the indigenous red variety. The Chief Ministers' conference to take action on the report will be held on April 8. The Commission, while making its recommendation in respect of procurement prices, has also suggested abandoning the practice of fixing procurement targets for wheat for the reason that procurement of wheat has now acquired the character of support purchases. Procurement has ceased to be a special effort to acquire stocks, by offering incentive prices, for feeding the public distribution system. On the contrary, the demand for wheat at current prices is lower than its supply and stocks of wheat with public agencies have reached a level when they are fast becoming a burden. In addition, the cushion of lower-priced imported wheat for subsidising the distribution of domestic wheat having disappeared, the entire system now imposes a heavy burden on the Exchequer by way of subsidy for distribution, handling and storage charges.

The problem that the APC has posed had been outlined in the Economic Survey as well as in the Finance Minister's budget speech. According to the Commission's calculation, the total subsidy involved in the present system of procurement and distribution would be Rs 132 crores next year, compared to Rs 120 crores mentioned by the Finance Minister in his budget speech and the provision of Rs 100 crores that has been actually made in the budget. This is on the assumption that releases through the public distribution system will be 5 million tonnes in 1972-73. As the trend this year shows, it may not be possible to distribute that quantity and to that extent the subsidy may turn out to be smaller, though the cost of storage and the locking up of funds on that account will be correspondingly greater.

According to the Commission, an imbalance has developed between the rates of growth of wheat output and demand for wheat and there is need for an adjustment in wheat prices to reduce this imbalance. An adjustment in wheat prices is also necessary to prevent further shift of acreage from other crops to wheat. Besides, the time had perhaps come when the benefit of the wheat revolution should begin to percolate to the consumer. The Commission has argued that fears of a drastic fall in the growth rate of wheat production, as a result of reduction in procurement prices, are exaggerated; the reduction that was being recommended would still leave the procurement price comfortably above the cost of production, even after taking account of the imposts proposed in the budget on fertilisers, etc.

The Commission has not favoured the suggestion, put forward by the Planning Commission, to de-link the support price of wheat from its procurement price. This is not necessary since no targets for procurement are being fixed and all procurement at present is in the nature of support purchase. The suggestion for a two-tier system of prices will, in the APC's view, raise the question "Who would be allowed and who denied the benefit of the higher support price, its nomenclature notwithstanding". The two-tier system can actually work in favour of the more powerful, influential and bigger producers.

How exactly the farm lobby and the Chief Ministers will take to the report will be known at the Chief Ministers' conference. But the strong criticism of the proposed levy on fertilisers and tractors suggests that there will be strong opposition to the report at the conference and that, unless the Union Food and Agriculture Minister takes a firm line, the APC's recommendations may once again be scuttled.

Lower Taxes plus Evasion

Charvaka

THE enthusiasm with which the business community has welcomed the Wanchoo Committee's recommendation to reduce the tax rates on personal income at all levels and in the process to bring down the maximum marginal rate of income-tax from the present 97.75 per cent to 75 per cent is difficult to understand. Surely, the intention of the Committee was not to provide tax concessions, but to check tax evasion. In the opinion of the Committee, "the prevalence of high rates is the first and foremost reason for tax evasion". If this is the logic of the proposed reduction in tax rates, then tax payers have little reason to be so jubilant about the suggestion, because when it is implemented they will be paying, if anything, more by way of taxes than they do now. Therefore, if the business community is jubilant today, it is because they are pretty certain that under the Wanchoo Committee's dispensation, they will have both reduced tax rates and tax evasion.

Past Experience

The Wanchoo Committee does not seem to have cared to look into past experience with lower marginal rates of tax. If it had done so, this suggestion at least would not have found a place in its Report. The maximum marginal rate of 75 per cent proposed by the Committee would not be altogether new to this country; nor is the idea of a sharp reduction in the rate at one stroke so that the measure has the maximum impact so novel. The Union budget for 1957-58 had proposed a revised tax schedule "which will mean that the total of the income-tax, super-tax, and surcharge for the highest slab will be brought down from the existing level of 91.8 per cent to 84 per cent for unearned incomes and 77 per cent for earned incomes". Earlier, the marginal tax rate, which had been at about 82 per cent from 1951-52 to 1954-55, was raised to 88.6 per cent in 1955-56 and further to 91.8 per cent in 1956-57 on the recommendations of the Taxation Enquiry Commission (1953-54), which had also made a detailed study of tax evasion but had found no justification for reducing the marginal tax rate. The reduction in the highest marginal tax rates in the 1957-58 budget was based on a superficial analysis of tax-payers' morality *vis-a-vis* high tax rates, the conclusion of which the then Finance Minister stated in his budget speech thus: "It is said that they [high tax rates] tend to diminish the incentive for work but I am aware that they encourage large-scale evasion." The reduced tax rates, with the maximum marginal rate at 77 per cent, prevailed continuously for five years upto 1961-62, by which time, according to the Wanchoo Committee's own verdict, the income which escaped tax had reached the phenomenal figure of Rs 811 crores. In fact, one of the members of the Committee placed the figure still higher at Rs 1,150 crores. The estimates of tax evaded income for subsequent years attempted by both the Committee and the dissenting member are based on the yardstick used for the year 1961-62.

The Direct Taxes Administration Enquiry Committee (1958-59) surveyed the conclusions of many attempts at in-depth study of the tax payers' morality, not only in India but also in countries like the US, the UK and France, where the marginal tax rates are considerably lower than in India. On this basis, the Committee concluded (p 149) that "even if the rates of tax are reduced evasion will continue, *because it exists at all levels of income*" (italics added). Even in the US, where the marginal tax rate was only around 50 per cent, "for the overwhelming majority, tax violation has been the first blemish on otherwise unstained careers" (quoted by the Direct Taxes Administration Enquiry Committee). Nicholas Kaldor, who had much faith in a single comprehensive consolidated return as an evasion-proof system, conceded that even under such a low marginal rate as 45 per cent, "it would be sanguine to believe that it would solve the problem of the evasion of business profits through false book entries, etc, by itself" ("Indian Tax Reforms", p 110), D T Lakdawala, who examined the Kaldor proposals, was categorical: "There is no case for reducing the maximum income-tax rates" ("Taxation and the Plan", p 204).

The Wanchoo Committee's other justification for reducing marginal tax rates runs in terms of affording the government greater "scope of manoeuvrability" for raising additional resources in times of emergency. This is too naive to be taken seriously. The country has passed through a national emergency only recently and during this period not only have very large additional resources been mobilised despite the prevalance of supposedly very high marginal tax rates, but this has been done without any adverse impact upon the economy. In times of emergency, mobilisation of resources does not depend on the scope for fiscal manoeuvrability but on the will of the people to make sacrifices. A high rate of economic growth facilitated by an equitable and progressive system of taxation only can make the general public more ready to make sacrifices.

Aggregation of Family Income

If the most important recommendation of the Committee is based on wrong premises, its other suggestions appear to have the objective of soft-pedalling certain much-needed reforms of the tax system. How else can one explain the rejection by the majority report of the idea of aggregating the incomes of a family consisting of husband, wife and minor children and treating them as one unit of assessment? It is now widely accepted that submission of more than one income-tax return in the names of different members of a family facilitates considerable tax avoidance as well as evasion. The Taxation Enquiry Commission had recommended that "it is both equitable and necessary for effective administration of the Income-tax Act to aggregate the incomes of husband and wife, and indeed of the whole family" (p 139). At best, such aggregation may be accompanied by some system of family allowances. Fortunately, in this regard, the government seems to have been convinced by the case for aggregation as propounded by the two dissenting members of the Committee.

Similarly, the Committee has chosen to lend support to the business community's complaints about certain expenses, such as those on entertainment and guest houses maintained for employees on duty, being disallowed as deductible expenses. These concessions were, in fact, available to the business community till recent years and if they have been abolished, it is only because these loopholes were widely used for tax evasion. In Bombay city, for instance, one comes across guest houses maintained in expensive localities like Malabar Hill in the names of employees of firms which the employees themselves have perhaps never even seen.

Again, while the Committee has rightly suggested a thorough overhauling and streamlining of the intelligence and investigation wing of the Income-Tax Department, it suggests at the same time that the existing penalties for concealment of income should be reduced. The suggestion is that the penalty should have reference to the tax sought to be evaded, instead of the income concealed. The justification cited for this is that "a penalty based on income instead of tax hits the smaller tax payers more harshly". Indeed, if the purpose is to be less harsh on the smaller tax payers, then the obvious course is to have a progressive structure of penalties so as to enhance the penalty on the bigger tax payers. In the ultimate analysis, a thorough streamlining of the tax machinery, effective plugging of loopholes in taxation laws and harsh punishment for tax dodgers are the only ways to minimise tax evasion.

Towards a Credible Maoism?

M R

TO see in the CPI(M)'s present predicament the nemesis of what it did five years ago to its extremists who wanted the party to opt out of the parliamentary system might be cynical. But the CPI(M) faces the same crisis it did at the time of Naxalbari. The difference is this: five years ago the crisis followed the party's electoral triumph and its emergence as the dominant partner in the coalition ministries in Kerala and West Bengal. Now it follows its defeat and near-isolation in Kerala first and more dramatically in West Bengal later. The party's proximity to parliamentary power in these two states had largely conditioned its attitude to the system, beginning with its famous document "New Situation and Party's Tasks" which conjured up visions of a maturing political crisis that would make non-Congress governments possible not only in all the states but held out prospects of a non-Congress democratic coalition government at the Centre. The party's participation in the Kerala and West Bengal coalitions was rationalised in terms of abstractions: "In clear class terms" it was "one specific form of struggle to win more and more people and more and more allies for the proletariat and its allies in the struggle for the cause of People's Democracy". But in practice it became almost the sole form of struggle. Running the ministries at all cost became the pre-occupation because the line had been laid down: "Hence it is imperative that our party realises that its immediate future in no small way depends on how it plays its worthy part in running the two state governments of Kerala and West Bengal."

Being in power in two states and in the opposition in others and at the Centre imposed peculiar constraints on the party's style of work. An agitation on a set of demands in a state where it was not in power might result in similar agitations by others where the CPI(M) was in power. To this extent, the party's participation in the two ministries compromised its role elsewhere. The premium was no longer on extra-parliamentary struggles based on mass action. A short-cut to power at the Centre, obviating the need for class struggle, was implied in the 1967 line. The two non-Congress ministries dominated by it in Kerala and West Bengal were to be the principal instruments in the hands of the people's democratic revolution to come.

This brought the CPI(M)'s tactical line into focus with that of the CPI. The only difference between the two related to strategy. The CPI was for a national democratic front and transition to socialism through the national democratic state and the CPI(M) was for an altogether narrower front. In more tangible terms, the difference related to the Congress party and the government run by it at the Centre. Consistent with its approach, the CPI believed in differentiations in the bourgeoisie and was prepared to accept the leadership of the patriotic national bourgeoisie in the national democratic front albeit as a transitory arrangement until the working class could establish its leadership.

This was the context in which the Maoist perspective in the Indian communist movement emerged. The CPI(M) faced a two pronged attack — from an extremist group in West Bengal which led the Naxalbari uprising from within, and from the Chinese Communist Party from without. The leaders of the Naxalbari revolt were convinced that the United Front Ministry could not solve any of the land problems and called for the setting up of liberated areas, forcing an awkward dilemma on the CPI(M)-dominated state government. Stern repressive measures would expose the government to the charge that it was no different from any bourgeois-landlord government and prove that the CPI(M), by participating in the Ministry, had compromised on class struggle. Failure to put down the miniscule revolt would have provided the Centre an alibi to dismiss the ministry for its failure to discharge the constitutional obligations relating to law and order. The CPI(M) was facing its moment of truth. Its entire tactic of forming united fronts with other parties and its participation in non-ideological coalitions and in the parliamentary system in general was being challenged.

The Chinese read great revolutionary significance in the Naxalbari uprising. Earlier, Peking had attacked the CPI(M)'s participation in the Kerala and West Bengal ministries, which it said were "also components of the State apparatus of Indian big landlords and big bourgeoisie. As long as they are under the direct control of the Central government there can be no essential reformation and the capitalist and feudal relations of production can in no way be fundamentally shaken". Peking observed that the Centre could topple these ministries any time, as it did in Kerala in 1959. The revolutionary line was laid down for India: "... without a people's revolution, without a seizure of political power by violence, without smashing the old State apparatus there can be no change whatsoever in the social system nor in the nature of real social reform."

In June 1967, when the Naxalbari campaign was gaining momentum, Peking renewed its call for an armed struggle to "overthrow" the Indian government and to "forcibly seize power", and hailed Naxalbari as "Spring Thunder over India", a "prelude to a violent revolution" by the Indian peasants. The Maoist model was commended for India. The climax was Peking's call for a new party of "genuine Marxism-Leninism" guided by Mao's thought.

The CPI(M) leadership could not ignore the challenge from within, which it branded Left adventurism and Left deviation. "It is an ideological disease of the frustrated individuals and it affects also young militants whose militancy is not tempered by the fire of class struggle and disciplined outlook." The CPI(M) also made a forthright statement differing with Peking's assessment of the Indian revolutionary situation.

The CPI(M)'s fight against "ultra-Left deviation" cost it dear. The party had postponed taking a stand on the ideological issues facing the world communist movement. In 1968 it produced a draft document which rejected almost all the Soviet positions in the dispute but did not examine the Chinese positions at all. The Andhra Pradesh plenum of the party rejected the draft outright and the Andhra leadership carried the fight right up to the all-India

plenum at Burdwan and lost. The CPI-(M)'s ideological position was roughly this: anti-revisionism *sans* Maoism. Judged from Chinese positions, the CPI(M)'s position might still look revisionist.

Much as the leadership wanted the discussion limited to ideological issues, the Andhra plenum had set the pace for a discussion covering even the programme and the documents like "New Situation and Party's Tasks". The frustration of the Andhra leadership stemmed largely from the restrictions the party line imposed on agrarian struggles developing in the state. Some of these struggles (in Srikakulam and Telengana districts) were growing into armed clashes, but the party had settled for parliamentarism. The perspective on extra-parliamentary struggle emerged clearly in the Andhra documents at the Burdwan plenum.

In 1968, the CPI(M) appeared to have survived the "ultra-left challenge" on the whole, though in Andhra Pradesh the majority of its membership quit the party and joined the Communist Party of India (Marxist-Leninist) that was to be formed shortly after or the Andhra Pradesh Revolutionary Communist Committee (known as the Nagi Reddy group). The "ultra-left" challenge failed to split the CPI(M) veritcally.

In the meantime, the West Bengal United Front broke up and in the March 1969 mid-term poll, the CPI(M) emerged stronger and another United Front Ministry was formed. The Congress was in a serious crisis and was heading towards a split when the Kerala united front ministry also disintegrated and was replaced by a Congress-backed coalition led by the CPI. The Congress split at the end of 1969 forced a crucial dilemma on the CPI(M). The CPI saw in the impending Congress split a vindication of its theory of differentiation in the bourgeoisie. But the CPI(M) was hard put to it to explaining the split. On the issue of V V Giri's election as President, the CPI(M) found itself supporting Indira Gandhi's candidate against Sanjiva Reddy because it thought Indira Gandhi was more progressive than the Syndicate. In fact, the party was seriously divided on this issue, one section insisting on a neutral position and the other urging support to Indira Gandhi. The fact is the CPI-(M) feared a "rightist" take-over if Indira Gandhi's government was toppled by the Syndicate-led alliance. The CPI(M)'s electoral opportunism stemmed from its high stakes in West Bengal and Kerala. Though it had been manoeuvred out of power by the CPI in Kerala (with the backing of Indira Gandhi's party), the CPI(M) thought it was ensuring the survival of its ministry in West Bengal if it backed Indira Gandhi in Parliament when her party had lost its majority in the House with the Congress split. In the snap elections in Kerala, the CPI(M) found itself routed by the CPI-Congress dominated front.

The Bangla Desh issue forced another dilemma on the party. The second West Bengal united front ministry had broken up and the CPI(M) was demanding fresh elections when the Bangla Desh crisis developed. The CPI, in line with the Soviet position, was going all out to support Indira Gandhi and, therefore, the Bangla Desh struggle. The CPI(M), which had abetted the Centre's massive man-hunt of the Naxalites, was denouncing the Congress government as tending towards fascism but could not help supporting the Government's stand on Bangla Desh. At one stage, the CPI(M) was opposed to Indian intervention but later it was pledging support to the Government in the event of a war, even while it was denouncing it as "fascist". Oddly, the CPI(M) ended up hailing the Soviet role in the Bangla Desh crisis and simultaneously deploring its support to Indira Gandhi's government.

When the Congress split and the new Congress set itself in late 1969 the twin objectives of fighting "right reaction" and "left adventurism" the CPI(M) did not seem to realise the significance of the slogan. The Congress was not only bracketing "right reaction" and "left adventurism", but by not specifying the Naxalites, the Congress was keeping the option open to fight the CPI(M) when the time came. The Congress decided to fight any force to the left of the CPI. The Chattra Parishad and the Central Reserve Police took up the fight, reducing the CPI(M) to its present predicament, underlined by the West Bengal election results.

The CPI(M) is disillusioned with the parliamentary system but its leadership is not ready yet to opt out of the system. Its programme has rejected peaceful transition to socialism but places the onus for it squarely on the class enemy. (The CPI, on the other hand, is wholly for peaceful transition.) The CPI(M) undoubtedly has the largest number of dedicated, militant cadre in the communist movement. And in the absence of a credible Maoist rallying point, the militant cadre would have to remain with the CPI(M) for some time, while the opportunist elements on the periphery would desert it to join the CPI or even the Congress. The leadership is now obliged to take the disillusionment of its following with the parliamentary system into account and can talk of priority for extra-parliamentary struggles, but a point may soon be reached where the tactic of combining a large measure of extra-parliamentary struggles with participation in the system would lose credibility for the militant cadre. Either the party would split vertically, a substantial number rejecting the parliamentary path outright and opting out of the system and accepting the Maoist revolutionary model or the party as a whole might be forced to opt out of the system. Either way it would be vindication of Naxalbari.

A Maoist perspective has already emerged in the Indian communist movement despite the setbacks the CPI(M-L) suffered as a result of its infantilism. A vertical split in the CPI-(M) might hasten the emergence of a credible Maoist party in the country.

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The Radicalisation of Indian Economists

(From a Special Correspondent)

THE Bombay University's Department of Economics is now over fifty years old. During these years its tradition of relevance and radicalism has contributed much to Indian economics. To celebrate its Golden Jubilee, the Department organised a seminar on "The Indian Economy: Performance and Prospects" from March 25 to 28.

The participants in the seminar were drawn from academic life, from industry and from the government, representing a cross-section of India's economists. The representative character of the participants was much enhanced by the unexplained absence of some leading luminaries who were expected to attend. Forty papers were presented and a thousand man-hours were spent discussing them. What emerged from all this was an exposition of the views of ordinary work-a-day economists about various problems confronting the Indian economy.

The first session, chaired by Sukhamoy Chakravarthi, was devoted to the general approach to development in India. The principal feature of this session was the clash between the proponents of two different approaches to development. P R Brahmananda argued, very forcefully, that the objectives of output growth, employment and justice would have been better secured by promoting the production of wage-goods and that it was our inability to produce wage-goods and our concentration on "industrialisation in the narrow sense" that has led to a state where, in spite of large doses of investment, there is little evidence of growth or structural change and much evidence to show that we are heading towards diminishing returns, a falling rate of return and a stationary state. Gautam Mathur outlined what could be called the orthodox approach when he argued that if one wants to minimise the time taken to reach a particular target level of income and consumption one should choose a strategy where, as he chose to put it, heavy industries "look after the long-run and economic growth" and the other sectors "look after the short-run and social justice". This conflict between the Ricardian and the Mahalanobis models is an old one in Indian economic analysis. It started sometime in the mid-fifties and has continued since then. Now as then, both approaches remain inadequate because they pay little attention to a systematic comparison of alternative time-paths of income and consumption, because they lack a policy-frame to show how they can be implemented in a market economy and because they tend to ignore the possibilities of transformation through international trade. The discussions at the seminar were inconclusive and the conflict between the two approaches remained unresolved. Is it possible that this controverssy is no longer very relevant since the transformation possibilities inherent in our stock of capital are no longer what they were in the mid-fifties?

Dividing the Cake

It was unfortunate that the seminar got bogged down in an inconclusive discussion of an irrelevant controversy leaving little time for a discussion about the overall policy-frame for implementing plan strategies, covered by V V Bhatt in his paper. The seminar was so absorbed in talking about planning models that it found little time for discussing theories of development one of which was covered by V N Kothari of Baroda University in his paper. Kothari's paper challenged the relevance of Arthur Lewis's theories of growth in India. The core of his attack lay in his demonstration that the rate of surplus over and above wages is not very different in agriculture and industry. It is a pity that the wider implications of this were not discussed.

Though there was no agreement about the facts of economic growth there was almost universal agreement that the benefits of growth had not been equitably distributed and that drastic redistributive measures were necessary. This issue was discussed in a session on "Income Distribution" which began with a spirited paper by K R Ranadive of Bombay University. Though there was general agreement about trends in the distribution of income, there was some dispute about the sources of income-inequality. Ranadive and T N Krishnan argued that it was largely due to maldistribution of property. Some others suggested that it may be due to a maldistribution of power (Bhatia) or maldistribution of marketable surpluses (Shah). Both Bhatia and Shah argued that the distribution of these is not correlated perfectly with the distribution of property.

P D Ojha and some others suggested that we ought not to be obsessed about maldistribution of incomes measured by Gini co-efficients and the like but about poverty defined in terms of some objective criterion. This, rather than Gini co-efficients, ought to be the object of policy and the measure by which the success of policy ought to be judged. In this connection, A M Khushro suggested that by and large the absolute number of the poor had remained unchanged over the past 20 or so years.

Programmes, Not Piety

The seminar did not discuss fully the likely impact of income redistribution on savings in a market economy. Krishnan presented some evidence to suggest that the rate of return on assets was higher the lower the volume of assets owned by a household. This implies that if assets are redistributed from the rich to the poor the amount of property income may rise. This may increase savings if the propensity to save out of property incomes is roughly similar in different size-classes. This interesting suggestion was not discussed by the seminar since so many participants were too absorbed in their rhetoric to be interested in argument.

The problem of employment, which is related to the problem of poverty, was discussed in a separate session. P M Visaria presented a paper which suggested that the problem of disguised unemployment is less widespread than we think. Most people were sceptical about the effectiveness of rural works programmes in alleviating this problem.

The overall problem of poverty and unemployment has arisen because of our failure to increase the supply of wage-goods which determines the number of people we can sustain at any given level of welfare and because of our failure to operate on income-distribution and choice of techniques in a market economy. Several people pointed that both these failures have flowed from the sort of strategy of development — the promotion of heavy industries, high-technology industries, farm mechanisation, etc — that we have followed.

The participants were generally agreed that little could be done about poverty and unemployment in a market economy and that revolutionary changes in property and power relationships would be required. This dispassionate, almost clinical, prescription of socialist remedies is somewhat pointless. If socialism comes it will come, not because progressive income taxes are ineffective but because property relationships become untenable. Revolution

is not a remedy. It cannot be prescribed. If it is a prescription that one is interested in then one inevitably operates within the system, of which such seminars are a part. In that case what is needed is what M L Dantwala called "a relevant radicalism", a radicalism that concerns itself with programmes not piety.

Optimism about Agriculture

The participants in the seminar were generally optimistic about developments in agriculture. Most people felt that Indian agriculture has reached a stage where the production of staple foods is growing at an adequate rate. The problems it faces now are not of production but of diversification. There was general agreement that a substantial permanent transformation had taken place in agricultural technology. G S Bhalla, who presented the results of a survey of farmers in Haryana, and several others suggested that the new technology was size-neutral and would help to reduce disparities in levels of living in rural areas. However, most participants recognised that the extension of this technology to dry areas and to smaller farmers posed difficult problems. H B Shivamaggi and several others felt that the institutional structure that supports the use of the new technology is biased in favour of the larger farmers. Most participants were sceptical about the efficacy of existing programmes to assist small farmers. They felt that an extension type approach may not work given the sheer number of small farmers. Some of them also felt that the rural power structure would not allow programmes to succeed.

Te question of institutional changes in the pattern of land-holdings was discussed at length. Dantwala pointed out that the abolition of zamindari which led to a redistribution of 172 million acres of land was possibly the most massive act of land reform in history. He felt that the Tenancy Acts did lead to some redistribution in states like Gujarat and Maharashtra. In this connection, it was pointed out that a substantial proportion of leased land was leased in by large holders and owned in fact by small holders. Dantwala agreed that ceilings legislation had not led to much redistribution. In this context he again pleaded for "a relevant radicalism" which instead of concentrating on ceilings did something useful to prevent the eviction of tenants particularly in the green revolution areas, say, by controlling land transfers.

The discussion on industrial performance centred around an assessment of the extent to which the objectives of industrial policy had been achieved. Everyone agreed that there had been some industrial growth though there were some disputes about the extent to which there had been a substantial structural change in industrial production. These, like other disputes about 'structural change', lacked a sense of proportion.

There was general agreement that the government had failed to prevent concentration of industrial capital in a few hands. Many people felt that this was because of inherent contradictions in the objectives of industrial policy and because of an ambivalence in the government's attitudes, reflected in the prevalence of the development rebate and measures to promote corporate savings and the Monopolies Act. In this sense the abolition of the development rebate is a welcome thing. H K Paranjape raised the issue of separating ownership and control. He suggested that it may be possible to reap the benefits of economies of scale and of conglomeration by separating the regulation of industrial control and the regulation of the ownership of industrial capital.

Predilection for Autarchy

The international context in which the Indian economy functions came in for discussion in the session devoted to foreign trade and the balance of payments as well as in some other sessions. In general one felt that most Indian economists have predilections towards autarchy. This may explain the lack of discussion about the disturbing results presented in V R Panchmukhi's paper on trade policies. There was some discussion about the relative importance of import substitution and export promotion. Samuel Paul and Hannan Ezekiel, however, pointed out the real issue was not import substitution or export promotion but efficiency at international prices which, in a market economy, would secure both. The participants were generally in favour of eliminating dependence on foreign aid though they did not discuss fully the precise role of foreign aid in the Indian economy or how it could be eliminated.

The discussions on monetary policy centred around the possibility of effective monetary control. Dev Nathan argued that the monetary authorities could not regulate money supply because of the high proportion of money supply in the form of currency, because of the fact that the monetary authorities had no control over budgetary deficits and because of the need to facilitate government borrowing programmes by avoiding disturbances in the securities market. S B Gupta and several others pointed out that even if the monetary authorities could have controlled money supply they lacked a proper policy-frame for exercising this control. Most people agreed with Brahmananda's suggestion that money supply in India adjusted to prices and production rather than the other way round.

The seminar discussed centre-state relations mainly in the context of public finance. B V Krishnamurti pointed out that there was no correlation between the responsibilities assigned to the centre and the states in the Constitution and their respective fiscal powers. However, there was little discussion about the best way of assigning planning authority and regulating functions on the one hand and fiscal powers on the other. V V Borkar seemed to feel that the assignment made in the Constitution was optimal and should be fully implemented. The discussion on centre-state relations also suffered from the fact that they lacked a political context.

The seminar discussed many other issues. The overall impression that emerged is that there has been a drastic radicalisation of Indian economists over the past few years. Yet this new radicalism is not based on a transformation in ideology. The way in which economists conceptualise and view the problems confronting the Indian economy seem to be unchanged. Thus there is no evidence that economists have moved away from the categories of neo-classical orthodoxy to the categories of, say, Marxian economies. They still talk about rates of return not rates of surplus value. They still work in terms of capital-labour ratios not in terms of the organic composition of capital. There are no class considerations in their analysis of policy. It is this dissociation between methods of analyses and policy prescription which ensures that many discussions about economic policy end up in slogan-mongering. It would be better for all concerned if policy debates were conducted either within the framework of a full-fledged socialist economy or within the context of hard-headed pragmatic radicalism *a la* Dantwala, Dandekar or Lakdawala. One assumes of course that in a state where capitalists pass resolutions in favour of socialism, conservative neo-classical economics has no role to play.

WEST GERMANY

The Ostvertrage

Aswini K Ray

AMONG the non-issues sustaining international politics, international treaties easily take the cake. When the going between two nations is good — the precondition for any treaty — the treaty is superfluous, and, when it is bad, a treaty is useless. No nation in history is known to have sacrificed what it considers its best interests because of an international treaty. Hidden deep under the 'sanctity' of international obligations is the muck of national politics. Most often such treaties facilitate the shadow-boxing necessary to show up the contours of a national perspective to the outside world.

Such shadow-boxing is on the cards now in West Germany; and the world awaits the outcome of the ratification proceedings of the country's two treaties with Moscow and Warsaw. As if, as party chief Brezhnev claimed at the recent Trade Union Congress at Moscow, the balance between "peace and war in the world" depended upon the ratification of Bonn's treaties with Moscow and Warsaw! If either party had the necessary strength to change the *status quo* (even assuming they wanted to change it) the treaty would not have been talked about; and, when either of them does have the strength, the treaty would either be forgotten or explained away. 'The high contracting parties' of any international treaty always know it. The Soviets themselves know only too well that a treaty with Germany in the early forties was useless; what they refuse to accept now is the fact that a treaty with West Germany in the seventies is unnecessary. The times have changed; but not so, it seems, the illusion of security surrounding treaties.

Staking Their All

The Soviets seem to have staked their all in seeing the treaties ratified by the West German Bundestag; they are blowing hot and cold in the same breath. The West German Opposition is unwittingly forcing more concessions from the Kremlin than the optimistic Brandt Government earlier thought was possible. On the eve of the Bundestag debate came the announcement of special arrangements for West Germans and West Berliners to visit relatives in East Berlin and the GDR during the Easter and Whitsuntide festivals. Following it came further concessions in the negotiations for a permanent regulation of the Berlin traffic. Shortly afterward, *Pravda* came out with a warning: future Soviet-German relations depended upon the ratification. But when the Government came to be threatened by defections, and the Opposition talked of new elections and a possible "constructive vote of no-confidence", Ambassador Fallin, who was himself present in the diplomatic gallery during most of the Bundestag debate, handed over to Chancellor Brandt more Soviet concessions: the Soviet government finally acknowledged Foreign Minister Scheel's letter written in 1970 indicating that the treaty did not in any way prejudice the aim for a future German unification. (A similar claim in 1955 had been summarily rejected by the Russians who had then claimed that the post-War map of Europe was finally and irrevocably drawn at Potsdam.) The Russians now agreed to forward Scheel's letter to the Supreme Soviet and to include it as part of the document constituting the treaty. The Soviet government also indicated the possibility of a trade agreement with West Germany including West Berlin. The Soviets also accepted the existence of the Common Market. Ambassador Fallin's note indicated the adverse consequences of the non-ratification: apart from affecting bilateral Soviet-German relations, the final four-power Berlin agreement would depend on it.

Good advice to the Opposition, and help for the Government, also came from good old friends. Apart from leaders of the neighbouring Scandinavian countries and the United Nations Secretary General, Secretary Rogers announced that the treaties would help promote world peace. President Pompidou, who had been an ardent supporter and, along with de Gaulle, a precursor of Brandt's *Ostpolitik*, again lent a helping hand to the West German Chancellor: he again announced his wholehearted endorsement of Brandt's *Ostpolitik* even while the Bundestag was debating the *Ostverträge*. Poor Barzel! He followed the Chancellor to Moscow and Washington, without any success; now he is in Paris trying to persuade Pompidou of his *bona fides*. No one questions it; there is no lack of appreciation of the Opposition's internal compulsions to oppose the treaties.

The Opposition has now climbed down from its earlier criticism of the Government that the *Ostpolitik* was a 'total sell-out to the communist aggressors'; it now merely says the treaties give away more than they earn for West Germany. The Opposition demands further freedom of movement of persons and ideas between West and East Germany. It accuses the Government of weakening the western alliance on the one hand and on the other (since the debate coincided with Nixon's Peking odyssey) asks a Far-East politik as a supplement to the *Ostpolitik*.

The Social-Liberal coalition does not claim the treaties to be ideal, but only the best in the circumstances; it claims that they would go a long way to remove tensions in Europe, minimise the human hazards of the Berlin Wall, and indicate the "first constructive step towards replacing confrontation with co-operation" between the East and the West. The Government also proved its anti-communist *bona fides* through its projected new repressive measures against 'Left extremism' in general, as also its actions against a row of Marxist intellectuals in recent times under one pretext or another. The Government countered the opposition attempts to be more papal than the Pope by quoting facts to indicate the overwhelming Western support there is to the Chancellor's *Ostpolitik*. According to SPD Parliamentary Secretary, Herbert Wehner, the present German *Weltpolitik* enabled the country not only to "stand on one foot" as the past CDU regimes has forced it to, but to "move forward on both feet".

Logic One Thing, Power Another

In any case, logic is one thing and politics another. In the jockeying for power for the 1973 general elections, not the merits of the treaties, but the outcome of the present battle is important. The two defections from the SPD have meant the loss of only one vote — members from West Berlin have no voting rights — but it has meant some loss of face, though not of confidence, for the Government. Still with a majority of five, the Government has no fears of losing in the division. The unquestioned nervousness of the Government stems from another source: the results of the state elections in Baden-Württemberg, where till now the old CDU-SPD Grand Coalition continues to rule with CDU still the single largest party. Here the SPD could afford to continue as the second largest party, even lose a couple of per cent of its



Ulka-MPC-20

votes to the CDU implying some setback but less disastrous than if the FDP loses about the same percentage of votes. That would mean the 5 per cent barrier for the FDP, its end in the state, and possible repercussions on the attitude of the FDP members in the federal parliament. After all, the leader of the FDP is the Foreign Minister, and the state election is clearly on the issue of the *Ostpolitik*. All the party leaders have understandably been campaigning in Baden-Württemberg. But the Social Democrats in this state have the onerous task of winning from their coalition partners in the state and simultaneously of preventing their federal partners from losing. The *Ostverträge* would be in jeopardy if the SPD fails to achieve either of these twin imponderables in the state.

Mud around the Super-Minister

Meanwhile, Super-Minister Schiller — a much-married man — continues to make more enemies than is good for the ruling party, particularly in the present circumstances. For the third time a secretary has resigned from his department, again 'for personal reasons'. The capital's gossip columnists are agog with reports of all the kitchen intrigues brewing around him. A competent technocrat, like a lot of them Schiller has already become some sort of a political liability. Recently again, for the umpteenth time, the Chancellor had to come to the aid of his prodigal colleague and shield him from his party critics. But the Opposition has already splattered a lot of mud around the Super-Minister.

While the parliament's Foreign Affairs Committee scrutinises the treaties after the three-day Bundestag debate, the Opposition has announced its 'shadow cabinet'. The Foreign Affairs Committee Chairman, Schroeder, gets back the shadow Foreign Ministry; the present Super-Ministry has been divided, and Strauss gets back the Finance portfolio, with the economic affairs separated. Schroeder categorically announced the Opposition's continued opposition to the treaties, but with a catch: "it may be easier to ratify the treaty with Warsaw than the one with Moscow". Meanwhile the shadow cabinet, according to Rainer Barzel, is "ready to take over the responsibility of government at any time". No one doubts it; in fact, this statement could be the best summing-up of the internal compulsions of the West German Opposition in their attitude to the *Ostverträge*.

GHANA

Holding Whose Fort?

Africanist

"NEO-COLONIALISM", said Nkrumah, "is not a sign of imperialism's strength but rather of its last hideous gasp". Ignatius Acheampong and his National Redemption Council, ruling Ghana today, are but a stage in that gasp.

The coup against Nkrumah in February 1966 was not, as is popularly believed, the outcome of his ineptitude or bungling; rather, it was engineered precisely because Nkrumah was feared to have definite ideas about freeing Ghana from the stranglehold of international capital.

Inaugurating the Bank of Ghana in July 1959, Nkrumah had stated: "Our political independence will be meaningless unless we use it so as to obtain economic and financial self-government and independence". Then, Nkrumah proceeded to take steps with regard to the Ashanti Goldfields Corporation. In what he assumed would give Ghana a little more control over Ashanti, a heavy tax was imposed on it. It was not Nkrumah's immediate intention to nationalise the company which was still able to declare a total dividend of 37.5 per cent on the original capital of £ 250,000. Ashanti had built up its present £ 3.5 million capital base out of profits alone. Nkrumah also set up Ghana's own diamond market in Accra and all sellers, including Consolidated African Selection Trust (CAST), which was working a valuable 68 sq mile concession in Akim Abuakwa district, were to sell through the new market.

Other imperialist monopolies operating in Ghana were not nationalised. Instead, they were brought under a doubtful system of controls. Thus, the imperialists, during Nkrumah's time, maintained their economic and political positions within the country, and it was from the inside that the neo-colonialists, using elements in the State apparatus, the army, and even the official party, managed to put through the coup against Nkrumah.

Yet Nkrumah's achievements were sizeable. Under him, roads were modernised and extended; a network of telecommunications came into existence; a new broadcasting station was established in Accra with a countrywide network of sub-stations bringing the radio to even the remotest village; printing houses were established; a new modern harbour at Tema was constructed and the existing harbour at Takoradi was modernised; new schools (which more than trebled the number of seats), new universities, and technical training institutions were established. Education from the primary to the university level was also free. Hospitals and medical health centres were built, and such medical treatment as was available was free. Agricultural services were extended, modern farm machinery was acquired, and advanced agricultural studies were introduced into the university system. Deep-sea trawlers were purchased for the fishing industry; traditional fishermen were encouraged to form co-operatives; State and co-operative buying and marketing of fish was introduced. A giant refrigeration plant was built, so that large catches did not rot in the tropical heat.

Greatest Achievement

But Nkrumah's greatest achievement was the Volta River Project (VRP) a multi-purpose scheme with a dam across the Volta just above the Accra Plains.

Along with VRP went a plan to use Ghana's huge bauxite deposits in an indigenous aluminium industry. The railway system was extended to take the bauxite to the new township and industrial estate at Tema, where a giant smelting plant was built. Anticipating power from VRP, new manufacturing industries came into existence in Tema, and a programme was instituted to train workers technically. At the beginning of February 1966, Nkrumah inaugurated the flow of hydro-electric power from VRP; 24 days later (February 24), while he was in Peking seeking aid, the National Liberation Front under Harley and Afrifa seized power in Ghana.

The NLC immediately set about scrapping Nkrumah's development plans, and systematically went about crushing pro-Nkrumah elements so as to prevent a resurgence of Nkrumahism. This was not a difficult task. Nkrumah's ideas had not filtered down to the masses, who had not participated in any economic or social revolution clearly giving them a direct stake in the policies and ideas of the regime. In fact,

Nkrumah's failure lay in his reliance on some progressive elements within the Convention Peoples Party (CPP). Further, even as the CPP was taking an anti-imperialist position, its ideological foundation was shaky and was heavily biased toward Nkrumah's concept of 'Pan Africanism'. This weakness, together with Nkrumah's inability to create out of the CPP a broad-based mass party with its roots among the peasants and the workers, was his final undoing. The CPP was a party of the bourgeoisie, for the bourgeoisie. When Nkrumah was overthrown, the CPP disintegrated. There could be no call to the masses to revolt, because the CPP did not prepare the masses for a complete imperialist takeover. It was impossible for the CPP to play this role, because the ruling circles within the party were already agents of imperialism. In fact, the NLC's uncontested hold on power for three years cannot be explained except in terms of the support it got from this section of the CPP.

Three years later, the NLC installed Kofia Busia as premier, but power rested in a presidential commission made up of Afrifa, Harley and Ocran. The US was pleased, and William Rogers, US Secretary of State, went so far as to state that the US was impressed by Ghana's steps towards civilian rule and was therefore prepared to grant it New Cedis 15 million for importing raw materials, spare parts, and capital equipment, for its economic development. Busia's role, of lending civilian respectability to the regime, thus became clear.

However, a few days after his installation, the violence and civil war that followed the imposition of Busia's choice of the new paramount Chief of Yendi, made it clear that Busia would not be able to maintain civilian peace. Not long afterward, Ghana experienced its biggest food crisis in history. Practically all the essential foodstuffs had to be imported — mostly again from the US. Normal import restrictions were removed. Nevertheless, food prices rose phenomenally; and so did extreme malnutrition: hospitals in Tamale were inundated with such cases.

Ghana received massive aid of $ 250 million. But debts accumulated, and the World Bank consultative group had to be asked for a doubling of the repayment period for the dues between 1972-1982 totalling over $ 350 million.

There was unrest at home. In September 1969, 2,000 workers from the Ghana Rubber Estates, went on strike for more than a month. Their principal demands were for more pay and the expulsion of certain senior officers. In Accra, dismissed State Corporation workers, who were given no severance pay, locked up the management. Early in March 1969, police opened fire on striking demonstrators at Ashant and three workers were shot dead and many injured. Busia set up a commission to look into the matter. When the Commission submitted its report, Busia refused to publish it. At the Obuasi goldmines, 7,000 workers protested against the refusal and went on strike. Busia retaliated by intimidating the strikers and arresting large numbers. Thus Busia got into open conflict with the workers. Attempting to disorganise them, he dissolved the Federation of Labour, a body with a strong socialist bias, and distributed its assets among the 67 constituent units. It was a clear attempt to create independent trade union units schisms among the working class, and thus to render concerted trade union action difficult. But the 67 unions reconvened themselves and formed a new federation. It was this new, more conscious, federation that Busia had then to contend with. Meanwhile, even in his own administration, he was faced with a dissatisfied civil service. In July 1969, the Junior Civil Servants Association threatened a countrywide strike. Two days before the strike, the NLC proscribed the Association.

Unemployment the Trigger

But what really triggered off the working class struggle was the unemployment that resulted from Busia's closure of State farms and his scrapping of the various industrial and agricultural projects initiated under Nkrumah. According to official estimates, 6,000 were unemployed including a large number of teachers and students. Teachers too went on strike because they did not receive their pay. On student unemployment, the *Ghanian Times* asked: "How can the Ghanian taxpayer spend large sums on the universities only to find their products idling without work?" Besides, free education was abolished. Busia even laid off 300 workers from the Water and Sewerage Corporation because of the shortage of funds.

The administration was corrupt too. Ministerial salaries alone, aggregated East African shillings 5,227,300 (rather more than the 2 million EA shillings under Nkrumah). So rife was the corruption, nevertheless, that the Presidential Commission was forced to appoint a five-man Commission to study the problem. Its report on the State Furniture and Joinery Corporation is typical.

Like several other enterprises, the Commission stated, the Corporation was mismanaged, significantly, because of political interference. Thus, what characterised the Corporation was "a reign of confusion, maladministration, mismanagement, rancour, chicanery and undermining". Private firms manufacturing things for the corporation got their raw materials from the Corporation on credit — these firms acted in a fradulent and dishonest manner; the import licence of the Corporation was used by private firms; huge amounts due to the Corporation (e g by two MPs), were written off without proper authority; goods were sold to customers without proper accounting; salaries were raised without permission; a firm of auditors appointed by the Auditor-General for the Corporation's accounts was "guilty of gross dereliction of duty"; the Corporation was in large debts; and so on.

It is telling that, for all this financial and economic chaos, what finally played an important part in Busia's downfall was his move towards a dialogue with South Africa. After returning from his State visits to the West, Busia set about trying to establish some sort of working relationship with South Africa. First, he advocated renunciation of the Organisation of African Unity's policies against South Africa, stating: "the situation compels us to be independent". Also, about this time, Busia allowed the Ashanti Goldfields Corporation to sell their interest to Lonrho — a concern which has links with the South African, comprador, Anglo-American Corporation of Oppenheimer. Thus Busia's intention was to solicit financial and technical assistance from South Africa to bolster his sagging position. This incensed the people. There were demonstrations in Accra. His downfall followed.

Significantly, Acheampong's first statement opposed dialogue with South Africa. Acheampong, in power today, has to tread warily. He needs support from the people, and clearly the best way to get that was to disassociate himself from those aspects of Busia's policies which were the breeding ground for a real revolutionary situation in Ghana. Thus Acheampong has stemmed the tide — at least for the time being. But he and his National Redemption Council (NRC) are just a new group of choir boys in the same old church.

Source Book, Not Policy Guide

A C Shah

Report of the Banking Commission, Government of India, 1972; pp xvi + 760.

THE report of the Banking Commission is a formidable piece of work. It undoubtedly bears the stamp of hard labour spread over nearly three years. In view of its comprehensive coverage of issues, the report will constitute for many years to come the most important basis for policy formulation affecting the growth and diversification of Indian banking. This underscores the need for an informed public debate on the major recommendations of the Commission.

It may be said at the outset that the report does not come up to the high standard that is expected of a national commission. The Commission appears to have succumbed to the temptation to attempt to cover every conceivable aspect of banking. This may make its report useful as a record but imposes severe limitations when it comes to analysis and interpretation. This is mainly responsible for the absence of a sound theoretical base and a sharp perspective which reports like this ought to have.

Co-operative Banking

The fundamental contribution of the report lies in its recommendations on co-operative banking. Although the subject has been discussed threadbare time and again, fresh ground is broken and new and bold ideas are thrown up. The Chairman, R G Saraiya' insights as a co-operative banker of long standing come into full play in this field. Following the integrated scheme of rural credit adopted in 1956, co-operative banking has taken rapid strides. But behind the impressive quantitative growth have been concealed many qualitative deficiencies. The progress has been uneven, overdues have been heavy and have continued to mount, deposit growth has been meagre, dependence on the central banking authorities has been excessive, vertical and horizontal integration of business has been poor and scant attention has been paid to management.

The primary credit society has been the weakest link in the co-operative structure. Taking into consideration the recent experience, the Commission rightly comes to the conclusion that reorganisation of more than one lakh agricultural credit societies into viable units on the lines recommended by the All-India Rural Credit Review Committee would not be completed in the foreseeable future. It then takes a bold stand by asserting that the primary tier should be dispensed with altogether and replaced by a wide network of rural banks. Orthodox co-operators, who have not reconciled themselves to the gradual dilution of co-operative principles, are bound to be taken aback by this suggestion.

To start with, viable primary credit co-operatives should be converted into rural banks, preferably with the help of the apex and central co-operative banks. Each such bank can be organised for a group of, say, 10 villages, covering a population ranging from 5,000 to 20,000. In sparsely populated areas, it may be necessary to organise a rural bank for as big an area as a development block. The report outlines a detailed scheme for organising such banks and maintains that rural banks will be free from the weaknesses of primary credit societies and that they would be able to cater to all the credit needs of farmers and artisans. In areas where the co-operative credit structure is generally weak, commercial banks can set up their own rural subsidiary banks. Of the total capital of a rural subsidiary bank, the sponsoring bank will hold 51 per cent and the remainder will be available for subscription by the people in the area of operation of the rural subsidiary bank. In those cases where no local participation is forthcoming, the sponsoring bank would have to provide the whole of the capital for the rural bank. In course of time, the sponsoring bank should sell a part of its holding to the local people. The establishment of rural subsidiary banks will necessarily be somewhat slower than that of rural co-operative banks as it will take time to sort out the various practical problems of running such banks. The Commission has recommended that commercial banks should take up this work on an experimental basis for a period of five years and establish rural subsidiaries in some of their lead districts. The experience gained during this period will decide the future of the scheme.

The report has many pertinent observations to make about the surplus share capital contributed at different levels of the co-operative credit system, the strategy and methods by which deposits can be mobilised by co-operative banking, and the failure of the state governments to administer the co-operative movement. The Commission has recommended that co-operation should be removed from the State List and included in the Union or the Concurrent List. This suggestion is also likely to meet with strong opposition. The Commission's recommendation to merge the Agricultural Finance Corporation with the Agricultural Refinance Corporation will, however, be generally welcomed.

Definite Bias

The Commission demonstrates a definite bias in favour of co-operative banking. Despite the past adverse experience and the present unsatisfactory state of affairs, it firmly believes that the system can be revived if its comprehensive recommendations are implemented. In other words, it would like to give one more chance to the co-operative movement. The Commission has doubts about the ability of commercial banks to reach down upto the village level. It is also not in favour of commercial banks extending direct finance to agriculture on a large scale. A number of suggestions are made as to how commercial banking should help co-operative banking. Thus the report gives the impression that the Commission would like to reserve the field of rural banking for the co-operative credit system. Although it repeatedly emphasises the interdependence of the two sectors, the commercial banks are asked to give without receiving anything tangible in return. It will be difficult for commercial banks to accept this position. The relationship between the two sectors should be carefully examined before any commitments are made.

The performance of primary credit societies does not inspire the confidence that would be feasible organisationally to create a wide network of rural co-operative banks and subsidiary rural banks. A similar programme for fostering large-sized co-operatives was accepted in 1956 following the Gorwala Committee Report, but under the pressure of orthodox co-operators it was given up in stages. The government's co-operative policy has been very volatile and this has done a great deal of harm to the co-operative movment. There is one more important point. When

the Commission is prepared to give up the primary tier of the co-operative system, why should it hesitate to say goodbye also to the remaining two tiers at the central and the apex levels? Their survival can be justified only on two grounds — one, that they will help finance rural marketing and processing enterprises on a significant scale and, two, that they will help rural banks to come into existence. There is no reason why commercial banks cannot perform these functions. Perhaps, in view of their organisational and financial resources, they can perform these tasks better than co-operative banks.

Structural Reorganisation

In the field of commercial banking, which is the main preoccupation of the Commission, the most controversial set of recommendations relate to the restructuring of the banking system. The existence at present of 22 separate banks in the national sector is a historical accident. In the opinion of the Commission, not only is the number too large, but the distribution of banking facilities provided by these banks is uneven as between different states. However, the Commission has categorically rejected the merger of all the 22 banks into one bank on the lines of the LIC. This would raise enormous problems of integration. The Commission also believes, rightly, that a reasonable choice must always be available to the customer to choose his bank. After building up its case systematically the Commission reaches the major conclusion that there would be three all-India banks and five or six regional banks. The all-India banks should aim at having branches in all population centres at the level of district towns and above. The other banks, each one of which working over the areas of, say, 2 or 3 neighbouring states, would have branch networks below the level of district towns in the concerned states. In metropolitan cities, both the all-India and the regional banks should be allowed to open branches so that every bank gets a reasonable share of the business in these centres. Each of the national and regional banks will have between 1,500 and 2,000 branches to begin with and between them they would be responsible for opening between 1,800 and 2,000 branches a year, that is 200 to 250 branches per unit. At the end of 10 years from the inception of reorganisation along these lines, the Commission has recommended a comprehensive review of the working of these banks, the size they have attained and the further organisational changes that will be necessary keeping in view their future development.

The Commission considers three other suggestions as alternatives. First, the restructuring might be such as to form 8 or 9 all-India banks. Second, the restructuring might be achieved by forming a similar number of regional banks. Third, an altogether different method of restructuring would be to form banks on functional lines. All the functional banks would have to operate on an all-India basis. The first two alternatives are rejected by the Commission on the ground of high cost. As regards the third one, the Commission feels that in the conditions obtaining in our country this method does not offer any advantages. Moreover, it would involve a very drastic change in the institutional structure which can cause serious disruption of economic activity until the reorganisation is completed and the banks begin to function in an efficient manner.

The case for a smaller number of banks is examined at length from the angle of economies of scale, management control and effective implementation of monetary and banking policies. The Study Group on Banking Costs, appointed by the Commission, comes to the definite conclusion that there are positive economies of scale and that the size of a bank has a definite relationship with the profit margin. Larger banks have an advantage both in regard to average interest rates as well as the average servicing cost of their advances. Another study prepared by C Rangarajan and Paul Mampilly on the relationship between total costs and the size of a bank comes to the conclusion that on the basis of average costs, economies of scale are available upto Rs 600 crores of deposits. This figure can move upward as a result of inflation. It can also move upward if the methods and procedures used in a bank as well as its organisational structures are improved. The two management experts feel that there is no constraint on the size of operations of a bank from the management viewpoint. In other words, the prospect of diseconomies of scale in banking is not as real as it might appear at first sight. Effective methods are available to reduce their incidence. The argument is in favour of having large-sized banks from the point of view of increasing the range of services also. The smaller number of banks would make it easier to implement effectively the Reserve Bank's credit policies and the government's policies for banking development. It would be much more convenient if the authorities had to deal with only a few large and equal-sized banks.

All-India Banks with Regional Bias

The attempt to divide banks into all-India and regional categories, as suggested by the Commission, would create first and second class status among banks. This would have adverse effects on the growth of banking. The better course would be to have 5-6 all-India banks. The existing banks should be integrated in such a way as may give each unit almost an equal number of branches and an equal volume of deposits. What is more, each unit should have a distinct regional background. For a country of continental sizes, 5 or 6 all-India banks cannot be considered too many. This is a very sensitive area and the authorities should give careful consideration to the problem before taking any decisions. Pending that, the present structure should not be disturbed. In fact other recommendations of the Commission can be implemented independently of the structural reorganisation of banking.

The Commission makes a substantive contribution to the little explored area of the cost structure and profitability of banking. The Study Group on banking costs has done pioneering work and come out with many revealing findings. The profile of an all-India average bank branch shows deposits of Rs 62 lakhs and advances of Rs 42 lakhs. This average is undoubtedly high when one takes into consideration the opening of a large number of rural branches in recent years. Out of its total expenses of Rs 0.55 lakhs for the quarter, 40 per cent is accounted for by deposits, 18 per cent by advances, 15 per cent by bills and 12 per cent by remittances while the remaining 15 per cent relate to other services. Deposits are a clerical-oriented activity, while advances are an officer-oriented activity. Expenses at the head office common to all services work out to 8 per cent of the total cost at the branch level.

While servicing charges are the highest for current deposits and the lowest for fixed deposits, the position is reversed when the interest cost of funds is taken into consideration. The per voucher costs for current deposits, savings deposits and fixed deposits are estimated at Rs 1.88, Rs 1.78 and Rs 6.29, respectively. The average number of vouchers per account per quarter for savings accounts are only about 2 as against 30 for current accounts, indicating that a large number of savings accounts are maintained by

depositors for conserving surplus funds. The servicing costs for small-scale industries and advances to farmers are high, 3.4 per cent and 2.7 per cent, respectively, as against only 0.3 per cent for large as well as medium-scale industries and 1.9 per cent for personal as also professional loans and other advances, mostly to trade.

The servicing costs per item of remittances are estimated at Rs 5.18 for drafts, Rs 5.55 for mail transfers and Rs 13.90 for telegraphic transfers. As regards cheques and clean bills, other demand bills and usance bills the cost per item for negotiation, collection and remittance of the relative proceeds are estimated at Rs 4.89 Rs 8.48 and Rs 10.89, respectively. Head office expenses on these services consist mainly of interbranch reconciliation and work out to 0.2 per cent of the branch level expenses. The analysis of the data in regard to foreign exchange business reveals that imports and exports each account for about one-third of the cost of total foreign exchange business, while clean remittances and other business (such as bills covering exports on a consignment basis, medium-term export credit, deferred payments and other guarantees, etc) account for 13.4 per cent and 21 per cent, respectively of the total. The foreign exchange business as a whole is less clerical-oriented than deposits and more clerical-oriented than advances. The average profit to banks on sterling remittances comes in the region of 0.25 per cent and 0.12 per cent for sales and purchases, respectively, during the survey period. For foreign business as a whole, the exchange profit works out to 0.21 per cent. Therefore, the Commission would like the banks to pay great attention to the cost factor in foreign exchange transactions. There is need for banks to examine carefully their existing procedures and methods of handling foreign exchange transactions and also for developing methods of cost and profitability analysis in this field. The Commission would like the FEDA to re-examine the schedule of minimum rates prescribed for different types of commission charges.

The report then makes several useful suggestions. It would like banks to formulate profit objectives. In the light of that, the price structure for the services rendered by banks should be suitably altered. The main components of the price structure are interest rates and service charges The Commission has also shown how to estimate profitability of a branch in a realistic manner. It recommends the use of inventory control techniques for cash management. The balances held by most of the branches appear to be considerably larger than necessary. The safe reduction in the percentage of cash to deposits varied from 0.6 to 7.2 for sample branches.

The Commission is in favour of doing away with secret reserves. The purpose of secret reserves in the past was to add an undisclosed strength to banks which could be useful in times of stresses and strains or in an emergency. With the nationalisation of the major banks, this purpose has lost its validity and the public are entitled to know the true position of banks through their published accounts. If the position of the bank is good it does not need secret reserves as a strengthening factor. On the other hand, if its position is unsatisfactory, secret reserves will really be of very little use. Recently, in the UK the clearing banks collectively decided to reveal their true profits and reserves. The legal aspect of this question is discussed at length by the Commission.

Research and Training

There is one more important recommendation made by the Commission to promote competition in the field of deposit mobilisation. From the point of view of maximising deposit mobilisation, the deposit interest rate structure has to conform to the expectation of the public about the appropriate rates for deposits of different terms. One method of achieving this is to let banks compete freely for deposits so that market forces can determine the rate structure. In the absence of market determination of rates, a considerable amount of research will have to be undertaken to determine which rates need revision and in what direction. The Commission recommends that this should be initiated by the appropriate authority.

In view of the far-reaching changes taking place in the banking industry, the Commission repeatedly emphasises the importance of research and training. This is a field which is vital to the development of banking but which has been neglected so far. The Economics and Statistics Department has to be strengthened considerably in every bank. It should constantly analyse internal data and place before the management important findings from time to time. It should analyse and interpret economic trends from the angle of the bank concerned. On both these points several useful suggestions are made in the chapter on 'Information System for Banks'. This department can also undertake studies and surveys on specific issues relevant to policy-making. Evolution of the planning function in a bank will require the establishment of other specialised departments such as Organisation and Methods, Management Development, Business Development and Publicity and Public Relations. The report reviews at length the training facilities available in the banking industry and makes many valuable suggestions to improve them through the suitable reorganisation of the National Institute of Bank Management, the Indian Banks' Association and the Indian Institute of Bankers as also through appropriate arrangements with universities and other research or teaching institutes. The set of recommendations made by the Commission in the field of research and education deserve close examination.

The Commission's recommendations on operating methods and procedures as also management development go into details. While going through this part one wonders whether all these details are necessary in an important report of this type. The Commission recommends that the teller system should be adopted in all banks at all important branches for encashment of cheques and receipt of cash for credit to accounts. The practice of half-yearly closing of accounts should be discontinued as it entails considerable labour without commensurate benefits. Banks should progressively switch to mechanised accounting systems. The computer is particularly useful for reconciliation of inter-branch transactions and for processing a large volume of information useful for policy-making and economic research. Although it is costly, banks can hire it on a time or job basis. Alternatively, several banks can purchase it jointly for use amongst themselves on a time-sharing basis. Mechanisation should be introduced by banks, especially at larger branches, by adopting a phased programme and by taking the employees' unions into confidence.

A bank Giro should be established by banks with mutual collaboration as an independent institution, to clear inter-bank credit transactions relating to transfer of funds from one bank account to another and also remittance of funds by a non-account holder to an account holder and vice versa. The Commission recommends the setting up of a Credit Intelligence Bureau as a statutory corporation for compiling and furnishing credit information to various financial institutions in the country. Its

working should be mechanised to ensure speedy collection and supply of data. Further, for administrative convenience, the Bureau may confine its operations in the initial stages to bigger cities. The Commission recommends that a Committee may be appointed under the auspices of the Reserve Bank to consider in detail the question of creation of a common agency for inspection of offices of all National Banks and to formulate standard forms and procedures, keeping in view the advantages of mechanisation on a planned basis. The Commission also recommends that to begin with and on an experimental basis, administrative offices of banks may remain fully closed on Saturdays, the working hours on the other week days being suitably enhanced. The question of introducing a similar change in bank offices dealing with the public may be considered later. As the major portion of the banking industry is now in the public sector, the Commission would like to have a common agency for recruitment of staff for these banks both at the clerical and junior officers level. This agency is to be called the National Banking Service Commission. It will be a statutory commission with wide functions and extensive jurisdiction.

Lead Bank Scheme

The report has certain pertinent observations to make on the Lead Bank scheme. It is not happy with the way in which banks have conducted surveys. It believes that banks were not organisationally prepared to undertake the job. What is more, they are not in a position to take a total view of the situation and correlate the financial plan with the physical one. The report gives the impression that banks have used the surveys as a delaying tactic. The Commission would like the survey work to be done by the district planning authorities. Here the Commission's faith in the district authorities does not appear to be justified. Even in the districts of Gujarat and Maharashtra, banks had to do considerable work to create the economic picture of a district against which its financial institutions can be studied. This difficulty will be all the more serious in the less developed states. Above everything, the survey work has given banks the feel of places and also some ideas as to how banking development work can be undertaken. Banks have been making concerted efforts in their lead areas to open more and more branches, mobilise deposits and extend credit. The progress remains under constant observation of the top management and the Board of Directors. The Lead Bank Scheme is progressing on the right lines. It will not be advisable to introduce any basic changes at this stage. This does not mean that there is no scope for improvement.

The Commission has made valuable suggestions in respect of specialised financial institutions and other non-bank financial intermediaries. The importance of such institutions is yet to be realised in our country. Consequently the recommendations regarding them should be examined in depth, particularly against the background of the emerging financial structure in the country. What is attempted here is a summary of the main recommendations. Merchant banking institutions are needed in the country to offer two types of services — syndication, financing and promotion of Indian projects as well as investment management and advisory services to medium and small savers and to provident funds, pension funds and trusts of various types. Initially there should be four merchant banking institutions located at Bombay, Calcutta, Madras and New Delhi set up by commercial banks and specialised financial institutions. These merchant banks can later set up branches at other important centres. The machinery for providing export credit is considered adequate and hence in the Commission's view there is no justification for the creation of an Export-Import Bank. A two-tier system of housing finance should be created with an apex housing finance institution at the national level and local finance institutions at the district or regional levels sponsored by the local community. Co-operative housing societies should be strengthened, particularly with a view to mobilising resources from members and eliminating malpractices. An apex co-operative finance society should be set up in each state to refinance affiliated primary societies all over the state. Commercial banks should give short- and medium-term credit to builders in order to enable them to undertake mass housing construction programmes. The LIC and General Insurance institutions should devise schemes to guarantee housing loans. Steps should also be taken to create and develop a secondary mortgage market and impart liquidity to housing loans.

The Commission has made important suggestions to improve and regulate the organisation and working of hire-purchase companies, chit funds, nidhis, indigenous bankers and investment companies. It has made a comprehensive study of all the enactments affecting the banking industry. In the light of the study a large number of amendments have been suggested. It is recommended that a special machinery should be set up by the Central Government for constant review of laws concerning and affecting banking. It has also outlined in detail how the restructured national banks should be organised and how they should function.

The Banking Commission has completed its work. The authorities, the Reserve Bank and the Banking Department of the Finance Ministry, have now to start their exercises. In this work they should be assisted by bankers, commercial and co-operative, and students of banking with studied comments and constructive suggestions.

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Agrarian Transition and the Differentiation of the Peasantry

A Study of a West UP Village

Ashwani Saith
Ajay Tankha

In this paper an attempt has been made to study the respective positions occupied by different sections of the peasantry in the complex socio-economic structure of a village in west UP.

In the process of this study, we encountered several methodological problems which are discussed at the beginning in some detail. While the methodological observations have, strictly speaking, only this village study as their domain, they might be of more general interest.

Also analysed are the prospects with which the so-called Green Revolution confronts the different sections of the peasantry.

We have consciously chosen a wide canvas so as to be able to sketch out, albeit tentatively, the aggregate framework within which alone, in our opinion, a meaningful village study can be conducted.

Organised within a Marxian frame, both the factual content and the inferences of this study have been derived from investigations conducted by the authors at the village.

This paper, which is a sequel to an earlier paper ("Economic Decision-Making of the Poor Peasant Household", Annual Number, February 1972) on the economic decision-making of the poor peasant household, forms part of a study conducted at the Agricultural Economics Research Centre, Delhi.

[We gratefully acknowledge the useful suggestions made and the help rendered during the writing of these papers by Aurobindo Ghose, Ardeshir Jamshed Dalal, R L Narayan and S Ganguli. However, we alone are responsible for the views expressed in the study as also for the errors that remain.]

I
Methodology of Agrarian Transition

(1) Features of Transition

IN most non-socialist underdeveloped countries today, agriculture is in a stage of transition to capitalism. This movement from the feudal mode *via* particular intermediate stages to the capitalist mode displays some uniform characteristics. Firstly, even though the transition process has an increasing rate of progression, it is highly time-consuming. Secondly, the forces that provide the impetus for this transition act with widely varying degrees of influence on the different parts of the pre-capitalist rural economy. Hence, one resultant feature of this economy-in-transition is that it exhibits at the same time and in the same region, a phenomenal array of forms of organisation and relations of production, ranging from pure capitalist relations on the one hand, to accredited feudal relations on the other. Spatially, the variety is only further multiplied. A second important feature is that throughout this period there occurs a continuous strengthening of emerging capitalist relations. In such an economy, the injection of a superior technology alongside increased capital investment catalyses this transition noticeably, and speeds up the development of embryo capitalist relations.

(2) Analysis of Transition: Two False Approaches

A systematic exposition of the "special laws" governing the development of capitalism in agriculture can be made only if the economics of pre-capitalist agriculture and the connecting transitional forms are properly studied and understood. Incorrect or inadequate cognisance of this may lead researchers in this field into formulating inquiries or adopting postures that are not useful to a study in depth of an agrarian economy-in-transition. Thus, one approach sets itself the task of discovering, at the given time, whether agriculture is feudal or capitalist by reference to some stipulated criteria. This heroic labelling approach has increased the semantics/real content ratio of the literature more than our knowledge of the transitional economy. The heroics, however, are assumed to be justified by the need for a "sharp analysis". Another approach faithfully reports the fine detail of reality, but makes no attempt at analysis beyond framing some conjectural *ad hoc* hypotheses of dubious validity. The implicit alibi here is that if any analysis is to explain the "confusing" agrarian scene comprehensively, it would inevitably carry into the analysis the "confusion" that prevails in reality. This is an exceedingly primitive empiricist position.

Both approaches commit serious methodological errors. The former is too mechanistic in its application of the known laws of development of societies, and ignores the role of concrete historical situations in conditioning the operation of the laws themselves. Thus, on account of its rigid adherence to the categories of feudalism and capitalism (which are treated in an as-if exclusive fashion), the no-man's land between feudalism and capitalism gets ignored. The second approach, on the other hand, goes to the other extreme: it makes no use of these known laws of development of societies for the purpose of deriving a criterion of meaningful abstraction from unnecessary detail. Hence, the construction through the use of the method of induction of a

TABLE 1: CLASSIFICATION OF HOUSEHOLDS INTO POOR, MIDDLE AND RICH GROUPS

Group	Number of House-holds	As Per Cent of Total Number of Households
Rich peasant	39	21.08
Rich non-peasant	6	3.24
Middle peasant	29	15.68
Middle non-peasant	3	1.62
Poor peasant	40	21.62
Poor non-peasant	68	36.76
Total	185	100.00

useful analytical framework must await the moment when reality itself throws up the criterion of abstraction, i e, when the characteristics of the new mode become overwhelmingly apparent. Both approaches are unhelpful for the purpose of studying the character of transition. The first is inadmissible because in its search for analytical "sharpness" it abstracts from the very *essentials* of the problem. Apropos the latter we must note that "confusion" is not an intrinsic property of reality. Contrariwise, the existence of "confusion" reflects primarily an inability to explain satisfactorily the historical phenomenon of transition — and this in turn reflects the inadequacy of the analytical framework being employed.

(3) ANALYSIS OF TRANSITION: METHODOLOGICAL IMPERATIVES

The main conclusion to be drawn from the preceding discussion is that in the context of a study of agrarian transition, it is neither scientific nor necessary to label the economy "capitalist" or "feudal". The starting point must be a recognition of the simultaneous existence and overlapping of aspects of two or more distinct modes of production. The necessary functions of the study of transition then become:

(a) an analytically meaningful characterisation of the complex of production relations prevalent, and the position of the different sections of the community in this complex.

(b) to unearth the underlying logic, and analyse the operation in concrete terms of the process of change which transforms the material and social basis of production from the pre-capitalist to the capitalist ones.

(c) to assess the extent to which this process of transition, with its inherent logic, has carried the community towards capitalism.

Another moral to elicit is that this simultaneous existence and overlapping of different modes of production in the agrarian economy holds some methodological imperatives for the study of such an economy.

(1) Since a structure of economic analysis is designed in relation to some particular class of historical situations, its usefulness is *ipso facto* confined to that class of situations. And since the institutional and organisational bases of the overlapping feudal, other pre-capitalist and capitalist modes is totally different, a particular analytical structure developed to study the laws of functioning of feudalism (or other pre-capitalist modes) will be irrelevant for studying the corresponding laws for the capitalist mode. Furthermore, neither the transition process, nor the transitional forms can be analysed purely within the "capitalist" frame of analysis, since in the transition phase, there will exist only small areas of the economy where the capitalist categories of analysis will possess corresponding real counterparts. It is necessary, therefore, to analyse the functioning of the pre-capitalist areas of the economy in transition within a framework based on premises relevant to that particular pre-capitalist historical and institutional setting. Thus for an analytically meaningful characterisation of the complex of production relations prevalent, and for a comprehensive study of the respective prospects and positions of the different sections of the community in this complex, a separation of these different analytical areas becomes imperative. But beyond this, if the study is to attempt to be scientific, it must account for the analytical implications of the fact that the functioning of each of the separable areas (where different modes predominate) is significantly affected by the simultaneous existence of another area (where a different mode predominates). This point will be illustrated in the following section.

(2) However, since historical development definitively reveals that pre-capitalist modes are replaced in this process of agrarian transition, by the capitalist mode, it would not be enough to study the separable analytical areas, each in isolation, and so to derive respective analyses of their functioning. We must develop another area of analysis: one which atempts to unearth the mechanism by which the old order dies out and is replaced by the new one. In other words, we must study, at a different plane of generality, the logic of motion of the pre-capitalist mode into the capitalist mode. This is imperative if we are to make any sense of the direction, and the character of process of transition to capitalist relations in agriculture.

The criterion applied for delineating the analytical areas is the predominance in the separated analytical areas of (aspects of) different modes of production. The mode of production is identified by its primary contradiction (its fundamental relation of production) landlord-serf, or capital-wage-labour, etc. It would seem perfectly possible, therefore, to list all the relations of production entered into by the households of the community, and then to classify these relations (each of which would be recognised to be characteristic of one mode of production or the other) into separate analytical areas; for by so doing, it would seem that we would *ipso facto* have separated out the domain of the different modes.

However, such a classification, as well as the areas that would emerge through it, would not be particularly useful from the point of view of the objectives of the study of the transitional agrarian economy: for we are interested not in the relations of production *per se*, or for their own sake, but rather in the study of the position and prospects of the several households that are involved at either end of these various relations of production. Of course, a study leading to a thorough understanding of the character of the relation itself is vital for this objective. But if the analytical areas are to be meaningful, they must be demarcated *in terms of households and not relations* for it is the household that must be the unit of study for our purpose.

TABLE 2: CLASSIFICATION OF HOUSEHOLDS BY DIFFERENT CRITERIA

Classification Criteria	Rich		Middle		Poor	
	No of House-holds	No of HHs in Common with Criterion 1	No of House-holds	No of HHs in Common with Criterion 1	No of House-holds	No of HHs in Common with Criterion 1
(1) Criterion used in this study	45	—	32	—	108	—
(2) Land owned*	27	26	29	14	129	107
(3) Land operated (rabi)**	29	20	31	12	125	105

* Here a rich peasant household is assumed to own 10 acres or more; middle, 5-10 acres; and poor, less than 5 acres.

** Here a rich peasant household is assumed to operate 10 acres or more; middle, 5-10 acres; and poor, less than 5 acres.

TABLE 3: OWNED AND OPERATED LAND HOLDING BY SIZE CLASS (IN ACRES) (Rabi 1969-70)

Size Class (in acres)	Owned Land				Operated Holding in Rabi			
	No of HHs	% of Total No of HHs	Area (acres)	% of Total Area	No of HHs	% of Total No of HHs	Area (acres)	% of Total Area
0.00	97	52.43	0.00	0.00	77	41.62	0.00	0.00
0.01-1.00	8	4.32	3.84	0.57	18	9.73	11.06	1.53
1.00-2.50	10	5.41	18.72	2.75	13	7.03	22.07	3.05
2.50-5.00	14	7.57	43.73	6.43	17	9.19	56.34	7.78
5.00-7.50	22	11.89	129.38	19.04	16	8.65	92.73	12.81
7.50-10.00	7	3.78	63.50	9.34	15	8.11	134.54	18.59
10.00-12.50	9	4.86	94.76	13.94	16	8.65	168.68	23.31
12.50-15.00	8	4.32	108.42	15.95	6	3.24	82.75	11.43
15.00-20.00	6	3.24	100.16	14.74	3	1.62	54.95	7.59
20.00-30.00	3	1.62	64.58	9.50	3	1.62	62.49	8.63
30.00+	1	0.54	52.50	7.73	1	0.54	38.12	5.27
	185	100.00	679.59	100.00	185	100.00	723.73	100.00

The upshot of this is that analytical areas must be demarcated not by classifying all the existing *relations of production* corresponding to the different modes, but by classifying *households* which predominantly display combinations of relations of production associated with each different mode. The substance of the analytical area must be households. However, the classification of households into analytical areas along these lines runs into two problems.

(1) The first problem is encountered in the identification of the modal character of specific production relations as they exist in the transitional village economy. Some accredited feudal relations are capable of being metamorphosed into new relations whose modal characteristics are somewhat different. Thus, in response to the altering economic forces and superstructural factors, the production relation of tenancy often changes its particular forms, thus making itself capable of expressing a different class content. Are all the tenancy contracts in the village feudal in their modal character? We do not think so at all. Virtually all these contracts are annual/crop contracts which are entered into each year through a process of individual bargaining prior to the cropping season. Both parties to the contract attempt to bargain for the most profitable conditions and terms, and practically no extra-contractual obligations or relations between the two parties exist. Of course, the economic conditions and status of the poor tenant may lead him into "opting" (does he have alternative sources of income?) for particularly exploitative terms. But this relation, while continuing to be so exploitative, does not conform to the tenancy production relation as it existed historically in the feudal mode. This point is further emphasised when we consider the very capitalistic rationale of the rich professional non-landowning tenants. So also, in the complex concrete setting of the village, it seems perfectly rational for a large capitalist farmer to be employing one or two semi-permanent/permanent labourers. Such a relation, especially when the employing household is one which was once a feudal estate, seems to be feudal. However, if we observe that this hiring in is economical considering the employing household's time pattern of demand for hired labour, it must be accepted that this surviving aspect of the feudal mode reflects, in the historically altered aggregate situation, a different economic rationale.

These points must be borne in mind when classifying households into different analytical areas on the basis of the modal character of the production relations that these households enter into.

(2) The actual classification of households into the different analytical areas on the basis of the relations of production entered into by the households raises the second problem whose origin lies in the basic features of the transition process. It turns out that the contours that demarcate the different analytical areas do not unambiguously assign every household into one area or another. Particular households display a combination of production relations which do not all "belong" to any one mode. How are such households to be classified? By way of illustration, consider the case of the household of Mohan Chand. Mohan Chand serves as a semi-permanent labourer with Ram Lal (a capitalist farmer), share-crops a small plot of land for 6 months, works as a casual agricultural labourer for 4 months, and runs a music band (he owns all the instruments) where he employs some poor non-peasants for fixed wages! Even though there is only one Mohan Chand in Parhill village, there are a very large number of households which exhibit this multiplicity of "contradictory" relations of production. Classification of such households *is made somewhat arbitrarily, but not* necessarily unscientifically. Indeed it would be as unscientific as it would be futile — in the context of the study of *agrarian transition* — to demand separate analytical areas which are strictly mutually exclusive in terms of both households *and* relations of production. (In fact, this is the motivation underlying the use of the term "analytical area" in preference over the familiar term "domain of the mode of production".)

Households are therefore to be classified in accordance with the modal character of the production relations that the households display in a predominant fashion, *viz, from which they* they earn the major portion of their incomes.

(4) TRANSITION FROM FEUDAL TO CAPITALIST RELATIONS

The significance of the above observations will be amply illustrated in this section, in which we will attempt to sketch the historical emergence of the complex of relations currently existing in the village. It is only through the medium of such a historical perspective that a meaningful assessment of the *current process of transition* can be attempted. The character of the village economy is sketched out briefly, employing three reference periods.

(a) *The Feudal Era*: Below we outline a somewhat idealised picture of feudalism as it existed in this region through the nineteenth, and most of the first half of the twentieth centuries.

The village economy revolved around the five feudal *pattidar* families whose estates constituted all the village land and with whom the government had made the original land revenue settlements. Large tracts of these *mahals* were cultivated by a wide variety of tenants of different statuses and sizes. These tenants, who paid highly exploitative fixed rents, often had further subtenants (many of whom were sharecroppers). Around the *pat-*

tidars (and their bigger tenants) was built the social division of labour, organised along *jajmani* lines. Apart from the several *jajmani* producers and groups of tenants, a class of permanent and semi-permanent labourars was also attached to the *pattidars*. Even though the rent was collected in cash (for the convenience of the *pattidars*) most dealings and payments between the *pattidars* and the serfs, tenants and *jajmani* households were conducted in kind; barter trade was widespread within the village, and production for the market was minimal. The landowning feudal classes displayed the social and cultural features usually associated with them. Another notable point is that there apparently existed a significant correspondence between the caste of the non-cultivating households, and their respective positions in the social division of labour at the level of the village. Caste could be viewed as a superstructural factor cementing the social division of labour.

(b) *Breakdown of Feudalism*: This feudal set-up began crumbling noticeably during the first half of the twentieth century, largely on account of the operation of two concrete forces. Firstly, successive land legislations (carried out particularly with the objective of providing security to the tenants) especially those of 1926, 1939 and finally 1951, broke up the old feudal land system, by granting the occupancy tenants heritable, transferable and ownership rights. Over the period, therefore, the feudal domination of the tenant and small peasants by the 5 feudal families and the major *pattidars* was largely demolished. The old feudal families had their land-holdings severely cut, and historically there emerged a class of peasants who had virtually all rights over their land. This class of peasants comprised the several categories of tenant households of old: the *kanooni kashtgars;* the *maurusidars;* even the old *"tenants-at-will"*. As noted earlier, these tenants had been leased land-holdings of all sizes, with the result that this historically created class of peasants comprised widely differentiated peasant households, ranging from the very rich, to the very poor. The one common aspect was that they were all family farms cultivating largely their own land mainly by the use of the family's own labour. These events undermined the cohesion and stability of the social division of labour. Also undercut significantly was the class of permanent labourers, many of whom had to seek other means of livelihood.

The second primary force which

TABLE 4: OWNERSHIP OF LAND-CUMULATIVE PERCENTAGES

No of Households	Land-owning Households		All Households	
	Household Number as % of 88	% Land Owned (cumulative)	Household Number as % of 185	% Land Owned (cumulative)
1	1.14	0.04	0.54	0.00
5	5.68	0.24	2.70	0.00
10	11.36	0.99	5.41	0.00
25	28.41	6.11	13.57	0.00
80	90.91	72.63	43.24	0.00
88	100.00	100.00	—	—
90	—	—	48.65	0.00
100	—	—	54.05	0.12
110	—	—	59.46	1.76
120	—	—	64.86	5.22
130	—	—	70.27	10.52
140	—	—	75.68	18.19
150	—	—	81.08	27.72
160	—	—	86.49	41.14
170	—	—	91.89	51.72
180	—	—	97.30	79.96
185	—	—	100.00	100.00

Note: Of the total 185 households, 97, or 52.43 per cent of the households own no land at all.

hastened the breakdown of the feudal social division of labour, including the *jajmani* system of occupations, was the secular development of capitalism in industrial centres, and its gradual penetration of the hinterland. Even with the breaking up of the big estates, the *jajmani* artisan and functionaries had lost significant portions of their demand. Now, with the coming up of small townships and the widening of the industrial market, these producers began to sell their goods and services in the local markets, where they now faced increasing competition. It is also possible to detect a shift in the character of the production of the *jajmani* households. From production under feudal *jajmani* contracts they shifted increasingly to commodity production for the market, and acquired the character of household enterprises. At the same time, the households which earlier provided *jajmani* services began to participate in agricultural labour as a subsidiary occupation to prevent their incomes from declining. Thus, the village economy is now semi-feudal in character; there exist large areas in the village economy where household commodity production (family farm or household production enterprise) is dominant.

(c) *Transition to Capitalism*: The most significant event of the post-1951 period was the injection into this complex production structure of the village economy of large doses of improved resources and methods of cultivation. The widespread biological and mechanical innovations concentrated in the post-1961 period generated large surpluses for the rich peasants, who progressively expanded their scale of operation, and improved their methods of cultivation. Some rich peasant households began to display capitalist features: mechanisation, predominant use of hired labour in cultivation, production for the market.

At the same time, the *jajmani* production organisation broke up further, and the old *jajmani* production households began to produce largely for the non-*jajmani* market; and *jajmani* activities began to occupy only a subsidiary position in the production programmes of several such households. The household character of these production enterprises became indisputable. The further erosion of the *jajmani* services reflects itself in an increasing reliance of such households on petty trades and on agricultural labour.

It is interesting to note, however, that a class of agricultural labourers, in the formal sense, has not as yet crystallised. Of the 86 households participating in agricultural labour, only 36 have agricultural labour as their main occupation, and of these, only 5 have agricultural labour as their *only* occupation. Most of these specialised agricultural labour households are really semi-permanent labour households which are attached to some rich peasant households. Thus, while the capital-wage labour relation exists in widespread fashion, and while it is possible to identify a handful of capitalist cultivators among the peasants, a *class* of agricultural labourers as such does not exist yet. Most of these agricultural labour households are engaged in other economic activities which gives them the character of household enterprises producing a commodity or a service,

TABLE 5: LAND OWNED AND CULTIVATED (IN RABI 1969-70) BY POOR, MIDDLE AND RICH PEASANTS

Group	No of Households	Owned Area (acres)		Area Cultivated in Rabi (in acres)	
		No of Households	Total Area Owned	No of Households	Total Area Owned
Rich peasant	39	39 (44.32)	493.31 (72.59)	39 (36.11)	423.37 (58.50)
Rich non-peasant	6	3 (3.41)	30.00 (4.41)	— (0.00)	— (0.00)
Middle peasant	29	21 (23.86)	109.78 (16.15)	29 (26.85)	221.40 (30.59)
Middle non-peasant	3	1 (1.14)	3.12 (0.46)	— (0.00)	— (0.00)
Poor peasant	40	21 (23.86)	40.23 (5.92)	40 (37.04)	78.96 (10.91)
Poor non-peasant	68	3 (3.41)	3.15 (0.47)	— (0.00)	— (0.00)
Total	185	88 (100.00)	679.59 (100.00)	108 (100.00)	723.27 (100.00)

Note: Figures in brackets are column percentages.

or engaged in trade.

A further point to note is that alongside the decline of feudalism — of which a few identifiable aspects still survive — the old correspondence between the caste system and the social division of labour has broken down in very large measure. Moreover, caste has long ceased to be a force restricting the pattern of economic activities of households.

(5) DEMARCATION OF ANALYTICAL AREAS

It becomes convenient, from the point of view of analysis, to divide the households of village Parhill into two distinct analytical areas.

(1) *Capitalist Area*: Here would be included those households in which the emergent capitalist relations of production and forms of organisation have crystallised. Pre-capitalist relations of production have been almost completely replaced by new relations pivoting on the capital-wage-labour relation. It must be remembered here that the marginal employment of permanent labour would not prevent an otherwise capitalist household from being classified in this area. Secondly, as mentioned in the preceding discussion, a class of proletarians who rely essentially on agricultural wage labour for their livelihood does not appear to have crystallised in the village. We would expect such a distinct class to emerge as the process of transition progresses further. Hence, this analytical area includes households representing only one aspect of the capital-wage-labour relation.

(2) *Pre-capitalist Area*: In this area would be included all such households in which relations of production and forms of organisation of the pre-capitalist mode still prevail, albeit under pressure from latent tendencies towards capitalism. This area would include the prominent feudal remnants, the large sections of household enterprises and peasant family farms producing partly for the market, and also the petty trade and service, and the labouring households.

Within this area comprising the whole peasantry and the labouring classes, it is necessary to draw further distinctions: even a cursory glance reveals the profuse diversity existing amongst the peasant households — some are operating on near-capitalist lines, whereas others, who own almost no land, survive by selling their labour and/or traditional village products. Hence, as a second approximation within this analytical area, it becomes vital to make a distinction between the different groups of the peasantry.

In a rough fashion, we can delineate the upper group of peasants (or the rich peasants), the middle group of peasants, and the bottom group of peasants (or the poor peasants). This grouping is initially done by using as a major criterion the relative land-resource ownership position of the households involved. However, a closer study shows that households with a similar land-resource ownership position in the aggregate display widely different production relations and forms, and earn their livelihood in widely different ways. Analytically, therefore, these households would be very distinct, even though an initial statistical classification would place them in the same group. In order to transcend a pure statistical classification and obtain an analytically relevant economic classification a further approximation becomes desirable. This is made by introducing a further criterion of classification. Distance between households is measured not just by their relative land-resource ownership positions, but also by their positions with respect to the old and the new modes of production. Several additional variables become important, e g, the size of the family in relation to the resources it owns; ownership of modern productive assets like tube-wells, tractors, etc, amount and proportion of non-cultivation income and its sources; the intensity of its cultivation activities; its tenancy position; whether the household receives large money remittances from family members working outside the village; its credit position *vis-a-vis* both official and non-official agencies; ownership of pucca houses and durable consumer goods; the character of its several production relations; and its relative position in the political power structure of the village.

The employment of these variables leads to significantly different contours of delineation of the rich, the middle and the poor groups of households; a significantly large proportion of households are revealed to have been wrongly classified by the land ownership criterion used for the initial classification. Table 2 sets out the extent of the misplacement of households by the different criteria. In the main, a careful use of the above variables leads to an analytically meaningful classification. Some middle peasant households turn out to be analytically contiguous to the poor peasant/labouring households which are fighting desperately against forces, making for their proletarianisation; other middle peasants are similar-

TABLE 6: SPREAD OF TENANCY (RABI 1969-70)

Group	No of HHs in Group	No of Tenant HHs in Group	Total Area under Tenant Cultivation in Group (acres)	Average Area Leased in by Tenant HHs in Group (acres)
Rich peasants	39	6	26.49	4.62
Middle peasants	29	17	123.94	7.29
Poor peasants	40	26	44.55	1.71
Total	108	49	194.98	3.98

ly contiguous to the rich peasants group of households. Here, it must be readily admitted that the final classification is "arbitrary" at the borders dividing contiguous groups of the peasantry. It is possible that a few households do not fall into appropriate groups. Analytically, a further distinction can be made within each of these groups between peasant and non-peasant households.

Thus we note that the peasantry displays a very wide diversity both from the analytical and the statistical points of view. But as we move away from the middle ranges to either extreme of the peasantry, the analytical divisions and class affiliations crystallise and become increasingly unambiguous. Thus, when we approach our first major area of interest, the rich peasantry, we discover that the households concerned display certain strikingly similar features which facilitate the study of the transformation of the rich peasants into capitalist farmers. Again, when we move to our second major area of concern, the bottom group of households, we find that the households involved — even while exhibiting a truly phenomenal range of economic activities, forms of organisation and relations of production — all display economic characteristics which are fundamentally identical. It therefore becomes possible to cordon off a group of households in whose sphere of economic conditions, activities and decisions, it is possible to study the resistance put up by the declining parts of the pre-capitalist modes against the embryo forces of capitalism which threaten these households with eventual pauperisation and proletarianisation. Before we pass on to the study of the rich and the poor peasantry, we must point out that in the ensuing study of differentiation, we have treated the capitalist farmer and the rich peasant households together; no formal reference will be made to the capitalist farmers of Parhill; they will be merged with the rich peasants group. This proves expedient without damaging the study, for the purpose in the rich peasantry section is to uncover the factors which make for the movement of capitalist relations.

(6) Differentiation in the Village

In an earlier paper we had considered and rejected an incorrect approach which asserted that the small peasantry displays irrationality and inefficiency in its economic activities in that they wilfully participate in activities which have "negative profits" and furthermore, forfeit the advantages of specialisation in the activity of maximum profit by

Table 7: Poor Peasants and Tenancy (Rabi 1969-70)

Sub-Groups	No of Households in Sub-Group	Total Area Operated by Households in Sub-Group (acres)	Average Area Operated by Households in Sub-Group (acres)
Owner cultivators	14	25.97	1.86
Largely owner cultivators	3	8.74	3.91
Largely tenant cultivators	3	15.51	5.17
Tenant cultivators	20	28.73	1.44
Total poor peasants	40	78.95	1.97

Table 8: Size Distribution of Operated Holdings of Poor Pure Tenant Households (Rabi 1969-70)

Size Class of Operational Holding (acres)	No of Households in Size Class	Total Area Operated by Households in Size Class (acres)	Average Area Operated by Households in Size Class (acres)
0.01 to 1.25	15	11.22	0.75
1.25 to 2.50	2	3.75	1.88
2.50 to 5.00	2	8.34	4.17
5.00+	1	5.42	5.42
Total	20	28.73	1.44

Table 9: Tenancy Transfers by Class (Rabi 1969-70)

(acres)

Group From \ Group To	Rich	Middle	Poor	Outside Village	Total
Rich	7.71	29.37	36.85	21.36	95.29
Middle	5.20	6.24	—	1.04	12.48
Poor	0.26	3.33	4.58	—	8.17
Outside Village	3.95	54.59	3.12	—	61.66
Total	17.12	93.53	4.55	22.40	177.60

greatly diversifying their activities, thus lowering the average rate of profit for the household. It was shown that this erroneous view stemmed from methodological errors (from an application of inappropriate industrial accounting methods and categories of analysis) or from the necessity of the "political" economist to demonstrate that if the peasant households are poor, they have only their own irrationality to blame, making it appear that prosperity must await the infusion of the spirit of capitalism. But as was seen, this position is false. Sound economic reasoning explains the peasant household's behaviour which represents, paradoxically, not irrationality, but a calculated endeavour on the part of the household to eke out a subsistence in the face of changes which threaten to pauperise the household altogether.

In the following sections, we will attempt to shed some light on the operation of the process of the differentiation of the peasantry in the concrete village set-up. The essence of the process of differentiation lies in the historical conversion of the peasantry, which is not a class as such, into two identifiable classes which are ranged at the opposite ends of a capitalist social relation. The operation of historical socio-economic forces differentiates, from within the varied mass of the peasant households, between the rich and the middle and the poor peasants. On the one end of the spectrum of the peasantry, it transforms the rich peasants (and some of the middle peasants) into capitalist farming households (relying largely on hired labour, producing essentially for the market, using modern cultivation methods and machinery for large scale farming); at the other end, it pauperises the poor peasant households and the worker peasant households by destroying their economic basis, and thereby their major sources of income, and through this process, converts these households into proletarian households, relying largely on agricultural labour for their livelihood. The middle peasant households are not free of these turbulent tendencies, and are drawn towards either end of the scale depending on their concrete economic circumstances.

Table 10: Occupational Structure by Class

Occupations	Rich		Middle		Poor		Total	
	Main	Subsidiary	Main	Subsidiary	Main	Subsidiary	Main	Subsidiary
Own cultivation	39	—	19	2	16	4	74	6
Tenancy cultivation	—	6	7	10	2	24	9	40
Agricultural labour	—	—	—	6	36	44	36	50
Trade								
Shopkeeping	—	—	—	2	4	2	4	4
Vegetable selling	—	—	—	1	3	7	3	8
Ice selling	—	—	—	—	—	2	—	2
Cloth selling	—	—	—	—	—	1	—	1
Gola Mishri selling	—	—	—	—	5	13	5	13
Bangle selling	—	—	—	—	2	—	2	—
Popcorn selling	—	—	—	—	—	1	—	1
Cattle dealer	—	1	—	—	—	2	—	2
Milk and ghee selling	—	20*	—	18*	4*	31*	4*	69*
Total	—	21	—	21	18	59	18	101
Non-agricultural labour	—	—	—	—	5	6	5	6
Artisan/functionaries								
Basket weaving	—	—	—	—	—	4	—	4
Potter	—	—	—	2	1	6	1	8
Mason	—	—	—	—	—	1	—	1
Rope and straw products	—	—	—	—	1	1	1	1
Duree weaving	—	—	—	—	1	1	1	1
Locksmith	—	—	—	—	1	—	1	—
Carpenter	—	—	2	1	1	—	3	1
Oil extraction	—	—	—	—	—	2	—	2
Gur making	—	—	—	—	—	3	—	3
Cotton ginning	—	—	—	—	—	2	—	2
Barber	—	—	—	—	1	2	1	4
Sweepers	—	—	—	—	—	3	—	3
Washing	—	—	—	—	—	2	—	2
Begging	—	—	—	—	2	4	2	4
Priest	1	1	—	—	—	—	1	1
Charkha weaving	—	—	—	—	1	—	1	—
Total	1	1	2	3	9	31	12	35
Transport								
Tonga/cart driver	—	—	—	1	1	—	1	1
Muleteer	—	—	1	2	11	1	12	3
Total	—	—	1	3	12	1	13	4
Services								
Teacher	—	4	2	2	1	—	3	6
Tailor	—	1	—	—	2	1	2	2
Flour milling	1	—	—	—	—	—	1	—
Chowkidar	—	—	—	—	—	1	—	1
Tractor driver	—	—	—	—	1	1	1	1
Band player	—	—	—	—	1	16	1	16
Mechanic	—	2	—	1	—	—	—	3
Other services outside village	1	3	1	—	3	3	5	6
Total	2	10	3	3	8	22	13	35
Grand Total	42	38	32	48	106	191	180	277

* These households all maintain milch cattle for the production of milk and ghee which is sold to a middleman.

In what concrete forms is this process at work in the village? And up to what stage has this process developed?

Further, the contents of these sections will provide the appropriate backdrop for a critical appraisal of a widely held view of the character of the distribution effects of the capitalist transformation of the agrarian economy. Contrary historical and statistical evidence notwithstanding, there exists a popular view which maintains that as capitalism diffuses into the mores of pre-capitalist society through the medium of the "green revolution", *all* classes of the rural economy slide significantly upwards along a prosperity scale. An implicit assumption is that the social and economic linkage multiplier effects generated by the "green revolution" will serve as carriers of the new prosperity into the hinterland of the impoverished small peasant and labouring classes.

In anticipation, we might state here that our findings stand in general disagreement with the inferences and the implications of such a view. The precise reasons for this disagreement will become apparent as the conditions and the prospects of the poor peasant/non-peasant category of households are studied in greater detail.

II

Basic Features of the Village Economy

In order to provide the appropriate perspective for the study of the process of differentiation of the peasantry, we will present in this section some information about the village economy in general, and some other data pertaining to the position of the various classes in the economic structure of the village. The tables referred to provide data pertaining to the agricultural year 1969-1970.

Though there exists considerable diversification in the cropping pattern, Parhill remains essentially a wheat growing village. (Other crops include cotton, sugarcane, tobacco, gram, barley, pulses, oilseeds, vegetables etc.) Situated as it is in Aligarh, a Package Programme District, Parhill displays all the outward manifestations of the so-called 'Green Revolution' — tube-wells, tractors, new seed and fertiliser, etc. The fact that it is one of the interior villages in the region (the nearest roadhead is five miles distant) does not seem to have stifled the absorption of the new technology.

The village population of 1,073 is accounted for by 185 households. The village land, all of which is irrigated, and most of which is fertile, is 535 acres (1961 Census). In the study, however, we have included also the land owned by the village households in neighbouring villages. This extended area owned amounts to 679.59 acres.

Some basic economic features relevant to the study are noted below in summary form.

(1) The village has a highly skewed distribution of ownership of land. Thus 97 of the 185 households, or 52.43 per cent of the households, own no land at all; and the top 8 per cent households own over 48 per cent of the land. A similar distribution characterises the ownership of other fixed capital goods (*cf* Tables 4; 12; 13).

(2) This fact reflects itself in a superabundance of labour resources in relation to other resources available (at the level of the village), as also in relation to the level of technology (*cf* Table 10).

(3) A careful (though admittedly and inevitably arbitrary) classification divides the 185 households into 45

rich peasant and rich non-peasant households; 32 middle peasant and non-peasant households; and 108 poor peasant and poor non-peasant households. These last 108 poor households, on whose economic activities we will be focusing attention, comprise 40 cultivating (i e, peasant) households (of which only 21 own any land at all, average land owned being 1.92 acres); and 68 poor non-peasant (i e, non-cultivating) households (*cf* Tables 1; 5).

(4) The large majority of these 108 poor households display a phenomenal variety of occupations in their annual production programmes (*cf* Tables 10; 11).

(5) The poor group of households possesses a very traditional pattern of skills. In fact, a considerable number of them are unskilled. But virtually all these households, whatever their main occupation, are capable of performing agricultural labour.

(6) The stock of capital owned by the poor group of households is very low, and invariably embodies an old technology tied to the traditional skill pattern associated with the old *jajmani* system of division of labour between occupations at the village level. Hence, this capital stock is specific to use, unshiftable, and considering its character, quite unsaleable.

(7) These factors — including the historical hang-overs of the old decayed *jajmani* division of labour — restrict the mobility of several poor non-peasant households within occupations. The historically governed (and often inherited) patterns of resource and especially skill endowment of the households, in themselves, become entry barriers.

(8) Contrary to popular belief, small time tenancy is rampant. And a significant proportion of households involved in tenancy cultivation are poor peasant households who collectively account for only a very low proportion of the total area of land under tenancy cultivation in the village (*cf* Tables 6; 7; 8).

(9) One fundamental fact which needs to be borne in mind throughout the study is the degree of impoverishment of most poor group households, which hovers perpetually around — and quite often below — levels where the household has to fight to keep malnutrition at bay.

(10) Politically, the rich sections are dominant, and in some aspects, all-powerful. They control the Panchayat; the village pradhan is a typical

TABLE 11: CLASSIFICATION OF HOUSEHOLDS BY OCCUPATION COMBINATIONS

'Main Occupation/ Subsidiary Occupations	Rich		Middle		Poor		Total
	Peasants	Non-Peasants	Peasants	Non-Peasants	Peasants	Non-Peasants	
Own Cultivation	26	—	10	—	6	—	42
Tenant cultivation	6	—	7	—	4	—	17
Agricultural labour	—	—	—	—	2	—	2
Tenant cultivation and agricultural labour	—	—	1	—	3	—	4
Others	7	—	1	—	1	—	9
Total	39	—	19	—	16	—	74
Tenancy Cultivation	—	—	1	—	—	—	1
Agricultural labour	—	—	4	—	2	—	6
Agricultural labour, transport and trade	—	—	1	—	—	—	1
Artisan/functionary and trade	—	—	1	—	—	—	1
Total	—	—	7	—	2	—	9
Agricultural Labour	—	—	—	—	—	5	5
Tenant cultivation	—	—	—	—	2	—	2
Artisan/functionary	—	—	—	—	—	7	7
Trade	—	—	—	—	—	9	9
Artisan/functionary and tenant cultivation	—	—	—	—	1	—	1
Trade and tenant cultivation	—	—	—	—	5	—	5
Artisan/functionary and trade	—	—	—	—	—	4	4
Non-agricultural labour	—	—	—	—	—	3	3
Total	—	—	—	—	8	28	36
Trade	—	—	—	—	—	4	4
Agricultural labour	—	—	—	—	—	5	5
Agricultural labour and tenant cultivation	—	—	—	—	1	—	1
Artisan/functionary	—	—	—	—	—	2	2
Agricultural labour and artisan/functionary	—	—	—	—	2	—	2
Tenant cultivation and artisan functionary	—	—	—	—	2	—	2
Own cultivation	—	—	—	—	1	—	1
Agricultural labour, tenant cultivation and artisan/functionary	—	—	—	—	2	—	2
Total	—	—	—	—	6	12	18
Non-Agricultural Labour	—	—	—	—	—	—	—
Agricultural labour	—	—	—	—	—	5	5
Total	—	—	—	—	—	5	5
Artisans and Functionaries	—	1	—	1	—	2	4
Agricultural labour	—	—	—	—	—	2	2
Tenant cultivation	—	—	1	—	—	—	1
Transport	—	—	—	—	—	1	1
Agricultural labour and trade	—	—	—	—	—	2	2
Agricultural labour and tenant cultivation and trade	—	—	—	—	1	—	1
Agricultural labour and own cultivation	—	—	—	—	1	—	1
Total	—	1	1	1	2	7	12

(Continued)

TABLE 11 CONCLUDED

Transport	—	—	—	—	—	1	1
Agricultural labour	—	—	—	—	—	1	1
Agricultural labour and tenant cultivation	—	—	—	—	1	—	1
Agricultural labour and artisan/functionary	—	—	—	—	2	4	6
Transport with agricultural labour artisan/functionary and own cultivation	—	—	—	—	1	—	1
Tenant cultivation, trade and artisan/functionary	—	—	1	—	—	—	1
Total	—	—	1	—	6	6	13
Services	—	2	—	1	—	2	5
Cultivation	—	—	1	—	—	—	1
Agricultural labour	—	—	—	—	—	6	6
Artisan/functionary	—	—	—	1	—	—	1
Total	—	2	1	2	—	8	13
Solely rent receivers	—	3	—	—	—	—	3
Unemployed	—	—	—	—	—	2	2
Grand Total	39	6	29	3	40	68	185

rich peasant; the VLW, the Patwari, small-time co-operative officials etc, all cater to the interests of the rich whenever called upon to do so. In real terms, the weakness of the poor sections is to be attributed to the primitive state — at present — of class consciousness and political organisation based on class identity. We will not comment on the political dimensions of agrarian capitalist transformation as evidenced in Parhill, as this deserves specific and detailed attention.

III

Differentiation: The Poor Peasantry

(1) INTRODUCTION

In section I we made some comments about certain methodological issues relevant to a study of the peasantry. In this section we will attempt to study the overall economic conditions of the poor category of households; their position and magnitude in the village economy; the manner in which the economic forces unleashed by the so-called green revolution are affecting, and are likely to affect in the near future, the economic conditions of the household; the impact that altering conditions are likely to have on the household as a form of production organisation; and on the pauperisation and proletarianisation of the small peasantry in general.

In this study our primary interest centres around an analysis of the processes making for the economic transformation of the agrarian economy, rather than in making sensational statements about the level of poverty of the small peasants, or in suggesting measures of 'reform'. Admitting these pre-occupations into the study only tends to obfuscate the analysis of the processes of transformation.

For the purpose of our study, we focus attention on a category of households whose important feature is that they combine a multiplicity of occupations in the process of earning their livelihood. As often as not, these households own a small plot of land which cannot, even by a long stretch, provide them with the means of subsistence for the year. And as often as not, once again, those who do not own such a plot, lease in a similarly small plot for tenant cultivation. Almost invariably, the plot of land cultivated by such households is considerably smaller than the largest plot that the household could cultivate were it to specialise in cultivation alone. The peculiar tendency, however, is to combine the cultivation of the small plot with several other occupations. Neither is the phenomenon of multiple occupations limited to those who cultivate land — landless labourers who are not tenants also exhibit such a pattern of occupations.

To be able to make an assessment of the place of the households of the poor category in the process of differentiation, we will study the impact that incoming capitalism has on the economic conditions under which the several occupations displayed by these households are carried out.

(2) CATEGORISATION OF OCCUPATIONS

The activities of the 108 small peasant-cum-multioccupational households are divided into three groups. In the first group are the several artisan and handicraft production occupations, services, petty trades and shopkeeping. The *second group* comprises occupations that are closely connected with cultivation, i e, own cultivation, tenancy cultivation, and agricultural labour. The motive behind this division is essentially analytical expediency. Thus, the immediate impact of the new technology is absorbed by the second group, and only second-round effects of the new technology are felt by the first group. Occupations in this group respond more to the secular development of the forces of capitalism in the rural economy. The new technology alters radically the conditions of operation of the occupations in the second group, but it gets to affect the first group occupations only insofar as the first round impact of the new technology generates forces which enhance the speed of the emergence of capitalism in rural economy. However, these groups do not have a neat line of division. There exist occupations which could be placed in either group, *viz*, oil extraction, cotton ginning, gur making, etc. Furthermore, these groups do not exhaust the occupations followed in the rural economy. The rapidly changing economic conditions in the countryside have ushered in several new occupations. These occupations — which are categorised in a *third group* — have been generated essentially through the linkage-multiplier effects of the green revolution's technological and infrastructural requirements. These new occupations of the third group are of two kinds: firstly, those which are associated with the new technological requirements, i e, skills made necessary by the process of mechanisation or the adoption of better techniques of cultivation, *viz*, tubewell fitting and repairs, elementary electrical work, masonry, tractor servicing and driving, etc; secondly, those vocations which are thrown up by the infrastructural linkages of the green revolution at the district or the state level, i e, jobs with the block or district administration or co-operatives, district transport services, school teaching, etc. We might note here that the poor households almost never display these occupations of the third group; they seem to be largely

the monopoly of the rich peasantry and town dwellers.

The manner in which the small peasant households are affected by the changing economic conditions, and in particular by the pervasion of capitalism into the countryside, depends upon several factors:

(i) The overall skill and resource ownership position of the household and its opportunities.

(ii) The manner in which the occupations in which the household is involved are being affected by the changing conditions.

(iii) The extent to which the household is involved in those occupations which are adversely affected.

(iv) The ability of the household to shift its resources into more profitable activities from occupations which are on the way out.

We will take up the group one, two and three occupations in that order.

(3) Village Handicrafts, Petty Trade and Services

Let us first consider the occupations involving petty production at the household level (*cf* Table 10).

The household's capital resources — whatever the form — are minimal. Its skills are also limited to certain traditional vocations that do not involve the use of much capital. The only resource that it possesses in any degree of abundance is labour. Thus, the resource position seriously limits the opportunities for productive employment. These opportunities are further constrained by institutional forces which cut the mobility between occupations.

The technique of production is exceedingly labour intensive and also very primitive. Within these limits, some degree of division of labour is possible in production at the level of the household, through the involvement of female and child labour in certain functions.

Market conditions are depressed and competition variable. The demand for several village products is disappearing due to the changing tastes of the buyers. Demand for others is on the decline because the new technology makes them unnecessary, e g, leather buckets for irrigation. For yet others, demand is cut because of the availability of cheap urban manufactures, e g, weaving products. Apart from falling aggregate demand, the market position is bad for any one household because there are too many competitors vying with each other for a share of the market, directly or indirectly. This is less so for the *jajmani* occupations and trades where the markets are relatively sheltered by the prevalence of institutional contracts. But here, demand has been eroded by a switch to urban manufactured substitutes on the part of the consumer and also because with successive generations the number of households catered to by any one *jajmani* producer has been falling. (This is both on account of the erosion of the market for the product as such, as well as because of a falling share due to the practice of dividing the *jajmani* contracts between the sons of the *jajmani* producer on his death or retirement.)

Surpluses from these occupations are very low, if at all they exist. But even where they do exist, their economic significance is limited because worsening demand conditions prevent their use for expanded reproduction in the same industry and they are not likely to save the household from the deteriorating conditions of the occupation. Neither are there any lucrative alternative opportunities open to the household for productive investment of small surpluses. Such surpluses, while they last, are more likely to be consumed than saved. However, the negative surplus-making households in these occupations find it worthwhile to continue in these activities because the marginal returns are greater than the marginal real cost of labour power in a period when there is no alternative employment.

Production occupations thus provide an increasingly smaller share of the household's total income. The demand for income, however, does not register a similar fall. Hence, the household must, of necessity, seek to cut its losses by participating in another occupation — usually one which does not have stiff entry requirements. We can infer safely, therefore, that the households that rely on such occupations for a major portion for their incomes are likely to be adversely affected as these occupations get phased out; and this phasing out is likely to be more rapid, the greater the speed of the emergence of capitalism. The activities that we feel are going to expand under pressure of these declining occupations are the services, shopkeeping and petty trade occupations. And, as we will note from illustrations pertaining to the cases of shopkeeping and the petty trades, these occupations do not have particularly profitable possibilities either.

As the market conditions worsen for the petty trades, the hawkers have to go farther and farther afield to tap new markets. Here we might mention that the lengthy trips of the petty trader testify neither (a) to a highly organised social division of labour in the rural economy nor (b) to the wide economic 'extent' of the market. Regarding (b), there are two points to note. First, that the village market for products sold in petty trade, e g, bangles, gola misri, ices, etc, is easily exhausted and, therefore, to be able to earn a certain minimum amount from this activity, the bangle-seller, or any other roving trader, must walk to the next village hoping to corner some demand there. Secondly, his competitors are not just petty traders selling the same ware (bangles), but also all other traders who sell substitutable knick-knacks whose cross-elasticity of demand for bangles is high. If we accept the premise that a certain given amount of the income of the people in the village is earmarked for expenditure on knick-knacks such as these, then the bangle-seller's local village market gets even more easily exhausted and as a consequence, his selling rounds become even lengthier.

Now consider an illustration from the occupation of shopkeeping. There are 12 shops in the village as against four a few years ago. For a village of 185 households this appears to be an abnormally high figure. Some of this increase can be explained away by the increases in the volume of trade on account of the increase in the population of the village; and some again, by the increasing prosperity of certain sections of the village community. However, there seems to be a particular reason for the increase in the *number* of shops. Our interpretation is that households which cannot for particular reasons enter other occupations, find even the low profit margins in shopkeeping attractive enough to effect an entry into the occupation. Further, shopkeeping is peculiarly vulnerable to this tendency because it is the least exacting of all the occupations from the point of view of entry conditions. All you need is some unemployed female or child labour and some working capital, which can be borrowed from the village moneylender. Thus, a shop might be set up temporarily for a few months when the household is unemployed, and be given up when better employment opportunities present themselves. Explicably then, it is usual to find shopkeeping to be only one of several activities of the households involved. It must also be clear by now that the expansion in the number of shops in a village does not necessarily reflect prosperity — and certainly not in Parhill.

Returns to this group of non-agricultural occupations are exceedingly low and the trend downwards for the reasons indicated above. Surpluses, too, are very low if not negative, and the technology only marginally viable. An interesting characteristic of these occupations is the stop-gap role assigned to them in a poor household's production programme. These are activities which at the margin have been preferred to unemployment, and in most cases likely to be characterised by marginal returns which are well below average daily consumption rate, though the marginal returns might be somewhat greater than the marginal real cost of labour used up.

How depressed the situation is can be gauged from the fact that though the petty trades take up almost no working capital, and have at least positive returns, most households stay unemployed for anything from two to five months in the year. The reason for this is that in these seasons there are almost no employment opportunities available. Those who have the contacts and the capability, and some others who have neither but have the desperation, move out in the long lean months and work at brick kilns in towns many miles distant. Several households are known to move out annually in groups to Agra for this purpose.

Let us now look at the second group of occupations — those connected with cultivation i e, own cultivation, tenancy cultivation and agricultural labour. Each of these is distinct in itself and must necessarily be considered separately, since it is likely to be affected differently by the forces

Table 12: Ownership of Selected Assets in the Village

Assets Owned	Group			
	Rich (45)	Middle (32)	Poor (108)	Total (185)
Pucca houses				
(a)	31	10	10	51
(b)	3,02,550	31,225	22,350	3,56,125
	(84.96)	(8.77)	(6.28)	(100.00)
(c)	55.95	55.32	76.35	56.83
Tubewells				
(a)	18	—	—	18
(b)	99,500	—	—	99,500
	(100.00)			(100.00)
(c)	18.40	—	—	15.88
Well and Persian wheel				
(a)	2	1	—	3
(b)	3,100	2,000	—	5,100
	(60.78)	(39.22)		(100.00)
(c)	0.57	3.54	—	0.81
Tractors				
(a)	4	—	—	4
(b)	62,800	—	—	62,800
	(100.00)			(100.00)
(c)	11.61	—	—	10.00
Improved agricultural implements				
(a)	6	—	—	6
(b)	4,670	—	—	4,670
	(100.00)			(100.00)
(c)	0.86	—	—	0.75
Drought cattle				
(a)	38	21	8	67
(b)	52,950	19,160	3,760	75,870
	(69.76)	(25.25)	(4.96)	(100.00)
(c)	9.79	33.95	12.84	12.11
Durable consumer goods				
(a)	32	17	29	78
(b)	15,138	4,055	3,162	22,355
	(67.72)	(18.14)	(14.14)	(100.00)
(c)	2.80	7.18	10.80	3.57
Total				
(b)	5,40,708	56,440	29,272	6,26,600
	(86.29)	(9.02)	(4.68)	(100.00)
(c)	100.00	100.00	100.00	100.00

(a) Number of households owning asset.
(b) Amount spent (Rs).
(c) Amount spent as percentage of total amount invested in all assets.

Table 13: Pattern of Draught Cattle and Milch Cattle Ownership in the Village

Group	No of HHs in Group	No of HHs Owning Bullocks	No of Bullocks Owned	No of HHs Owning Milch Cattle	No of Milch Cattle Owned
Rich peasants	39	37	88	36	73
Rich non-peasants	6	1	2	6	10
Middle peasants	29	21	39	26	39
Middle non-peasants	3	—	—	3	5
Poor peasants	40	8	13	23	30
Poor non-peasants	68	—	—	28	33
Total	185	67	142	122	190

Table 14: Long-Term Credit from Land Development Bank/Agro-Industrial Corporation (Aligarh)

Group	No of HHs in Group	LDB		AIC		Total	
		No of Borrowing HHs	Amount Borrowed (Rs)	No of Borrowing HHs	Amount Borrowed (Rs)	No of Borrowing HHs	Amount Borrowed (Rs)
Rich peasants	39	10	40,000	2	16,718	12	56,718
Middle peasants	29	—	—	2	—	—	—
Poor peasants	40	1	600	—	—	1	600*
Total	185	11	40,600	2	16,718	13	57,318

* Used for consumption.

of incoming capitalism. The reason for grouping them together in the first place was that these occupations bear the brunt of the first impact of the new technology, and are thus more directly affected by the so-called green revolution. However, the economics of each of these activities is very different.

(4) Own Cultivation

To the extent that the new technology is divisible, i e, in the use of fertilisers and improved seed, the small farmer can benefit from the green revolution to the extent that he has land. Hire facilities also tend to make fixed inputs (such as bullock power and tube-wells) divisible, but only to a limited extent; because at the hire prices prevalent, the hiring small farmer uses these inputs at lower levels of intensity than he would have had he owned them. While the size of the subsistence plot falls on account of the increase in productivity per acre, whether or not the household can meet its subsistence requirements in the new situation depends on the size of its landholding. Land owning small peasant households are generally speaking better off on account of the new technology than the non-land owning poor households. Furthermore, a surplus in cultivation is a progressive surplus as it makes it possible for the household to intensify its application of inputs, thereby further increasing its output. Thus, multi-occupational households which earn a reasonable portion of their income through cultivation of own land are better placed to withstand the forces making for proletarianisation than the other poor households.

But how much land does the peasant household in question own? Very little indeed. Thus the 108 households that fall into this category own only 43.40 acres of land. For the 24 households that own all this land the average holding is 1.71 acres. This figure is well below any accepted subsistence-plot size for the average size family. This minimal land-holding also limits the extent to which the small peasant can benefit from the new technology.

(5) Tenancy Cultivation

Here we are only concerned with those tenants who are small peasants. Large scale professional tenancy cultivation is not considered. While both the cash rental and share-cropping forms of tenancy are prevalent, from the point of view of both the magnitude as well as the economic significance, share-cropping is the more important form. Our observations are limited to this tenancy form.

Table 15: Short and Medium Term Credit (Co-operatives)

(Amt in Rs)

Group	No of HHs in Group	Short Term: Cash Credit: No of Borrowing HHs	Short Term: Cash Credit: Amount Borrowed	Short Term: Kind Credit: No of Borrowing HHs	Short Term: Kind Credit: Amount Borrowed	Short Term: Total Amount	Medium Term: No of Borrowing HHs	Medium Term: Amount Borrowed
Rich peasants	39	13	17,330	4	546	17,876	9	9,900
Rich non-peasants	6	1	300	1	250	550	—	—
Middle peasants	29	9	6,670	4	414	7,084	4	3,300
Middle non-peasants	3	—	—	—	—	—	—	—
Poor peasants	40	9	1,520	2	142	1,662	1	900
Poor non-peasants	68	6	610	—	—	610	—	—
Total	185	38	26,430	11	1,352	27,782	14	14,100

Share-cropping a small plot throws up a smaller surplus than own cultivation. Indeed, the activity may be a zero surplus activity, but it is taken on largely because of the vital place it occupies in the technological matrix of the household's annual production programme. It also facilitates a fuller utilisation of the household's labour resources throughout the agricultural season.

The profitability of tenancy cultivation is cut because of two reasons.

(a) The tenant receives only 50 per cent of the gross output. The observed terms of cost-sharing make up this amount only partially.

(b) The reliance of the smaller tenants on *desi* fertiliser instead of the new chemical fertilisers makes for lower yields than would otherwise be possible. The reasons for this may be several. Usually, the small tenant does not possess the resources to finance the expensive fertilisers. Alternatively, it is normal practice for large owners of land to give out a small fraction of their land for share-cropping on the condition that it be fertilised only by farmyard manure, as it widely believed that such a rest from chemical fertilisers is necessary for the soil to recoup its fertility.

The tenancy cultivation occupation has another feature. Whatever the profitability of the occupation, the poor household has no certainty at all of its ability to procure a tenancy contract in any given year. The amount of land that is available for the purpose of sharecropping is variable and is largely governed by the requirements of the landowners. Thus, if a contract has been obtained for a year, there is no certainty that it will be available in the future as a constant source of income. Even regular leasers out are wont to change their tenants, as well as the particular plots they lease out almost annually, for fear of losing their rights over them. Thus from the point of view of a particular household, the tenancy contract is essentially of the nature of a windfall. Because of the uncertain conditions prevailing in the tenancy market, tenants have no inducement to invest in resources making for greater efficiency in their cultivation activity.

Another interesting fact is that this kind of tenancy invariably involves a rich, 'progressive', new technology-conscious farmer and a poor peasant household which owns no land.

(6) Agricultural Labour

Because of the nature of the occupations and the wide seasonal fluctuations in its returns, the supply of agricultural labour is highly elastic. The only entry condition imposed by this occupation is that the household possess labour resources and the most rudimentary of skills. It is not surprising therefore that very different kinds of households subscribe to this occupation. There are households which are traditionally and essentially agricultural labour households; others for whom agricultural labour is a subsidiary occupation; and yet others who participate only in the harvesting operations when supply runs short and wages are high. The supply of agricultural labour is augmented by the induction into this occupation of those households which are involved in decaying traditional occupations and which feel the need to supplement their declining incomes. The entry of these households into this occupation, especially in the slack season, worsens the demand-supply balance which goes to determine the short term wage rate.

Table 16: Utilisation of Loans from Non-Official Sources — By Purpose, 1969-70

	Group: Rich 45 (24.3)	Middle 32 (17.3)	Poor 108 (58.4)	Total 185 (100)
House construction and repairs:				
Households	—	3	10	13
Amount	—	3,900 (34.1)	7,520 (65.9)	11,420 (100)
Fixed capital investment (A):				
Households	5	6	11	22
Amount	3,850 (24.4)	5,200 (33.0)	6,700 (42.6)	15,750 (100)
Current agricultural inputs:				
Households	1	3	—	4
Amount	100 (9.1)	1,000 (90.9)	—	1,100 (100)
Trade and business:				
Households	—	—	2	2
Amount	—	—	200	200 (100)
Education and health:				
Households	—	2	1	3
Amount	—	1,300 (86.7)	200 (13.3)	1,500 (100.0)
Land purchase (B):				
Households	1	1	—	2
Amount	1,000 (50.0)	1,000 (50.0)	—	2,000 (100)
Debt redemption (C):				
Households	—	2	7	9
Amount	—	3,900 (47.0)	3,375 (53.0)	6,375 (100)
Tractors and tube-wells:				
Households	3	—	—	3
Amount	10,000 (100)	—	—	10,000 (100)
Consumption (D):				
Households	4	10	62	76
Amount	5,220 (9.9)	11,400 (21.6)	36,060 (68.5)	52,680 (100)
Totals (E):				
Cases	14	27	93	134
Households	12	21	80	113
Amount	20,170 (20.0)	26,800 (26.5)	54,055 (53.5)	1,01,025 (100)

Notes: Figures in brackets are column percentages.
(A) Other than in land, tube-wells and tractors.
(B) Including expenditure on land litigation.
(C) Including tenancy losses.
(D) Including durable consumer goods, expenditures on marriage, death ceremonies, etc.
(E) Since any household may have borrowed money for more than one purpose, the total number of cases of borrowing (by purpose) will exceed the total number of borrowing households.

The demand for labour has been affected by the fact that techniques of production have been becoming increasingly mechanised — a process that predates the so-called green revolution. Thus, the installation of tube-wells has cut the demand for labour for the irrigation activity. In one day spent on controlling tube-well water flows, a labourer can help irrigate a multiple of the amount that three labourers could with the old technique of irrigation with leather buckets and a well. Even those who do not own tube-wells can purchase their water requirements from tube-well owners and save on the use of hired casual labour. For the operation of tube-wells no serious manual operations are required and usually the family labour is quite enough. However, other functions such as weeding have maintained their demand. (Here the demand could have risen marginally.) It is only in the harvesting activity that the demand has risen convincingly.

It would be useful to study the implications of this increase. Apparently the demand at harvest time is so high that it necessitates the import of harvesting labour from nearby villages and roadside townships. Though this shows that the demand for labour registers a significant increase in the harvesting season, we cannot from this make facile inferences about the increase in the prosperity of the agricultural labourers.

Firstly, while money wages do rise in response to the increased demand, the upward pressure on wage rates is damped by increases in supply, due to (a) the import of external labour, and (b) the entry of a wide range of small peasant and multi-occupational households from within the village into the ranks of the agricultural labourers. Secondly, it must be remembered that the harvesting activity has to be carried out rapidly, and is usually finished within a fixed period. This is for fear of the crop being destroyed on account of grain-shedding or unseasonal rain. Since the period of harvesting lasts only for a short duration, it permits the village households only a certain maximum number of days of employment. The fact that there is a larger crop to be harvested does not mean that a longer time will be taken to gather it, only that it becomes possible for a larger number of labourers to find employment for the relatively fixed harvesting season.

The gains from increased employment opportunities thus accrue mainly to agricultural labour imported from outside the village; the gains to the regular agricultural labourer classes on account of the so-called green revolution are not nearly as fantastic as they are made out to be. This is especially so when one remembers that the demand for agricultural labour for operations other than harvesting has, if anything, registered a decline.

The natural conclusion for this category of agricultural occupations is that the only occupation where the green revolution has perceptibly increased the incomes of the small peasant-cum-multi-occupation household is

TABLE 17: REPAYMENT CAPACITY OF HOUSEHOLDS FOR LONG-TERM LOANS (AS CALCULATED BY GOVERNMENT AGENCIES)

Repayment Capacity	No of Households Having Repayment Capacity as Under (Rupees)								Total No of HHs
	1-500	500-1000	1000-2500	2500-5000	5000-7500	7500-10000	10000-15000	15000-20000	Over 20000	
					For Agro-Industries Corporation					
Rich	—	—	—	1	1	3	12	9	16	42
Middle	1	—	—	—	10	5	5	1	—	22
Poor	2	3	5	12	1	1	—	—	—	24
Total	2	4	5	13	12	9	17	10	16	88
					For Land Development Bank					
Rich	—	—	—	3	5	11	13	6	4	42
Middle	—	1	—	11	6	3	1	—	—	22
Poor	4	3	13	4	—	—	—	—	—	24
Total	4	4	13	18	11	14	14	6	4	88

the activity of cultivation. Now if we recall that the small peasants own a negligible proportion of the land, and that this is parcelled out amongst several families, we get the inescapable result that whereas the own-cultivating peasant households of this category might have become slightly better off than their non-landowning comrades, they are badly off all the same, and without the passport to gain an entry into the green revolution's land of plenty. As far as tenancy cultivation and agricultural labour are concerned, we find that they have not become as rewarding as would appear at first glance.

(7) NEW OCCUPATIONS

We now pass on to the third group of occupations — the group which comprises activities which have been generated by the linkage-multiplier effects of the 'green revolution'. We have observed already that both the first and the second group occupations have not experienced any marked improvement in their conditions. Indeed, some of the occupations have suffered on account of the first round or second round impact of the 'green revolution'. Let us now see if the economic conditions of the households improve on account of their participation in the new occupations, which are stated to be an integral part of the process of diffusion by which the benefits of the linkage-multiplier effects of the new technology are meant to seep through to the small peasant and labouring classes in the village. We will consider the technological and the infrastructural employments in turn.

(a) *Technology-linked Occupations* (e g, tube-well fitting and repairs, electrical work, construction and masonry, elementary tractor servicing and repairs, driving, etc, and operating other mechanical devices). While some technology-linked occupations have been established at the village level, these are restricted to skills which can be easily acquired through a learning-by-doing process, e g, minor repairs to tube-wells. However, many such occupations require a level of skill and sophistication not easily acquired in the village, e g, tractor overhaul, and have been established only in the large urban centres and at best in the local townships. It is only here that the employment multiplier effect has been felt to any substantial degree. It is not possible for the poor household to effect an entry into these professions because the so-called mobility and versatility of the small peasant does not, and indeed cannot, extend to these modern technological skills. Further, the option of learning-by-doing is limited to those who possess these mechanical equipments and instruments themselves. These are invariably the rich peasants.

(b) *Infrastructure-linked Employments*: (e g, clerical work, low level administration jobs, school teachers, etc). The infrastructural employments all demand a different kind of skill, *viz*, administrative skill, but even more than that, the ability to read and write (preferably English). These skills are acquired only after a long period of investment in education. To become a teacher, a basic training certificate is necessary, and currently these jobs are open to those who started, and have maintained, their education over the past 15 years. It is not surprising, therefore, that the principal gainers from these occupations are once again the rich and middle peasant households. Furthermore, the ten years of the green revolution in this area has not reflected itself in the education pattern in the village. Secondary and higher education has become more popular, but it continues to be a monopoly preserve of the rich.

In conclusion, it would be largely correct to say that there exists no automatic process internal to the working of the green revolution that makes for the diffusion of the new prosperity to the impoverished sections of the agrarian economy. If anything, the logic of the green revolution seems to work to the contrary.

(8) ECONOMIC OPTIONS

Let us extend the analysis further and consider the various options open (by way of shock-absorbers) to the small peasant-cum-multi-occupation household which is making negative surpluses in relation to its simple reproduction costs of labour power. Five independent options suggest themselves.

(a) *Switching to More Profitable Occupations*: Switching is resorted to continually i e, each year the household's production programme may be quite different, depending on which sequence of activities is the most profitable given the circumstances for the year. However, this switching is restricted to those occupations to which households of this category have entry. As we have seen, these households are more or less debarred from the progressive and the more profitable occupations, *viz*, cultivation and the new occupations, on account of their poor resource and skill ownership pattern. Hence the option of switching occupations is exercised essentially to make the best of a bad situation; it cannot be used to change radically the character of the fundamental economic conditions of the households themselves.

(b) *Sale of the Capital Resources of the Household:* A part of the household's capital stock could be sold in order to meet a shortfall in the annual income flows. This option is hardly ever exercised, and for good reasons. The only saleable capital that these households possess is either land or equipment on which traditional occupations are run. Land, which is security against total penury, is generally unsaleable; and selling the other capital equipment (in the poor selling market that exists for them) would only postpone the shock, because now the annual shortfall in income would be aggravated, since the future earning capability of the household would be cut. Thus, sale of capital becomes a relevant option only when the household decides to migrate.

(c) *Consumption Loans:* This widely exercised option helps the household to escape the trap of secular underconsumption, but only temporarily. Even though the rates of interest are exploitative (up to 48 per cent), consumption loans are resorted to, in part due to the knowledge that the principal does not really have to be paid back so long as the household is regular with its annual interest payments. (In some cases, instead of paying the annual interest charge, households perform an equivalent amount of manual labour for the money-lender. These cases are limited to households which are unable to pay the interest charges continually.) As the interest charges are recurring, and as the household has almost no chance, under normal circumstances of repaying the principal, buffer consumption loans cumulatively increase the burden of repayment on the household's production programme, which was running in the red to begin with. Furthermore, there seems to be a low ceiling to the total amount of consumption loans that the poor household can take in from other households. Moneylenders possess a fairly accurate picture of the interest paying capacity of the households which regularly seek consumption loans against dubious security. Hence, while almost every poor peasant and poor non-peasant household has outstanding loans against it, this option does not represent a permanent or a painless way out of the household's under-consumption problem (*cf* Table 16).

(d) *Secular Underconsumption:* In the absence of any radical improvement in the economic conditions of the households, the option which the household is obliged, of necessity, to exercise is to limit its consumption essentially to what it can earn from its productive activities, i e, to resign itself to underconsumption. It is exceedingly difficult to estimate incomes of particular households (especially when they have a multi-occupational character), and we will therefore not enter that maze of conceptual and statistical dead-ends. On the basis of the information and knowledge of the village that we have at our disposal, we could venture to say without hesitation that the large bulk of the poor peasant and poor non-peasant households live on the border, and very often well below, what has euphemistically come to be known as the Poverty Line. (This Poverty Line could, under some assumptions, be regarded as a rough approximation to the simple reproduction costs of labour.)

(e) *Migration:* The ultimate option before the household is to migrate permanently to the local or district towns. We do not know of any poor peasant or non-peasant household which has moved out in this fashion in recent years. The reasons are readily available. Firstly, for the poor peasant, the insecurity and the uncertainty associated with this move are exceedingly high. Secondly, existence is a much more costly affair in the towns than in the village (where in extreme cases, institutional buffers are temporarily available). Thirdly, if the household owns some patch plot of land, it is certain of earning a life-maintaining amount of income, an assurance which is lacking is the unskilled casual labour market in townships. What we find, therefore, are some natural compromises. Some individuals from hard pressed households migrate to the towns, leaving their families behind. This step enables them to earn and remit some (even though minimal) money to the family, which in the mean while, attempts to make the best of opportunities open to it in the village. Other households move out collectively in particular seasons, when work is more or less assuredly available in local townships, or at brick kilns upto fifty miles distant. The potters and muleteers manifest such behaviour in seasons when the opportunities are not forthcoming, or rewarding enough.

TABLE 18: MONEY-LENDING

Class	No of HHs in Group	Amount Lent (Rupees) 1-250 Number	1-250 Amount	250-500 Number	250-500 Amount	500-1000 Number	500-1000 Amount	1000-2000 Number	1000-2000 Amount	2000+ Number	2000+ Amount	Total Number	Total Amount
Rich peasants	39	4	450	—	—	3	1750	7	8750	6	28860	20	39260
Rich non-peasants	6	—	—	—	—	—	—	3	3275	1	4000	4	7275
Middle peasants	29	4	440	—	—	1	600	—	—	—	—	5	1040
Middle non-peasants	3	—	—	—	—	1	500	—	—	—	—	1	500
Poor peasants	40	2	300	1	400	2	1200	—	—	—	—	5	1900
Poor non-peasants	68	3	400	1	300	—	—	—	—	—	—	4	700
											Total	39	50675

IV

Differentiation: The Rich Peasantry

A detailed study of the rich peasantry would fall outside the purview of this paper. However, in order to understand the place of the rich peasantry in the process of differentiation, we will set down, albeit in summary fashion, the basic economic characteristics of the rich peasantry. Thereafter, we will briefly examine—firstly, tendency towards concentration in land ownership/control, and secondly, the role of credit and the household's internal surplus in the mechanics of differentiation.

(1) *Economic Characteristics:* The rich peasants have cultivation as their main occupation—of the 45 rich households, 38 have own cultivation as their main occupation. These 45 households (24 per cent of the total number of households) own 523.31 acres of land (77 per cent of the total village land). 38 rich peasants (a little

over 20 per cent of households) own 90 of the 142 draught cattle in the village (over 63 per cent of the total). 18 rich households own all the 13 tube-wells, while four rich peasant households own all the 3 tractors in the village. Both the flour mills are owned by rich households. Thus the rich peasant households own the vast proportion of the productive fixed capital of the village.

Their superior resource position reflects itself in their cultivation practices. Invariably they use the high-yielding seeds, fairly large quantities of chemical fertiliser (even though not in the optimal dosages), and liberal quantities of irrigation water. They have almost all registered impressive increases in their incomes and surpluses. Cultivation—which has come to include some commerical crops—has become increasingly market oriented, and makes considerable use of hired labour. Furthermore, they make a fair amount of income from the sale of irrigation water and hiring out of tractor services and bullocks to the poor peasants, as the marginal cost of the use of these resources is much lower to the owners than the hire price of these facilities. Such hire charges recover, for almost all the tube-well owning peasants, the total expenses involved in maintaining the tube-wells, including costs of irrigating their own fields as well as the interest charges on the loans which financed the tube-well purchase.

These households are also in a favoured position *vis-a-vis* the new occupations to which they have ready access. This is reflected, amongst other things, in the large number of individuals from rich peasant households who have migrated to towns to take up infrastructural jobs. This is to be contrasted with the distress seasonal migration of some of the poor households. Indeed, these rich migrants send back sizeable remittances to the parent households in the village.

(2) *Concentration in Land Ownership/Control:* A glance at the record of land transactions made during the last twenty years reveals the interesting fact that the current class of rich peasants has, since 1951, increased its area of land owned by a net purchase of 60.86 acres, which forms 11.6 per cent of their current owned land area. Of this, the post-1961 decade saw net increase of 23.55 acres, or 4.5 per cent of their current owned area. In contrast, both the current middle and the current poor households have registered a fall in the areas of land owned over the same periods. Thus, the poor households owned land holding has diminished since 1961 by 7.09 acres, and since 1951 by 9.04 acres, which are 16.3 per cent, and 20.8 per cent, respectively, of their current land owned area.

Let us now look at data concerning the other device through which concentration of land-holding occurs, *viz*, through leasing of land under short term tenancy contracts. We would usually expect in the process of differentiation, the concentration of land-holding with the rich peasants to be increased further through tenancy transactions—which can be effected even when increase in outright ownership is constrained by economic and legal factors. However, when we examine the inter-class leasing data, we find that in the reference year, Rabi 1969-70, the rich peasants had leased out 78.17 acres *net* to other classes, while both the middle and the poor groups, on the balance, leased in areas of 81.05 acres, and 36.28 acres *net*, mostly from the rich peasants. Thus, rich peasants leased out 14.9 per cent (net) of their owned land, while the corresponding net leasing—in percentages for the middle peasants and the poor peasants turn out to be 71.8 per cent and 83.6 per cent respectively. These movements go strongly contrary to the mild tendency towards concentration observed in the land sale/purchase figures.

How are these two opposing phenomenon to be explained? The conjectural interpretation that follows seems to us to be plausible in the context of the village.

The first clue lies in the economic motivations underlying the tenancy contracts made by the poor and the middle peasants. The leasing-in by the middle peasants is largely motivated by a desire to bring their operational holding size in closer relation to the fixed cultivation reasources that they possess, especially their ownership of draught cattle. We find for the middle peasants, the figure for average area cultivated per pair of draught cattle rises, and comes closer to the norm for the area "commanded" by a pair of bullocks. The leasing-in of land by poor peasants is largely a distress phenomenon, and the motivation of the rich peasants is essentially twofold: (a) by rotation, to give plots of his land "rest" from chemical fertilisers by leasing out to poor peasants who are obliged, contractually, to use *desi khad* only; (b) to exploit the labour of the poor tenant. (A detailed study of tenancy in this village is under preparation.)

The second point is that, currently, while rich peasants are aware of the economic advantages of large scale capitalist farming, a major shift to such cultivation is yet to be effected. Thus, while the worth of land as wealth largely explains the mild concentration tendency in land ownership since 1951, the current deployment of resources by class, and the techniques of cultivation make existing tenancy transfers desirable from the point of view of the classes leasing-in. The maturing of large scale capitalist farming is likely to introduce forces which will tend to revert the current direction of leasing.

(3) *Credit and Differentiation:* Mechanisation, and the adoption of the new technology by the rich peasants has proceeded at a rapid pace, especially since the mid-60s. This process has been strongly aided by the co-operative and the district credit programmes. These programmes have an in-built bias towards the rich land owning household. Using as they do, assessments of repayment capacity based on land ownership, they debar the smaller land owner from procuring a loan to finance the bulk of the investment in fixed capital resources. For example, no poor peasant is even formally eligible to acquire a standard Land Development Bank loan of Rs 5,000 for the installation of a tube-well. The Land Development Bank and the Agro-Industrial Corporation provided long-term credit totalling Rs 56,718 to 12 rich households. This is over 98 per cent of the loans given to this village, and forms 33.3 per cent of the total assets owned by the rich peasants in the form of productive capital in agriculture. Co-operative finance has made it both economic and possible for the rich peasant household to invest in fixed investment goods to an extent greater than it could have of it had to rely entirely on its internal surplus. The low rates of interest charged by the co-operative in relation to the borrowing rate of interest in the village market (9 per cent as against 24 per cent or over) are crucial in this respect. So also are the easy hire purchase terms at which the Agro Industrial Corporation offered credit till 1970—four-fifths of the finance for the purchase of tractors and the purchase of other agricultural implements was provided in the form of credit. These easy terms at which the rich landowners can borrow State finance is the major factor which explains the heavy overinvestment in certain fixed investment goods, e g, tube-wells.

The crucial economic significance of the rich household's easy access to liberal State finance at lucrative terms is that the investment plans of the household get divorced from the savings (real and potential) of the households—at least in the short run. Since both working capital as well as finance for fixed investment can be procured from outside, the larger part of the household's surplus is dissipated in consumption, or in unproductive investment e g, pucca house construction, durable consumption goods etc, and in expenditure on such status symbols as dowries. 31 rich households own pucca houses constructed at a total cost of Rs 3,02,550, twenty of them in the last five years. An interesting point to note about this investment is that not one of these households has outstanding credit (from non-official sources) on this count. Further, 38 rich household own durable consumer goods (bicycles, electric fans, watches, transistors etc etc) valued at over Rs 15,000. Another sizeable amount goes into money-lending—24 rich households had lent out a total of Rs 26,365 (net) in the reference year (nearly 92 per cent of total money lent by village households). Thus, but a fraction of the large surpluses thrown up by the new technology are ploughed back or channellised into other productive investment.

Thus, the rich peasant households—who serve as the chief carriers of the new technology—are in a vastly superior position to benefit from the 'green revolution' and its linkage and multiplier effects, for the primary reason that they own and control land, that vital resource without which it is impossible for a peasant household to gain from the 'green revolution'. This elementary rule seems to form the core of the complex process of capitalist transformation of the countryside.

V

Concluding Observations on Differentiation of Peasantry

(1) The peasantry is not a class as such; it is a surviving aspect of the old precapitalist modes of production. Even as such a category, the peasantry does not comprise homogeneous units; there exists tremendous economic differentiation between the rich, the middle and the poor peasant households.

(2) The emergence of capitalist relations, catalysed by the rapid adoption of the new technology leads to a marked expansion of the forces of production in agriculture. In this process the innovators and the carriers of the new technology and methods are the rich and the middle peasants.

(3) This rapid expansion in the forces of production in turn intensifies the process of polarisation of the differentiated peasantry, thus transforming the rich surplus-making peasants into machine using capitalist farmers on one end of the scale, while pauperising, and eventually proletarianising the small peasants and especially the village artisans and handicraft petty producers. Hence, it follows that the peasantry forms a historically crumbling category.

(4) Even though the process of differentiation is, historically a progressive movement, it does not follow that it spells prosperity for all the households and classes involved in it. The rich peasants, on account of their favourable position in relation to the ownership of the means of production, corner the benefits of the expansion of the forces of production. The same process, however, spells the ruination of small working-peasant classes. An inescapable conclusion must be that the 'diffusion-of prosperity' hypothesis that we referred to in an earlier section does not stand up to scrutiny.

(5) The rich peasant corners the benefits on account of the advantages of large-scale farming (*viz*, a higher rate of surplus); his superior resource ownership position; the bias towards the big landowners in the credit policies of the State agencies; and the fact that the rich peasants can use their political power for consolidating their position *vis-a-vis* the poor peasants and labouring classes.

(6) The poor worker-peasant is impoverished not because his economic decision-making displays irrationality of any kind. Indeed, the poor peasant displays a high order of economic efficiency in organising his annual production programe. However, despite this 'efficiency', the poor working peasant household is pauperised on account of the fact that the acute weakness of its resource ownership position precludes it from moving into the high return occupations in a big way. In fact, the changing economic conditions erode the viability of the traditional economic basis of the household. Indeed, it would be reasonable to say that if the harvesting operation was mechanised, many pauperised households would migrate to the local towns on a large scale, because the crucial and most profitable employment opportunity — high wage harvest labour — would dry up.

(7) We must also reject the petty bourgeois utopian view which eulogises the "superior efficiency" of the small peasant households and recommends its organisational form as a prototype of agrarian reform. Superior productivity per acre is stated to result from the "industrious nature" of the peasant, who is seen to spare no labour in squeezing out the last grain of output physically possible from the limited resources at his command. Multiplicity of occupations at the household level is then made out to be an illustration of his "versatility" and the wide extent of the market is assumed to be a manifestation of the high degree of social division of labour in household industry in the rural economy. In this context, the continued historical survival of this category of peasant worker households is considered to be a reflection of the "innate resilience" of the peasant economy. The preceding analysis has amply demonstrated the falsity of these assertions adequately. We find in the literature an exceedingly interesting parallel in the debate over the nature of Tsarist Russian agriculture, in which a petty bourgeois utopian school of thought characterised the peasant household and the peasant economy as ideal forms, through much the same line of reasoning as we have rejected. This school, with Bulgakov as a leading spokesman (and allegedly Chayanov as the leading theorist) was given a comprehensive reply by Lenin, who used Kautsky's earlier analysis to show conclusively that the 'versatility' of the small working-peasant household was either fictitious, or anachronistic and therefore historically doomed; that the 'resilience' of this household was really its desperate struggle for survival; and that the exceedingly hard work put in by the poor worker-peasant on odd jobs for a pittance, testified not to his 'innate industrious nature', but to the altered economic conditions which give him the crushing alternative of working for much less than subsistence through the long winter months, or to be altogether idle, and be buried in the spring.

In conclusion, we must state, at the risk of sounding tendentious, that many sterile debates exist in the literature over issues covered in this paper in particular, and over agrarian theory in general, which would have been pre-empted if Lenin's pioneering works on the economics of the capitalist transformation of agriculture had received the attention they so richly deserve.

The Rashtriya Swayamsevak Sangh—IV

Jan Sangh and Other Organisations

Walter Andersen

There is much evidence which suggests that the RSS leaders expected to influence politics in a Congress Party dominated by Vallabhbhai Patel. When the Congress Working Committee passed its resolution preventing RSS members from joining the Congress in late 1949 and when Patel acquiesced in this, the RSS did begin to look for some alternative way to influence politics.

Those elements in the RSS who proposed more direct political involvement received a hearing within the organisation that would not have been possible before 1948. This was the backdrop to the formation of the Jan Sangh and the RSS's role in it.

To extend the RSS's influence, a large number of other institutions were formed to spread the RSS ideology among various types of groups (i e, students, labour, teachers, etc). Rather than 'infiltrate' existing institutions, the RSS helped form separate groups. Because RSS members were excluded from many interest groups and political parties in the post-independence period, this option was, in a sense, forced on the RSS.

[This is the fourth, and concluding, instalment of this study of the RSS. The first three parts discussed the origins and growth of the RSS, the relationship between the RSS and the Hindu Mahasabha and the ban on the RSS following Gandhi's assassination which led many in the RSS to conclude that the organisation would have to transform itself into a political party if the movement was to survive.]

X

THERE are still many unanswered questions on the role of the RSS in the formation of the Jan Sangh. It is fairly clear that Vasantrao Oke, a prominent RSS pracharak in Delhi (and a strong supporter of the RSS itself becoming a political party) contacted Mookerjee as *early as in* 1949 on the feasibility of a new party. We also know that N B Khare met Mookerjee in Delhi on July 31 or August 1, 1950, when Mookerjee indicated that he was already in contact with Golwalkar on a proposed political party.[281] However, the position of the RSS was very much in doubt regarding official RSS support of a new political party, despite the active efforts of many RSS swayamsevaks. Balraj Madhok *insists* that, during the ban, most of the younger RSS members were in favour of the RSS itself becoming a political party.[282] Many RSS leaders have disagreed with this statement. Apparently, the feeling for a political party was stronger in Delhi and the Punjab than elsewhere. It does not seem to have been very strongly held in the birthplace of the RSS — Maharashtra. We have seen the Golwalkar himself opposed any idea of the RSS becoming a political party.

There is much evidence which suggests that the RSS leaders expected to influence politics in a Congress party dominated by Patel. When the Congress Working Committee passed the resolution preventing RSS members from joining the Congress in late 1949 and when Patel acquiesced in this, the RSS did begin to look for some alternative way to influence politics.[283] The HM was neither viable nor did its leadership get along particularly well with Golwalkar. This was obvious when the RSS refused to give any statement of support to the HM at their session in 1949 *in* Calcutta. The relations between the RSS and the HM had deteriorated considerably during the early 1940s. In 1943, Savarkar's office sent out a memo to provincial sabhas stating that, in many localities, "actual preaching is carried on against the Hindu Mahasabha and the Congressites control the Sangh [i e, RSS] activities. . . ." It was suggested that in such places HM members begin their own volunteer corps.[284]

There are contradictory opinions on whether Mookerjee initiated discussions with Varantrao Oke about a new party before or after he resigned from the Cabinet.[285] Whichever is true, it is a fact that Golwalkar was in no hurry to rush into an arrangement committing his organisation to any political party. In his recent biography of Mookerjee, Balraj Madhok points out that

> "The RSS leadership with its greater stress on organisational working and its keen desire to have the real control of the new party in its own hands wanted to take its time to usher it into existence. The delay irritated Dr Mookerji who, at one stage, even thought of going alone."[286]

RSS leaders have strongly denied this statement. They do not deny that Golwalkar delayed committing his organisation to any political party, but not because he wanted to establish RSS control over the new party. Golwalkar is known to be very cautious and keen to establish a consensus before making a decision. *It seems likely that any* delay was due to his attempt to reconcile both those who wanted the RSS to become a political party and those who wanted it to remain strictly aloof from politics. Madhok himself admits that the final decision was a compromise based on the RSS's relation with the Jammu and Kashmir Praja Parishad. In that case, the RSS loaned workers and support, but remained a separate and "cultural" unit.[287] *Evidence indicates* that Graham is correct when he attributes the delay to the common concern of Mookerjee and the RSS over the outcome of the Congress struggle for power. The victory of Nehru was rather conclusive evidence that the RSS and Mookerjee could exert influence on politics only through a new political party.

There is some evidence that suggests that Madhok was correct in stating that Mookerjee was somewhat apprehensive about RSS co-operation in his new political venture. The RSS Sanghchalak of Delhi and Punjab, Lala Hansraj Gupta, Pandit Mauli Chandra Sharma, and Madhok visited Mookerjee on October 11, 1951, proposing that he be the president of the new all-India Jan Sangh. He accepted but not until he had thoroughly discussed the relationship of the Jan Sangh with other "national forces", presumably the RSS. He had insisted that the Jan Sangh must be the "spearhead" of nationalist forces in India and must be open to all Indians.[288] This was agreed to. One

of Mookerjee's closest friends in Calcutta notes that Mookerjee had no intention of "playing second fiddle" to the RSS within the new party.[289] This point should not be unduely emphasised however. Golwalkar has always been convinced that politics as such is not an effective way to "change character", and "character change" is the primary goal of the RSS. Golwalkar has always insisted that the Jan Sangh and the RSS remain separate organisations. In an article which he wrote in 1956, Golwalkar reports that in his discus*cussions* with Mookerjee, prior to the formation of the Jan Sangh, he insisted that "RSS could not be drawn into politics, that it could not play second fiddle to any political or other party", nor could it be "a handmaiden to political parties". According to Golwalkar, Mookerjee insisted that the Jan Sangh could not be subservient to any other organisation. Both agreed.[290] While the issue is not discussed, there is little doubt that Golwalkar has never considered the Jan Sangh the "spearhead" of the nationalist movement. The RSS has always viewed itself as the leading force of nationalism in India.

From its inception, the Jan Sangh drew on the RSS for its organisational cadre. It is clear that Mookerjee saw the advantages of a delicated cadre from the RSS who could staff the young party. It is reasonable to assume that he saw the RSS members and sympathisers as an electoral base of support. Should the Jan Sangh ever leave the path of nationalism, as defined by the RSS, the RSS could withdraw support from the party and this would cripple it.[291] This ensures that the influence of the RSS on both policy and personnel will be significant.

RSS swayamsevaks, anxious for a new political party, began preparation for a regional nationalist party in Delhi and Punjab as early as in January 1951 shortly after the death of Sardar Patel. Prominent in the discussions were the RSS Sanghchalak for Delhi and the Punjab, Lala Hans Raj Gupta; Arya Samaj leader and editor of the Urdu daily *Pratap*, Mahashe Krishan; Siri Chand, a leader in the Jat politics of Haryana; Pandit Mauli Chander Sharma; Sanatan Dharma leader and old revolutionary, Lala Bal Raj Bhalla. Madhok and Mookerjee were also involved. They met in Delhi to draw up plans for a new party in the Punjab, PEPSU, Himachal Pradesh and Delhi, precisely those areas in which RSS sentiment for a new party was strongest.[292] A subcommittee was chosen to make arrangements for an áll-India party. Because of certain misconceptions that people might have, Mookerjee suggested that the name of the new party not include the term Hindu. He felt its nationalist intent would be better understood if the term Bharatiya were used.[293]

On April 18, 1951, Mookerjee announced in Calcutta his decision to form an all-India party. On May 5, he announced the formation of the People's Party in Calcutta.[294] In June 1951 the first public meeting of the People's Party was held in Shraddhanand Park in Calcutta. In his address to the meeting Mookerjee said that this party would soon align itself with similar organisations in India.[295] One such group had been formed in Jullunder, Punjab, on May 27, 1951[296] This party called itself the Bharatiya Jan Sangh and its activities were restricted to PEPSU, Punjab, Himachal Pradesh, and Delhi. At the time, Madhok wrote.

> "An organisation with the same name and with similar objectives has been formed by Dr Shyama Prasad Mookerjee in Bengal . . . But that has no connection, direct or indirect, with the Jan Sangh of Punjab. It is, however, possible that Jan Sangh may extend its field of activity to cover the whole country in the near future."[297]

Within the next two months, similar conferences were held in Lucknow and Indore to form a Jan Sangh in Uttar Pradesh and Madhya Bharat.[298]

Mookerjee delineated three major concerns for the new party — rehabilitation of refugees, economic development and civil rights. His approach to the economic problems of India was eclectic. To tackle the pressing problems of food and clothing, he suggested that the government not adhere to any ideology. He emphasised the point that private enterprise alone could not succeed in overcoming India's economic problems.

> "We cannot ignore realities; we see before our eyes the clear limitations from which the present class of Indian capitalists suffers and how with all their good wishes they are unable to make their contributions to check the impending economic crisis. . . . India's economic structure cannot be made the plaything of powerful groups and cartels who will control the vital units of production and distribution of India's economic structure."

He advocated a land to the tiller policy, industrial decentralisation and regional self-sufficiency. Needless to say, he also proposed a strong policy towards Pakistan. His party would be what the HM was not — ". . . open to all citizens of India irrespective of caste, creed or community". Moreover he saw the necessity of honouring the culture of Bharat.[299]

On September 9, 1951, office bearers and prominent workers of provincial Jan Sanghs of Punjab, PEPSU, Himachal Pradesh, Delhi, West Bengal, Uttar Pradesh, and Madhya Bharat met and drew up plans for an All-India Conference at Delhi. On October 21, 1951, the All-India Bharatiya Jan Sangh was formed at Delhi with Mookerjee as president.

XI

The RSS became involved in several other groups as well as the Jan Sangh. With the exclusion of RSS from various areas of endeavour, the RSS leadership felt that the only way to propagate their ideology was to begin organisations in which their members would have a leading role and their ideology would be predominant.

The first of the organisations launched with the support of the RSS was the Akhil Bharatiya Vidyarthi Parishad — a student's organisation. A prominent organiser of this was Balraj Madhok. He has stated that he formed the first organisation in Ambala, Punjab, at the DAV college there, during the ban and without the prompting of RSS leaders.[300] This point is disputed, however. Ved Prakash Nanda, a former Vidyarthi Parishad president in the Punjab at the time that Madhok says he formed the Vidyarthi Parishad, contends that the RSS did influence the formation of the group and the RSS also deputed workers to go into this work.[301] Moreover, Giri Raj Kishore, the 1969 General Secretary of the VP notes that about one half of the founding members of the VP were RSS swayamsevaks.[302] It is unlikely that Madhok, a staunch RSS member at the time, would have formed a group like this without consultation with RSS leaders. Moreover, during the ban, similar groups were formed all over India.[303] Krishna Bahadur, a professor at Allahabad University, and an early leader of the VP in Uttar Pradesh, notes that similar groups were formed in most of the major universities and colleges in Uttar Pradesh during the ban.[304] As noted above, the RSS formed a number of "fronts" during the ban, typical among which were college units like the one Madhok was associated with. Because of its popularity and the obvious need to influence college students who did not want to undergo the rigorous demands made in the shakha (primary unit of the RSS), the VP continued after the ban was lifted. It has grown into one of the largest and best organised student

groups in India. It is noteworthy that the RSS should enter this field just at a time when the Congress was de-emphasising political involvement of student. Since Independence, the student movement, according to Philip Altbach, has all but collapsed.[305] This de-emphases provided an excellent opportunity for the RSS to spread its ideology among college students and faculty. Moreover, the change in the social composition of the student body favourably worked to increase RSS influence. Increasingly, the students were drawn from the middle and lower middle classes rather than the pre-independence situation where the students came from wealthy urban groups. The communists had been active in student politics since the early 1930s. The RSS and the communists have, since independence, competed for the loyalties of the college population of India — particularly in the Hindi-speaking areas of north India.

The Vidyarthi Parishad is a rather unique student organisation in that it includes members from both administration and faculty. This fits the general ideology of the RSS which seeks to reconcile the interests of various groups. In fact, this is one of the Vidyarthi Parishad's major points of disagreement with the communists and other student groups.

In 1949, at Delhi, a constitution was drawn up to unify the various branches of the Vidyarthi Parishad into an all-India organisation.[306] Organisers were loaned to the group by the RSS and the initial membership base was drawn from students who were swayamsevaks. These organisers toured the country, spreading the VP.[307] The new organisation was most successful in the areas of RSS strength — Uttar Pradesh, Punjab, and Madhya Pradesh.[308]

Why did the RSS decide to sponsor a new student movement? One of the chief reasons was the exclusion of RSS members from existing student groups in 1948-49. The National Union of Students had barred RSS members from joining it.[309] There was no question of their joining the Communist-led Students' Federation. The present general secretary of the RSS has noted that the RSS had no intention to see its sympathisers excluded from influence in the student field.[310] Moreover, the RSS leadership was genuinely concerned with the growing influence of the Students' Federation. The much expanded enrolment brought with it a large increase in the number of swayamsevaks attending college. Reuben Auspitz has observed that the RSS feared losing these people when they were exposed to an environment in which many teachers and organisations were hostile to the RSS. The Vidyarthi Parishad would preserve the RSS ideology, but not have attached to it the adverse image of a communal group that was attached to the RSS. Moreover it provided a nationalist forum for those who might not have participated in the RSS (i e, Christians).

A second RSS endeavour that appeared in the post-Independence period was its entry into the field of journalism. Within a few years several newspapers were begun with money raised by individuals sympathetic to the RSS. The first such daily was formed in 1948 at Nagpur, the headquarters of the RSS, named *Rashtra Shakti*, edited by a swayamsevak, C P Bhishikar.[311] Prior to that Gopal Rao Ogale's *Maharashtra* had given favourable publicity to the RSS in Nagpur. With mounting criticism of the RSS after the assassination of Gandhi, the RSS leadership felt it needed news organs of its own. There was some misgiving in the RSS on its launching such papers. The RSS had not made use of this kind of publicity since its formation in 1925. Many older RSS leaders felt such techniques undermined the RSS view that the most effective work was done at the face-to-face level. This kind of publicity, it was felt, could not spread the "real" work of the RSS. Moreover, it might lead to a striving for popularity rather than the "harder" task of building character. After the ban was lifted, these arguments were not as persuasive. The ban had shocked both the leaders and followers of the RSS. Few newspapers defended them. Moreover, many frequently attacked it. A group of RSS leaders in Nagpur decided that it was to the advantage of the RSS to form a chain of newspapers sympathetic to it. They purchased N B Khare's *Tarun Bharat*. Before the ban, the RSS was instrumental in forming an English weekly in Delhi that would represent its viewpoint. Speculation regarding the wisdom of forming such a weekly had started in 1946, but the *Organiser* was not launched until 1947. It has remained the chief journalistic expression of RSS viewpoint. Like the *Tarun Bharat* in Nagpur, it was financed by the sale of shares. The shares were purchased by RSS sympathisers or members.[313] Since then, a large number of weeklies and dailies have been begun by RSS sympathisers all over India. The trustees of most of them are RSS members.[314] Like the two other organisations mentioned, the RSS has delegated pracharaks to staff many of these ventures.

Another new and related organisation is the Hindustan Samarchar, begun by one of the most active RSS propagandists, S S Apte.[315] It was launched in Bombay in August 1948. The early workers were almost all RSS swayamsevaks. The purpose of the new group was to provide news in the vernacular languages. Until then, vernacular newspapers needed to translate news stories from English. The Hindustan Samarchar also presents news items about the RSS in a more favourable way than other news agencies. News agencies in 1948 and 1949 were not likely to carry stories reporting the RSS in a favourable way.

Conclusion

The RSS was organised in 1925 to build a nationalist cadre that would unite and defend the Hindu "nation" The leadership of the new group believed that a reunited and rejuvenated Hindu society would not only preserve the "best" of Hindu culture, but also bring colonial rule to an end. There is much evidence that suggests that Hedgewar intended the RSS to be the action arm of a nationalist movement that would eventually rid India of foreign rule. The increasing communal antagonism in the 1930s and 1940s, however, blurred this objective. To preserve itself from restrictions and a ban, the RSS did little that antagonised the British. It was not that their desire for independence declined; from 1925 to 1947 the RSS leadership consistently favoured full independence. Like the HM, many of their leaders feared that the Muslims would win too many concessions from the British. Both Muslim and Hindu groups (e g, the RSS) anticipated an armed struggle for control of British India after World War II. To antagonise the British would give the other side advantages in the struggle for eventual control of the subcontinent, it was thought. Moreover, the present Sarsanghchalak is not as convinced of the efficacy of political action as was his predecessor.

Since Independence, the RSS' role changed considerably. The ban and the direct assault on the organisation by an independent Indian government were traumatic. Those elements in the RSS who proposed more direct political involvement received a hearing within the RSS that would not have been possible before 1948. To extend its influence, a large number of institutions were formed to spread RSS ideology among various types of groups (i e, students, labour, teachers, etc). Rather than "infiltrate" existing institutions, the RSS helped from separate groups. Because they were excluded from many interest groups and political parties in the post-Independence period, this option was, in a sense, forced on them.

On the ideological plane, the RSS felt the Congress leadership in post-Independence India was committed to models of development "imported from the outside" (i e, socialism) that could not arouse the masses to make sacrifices for the goals of development. In fact, much that the RSS proposes is quite similar to that proposed by the "westernised" leadership of the Congress; the disagreement comes over the lack of Hindu symbols.

Since its inception, the RSS has recruited its cadres primarily from high caste middle class Hindu in the urban areas of the Hindi and Marathi speaking regions. To a large extent, these groups in north and central India were mobilised rather late into a nationalist consciousness and found their entry into politics and the economy blocked by existing elites with a style of life and ideology considered somewhat "foreign". It is not surprising that the RSS has been something of a populist movement, speaking for the common man and against the bureaucratic and economic elites, who they felt to be representatives of an imported culture.

Since its inception, the RSS has also been something of a Hindu bhakti sect with the Nation as the bhagavanta (object of veneration). Anyone is admitted who subscribes to behaviour patterns considered proper. Because these behaviour patterns are more salient to high caste Hindus, the membership has come largely from high caste Hindu groups. However, there are members from the backward classes and they are welcomed. The aim of this form of bhakti is worship of "Bharat Mata". One's primary loyalty "should be" to the collective unit, according to the RSS. This emphasis on national loyalty over local loyalties and the RSS' reliance on the Great Tradition of Hinduism have alienated many who are not attracted by either.

The RSS has succeeded in building a cadre which can be mobilised for whatever tasks the leadership sets before it. Moreover, it has provided the recruitment pool for a large number of organisations (i e, Jan Sangh, Vidyarthi Parishad, etc) providing these groups with a disciplined cadre.

(Concluded)

Notes

281 N B Khare, "My Political Memoirs or Autobiography", (Nagpur: 1959), pp 427-8.
282 Madhok, *op cit*, p 98.
283 Interview with Bala Rao Deoras on April 16, 1969.
284 Letter of Savarkar's secretary, G V Damle, to S L Mishra on March 18, 1943, in Savarkar Files.
285 Bruce Graham, *op cit*, p 349.
286 Madhok, *op cit*, p 98.
287 *Ibid*.
288 *Ibid*, p 104.
289 Interview with J M Majumdar on May 30, 1969.
290 *Organiser*, June 25, 1956.
291 In an interview with RSS General Secretary, Bala Rao Deoras on April 16, 1969, this point was emphasised.
292 See account of this in Madhok, *op cit*, pp 99-102.
293 He was undoubtedly thinking of the HM policy of admitting only Hindus and wanted to avoid this implication in the new political party. He did defend Hindu Rashtra, but gave it a Savarkarian interpretation — namely, that it was a cultural and geographical concept not linked to any sect or religious philosophy. It represented the cultural experience of the peoples of the subcontinent. Madhok, *op cit*, p 100.
294 See details in Baxter, *op cit*, p 70.
295 The text of speech in *Mahratta*, June 22, 1951.
296 This meeting had been convened by the President of the Arya Samaj DAV Managing Committee there "to give a new lead to the Punjabi masses groaning under the faction ridden Congress-cum-Akali misrule". *Organiser*, May 21, 1951.
297 *Organiser*, June 11, 1951.
298 Madhok, *op cit*, p 101.
299 He mentions two Bengali reformist Hindus, Aurobindo and Vivekananda, as representative types of the culture that should be revived. Text in *Mahratta*, June 22, 1951.
300 Madhok wrote an article in *Organiser*, November 6, 1948, in which he spelled out three goals of the new college group: (1) the country was an undivided whole and Hindi in Devanagari was its national language; (2) the structure of national life was based "on ancient and glorious heritage . . ."; (3) the emphasis of new group would be constructive to distinguish it from the agitational tactics of other groups. He prefaced this by stating that no existing student organisation embodied these goals. Moreover, they were "mere" appendages of political parties, while this group was an independent student's group. See a very good discussion of Madhok's role in Reuben Auspitz, "The Akhil Bharatiya Vidyarthi Parishad", Unpublished Paper at Delhi School of Social Work: 1968, pp 45-57.
301 Interview with him on September 7, 1969.
302 Interview with him on July 31, 1969.
303 Kishore notes that a similar group was established in Delhi during the ban, as well as elsewhere.
304 Interview with him on January 25, 1970.
305 See Philip G Altbach, "The Transformation of the Indian Student Movement", *Asian Survey*, Vol VI, No 8, August 1966, pp 448-460.
306 The meeting was held in July 1949; soon after the ban on the RSS was lifted.
307 Interview with Ved Prakash Nanda on September 7, 1969.
308 Auspitz, *op cit*, p 61.
309 *Ibid*, p 54.
310 Interview with Bala Rao Deoras on April 16, 1969.
311 Interview with him in December, 1969.
312 See N B Khare, *op cit*, pp 210-213.
313 Interview with K R Malkani, June 26, 1969; he is presently editor of the *Organiser*.
314 In 1969 all seven of the trustees of the *Organiser* were RSS members.
315 Apte is a leading organiser of yet another organisation formed with RSS support, the Vishwa Hindu Parishad.

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Agricultural Development Branches Being Opened

R K Talwar on Need to Remove Hurdles

Shri R K Talwar, Chairman, State Bank of India, has announced the Bank's programme of opening 150 Agricultural Development Branches all over the country to provide finance in accordance with the assessed needs of selected areas.

He emphasised the need to demarcate areas for development among different financial institutions so as to avoid over-lapping of efforts as also the risk of over-exploitation of the ground-water potential. He also appealed to the State Governments to remove legal disabilities of commercial banks in the financing of agriculture.

In his speech at the Seventeenth Annual General Meeting of the shareholders, held in Calcutta, on Friday, the 24th March 1972, Shri Talwar said:

IT gives me great pleasure to welcome you all to the seventeenth annual general meeting of the State Bank of India, particularly because this is the first opportunity I have had — or any chairman of the Bank has had — of meeting the shareholders in Calcutta. As you are aware, the first 14 annual meetings were all held in Bombay. In 1970 we broke that monopoly and convened the meeting in Ahmedabad. It is the intention of your Board of Directors that in future years these meetings should be held in different cities as often as practicable, taking into account the likely attendance of the shareholders.

On an occasion like this, when we have gathered to review our business operations during 1971, one feels impelled to refer to the significant events that culminated, as it were, in a regeneration of what is basic in our national character. We have witnessed a victory for Truth and Justice under the inspired leadership of our Prime Minister, Shrimati Indira Gandhi. The unseen hand of the Supreme guides the destiny of our nation, and, while we pay homage to those who fought and laid down their lives in the cause, we do so in the sincere hope that we shall make ourselves worthy of a much more glorious future that awaits us.

Working Results

The annual report including the balance sheet as on the 31st December 1971 and the profit and loss account for 1971 is already in your hands. I am happy to state that, as was hoped for by us last year, our working has shown better results. The profit figures for 1970 and 1971 are, however, not comparable; this is due to the fact that the bonus paid to staff, instead of being treated as an appropriation from balance of profits as in previous years, has been shown as a change thereon. This is as it should be, because bonus is no longer an *ex gratia* payment and is, in point of fact, an item of expenditure on staff, like any other.

Fall in Credit Demand

As brought out in the annual report, the deposit growth of the Bank during 1971 was higher than in the previous year while its pace of credit expansion slackened. By and large this would appear to have been true of the entire banking system. During the year the Bank improved its liquidity, as indeed it had been called upon to do during the earlier months of stringent money conditions, and the credit/deposit ratio came down. In the latter part of the year, the Bank did not suffer from any lack of resources in dealing with credit demand from the various sectors of the economy.

Small-Scale Industries

Our loans to small-scale industries went up during the year by Rs 25 crores. The pace of growth was lower than in the previous year; this could be attributed to the impact on small-scale industry of the decline in the growth of industrial production. There is evidence to show that the credit needs of small-scale industrial units were, by and large, being met.

Employment-Oriented Lending

Our most important scheme for generating self-employment relates to the financing of technician entrepreneurs. The number of such entrepreneurs securing assistance from our organisation kept rising in 1971 at the rate of roughly one for every working day. At the end of the year, we had 807 entrepreneurs on our books with credit limits aggregating Rs 10 crores. We know a lot more still remains to be done, and are making conscious efforts to make ourselves more useful and effective in helping young men seeking to set up their own establishments.

We have, in addition, selected 60 pilot centres throughout the country with a view to gaining first hand experience in self-employment-oriented lending for individual artisans, craftsmen, etc. We propose to so organise ourselves at these pilot centres that anyone — particularly the educated unemployed — approaching the Bank with a proposition that gives evidence of a sincere desire and effort to venture on gainful and profitable self-employment will receive sympathetic and objective response. Creation of fresh and/or gainful employment opportunities requires a high degree of almost total planning and complete co-ordination amongst various governmental and financial agencies in any given region. Our work in the pilot centres will, we expect, receive the support needed from State authorities and help to throw up the likely impediments in productive lending and in the designing of suitable promotional measures for progressive extension of our activities in this direction to many more centres.

Financing of Agriculture

I made the point last year that commercial banks should adopt the policy of area approach in financing agriculture. As for the State Bank Group, I indicated our intention to select about 150 Intensive Centres throughout the country. We have already identified 87 of these, mainly in areas covered by the

Government programmes for small farmers and other weaker sections of the rural population. Forty-six of these Centres have been cleared with the concerned State Governments; such consultations with the State Governments are essential for the sake of ensuring co-ordination with other agencies connected with agricultural development. Each of these centres is expected ultimately to cover anything upto 100 villages.

At each Intensive Centre we propose to open an Agricultural Development Branch, supported by technical and other field staff. We already have the Reserve Bank's approval for the opening of 33 Agricultural Development Branches, and 20 such branches have been opened. Outside the Intensive Centres Scheme, our programme of Village Adoption is also gaining momentum, about 2,400 villages having so far been adopted.

As each Intensive Centre is identified, the surrounding area is surveyed by our technical staff and special schemes are prepared to provide agricultural finance in accordance with the assessed needs of the cluster(s) of villages taken up for attention in the first phase. Further clusters of villages would be similarly covered in later stages. Schemes will be tailor-made to cover the special requirements of individual groups of villages; the objective will be to find out how best the Bank's credit should be invested to create surplus income for the farmers, out of which they would not only be able to repay the bank loans but also improve their living standards, and the economy of the region.

The magnitude of finance required for this purpose all over the country will be stupendous. The term loan requirements for agricultural development schemes around each Agricultural Development Branch may be well over Rs 2 crores even on a very conservative basis. If we were to take the total requirements at one centre at even Rs 1 crore, the total term loan requirements at the proposed 150 centres will aggregate about Rs 150 crores, and this in addition to crop loans and finance for allied agricultural and non-agricultural activities. In view of the long-term nature of these investments we shall naturally lean heavily on the Agricultural Refinance Corporation. The importance of this lies not only in financial support that will enable us to maintain our liquidity, but, even more so, in the benefit we shall consequentially derive by subjecting our schemes to a second look at the hands of technical experts of the Agricultural Refinance Corporation. We have already submitted to the Corporation schemes involving a total outlay of well over Rs 50 crores and approvals of these have started flowing in.

One major problem which is bedevilling our programme for opening Agricultural Development Branches relates to co-ordination with the co-operative banks and demarcation of the respective areas. Co-operatives are spread all over the country, although they have not been successful everywhere. Even in States which are well developed in this field there are gaps and inadequacies which the commercial banks can help to fill. Where co-operatives have done substantial lending, or have programmes to do so, it will be inadvisable for commercial banks to come into the picture. Elsewhere, to avoid overlapping of efforts and the risk of over-exploitation of the groundwater potential, it is necessary to identify villages, in clusters, which could form the area of operations of different institutions. Our experience, repeated over a number of places, is that although we expend much effort in identifying the areas of operations of our Agricultural Development Branches, either the State Government's clearance is not promptly forthcoming, or, if that hurdle is crossed, the co-operative land development bank is not agreeable to area demarcation. It seems to me that a high-level body at the State level — one for each State — should be formed without delay and charged with the responsibility for the much needed co-ordination in this respect and for resolution of wasteful conflicts. I venture to suggest that the Reserve Bank of India, as the apex body for agricultural credit operations throughout the country, might perhaps take the initiative in instituting these arrangements as soon as possible.

Yet another problem in this field relates to the legal disabilities of the commercial banks. The important ones arise from (i) legal obstacles in the way of the farmers raising loans against mortgage of land; (ii) heavy stamp duty and registration fees on the creation of mortgages; (iii) cumersome and time-consuming processes involved in the creation of mortgages; and (iv) the statutory prior charge which co-operatives enjoy over the farmers' land. The Expert Group appointed by the Reserve Bank, of which I had the privilege of being the Chairman, went into this matter in great detail and has made several recommendations with a view to removing the various legal disabilities of commercial banks in the financing of agriculture. This Group took pains to suggest a Model Bill which, if enacted, would save the State Governments the labour involved in searching all the relevant current legislation and finding out what all amendments would be called for. Both the Reserve Bank of India and the Government of India have supported the recommendations of the Expert Group, and have urged the State Governments to take steps to adopt the Model Bill. I would appeal to the State Governments to give evidence of their keenness for commercial banking support to agriculturists by expediting the necessary amending legislation. Surely it is they who are concerned more than anyone else.

Expansion of Branch Network

On the expansion of our branch network, also, our record has been good. In 1970 the commercial banks opened as many as 2,137 offices, followed by another 1,805 in 1971. In this two-year period, the State Bank also increased the network of its offices by 814, or by almost half as many as were in existence at the end of 1969. The Bank and also its Subsidiaries are now drawing up plans for expansion in the three-year period 1972 to 1974, for which the Reserve Bank of India has compiled a perspective plan envisaging the opening of 5,000 new offices by all commercial banks. This means opening 139 new offices a month as against the average of 149 a month from June 1969 to October 1971. The perspective plan emphasises the need for priority to the relatively underdeveloped or under-banked States like Assam, Bihar, Jammu and Kashmir, Madhya Pradesh, Nagaland, Orissa, Uttar Pradesh and West Bengal.

There are no two opinions on the need for expansion of banking facilities at as fast a rate as possible. However, I venture to suggest that our enthusiasm in this respect has to be tempered by awareness of the realities. The pace of expansion of branches in the last two years has imposed an almost unbearable strain on trained manpower resources, and we are already faced with the reality of the lack of adequately trained personnel for jobs requiring competence of a high order. While on this subject I would like to reiterate that though we are doing all we can to expand our recruitment and training programmes and facilities, in the ultimate analysis there is no substitute for experience on the job. Preliminary training prepares staff to discharge their duties com-

There has also been a deceleration in the growth of electricity generation. According to official statistics, generation of electricity, showed an increase of 14.3 per cent in 1969-70. In 1970-71 the rate was lower at 9.2 per cent. Judging by available data for the first six months of 1971-72, the rate of increase in this year will further fall to about 7 per cent.

Serious shortages of power have developed in various parts of the country and lack of adequate inter-regional power transmission lines has compounded the difficulties.

We earnestly hope that allocation of resources in future will be based on more realistic input-output relationships among the various sectors and that inter-sectoral balances will be better maintained.

Steel

The steel supply position had already deteriorated considerably at the commencement of the year. Some of the positive steps taken by Government redeemed the situation, if only in a limited way. Banning of the export of prime steel and importation of steel in order to meet export obligation have been steps in the right direction. There have also been some meaningful attempts to step up indigenous production. Nevertheless, in the context of the need to lower the level of imports and the time-lag between efforts and results in the matter of raising domestic output, anxiety in the steel sector continues.

Company's Operations

We have increased our turnover from about Rs 14 crores in 1970 to about Rs 15 crores in 1971 and have maintained production at the previous year's level, despite the setbacks we suffered in the first quarter of the year due to shortage of steel. Our profits for the year are around Rs 42.24 lakhs against Rs 25.64 lakhs in the previous year.

Our Export Efforts

Our exports during the year 1970-71 have been around Rs 6.17 crores and we had orders on hand worth nearly Rs 24 crores as on 30th September, 1971. During the year we completed a turnkey job, received in 1968, in Sudan, valued around Rs 6 crores and won sizeable orders worth about Rs 15.5 crores from countries in Middle East and South East Asia.

Business in India

I referred to the Power Development Programmes in India in some detail earlier.

The IDA has granted a substantial loan for transmission line projects in India. In addition, the Union Government has detailed plans for interlinking various power systems in order to cope with shortages of power in several regions. A number of transmission lines are awaiting finalisation under the Five Year Plan. We expect that there will be appreciable improvement in the Indian order position in the period ahead in regard to both supply of towers and construction.

Diversification and Expansion

I had mentioned in my statement to you last year certain specialised items we have developed for rural electrification. I am glad to say that we have already executed orders for these items worth about Rs 40 lakhs. Our efforts at further diversifying our production are progressing apace.

Our Rolling Mill Project is progressing satisfactorily. We expect to do trial production in April this year. This plant, when it goes on stream, will significantly enhance our production capabilities.

Management Systems

Management of an organisation of our size and complexity, needs a high degree of sophistication. As an integral part of our efforts to modernise our managerial systems and techniques, we have, over the years, computerised a number of our operations covering such areas as Designing, Planning and Control, and Financial Accounts. Recently, in order to widen the area of application, we took a decision to have our own in-house computer. Acquisition of this facility would help us greatly in maintaining our technological parity with our competitors in other parts of the world.

Expansion of Capital

In order to sustain the increasing scale of our operations, especially in the export field, we decided at a special meeting of the shareholders held in January 1972 to widen our capital base. The legal formalities in this regard are now under way.

Outlook for the Future

There has been improvement in both production and turnover during the first five months of the current year compared to the corresponding period of the year under review and we hope to better the results in the period ahead.

Role of Government

The support we received from agencies, like the Ministry of Foreign Trade, the Office of the Iron and Steel Controller, the Steel Priority Committee, the Engineering Export Promotion Council, the ECGC, the banks and the financial institutions, has been indispensable to our success and we are grateful to them.

Personnel

It gives me great satisfaction to state that our relations with our staff and labour has been most cordial. Their understanding and supportive efforts are the basis of all our planning.

Our Friends in India and Abroad

As in the past year, a number of dignitaries, foreign and Indian, visited our works and we are grateful to them.

Conclusion

Your company is sensitive, to an exceptional degree, to the environment in which it operates. An essential part of that environment today is the prevailing climate of confidence and optimism. It is perhaps natural that in times of crisis we, as a people, should show a strength and cohesion that are seldom apparent in normal times. The challenges of conflict and survival have a way of dramatising their own urgency and of drawing us out; the challenges of peace and progress, however, tend to dissolve into the dreary details of day-to-day living. Yet our capacity to recognise them and face them alone can be the true foundation for our confidence or our optimism.

I express my sincere gratitude to the workers, members of the staff, officers and my colleagues on the Board for all their endeavours in the performance of our common tasks.

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



ITC acknowledge the vital and enlightened role played by their Employees and Unions. It is with them that ITC wish to share the credit for winning the 1971 Award of the Federation of Indian Chambers of Commerce and Industry for outstanding contribution to Industrial Relations.

ITC India Tobacco Company Limited

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ECONOMIC AND POLITICAL WEEKLY

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POLICY FRAME FOR SELF-RELIANCE

SUPERSESSION OF MUNICIPAL COMMITTEES

TUSSLE OVER LAND CEILINGS

INDUSTRIALISATION FOR THE FORCED MARCH

CASTE AND STATUS IN AN INDIAN CITY

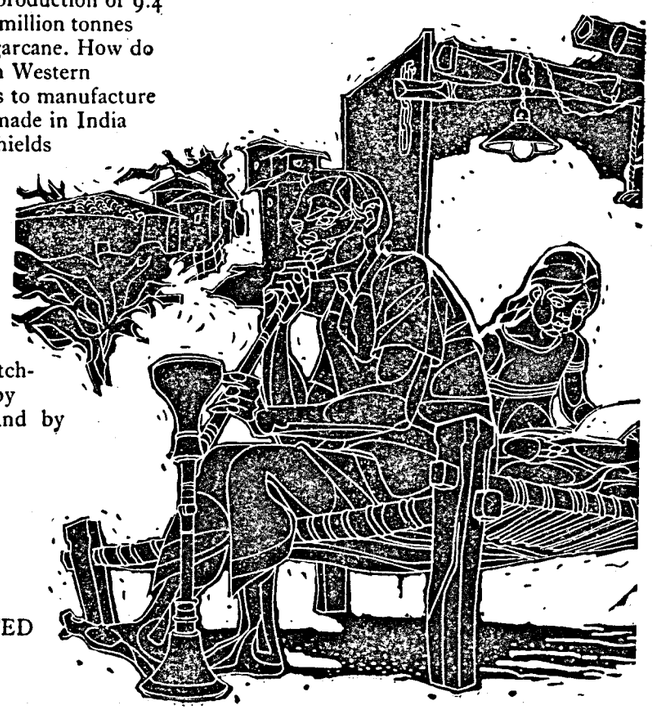
INDO-BANGLADESH TRADE

About half a million villages need the power to see light

so we're becoming power conscious

We're aware of the possibilities of nuclear power. And we're developing new capabilities to foster its growth. After all, 1200 MW nuclear power can energise 25,800 additional tube wells; produce annually phosphatic fertilizer (206,000 tonnes P_2O_5) nitrogenous fertilizer (370,000 tonnes N) and 50,000 tonnes aluminium; generate employment on farms for 1.4 million people; result in additional agricultural production of 9.4 million tonnes of foodgrain, 1.8 million tonnes potatoes, 11.2 million tonnes sugarcane. How do we know? From a study made in Western U.P. So we're using our energies to manufacture equipment that has never been made in India before—steam generators, end shields and calandrias for the atomic plants in Rajasthan and Madras —equipment that means more power for our people.

Power production is one field of our activity. Power Control is another. We design and manufacture a wide range of switchgear to control power. We do it by adapting foreign technology. And by developing Indian technical talents. It's been our job for 30 years. Right now we have over 10,000 people. That excludes another 10,000 or more, who work in the 600 ancillary units we have assisted and developed over the years. And each year we find we need more people to pool their talents with us.



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INS 107B

ECONOMIC AND POLITICAL WEEKLY

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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 Diminishing Deterrent

THE 'domino theory' survives in a very peculiar form. This was demonstrated when the Americans decided not to sit at the table in Paris where the Vietnam talks were going on. The American calculation obviously was that now that President Nixon was going to Peking and later to Moscow, he could sort out the Vietnam tangle in these two places. The Vietnamese were in any case dominoes. One can shuffle dominoes. It might have been wrong to presume that they could be shuffled by the Americans. But very likely they could be shuffled by the Chinese and/or the Russians. As with many earlier calculations of the Americans in Vietnam, this reasoning missed the important point that what they were up against in Vietnam was not a game of dominoes but a people's war. It is amazing that after nearly 100,000 deaths they have not yet grasped this simple truth.

The miscalculation, of course, was that Peking and Moscow either singly or jointly would be able or willing to sell Vietnamese interests down the Mekong. They had done that once before in 1954. But that was a tragic mistake of such magnitude that it cannot be repeated. The Americans, of course, have repeated their own tragic mistakes. They played a wrong game in China. That did not deter them from involving themselves on an even larger scale in Vietnam. Nor did the Vietnamese involvement prevent them from extending the war to Cambodia and putting Lon Nol in power. They have been blind to the reality that Lon Nol, like the last Moghul Emperor in Delhi, may soon be ruling an area not larger than his palace. The day they decided to ignore the Vietnamese and call off the Paris talks, it was clear that the Vietnamese would react and react effectively.

The latest Viet Cong offensive in Vietnam is just that reaction. President Nixon has been shown that Quang Tri is not safe. And Hue is not far off from Quang Tri. The Americans have of course claimed that their heavy air and naval attacks have slowed the Viet Cong advance. Even if this claim were to be accepted uncritically, the Viet Cong have demonstrated that the much advertised Vietnamisation plan has failed. General Creighton Abrams must have seen that the only 'deterrent' worth its name in Vietnam now is American air power and this deterrent cannot escape the law of diminishing returns.

But the Viet Cong have not launched and sustained their offensive simply for the satisfaction of proving General Abrams wrong. In the tortuous negotiations with the Americans and the exchange of plans and counter-plans for a settlement, the Vietnamese have been insistent on two points: first, the setting of a deadline for American withdrawal from South Vietnam and, second, the removal of the puppet Thieu government. Vietnamisation — the expansion and arming of the puppet South Vietnamese army — has been the American answer to keep the Thieu regime intact even as American ground forces are withdrawn. Of course, there would be, besides, American air power operating from bases in Thailand and aircraft carriers at sea, to contain any major thrusts by the Viet Cong.

In the eight days of fighting so far, the South Vietnamese army has been routed and even the massive air strikes by the Americans against Viet Cong positions in the South as well as the 'punitive' attacks on the North have had no decisive effect. All this cannot but have a profound political impact within South Vietnam and the impact will be the greater if some major towns, like Quang Tri, were to fall. Use of air power by the US may temporarily stem the Viet Cong offensive on the battlefield, but it is no answer to the progressive weakening of the Thieu regime in Saigon — already left naked by the diminution of the physical American presence in the South.

The Viet Cong offensive has been interpreted as an attempt to put the Vietnam issue back on the US political map on the eve of the presidential election. It has also been seen as a warning to President Nixon that he can hope to gain nothing by trying to bargain with the Russians over Vietnam during his coming visit to Moscow. The Vietnamese are, of course, fully aware of the importance of American domestic opinion for US policy in Vietnam. Already, following the latest offensive, Senators Edward Kennedy and Mike Mansfield have called upon President Nixon to recognise the ineffectiveness of Vietnamisation and to resume the Paris talks. Similarly, the thought of some limited Russian-American understanding on Vietnam may not be entirely absent from the minds of the Vietnamese leadership. But very likely these considerations are subsidiary to the basic calculation of the Vietnamese that relates to the situation within South Vietnam itself. The Viet Cong offensive may thus be best seen as part of the effort to liquidate the *political* defences of the Thieu regime. The ill-considered American decision to walk out of the Paris talks clearly hastened the timing of the attempt.

Import Policy—I

Is There a Plan?

IF there is anything at all noteworthy about the import policy for 1972-73, it is that it continues the policy of allowing liberal maintenance imports, initiated in the wake of the devaluation in 1966. Nothing else could perhaps be expected at a time when the government appears so concerned about raising industrial output through better exploitation of established capacity. With the accent so much on production — *any* production — this is clearly the wrong time to be asking whether the government has any priorities in respect of the industrial sector (*pace* the Prime Minister's statement to the FICCI that growth rates of production were not everything and the Planning Minister's homily to Parliament on the need to curb production of articles of upper income consumption).

There are, however, certain other considerations having some bearing on import policy. First and most obvious is the prospect of reduced foreign aid receipts this year, which government spokesmen themselves have been harping upon. Second, there is the established fact that in the first three years of the Fourth Plan the rate of growth of exports has been nowhere near the Plan target of 7 per cent per annum. Finally, there is the prospect of a sizeable normal increase in imports on account of a pick-up in investment and the goading of industries to expand output.

If these considerations have not escaped the framers of the import policy for the current year, then their expectation appears to be twofold (apart from the Foreign Trade Minister's continued wonderland attitude to growth of exports, both past and future). First, aid prospects are really better than the government has been making out. Robert McNamara has evidently inspired confidence about generous World Bank group, especially IDA, assistance. Also, there is confident expectation of something substantial on the debt rescheduling front emerging out of the next meeting of the Aid Consortium. Finally, it is apparently believed that even the United States cannot remain out of the aid business much longer. There are pressures within the US (e g, from companies which are threatened with loss of exports to India) and the Government of India, for its part, is ready to forget the past provided some appropriate soothing political noises are made from Washington.

The second consideration which may have weighed with the import policy-makers is the availability of fairly large foreign exchange reserves which can be drawn down to cover a deficit in the balance of payments. At the end of January this year, after the latest allocation of SDRs, the reserves stood at Rs 876 crores (as against Rs 797 crores at the end of January 1971). There can be no objection, of course, to using up the accumulated foreign exchange if this is done as part of a plan for larger investment in industry and increased industrial output. But does such a plan exist?

Import Policy—II

More of the Same

THE import policy for 1972-73 does not reveal any fresh thinking in either import substitution or export promotion. Announcing the policy, the Foreign Trade Minister more or less repeated what he had said last year — that imports of some more items have been banned, that import of some more items are being canalised through public sector agencies as a result of which the share of the public sector in total imports would go up, and that on the whole the policy is aimed at greater self-reliance.

Fifty-six items have been added to the list of those whose imports are canalised through public sector agencies. Among these are copper scrap, certain iron and steel items, some categories of ferro alloys, a number of chemicals including caustic soda, and some petroleum products. These agencies, it is claimed, will thus handle additional imports of about Rs 100 crores in 1972-73. This is an exaggeration insofar as import of some commodities, like kerosene, though not formally 'canalised' were already being made through public sector agencies. Similarly, the claim that the proportion of imports handled by public sector agencies would increase to 75 per cent in 1972-73 is difficult to accept. In spite of the increase in the number of commodities handed over to public sector agencies for import, the proportion remained around 62 per cent between 1967-68 and 1970-71. It is difficult to understand how it will go up to 75 per cent, particularly since PL 480 imports on government account have already been phased out.

As part of the effort towards self-reliance, import of 160 items has been banned in addition to the 170 banned last year, and import of 87 items has been curtailed compared to 67 last year. What one would like to know, however, is how these items are picked and how far, apart from mere domestic availability, cost considerations are taken into account. Import substitution in complete disregard of the cost aspect can only take the country back to the situation that prevailed prior to the 1966 devaluation.

The import policy also does not show any awareness of the fact that the government's export incentives have, over the years, become fairly chaotic. We now have a *de facto* multiple exchange rates system, with much trafficking in import licences. Large-scale trading in import licences is taking place and parties not only quote their premiums on licences but also seek customers through newspaper advertisements. And yet Volume II of the Import Trade Control Policy document, which relates to registered exporters, continued to claim that the import replenishment scheme, introduced after the 1966 devaluation, is intended to provide exporters with the actual import content of their exports.

A scrutiny of the rates of import replenishment available for different export items and the permissible items of import against the replenishment licences, however, clearly suggests that the so-called replenishments share many of the features of the pre-devaluation import entitlements. The rates of import replenishment are invariably far in excess of the actual import content. For such items as diamonds, the import replenishment rates are as high as 80 per cent while the actual import content is reliably put below 50 per cent. A number of items like leather goods, fruit juices, and handicrafts, which have hardly any import content, are granted attractive import replenishment. The discredited import entitlement scheme has thus been revived.

Also, there appears to be little co-ordination between the import replenishment and the cash subsidy schemes. If export incentives are to increase the country's foreign exchange earnings, then the level of effective export subsidy (through the two schemes) should bear some relationship to net foreign exchange earnings. Thus the level of cash subsidy should be determined on the basis of net foreign exchange earned after allowing for import replenishment. This calls for better co-ordination between the DGTD, which is responsible for the import replenishment scheme, and the Export Assistance Division of the Ministry of Foreign Trade which determines the levels of cash subsidy.

NUMBER AND VALUE OF IMPORT LICENCES ISSUED

(Value in Rs crores)

Sr No	Category	1968-69		1969-70		1970-71		April 71-Jan 72	
(1)	(2)	No (3)	Value (4)	No (5)	Value (6)	No (7)	Value (8)	No (9)	Value (10)
(1)	Estd importers (quota licensing and licensing under trade agreement)	20,422	44.45	19,378	43.83	19,561	41.80	15,960	38.54
(2)	Actual users (non-DGTD, non-SSI)	12,103	242.39	12,270	301.15	14,633	311.87	11,355	286.51
(3)	Raw materials (DGTD units)	5,489	232.05	6,847	274.78	8,323	385.03	6,647	222.45
(4)	Small-scale industries	19,697	36.72	35,450	66.57	52,649	83.26	55,350	79.15
(5)	Capital goods	766	79.51	903	70.57	1,553	117.19	1,810	171.86
(6)	Heavy electrical plants	114	4.32	154	2.63	187	9.90	128	1.57
(7)	Export promotion scheme (erstwhile)	585	2.36	274	82	65	13	9	11
(8)	Registered exporters	18,147	61.39	24,833	85.92	27,282	94.74	20,140	70.75
(9)	*Ad hoc* licences	625	18.70	491	26.08	586	19.29	694	9.46
(10)	Customs clearance permit	4,349	38.77	5,148	43.61	60,58	32.86	38,67	28.70
(11)	State trading agencies	2,114	150.46	4,070	242.80	3,651	444.56	28,57	512.35
(12)	Railway contracts	445	18.88	573	10.74	546	25.98	499	24.45
(13)	DGS and D	659	5.07	730	6.38	55,31	5.44	567	64.04
(14)	Govt or against govt contracts	645	2.74	600	22.06	6,49	55.02	654	47.39
(15)	Co-operative societies	29	0.04	1	0.04	4	0.02	4	0.11
(16)	Sole agents	21	0.49	4	0.04	—	—	—	—
(17)	Replacement licences	782	1.64	1,063	2.06	955	2.41	736	1.21
(18)	Blanket licences	91	4.34	121	4.44	1,19	4.19	98	4.54
(19)	Newcomers	65	0.05	36	0.12	29	0.11	29	0.21
(20)	Others	14	0.15	12	0.09	11	0.08	—	—
Total		87,172	944.52	1,12,958	1203.73	1,37,392	1633.88	1,21,404	1505.40

BREAK-UP OF IMPORTS INTO MAJOR HEADS

(Value in Rs crores)

Sr No	Heads	1968-69	1969-70	1970-71	1971-72 (upto Sept 1971)
(1)	Complete machinery and equipment	198.86	189.26	190.26	94.95
(2)	Maintenance imports:				
	(a) Raw materials and intermediate goods (excluding metals)	711.09	624.09	654.21	402.04
	(b) Components and spares	325.29	215.61	207.47	137.19
	(c) Metals	175.24	156.05	266.73	174.37
	(i) Iron and steel	86.21	81.51	147.09	113.18
	(ii) Non-ferrous metals	89.03	75.54	119.64	61.23
	Total of (2)	1211.62	995.75	1128.41	713.60
(3)	Food, cereals and edible products	372.81	294.20	242.68	71.85
(4)	Essential finished goods	35.92	27.25	38.07	25.40
(5)	Unclassified items (including postal articles and special transactions)	89.42	75.64	25.75	8.03
Grand Total		1908.63	1582.10	1625.17	913.83

Note: Figures for 1970-71 and 1971-72 (upto September 1971) are provisional and subject to revision. Figures for 1968-69 and 1969-70 have been revised to the extent possible.

Calcutta

A Flat Calm...

A Correspondent, just returned from Calcutta, writes :

In slogan-scarred Calcutta, the Congress's election-winning slogan 'renounce violence, live and let live' hits one from every angle. The message of peace and goodwill, inscribed on trams, shuttles across the city from dawn to dusk. It is Congress, Juba Congress all the way. And, judging from the relative paucity of CPM election scrawls in a city that, despite the Indira wave, remains inclined to the Left, a thorough job has been done to keep democracy safe.

No one denies that there has been systematic intimidation of political workers. That there was rigging of the ballot is equally freely admitted, Election Commissioner Sen-Verma's silence on this issue notwithstanding. According to one story going the rounds in Calcutta, to a journalist's complaint that his vote had been cast well in advance of his arrival at the polling booth, the reply given by a top state official was: "your franchise was exercised; what then is the complaint?"

Ballot-rigging, it is said, is not unusual in West Bengal. Those who believe in containing the CPM assert: "We paid them in their coin". But who is "we"? The inspired petit bourgeoisie? The 'Naxals' — quite different from the Naxalites — who have singled out CPM as the enemy? What is the relationship of the Juba Congress with the 'Naxals'? No clear answer can be had to these questions. One election scrawl of CPM, often quoted in Calcutta, parodies lines from a Bengali play thus: "Truly Seleucus, this is a strange land; Congressmen by day [turn] Naxals by night".

There is demoralisation on the Left. The preoccupation of the subdivided, fragmented Left with the power equation not only disgusted the petit bourgeoisie but made the Left a sitting target for the 'Naxals'. There is now vague talk of closing the ranks. However, the CPM's cadres have been badly mauled. Many, including Naxalites, are reported dead, wounded or missing. Not a few have been weaned away. Unbelievable though it may seem, the editor of a well known journal bemoan-

ed the sudden scarcity of Leftist writers.

Bengal is India's mini-Indonesia. True, the Army was confined to the barracks, but this omission was made good by a task force created by the establishment. An estimated 3,000 were recruited to identify political 'undesirables' in every locality and to 'root out violence'. The force, it is alleged, was strengthened by detenus, held on minor charges, who were allowed to escape from overcrowded jails. Naxalites returning from rural Bengal were not the only ones to be overwhelmed by this force of police underlings.

The task force did a splendid job. But is the task done? The force has not withered away. Pipe guns remain freely available and the knowhow for making ammunition has struck deep roots. The clean-up yielded handsome results on the political front. What could be more logical now than to start a clean sweep of trade unions still dominated by the Left parties, mainly CPM which, despite everything, netted 29 per cent of the votes in the elections?

The elections are over. The Congress has been returned to power with an absolute majority. Jyoti Basu and Promode Dasgupta bewail that the elections were a fraud but say in the same breath that never, never would CPM turn from the ballot to the barricade. Alas, a *modus vivendi* eludes Calcutta. Wagon-breakers carry on with impunity in Dum Dum and its environs. In the distant suburbs, police bullets take care of protesting students and workers. Trade union leaders are beaten up in broad daylight. 'Red Guards' are on the rampage in the factories around Calcutta, seeking trade union zamindaris as their pay-off.

The Congress has won the elections to restore law and order. The Left is on the defensive. The faded posters around the Esplanade proclaiming labour's "Dabi" will soon be washed away by the rains. The garish lights of Chowringhee blaze upon row after row of parked cars outside the posh restaurants. Calcutta could not be more normal. Commuters in the overcrowded buses and trams mingle sweat and breath without murmur. Pedestrians quietly take the circuitous route to the tram and bus terminus under the watchful eyes of 'volunteers' outside Howrah station where subways are under construction. One fails to detect even a flicker of irritation on the hurrying faces. Passions no longer vibrate the Bengali: "... a flat calm — the giant mirror of ... despair"?

Land Ceilings

No Substantive Change

NOW that the newly-elected state governments are in office, practically all of them with thumping majorities, it would be interesting to see how expeditiously they proceed to implement one of the Congress party's major election promises: lowering of the ceiling on land-holdings. This may also be the time to usefully recall the experience of the first round of ceiling legislation. After considerable cajoling by the Central leadership for over a decade, the state governments undertook the enactment of ceiling laws around the beginning of the sixties. After about six years, the Draft Outline of the earlier abortive Fourth Five-Year Plan (1966) gave this categoric verdict on land ceilings: "The main object of the ceiling which is to redistribute to the landless at a reasonable price on a planned basis has been largely defeated" (p 131).

The reasons for the failure were many. First, there were many deficiencies and loopholes in the laws themselves. The levels of ceilings, fixed in an arbitrary manner with many supplementary provisions, exemptions and exceptions, were generally high; they were unrelated to the quantum of surplus land required for redistribution among the landless and marginal farmers. In a majority of the states, the unit of ceilings was the individual and not the family, which facilitated clandestine transfers of land among members of the family. The provisions of the law for disregarding such transfers were of a half-hearted nature. In two states there was no provision to disregard such transfers, and in two more the transfers were to be disregarded provided they were made after the date of the enactment of the ceiling legislation. In as many as 10 states, transfers were to be disregarded only if they were made after the introduction of the Bill or its publication.

Secondly, there was considerable delay, inefficiency and corruption in the implementation of the legislative provisions. This was clear from the fact that even after about a decade of the operation of ceiling laws in different states, only about a million hectares of land were declared surplus (see Table). This was less than 0.8 per cent of the net area sown and less than 8 per cent of the area held in holdings of 50 acres and above. Of the surplus land, only 6.40 lakh hectares were taken possession of by the state governments. Further, land redistributed came to only 4.64 lakh hectares. Besides administrative lethargy in selecting allottees, the redistribution of surplus land has been hampered by litigation by landlords and the poor quality of land surrendered by landholders.

In sum, the unwillingness of the political leadership to undertake a revolutionary measure of this nature, connivance of the administrative machinery with the landlord elements' efforts to evade the ceilings, and the existing legal framework which left ample room for litigation — all contributed to defeat the objectives of the first round of ceiling legislation throughout the country.

IMPLEMENTATION OF CEILING LEGISLATION

State/Union Territory	Date of Enforcement of Act	Ceiling in Terms of Standard Acres	Net Area Sown 1965-66 ('000 hectares)	Implementation as in March 1971	
				Area Declared Surplus ('000 hectares)	Area Distributed ('000 hectares)
Andhra Pradesh	1961	27	10,995	20	—
Assam	1958	25	2,337	30	—
Bihar	1962	20	8,338	No	—
Gujarat	1961	19	9,528	4	—
Jammu and Kashmir	1951	22½	671	180	180
Kerala	1970	10	2,064	No	—
Madhya Pradesh	1961	25	16,529	34	7
Tamil Nadu	1962	15	5,934	10	7
Maharashtra	1961	18	18,122	117	25
Mysore	1969	27	10,011	No	—
Nagaland	—		47	—	—
Orissa	—	20	5,989	No	
Punjab and Haryana	1961	30 50*	7,411	141	47
Rajasthan	1963	30	14,131	24	5
Uttar Pradesh	1961	40**	17,343	97	55
West Bengal	1971	5†	5,443	354	140
Union Territories			936	—	—
All-India			135,829	1011	466

* For displaced persons; ** Fair quality land; † Standard hectares.

Source: Note on Ceiling on Agricultural Holdings, Central Land Reforms Committee.

It is against this background that the current proposals to enact fresh legislation, reducing the level of ceilings, fixing the family instead of the individual as the unit and removing other loopholes, have to be viewed. If ceilings are kept at an average of 15 acres, about 45 per cent of the land-holdings would be affected, and 63 million hectares may have to change hands as compared to the one million hectares declared surplus under the existing laws. Yet none of the circumstances which have thwarted the implementation of the existing laws has really changed. There is no reason to believe that the efficiency of the administrative machinery has improved. There is also no reason to believe that the balance of economic and political power in the rural community has undergone any change and so the administrative machinery may be expected to continue to collude with the landlord class. As for the new political leadership, we have the instance of the Punjab Chief Minister who believes that if ceilings are lowered below 40 standard acres, land-holders would be pushed below the poverty line!

Cement

Through the Backdoor

THE last time the cement industry received a price increase *as* a price increase was in 1968. It was a substantial increase of Rs 7 per tonne to match 'increases in the cost of production'. Cement was to be decontrolled two years later, but, under pressure from a major part of the industry which feared erosion of margins under competitive conditions, control was continued on the pretext that shortages were imminent — anticipated by industry to be 5 mn tonnes in 1975. Meanwhile, for all the overt official resistance to price increases demanded by the industry, the price has been raised three times to date: once in October 1970 by Rs 3.20 'to replenish' the cement regulation fund under the Cement Controller for financing the operations incidental to distribution and supplies; again, by Rs 2.50, following the 1971 railway freight increase to compensate the industry for the rise; and most recently by Rs 2 to make up for the latest freight increase. As a result, the for destination price now adds up to Rs 138.83 per tonne — as against the Rs 100 per tonne, which is the uniform retention price the producer gets in his hands.

Meanwhile, the Tariff Commission has been entrusted with the task of examining the issues of progressive decontrol, diffusion of ownership, interim upward price revision, and advisability of freight pooling arrangements — all the issues that Government presumably must have considered before it was poised to decontrol cement two years ago. What purpose could one more review of the basic issues serve, except to stall for time and to postpone decontrol? Moreover, as every industry that has been under the Tariff Commission's 'cost-plus' control knows, the cost categories of the Commission are more of the accounting type than of the cost-control type.

That there is a case for decontrol and for expecting the cement industry to lower its costs through inter-unit competition is as clear today as it was two years ago. For all the reports that appear in the daily press with incessant regularity, about current and impending shortages, it must be underlined that these are local in character and (as ACC, the largest single producer, has been at pains to point out) are more due to wagon non-availabilities and transport bottlenecks than due to any overall shortage of capacity. These complaints emanate mostly from the northern areas which want their own local capacity in cement; whereas the southern units occasionally complain of stocks accumulation. With an all-India rated capacity of 18.28 mn tonnes, a demand of about 16.5 mn tonnes estimated for the past year should have posed no problem — especially if, as the Cement Manufacturers' Association claims, capacity utilisation is anywhere between 80 and 90 per cent. Moreover, profitability ratios in the cement industry have risen since 1969, a fact which has been duly reflected in the 53 applications for fresh capacity creation and 34 for expansions.

Pharmaceuticals

Growth plus Diversification?

THE pharmaceutical industry's worst fears about drug price control have been amply disproved. In his annual statement to shareholders last year, the chairman and managing director of Unichem Laboratories, A V Mody, had complained that "the reality [of price control] has turned out to be more grim than what I had anticipated". It is doubtful that Mody will want to stand by this judgment today. For Unichem the year ended September 1971 was hardly a grim one, with sales increasing by 33 per cent (compared to a little less than 13 per cent in 1969-70). Rapid increase in sales appears to have been the common experience of most of the larger units in the pharmaceutical industry last year. It would be interesting to know how much of the growth was attributable to increase in demand resulting from the lowering of prices of a number of pharmaceutical products which price control is supposed to have brought about. One would also like to know how much of the increase in turnover is to be attributed to the policy of diversifying into non-pharmaceutical products which many pharmaceutical companies, including Unichem, had initiated well in advance of the coming into operation of the price control on pharmaceutical products. In Unichem's case protein biscuits have been a major item of diversification. In his statement to shareholders last year, A V Mody had frankly stated that "with increasing restrictions on pharmaceutical industry, such diversification is absolutely a must for the healthy growth of the company".

The urge to diversify into non-pharmaceutical — and often less essential and even non-essential — items may well be strengthened by the reported findings and recommendations of the Bureau of Industrial Costs and Prices. The Bureau, which had been asked to determine the prices of certain basic drugs which had not been covered by the earlier Tariff Commission inquiry, enlarged the scope of its inquiry to include conversion norms and mark-ups in respect of formulations (see "More Scope for Price-Cutting", March 4, pp 528-9). According to A V Mody, the recommendations of the Bureau are "likely to affect substantially the entire profit pattern of the pharmaceutical industry". Like others in the industry, Mody is evidently hoping that the government will take no immediate action on the Bureau's report. Whether Unichem is at the same time pressing ahead with its programme to diversify into non-pharmaceutical products, he does not say.

Unichem's exports of over Rs 20 lakhs in 1970-71, though only about 4 per cent of sales, is noteworthy for an Indian company without the advantage of well known international brand names and established foreign markets. To boost exports, Mody puts forward the

idea of setting up export zones for manufacturing products for export. The idea of export zones itself is not new, but its suggestion in the context of the pharmaceutical industry is certainly interesting. Usually it is industries which are likely to export all or most of their output which are considered for location in export zones. The pharmaceutical industry, however, exports less than 5 per cent of its output. A V Mody's stipulation that the units in the export zone, which are to be allowed liberal access to foreign exchange for imports, should earn net foreign exchange of 25 to 30 per cent is not unattractive considering that quite a number of our so-called non-traditional exports, which qualify for incentive import licences, contribute much less than that in terms of net foreign exchange earned.

Kamani Engineering

From the Power Base

DESPITE the difficult steel supply position and the steady fall in targets and achievements in the country's power programme — which the chairman of Kamani Engineering has diligently pointed out — the Corporation has fared quite well. While production in 1971 was maintained at the previous year's level, turnover actually increased from Rs 14 crores to Rs 15 crores, and profits for the year were far higher at Rs 42.24 lakhs as against Rs 25.64 lakhs in 1970. Exports, at Rs 6.17 crores, account for a sizeable part of the turnover, and for these the Corporation would be entitled to steel at the import price parity. It had on hand, as on September 30, 1971, further orders worth Rs 24 crores. Evidently exports are a gainful outlet: during the year, Kamani Engineering completed a Rs 6-crore turnkey project in Sudan, and won orders worth Rs 15 crores in the Middle East and South-East Asia. This, in a year when engineering exports were tending to slacken.

The Corporation's fate is ultimately tied up with the country's power plan and particularly with the grid interconnections and transmissions programme. Here there is not great cheer. Although, as a Planning Commission study shows, annual expenditures have been above the outlays approved, the growth in installed capacity has been below expectations in each of the first three years of the Plan. Besides, the targets themselves have been lower in each successive year (1.63 million kW, 1.32 million kW, and 1.18 million kW). Similarly, while the Mid-Term Appraisal has underlined the need for rationalisation of the all-India power industry, requiring more intensive and wider transmission links and interconnected systems, progress along these lines has lagged behind. Although, unlike its competitors in the field, Kamani Engineering — thanks to its significant export orientation — has not suffered from the slowing down of this internal programme, it would benefit from the finalisation of the pending plans for transmission lines etc. It has, meanwhile, sought to diversify into specialised items where the margins are more attractive.

Banking

The Non-Conformist

MOST commercial banks like to see the highlights of their operations in the last few years in terms of growth of deposits, number of new branches opened, and amount of money lent out to agriculture and other 'priority' sectors. To cope with what they like to call their new social responsibilities, they have perhaps set up agricultural finance departments at their headquarters and appointed a handful of agricultural graduates and others as 'experts' to guide their operations in unfamiliar terrains. And, of course, there is the ritual obeisance to the Lead Bank scheme.

Interestingly enough, in his annual statement to shareholders (see April 1, pp 728-31) not even once does R K Talwar, chairman of the State Bank of India, refer to the Lead Bank scheme. There are no tiresome lists of districts surveyed or statistics of branches opened and money lent in the Lead districts. And yet the State Bank appears to have done rather more home-work than other banks on the *modus operandi* of financing agriculture and allied rural activities. Starting with the area approach, the State Bank proposes to select 150 Intensive Centres throughout the country, at each of which it is proposed to open an Agricultural Development Branch supported by technical and other field staff. As each Centre is identified, the surrounding area is surveyed and schemes are prepared to provide agricultural finance to clusters of villages taken up for coverage in the first phase. Further clusters of villages would be covered in later stages. According to Talwar, 67 intensive centres have been identified so far, though only 46 of these have been cleared with the concerned state governments. The Reserve Bank's approval has been secured for opening 33 Agricultural Development Branches and 20 such branches have been actually opened. What has been the experience of these branches, Talwar does not say.

One major problem facing the opening of Agricultural Development Branches, according to Talwar, relates to co-ordination with the co-operative banks and the demarcation of the respective areas of the two. The problem of co-ordinating the activities of co-operatives and commercial banks is a general one faced by other banks as well, though the Reserve Bank continues to sweep it under the carpet. Incidentally, the State Bank's approach to agricultural financing is likely to create problems of co-ordination with other banks as well. For instance, how does the Intensive Centres scheme fit in with the overall approach to commercial bank financing of agriculture and allied rural activities based on the Lead Bank concept?

The State Bank chairman also refers at length to the changes introduced in the bank's organisation structure. The State Bank recognised the need for change before the other banks did and, by 1971, had introduced the first phases of a new organisation structure. Branches have been organised on the basis of customer-groups so as to help focus attention on the needs of different types of customers. It is only right that banking, as a marketing industry, should be customer-oriented in its structure. But branch reorganisation on customer lines adds up to little if the higher management structure is based on the traditional family tree pattern with one man at the top, with three below him, each of whom has three below him and so on with dreary symmetry. No amount of sensitivity of branches to customer needs is likely to be useful unless this sensitivity is ensured in the top management structure. This can hardly be done while at the same time maintaining a hierarchic organisation.

Most banks face the problem of poor communication of objectives to the unit level. Efficiency, after all, is measured at the extremities. And efficiency, to a large degree, depends on the perception of corporate objectives at the level where the action takes place. There is little appreciation of this in the State Bank chairman's statement. When organisations are restructured on misplaced perception of needs, dichotomies develop between the organisational structure and the working of the organisations. A new organisation structure then becomes accepted simply on the basis of the new positions it creates.

Back to Normal

Romesh Thapar

HE election posters are peeling off ıe walls. The painted slogans might ɜmain to recall promises and invocaons. The squatter colonies are no ıger the focus of municipal attention. he newly installed taps and lavatories re there, but the water tends to trickle. he price of second-hand jeeps is fall-ıg. The heat and dust of summer desend and with them life at all levels is ɜaping back to normality. Sai Baba is ɨsiting the Capital and drawing the ɨnd of crowds reserved only for Indira ʌata, but then he draws them without he massive aid of audio-visual techniques. He will be in residence for a ew days, performing as always, and ıe has already won the divided loyalty ɔf several ministers. Why be a minister f you cannot enjoy "presences" such ıs these. US Ambassador Keating has ılso succumbed and now flaunts a Sai Baba ring.

It is quite a season. There are rose shows, dog shows, book shows and art shows. The Prime Minister unlike her committed ministers attends all these "functions", often accompanied by her baby grand-daughter. Image building? Certainly not. Just showing the flag, as it were. She certainly seems to be everywhere all the time, and could give Sai Baba a lesson or two in this art. Unfortunately, the council of ministers busies itself largely in all manner of peripheral activity.

A bunch of these gentlemen have launched a series of seminars, symposiums, workshops, and what have you, for the managers of the public sector. Naturally, the luxurious Ashoka Hotel is the venue for these "battery-chargings". Knowledgeable circles in the Government of India study these goings-on, and encourage participation, in the hope that a Sai Baba might emerge with a trick up his sleeve. Meanwhile, decision-making in various crucial management-oriented ministries is in the hands of rather suspicious non-official operators — a fact that is only whispered in the quiet corridors of power.

Another bunch of ministers is more seriously concerned about the monies which they squeezed out of various businessmen and which they did not disclose to the party. The cause of the flutter is that Indira Gandhi has taken a dim view of a colleague's action in declaring savings from his personal election fund as an income tax-free "windfall", in the nature of a prize in a State-run lottery. Sai Baba or the Mother in Pondicherry would surely have an answer, but...

In this mood of normality, it is only natural that we should have held an international gathering on a favourite theme: Neo-colonialism. The sponsorship was discernible. Delegates had a common colouring. The betting was that Czechoslovakia would not be mentioned, and we were right. The trouble with a lot of us Indians is that we still don't understand the meaning of crucial words in our alien mother tongue. And that goes for the annual meeting of the Federation of Indian Chambers of Commerce and Industry (FICCI) addressed by the Prime Minister. Her call for co-operation and partnership is seen as marking the beginning of a new era of money-making. After all, such eras have in the past been sparked by a few well chosen words. If only the speech writers knew their invisible contribution to high blood pressure and history...

This, and much more, has been going on in the Capital. Awards and honours have been doled out. There have been troubles, too — with the Army Chief's promotion, for example. There is excitement about new ministers, new MPs, new bureaucrats, new fixers. But it is all at a lower tempo. Even a quorum in Parliament is seldom registered. Summer has come. And there are no foreign trips until the parliamentary session is over. Then, I suppose, we will be without a government. Very normal.

April 3

LETTERS TO EDITOR

Modern Indian Historiography

I READ Sudhir Chandra's note on "Modern Indian Historiography" (March 18, pp 621-2). I was astonished to find him including me among the "sociologically-inclined historians" whose conclusions "confirm the earlier imperialistic view of Indian history" (p 622). Sudhir Chandra, whose heart is in the right place, strongly disapproves of both these schools of historians.

It is indeed flattering to be listed among the practitioners of a hoary and prestigious discipline but honesty compels me to declare that I am only a social anthropologist/sociologist and have no claims whatever to be a historian, let alone a historian of a particular brand.

I may also add here that while I have stressed that caste is an important social institution nowhere have I argued that it is "the fundamental category to understand Indian society", whatever that may mean. Even a cursory acquaintance with my work would show that I am aware of the importance of other institutions. I was under the impression that historians as a rule were more scrupulous about their sources than other social scientists.

In my book "Social Change in Modern India" I have narrated briefly how I came by the idea of Sanskritisation. While Sudhir Chandra is generous enough to add that he does not "accuse anybody [Srinivas and Mishra] of plagiarising", nor does he wish "to belittle the importance of their undoubtedly significant, though sketchy (*sic*) work", I may be pardoned if I am hesitant about accepting him at his word. I cannot easily forget that the initial reaction of many of my colleagues in India and a few abroad to dismiss Sanskritisation as of little or no account has now given way to a tendency to trace it to earlier and unacknowledged writers. (Incidentally, I do not think that Risley could have had any idea of the ramifications of the Sanskritisation process and its links with Westernisation which I have discussed at some length in "Caste in Modern India" and "Social Change in Modern India".)

As one who has only carried out micro-studies during his professional life, I welcome Sudhir Chandra's call for similar studies by historians. But I do not share his doubts and fears about them as, given the right perspective, they yield valuable hypotheses which can then be tested systematically in different regions. It has been a matter of considerable gratification to me that such ideas as have emerged from my work have been found fruitful

in the analysis of cultural and social processes in many other parts of India. Perhaps herein lies one of the ways of exploring fruitfully the problem of "unity in diversity". (Incidentally, why not also "diversity in unity"? I am not being frivolous when I suggest this as I hope to write briefly on this topic in the near future.)

Micro-studies offer an area in which sociologists/social anthropologists and historians can fruitfully co-operate. There is a great need for salvaging documents lying with village- and caste-headmen, and in temples and monasteries and *taluk* offices. It is a task to which the newly-constituted Indian Council of Historical Research may consider giving priority.

Finally, I have also found micro-studies productive of valuable hints and suggestions about past conditions of society. It is obvious that much caution and discrimination will be essential in making use of them. But given such caution, historians may be able to use them as hypotheses in analysing data about the past. Sudhir Chandra would perhaps frown on this as a devotee of "pure and objective history" but a few of his colleagues may be more willing to take some risks.

M N SRINIVAS

Delhi

Copper for Breakfast

MAGNUS (March 18, 1972) is highly readable but he sounds typically private-sectorish in his criticism of the sleepy giant, the HCL, entrusted with the management of the ICC. He does not like a well-managed undertaking such as the ICC to be taken over by the government. He wants the public sector undertakings to make profits. He gives no ground to the reason that such basic minerals, for long in short supply, should never have been in the private sector. The same considerations apply to coking coal. Whether these undertakings earn profit or incur loss becomes immaterial when one considers that exploitation of these minerals would need considerations not fully grasped by profit alone. But somehow this has become the criterion in performance appraisal even when profit is not only possible but undesirable. The exploitation of seven small copper mines and other details in this context are not unique in the case of HCL; earlier, we had similar instances of perpetual gestation in NCDC, NMDC, Fertiliser Corporation and Hindustan Steel. The term "well-managed" is protean in this context. It depends on the criteria applied for assessing performance, allowing for the objectives sought to be satisfied and the conditions in which performance takes place.

This kind of venture would perhaps never have been attempted in the private sector in this country. Many such attempts would have been rejected as uneconomic by commercial standards, while some would perhaps be taken up only in doses over a long period. The question is, can we do this? I believe there is difference of opinion on this, but my answer is an emphatic no. The quality of management that we have in the public sector is not germane to it. In fact, it is not far worse than in the private sector. The difference lies in the fact that not much is known of private sector management. Whether public sector management is allowed to work freely is a different question. But in this we have the long-term solution. Magnus offers poor logic when he tells us about the dismay of 26,000 shareholders on the compensation price which could have brought another small copper mine into production. Unlike Magnus, I have long wondered why we should have waited for such a long time; these activities should have been nationalised as far back as 1948 when the Industrial Policy Resolution was adopted. Our lack of a sense of priorities was shown at that time itself Thus, it is not a case of private sector's copper for public sector's breakfast; it is one of public sector's iron for private sector's dinner.

PARESHNATH CHATTERJEE

Calcutta

Magnus writes:

PARESHNATH CHATTERJEE has missed the main point about Hindustan Copper taking over the management of Indian Copper Corporation. If base metals are in short supply, all actions should be aimed at achieving, or improving, their production. Handing over a producing unit to another group, whose ability is suspect, will not achieve this. Profits may not be the sole criterion of efficiency, but HCL is poor by any criterion: it has not completed any part of the Khetri complex in 12 years, while ICC and Hutti, to name two companies, designed and built complete new treatment plants in less than five. HCL's financial estimates for Khetri have last week gone up from Rs 93 crores to Rs 115 crores, and its schedule put back by yet another year to 1974. Public or private, the agency taking over a running concern should be of proven merit and achievement. Merely being in the Public Sector is neither an achievement nor does it endow any merit. Given the right political climate, projects taken up by HCL could certainly be taken up by private industry.

In a short time, one may expect the gypsum and cement industries to be nationalised. The prices will probably go up. Would Chatterjee applaud?

Must Business Economists be Objective?

In "Must Business Economists be Objective?" (March 4, p 537), some of us have been quoted as having argued that a merger of the automobile manufacturing companies in India is not feasible "despite experience the world over of mergers in this industry". I am afraid this is likely to present a misleading picture of the arguments that we had put forward.

Our arguments briefly were:

(i) The idea of merger was mooted so that economies of scale could be availed of by the three car manufacturing units in the country. The logical extension of this line of thinking would be that the units already in the field should be expanded. However, instead of doing this, Government was in fact licensing several new units for the manufacture of small cars and was in the process of setting up its own car manufacturing plant. In this context of further fragmentation of the automobile industry, it is contradictory to talk of achieving economies of scale by merging the existing units in the field.

(ii) The three car manufacturing units were already facing tremendous problems in their operations. Their immediate task is to control costs and improve quality to the extent possible. The proposal for merging their facilities would only divert their attention from the main task. Thus the higher echelons of management would possibly have to be removed and replaced by new men. Furthermore, since these units were located in different parts of the country, widely differing management practies and labour productivity norms were prevailing in each of the units. This situation would make the problem of merger far more intractable than would appear at a casual glance.

S H CHAINANI

Bombay

Tears and Rhetoric

OF course "Tears and Rhetoric Do Not Make a Meal" (February 19, pp 449-51), but alas nor do revolutions!

SUDHIR J MULJI

New Delhi

Rise in Costs No Bar

Hansavivek

MAHINDRA AND MAHINDRA's Jeep vehicles have been accepted by the defence forces of Yugoslavia, Jordan, and Ceylon. The company has also received inquiries from Australia, New Zealand, and Malaysia. Last year, an agreement was concluded with an Indonesian firm for supply of 2,004 vehicles, against which shipments are being made since March 1971. The company expects government decision soon on an increase — from 10 per cent to 20 per cent — in the rate of cash incentive on exports of vehicles. During the year to October last, M and M produced 11,377 vehicles and sold 11,472 vehicles, against 10,168 and 10,008, respectively, in the year before. Production in the first quarter of the current year rose by about 23 per cent over the corresponding period last year. Sales were up by 10 per cent, but the management expects further improvement in the remaining part of the year. Meanwhile, a new line of vehicles (based on the existing engine, transmission, and axles, etc) is being developed and some of the functional parts of the vehicle are being improved. Manufacturing operations at the Kandivli plant have been streamlined to ensure optimum utilisation of plant and equipment. At the same time, bottlenecks in capacity have been overcome by developing subcontracting facilities. The new foundry building at Kandivli has been completed, and a large portion of the plant has been installed. Benefits from this unit should become progressively available.

M and M's *steel division* witnessed a significant change last year; owing to shortage of steel, export of steel has been virtually stopped except for pig iron and a small quantity of rails. Orders secured for import aggregated 271,705 tonnes, of which about 182,000 tonnes are scheduled for shipment during the current year. The *machine tool division* registered substantial increases in sales and profits. The suspension of US AID loans is likely to affect the import of American equipment, but this is expected to be compensated by increased sales of indigenous machines. The *instrumentation division's* production and sales for the first time crossed the Rs one-crore mark. *The electronic division* has finalised foreign collaboration proposals on 3 'letters of intent' for the manufacture of professional grade electronic components. This division has also developed a prototype gear-box controller for the 'Vijayanta' tanks under the Army's specifications. The electronic temperature controller developed by the division has been well-received by the industry. Letters of intent have also been secured for indigenous manufacture of oil-flow meters and some items of electro-medical equipment. The *agro-aviation division* fared well in its first full year

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

	Mahindra and Mahindra		Empire Dyeing		Elpro International	
	Latest Year 31-10-71	Last Year 31-10-70	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 31-12-71	Last Year * 31-12-70
Paid-up capital	360	366	51	51	85	85
Reserves	249	212	101	81	33	27
Borrowings	1179	1245	163	186	116	85
of which Term borrowings	177	193	35	32	10	18
Gross fixed assets	662	629	296	258	153	138
Net fixed assets	616	573	152	148	83	78
Investments	247	241	—	—	—	—
Current liabilities	1059	896	158	128	57	30
Current assets	1983	1905	321	298	209	148
Stocks	980	898	45	46	131	106
Book debts	909	879	264	240	76	42
Net sales	3513	2929	667	618	323	261
Other income	164	129	19	15	6	1
Raw material costs	2553	2049	343	324	180	151
Wages	512	436	150	142	36	33
Interest	113	101	12	16	11	9
Gross profit(+)/loss(—)	142	123	111	91	47	38
Depreciation provision	39	37	36	24	11	16
Tax provision	50	30	49	35	19	—
Net profit(+)/loss(—)	53	56	26	32	17	25
Development rebate provision	2	1	6	8	2	— 3
Transfer to reserves	12	16	10	18	5	14
Dividend						
Amount	P 4 E 35	P 4 E 35	10	6	10	8
Rate (per cent)	P6 &P 6½ E 11	P 6&P ½ E 11	20	20	12	10
Cover (times)	1.34	1.43	2.00	4.00	1.50	2.75
Ratios (per cent)						
Gross profit/sales	4.04	1.43	16.64	14.72	14.55	14.56
Net profit/capital employed	2.96	3.07	8.25	10.07	7.26	12.69
Inventories/sales	27.89	30.65	6.75	7.44	40.55	40.61
Wages/sales	14.57	14.54	22.47	22.97	11.14	12.64

*15 months.

of operations. In spite of a rise in costs M and M has produced good results for the year to October 1971, with higher sales and gross profits. The dividend is unchanged at 11 per cent.

Among the subsidiaries, *Mahindra Owen* experienced all-around increase in costs of production. It will now manufacture two new products for the Army: the Wrecker Equipment and the Speed Loader. For this it has already secured orders worth Rs 38 lakhs. *Mahindra Sintered Products* expanded its turnover and profits last year. It has developed a number of structural parts and is also installing plant and machinery to produce iron powder. MSP has also been permitted to manufacture carbon brushes. *Indian National Diesel Engine* was able to clear a large unsold stock of engines carried over from the previous year. Production, resumed during the latter part of the year, is soon expected to reach target capacity. *Mahindra Electro-Chemical Products* has wiped out the accumulated losses of previous years. A proposal to merge it with the parent company is being considered by the management.

EMPIRE DYEING needs additional finance and proposes to raise Rs 56.25 lakhs in the form of 'right' equity shares of Rs 15 each on a one-for-two basis at a premium of Rs 10 per share, Rs 160 lakhs as debenture stock, and Rs 30 lakhs in preference shares. The Vitrum glass division, engaged in making quality glass hollow-ware, is proposed to be expanded by installing automatic bottle-making machines. The project is expected to go into production by mid-1973. The performance of the Garlik engineering division is also intended to be improved. Garlik and Company merged last January with Empire; it has a factory each at Ambernath and Madras and a foundry in Bombay. Pursuant to the scheme of amalgamation, Empire has allotted 1,10,000 equity shares of Rs 15 each fully paid-up to members of Garlik. Working results of this division will find reflection in Empire's results from this year onwards. S C Malhotra, Chairman, views the company's future with optimism. During the 62nd year to December last, Empire increased its turnover and profits. Net profit turned out to be lower owing to increased provisions for depreciation and taxation. Even so, the 20 per cent dividend on an enlarged capital was covered twofold.

ELPRO INTERNATIONAL is soon putting on the market a new vertical fluoroscopic cum radiographic unit, 20 ma x-ray generator and a simple type of x-ray diagnostic table, developed last year. The work of designing and development of new motorised diagnostic x-ray table and table column, 60 ma, 100 kvp x-ray generator and 300 ma x-ray generator of higher kvp rating has also been taken in hand. The company is registered with DGTD for manufacture of cobalt 60 teletherapy equipment and associated items. Production of this new item is expected towards the end of the current year. The company achieved sizeable increases in sales and profits last year although the preceding accounting period was of 15 months. But its net profit turned out to be lower owing to the tax liability, which took away Rs 19 lakhs against nil last year. Even so, dividend stepped up two points to 12 per cent, part of which is expected to be exempt from tax, is still covered 1.5 times. Major contribution to the increase in turnover came from lightning-arrester and x-ray product-lines. Exports of the company's products also showed an appreciable increase.

THE FOURTH ESTATE

Making News

Nireekshak

IT is not often that journalists make news in this country. However, the last few weeks have proved to be an exception. Cartoonist Abu Abraham's elevation to the Rajya Sabha, editor Kuldip Nayar's, political commentator Dilip Mukerjee's and correspondent B K Tiwari's interviews with the Pakistan President Z A Bhutto in Karachi, Rawalpindi and Larkhana and the sad demise of two very enterprising journalists — editor Nandan Kagal of *Indian Express*, Delhi, and chief reporter S Ramanathan of *Mail*, Madras — were events that hit the headlines of most newspapers.

Abu ranks among the four or five best cartoonists in the country. Now with the *Indian Express* group, Abu had earlier worked for *Observer* in London where he was among the very few emigrants from this subcontinent who had made a name for themselves in Britain. He could have remained in that country and reached greater heights in his profession, but friends like P N Haksar (formerly of the Indian High Commission, London, but now principal secretary to the Prime Minister) persuaded him to return to Indian journalism. Abu can have no reason to regret the decision.

After the 1965 Indo-Pak war, journalistic contact between the two countries had almost snapped. Except for the brief period when S Nihal Singh of *Statesman* was posted in Pakistan, exchange of newsmen was never revived. The resistance came more from the Pakistani side. India was always willing to accept Pakistani journalists but on a reciprocal basis. It was on this basis that Nihal Singh was sent there. A Pakistani counterpart was supposed to come here, but he never arrived and Nihal Singh had to return on the expiry of his six-month visa.

Hopes of Indian newsmen visiting Pakistan receded further after the recent Indo-Pak war. Then came a message from Rawalpindi through a Western newsman who happened to meet Bhutto after he had come to power. Bhutto had told him that he would be willing to meet senior Indian newsmen if such a request was ever communicated to him. This was in January. The big newspapers took the hint and applied to the Swiss Embassy for visas for their senior journalists. The request was granted in no time — "in ten seconds", as B K Tiwari was later told by Bhutto's friend, W M Jamot.

Dilip Mukerjee of *Times of India* and B K Tiwari of *Indian Express* were the first to meet Bhutto on March 14. The meeting took place at Larkhana, Bhutto's home-town, about 300 miles from Karachi. For an hour and 20 minutes the two Indian newsmen grilled the Pakistani President who talked of peace, "the sweep of history", "misunderstanding in India" and his keenness to shake Indira Gandhi's hand. Above all, Bhutto was anxious to sit at a negotiating table with the Indian Prime Minister. He hinted at his country's readiness to disengage from Kashmir but one could see that this was really a bait to get the 93,000 POWs in India released. Better indicators of his true intentions were his other remarks such as that "I will agree to nothing which runs counter to Pakistan's national interest..." and that "If I can support the people of Vietnam and Latin America, how can I say we abandon that right in Kashmir".

Bhutto's Line

The resident editor of *Statesman*, Delhi, Kuldip Nayar, met Bhutto in Rawalpindi 12 days later. In between Bhutto had been to Moscow and Kuldip was fortunate to probe the Pakistani President's mind after his meetings with the Soviet leaders. The most outstanding feature of Kuldip Nayar's encounter with Bhutto was the former's penetrating questions. "An average Indian believes why should there be the return of POWs comprising four divisions when Pakistan has attacked again and again in the past and when the chances are that it may seek the help of China to have another round?", was Kuldip's first loaded question. It produced an evasive reply on the lines "...let us prove him [the common man] wrong for a change", "India is still a bigger country than ours" and "If China is to grow in resources, you have a treaty with the Soviet Union".

Some other interesting questions Kuldip asked Bhutto were: "What about a non-aggression pact between India and Pakistan?"; "You have been in favour of confrontation. Have you changed?"; "Would you like to accept the Kashmir ceasefire line as the international border?"; "It seems to me that the people in Pakistan do not know about the atrocities committed in Bangladesh. Muslims killed not Hindus but Muslims as well. What do you say to this?" and "Looking back would you say that the two-nation theory has failed?"

Bhutto's answers were equally interesting and revealing. On a non-agression pact: "No war pact means surrender... that we conclude not a high-lifting word like the treaty, but a joint communique or some other document to the extent that we will settle all our problems..." On confrontation: "I am not ashamed of confrontation... now that position does not exist any more. I know it better than others. It is not going to exist in future also." On the Kashmir ceasefire line: "Mr Swaran Singh has offered me a much better line." On atrocities in Bangladesh: "Horrifying things took place... but Mujib's figure of three million was utterly wrong. According to us only 45,000 to 50,000 died." And on the two-nation theory: "I will say that the theory has not been shattered, it has received only a crack... after all, countries have shrunk in size before. Look at the British Empire."

On their return all the three Indian journalists have written articles on the mood in Pakistan after the military debacle. Kuldip Nayar intends to write a book on Indo-Pak relations since 1947 and may visit Pakistan again, if Bhutto would permit him.

Few newspapers in India have thought it worthwhile to permanently station correspondents in Bangladesh. Even the national news agencies like the PTI and the UNI have failed to give the lead. Both are depending on news officially supplied by the BSS, the Bangladesh news agency. *Amrit Bazar Patrika* of Calcutta was the first to start a news bureau in Dacca. The lead has since been followed by *Hindu* of Madras which has stationed K Krishna Moorthy, a very active correspondent, in the capital of the new republic. Not only this, *Hindu* seems to be giving much prominence to news items from its Bangladesh correspondent. The paper's issue of March 27 revealed, for the first time, that Sheikh Mujibur Rahman has not been keeping good health. "The physical strain of the past two and half months has caused some pain in Mujib's chest and in one of his arms, according to one of his close associates" reported the *Hindu* correspondent. Krishna Moorthy has written with caution about what he describes as "the rising tide of political criticism". Yet the reports bring out that political trouble is brewing in Bangladesh.

The recent speech of the Soviet Communist Party Secretary, Leonid Brezhnev, before the Congress of Trade Unionists in Moscow, suggesting that the Soviet plan for "collective security in Asia" is being revived, has provoked editorial comments from most newspapers. According to *Hindu*, the Sino-American axis "has got Mr Brezhnev worried... while developments *vis-a-vis* China and the Arab world are matters of concern to Moscow, Mr Brezhnev could point to the closer relations forged during the past year with India and Bangladesh as big gains counterbalancing whatever influence Russia might have lost elsewhere". In the revival of the Soviet plan for "collective security in Asia", *Hindu* sees a Russian strategy "that countries in the region should all sign with one another treaties like the Indo-Soviet and Indo-Bangladesh treaties of friendship, a chain of such treaties linked to the Soviet Union at one end. The forging of such a link-chain is likely to be the principal objective of Soviet policy in Asia in the coming years." *Hindustan Times* too sees it as "a counter to any Sino-US move to delimit spheres of influence and to offer instead an alternative co-operative framework for Asian development and security... a Soviet bid to fill the so-called vacuum that might be left by US withdrawal from the region". The *Statesman* was more forthright in rejecting the Soviet-sponsored collective security system for "it may indeed be altogether incompatible with the concept of voluntary co-operation within the region..."

Lethal Red-Tape

Human interest stories are a rarity in our newspapers. News desks have a knack of seeing them buried. *Searchlight* of Patna buried one such local story recently on page 3 when it should have been on page 1 of any newspaper. Here are the facts of the story. A senior Additional District Magistrate, Vishwanath Ram, with 30 years of service and due for promotion as District Magistrate, died a pauper in Gaya and for his cremation the District Magistrate of Gaya, R N Das, had to raise funds. Vishwanath Ram had been transferred to Gaya about a year ago as Special Officer of Gaya Municipality. Since his transfer he never got his salary as the Accountant-General's Office had some technical objections to issuing him his pay slip. Ram sent fervent appeals to the AG's Office but to no avail as his file had by then got wrapped in very thick red-tape. Meanwhile Ram fell ill and spent the last few days of his life bed-ridden. The tragedy came to light after he had died and the District Magistrate of Gaya had to raise a subscription among fellow officers and the public for his cremation. That a fairly senior state government officer had died of starvation and without proper medical treatment was a big story by any standard. Yet, *Searchlight* buried it on an inside page. Next day, however, it carried an editorial captioned "Murder by Delay" and profoundly commented: "The tragedy that has occurred in Gaya is nothing short of murder although technically it may not be so."

A poor apology for a great story missed!

Statement by Chairman, Prakash Tandon

Stc Group

Provisional results—
Year ended 31st March, 1972.

1971-72

Exports up 31%. Imports up 43%.
Profits up 124%. Expenditure down 4.7%.

1971-72 was a year of gratifying progress. *We exceeded our targets of exports, profits and imports, but were below target in expenditure. There was altogether a healthy improvement over last year.* For the first time, the total group turnover exceeded Rs. 300 crores. Exports, at a total of Rs. 97 crores, while exceeding the target, just fell short of our coveted century, though next year we are aiming at Rs. 128 crores.

	Rs. Crores		Rs. Crores		
Exports rose from	74.1	to	96.8	by	30.6%
Imports ,,	154.0	,,	220.7	,,	43.3%
Total Sales ,,	233.8	,,	328.6	,,	40.5%
Profit ,,	7.2	,,	16.1	,,	123.6%
Expenditure fell from	6.4	,,	6.1	,,	4.7%

Expenditure to sales ratio further fell from 2.7% to 1.9%
Stocks ,, ,, ,, ,, ,, 15.1% to 10.1%
Debtors ,, ,, ,, ,, ,, 10.7% to 8.2%

1972-73

1972-73 promises well export-wise, budgeting a bold increase of 32.2%, from Rs. 96.8 crores to Rs. 128 crores. However, we have taken a conservative view of our total imports by provisionally assuming more or less last year's total level of imports because there are some uncertainties arising from the cessation of PL 480 funds for some of our staple lines of tallow, soyabean oil, newsprint and industrial raw materials. These were also among our most profitable lines.

We have, consequently, also had to provisionally scale down profits suitably, allowing at the same time for some domestic price support operations like rubber and tobacco which result in losses. However, we will strive for better profits as the year develops, hoping that imports will also show a significant rise, and that we will also be able to take better margins.

	Last Year 1970-71 *Actual*	This Year 1971-72 *Provisional*	Next Year 1972-73 *Budget*
	Rs. Crores		
Export Sales	74.1	96.8	127.5
Import Sales	154.0	220.7	236.9
Domestic Sales	5.7	11.1	10.1
Total Sales	233.8	328.6	374.5
Profit before tax	7.2	16.1	11.0
Expenditure*	6.4	6.1	6.7
Stocks	35.3	33.2	23.9
Debtors	25.0	27.1	22.9
Equity capital	8.8	9.8	9.8
Reserves	11.7	12.4	15.7
Net worth	20.5	22.2	25.5
Expenditure to sales	2.7%	1.9%	1.8%
Stocks ,, ,,	15.1%	10.1%	6.4%
Debtors ,, ,,	10.7%	8.2%	6.1%
Cash Position	Overdraft		Credit Rs. Crores.
1.4.1970	—		1.4
1.4.1971	7.1		—
1.4.1972	—		4.1

*Excluding interest, depreciation and provisions.

Profits

STC lives in an interesting world: when it makes good profits, some object to it; equally, when it makes less profits, some say it is sliding down. STC took this to heart, and this year made an all-out effort to improve its profits, and has more than doubled it. *Our management in now fully cost and profit conscious, consistent, of course, with its social obligations. Actually, by the standards of industry's profits in India of nearly 10% on turnover, and private trades' even higher, our 4.9% is quite modest.*

Cash Management

Our cash management has been good. Despite the normal and inflationary escalations, the costs of our new foreign offices, and the substantial rise in sales, expenditure was well controlled and actually fell by 4.7%—a rare achievement by any standards. The employment of cash, despite the buffer stock operations for fats and oils and rubber, was kept under strict control. Consequently we have periods of surplus cash, which we suitably invest and are helpfully lending to our export associates in the small scale sector.

Another innovation introduced this year is the switching of our surplus funds for use within the STC group, from one corporation to another, to ensure the maximum utilization of available resources and minimisation of interest payments.

We hope thus to run a nearly Rs. 400 crore business next year on a more or less self-financing basis.

Shareholder

Interests of our shareholder, the Government of India, remain paramount with us. We made another bonus issue during the year, raising the equity capital from its original Rs. 2 crores in 1968 to Rs. 8 crores, and the dividend correspondingly from 10% to 20%, now paid quarterly instead of annually. We today pay Rs. 160 lakhs instead of the Rs. 20 lakhs in 1968—an eight-fold improvement.

We have greatly appreciated the help and encouragement we have received from our Ministry and particularly from the Minister and Secretary.

Service

At home, we have organised assistance to small-scale industry through a separate States Marketing Division, which liaises with small industries development corporations, both at the States and their apex levels. We have now begun to adopt small industries' many problems, particularly in the field of exports, and have recently also agreed in principle to invest in the equity capital of some state small industries development corporations, to involve ourselves in their affairs, to guide and to help. These innovations will significantly help the small scale sector.

To serve the interests of industry and trade in general, we have now about 40 consultative committees, which meet regularly to keep us advised on our import planning.

Abroad, service to our customers and associates and our marketing divisions is being improved through a chain of 20 offices, from New York to Sydney, backed by a newly created International Operations Division at headquarters. After having established our new regional offices in South East Asia, U.S.A. and Europe, we are now looking closely at Latin America, an area entirely new to us.

To consolidate our rapid growth, we carried out a second major internal reorganisation, creating many new, more viable and compact marketing divisions, duly supported by a range of of service and advisory divisions. HHEC and IMPEC'S organisations are also under review.

To encourage management education, we have decided to endow two chairs, one at the Administrative Staff College, Hyderabad, for Industrial Relations, and the other at the Indian Institute of Management, Ahmedabad, for International Marketing.

Staff

There is a direct ratio in an organisation between its efficiencies and the calibre of its men. Manpower-wise, therefore, while we have also been economical, recruiting only such specialist and technical personnel as we cannot find within, we have been giving full support to those who work with us to rise through training and promotion.

A management trainee scheme has been organised to attract young talent into the group; but of special interest is our new scheme initiated for the employment exclusively of young talent amongst men and women belonging to scheduled castes and scheduled tribes for service in STC's managerial cadres.

This is an account of a year of satisfactory progress, but, I repeat, we are only too conscious of our shortcomings and of the long way we have to go.

Stc Group

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.

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Offices Abroad
Bangkot, Beirut, Belgrade, Boston, Budapest, Colombo, East Berlin, Frankfurt, Hamburg, Hongkong, Lagos, London, Moscow, Bangalore, New York, Paris, Prague, Singapore, Sydney, Tehran, Nairobi

ASP/STC/4/72

FROM OUR CORRESPONDENTS

PUNJAB

Tussle over Ceilings

THOUGH land ceilings should be viewed as an integral part of a wider land reform and economic development programme and not in isolation, they have assumed independent importance in Punjab. On this issue in fact hinges the future of the new ministry. Addressing Congress MLAs at Chandigarh on March 15, S D Sharma, AICC General Secretary, conveyed the Prime Minister's wish that lower land ceilings should be among the ministry's foremost objectives. But this directive has landed Chief Minister Zail Singh in a dilemma. Almost throughout Punjab, there is considerable opposition to the move for lower ceilings, though all political parties profess to support it. Even CPI has shied away from the subject, abandoning the stress on radical land reforms laid in the party's 1967 manifesto. The CPM's state unit has come out in favour of a comfortable 18-acre ceiling.

Though Central leaders are pressing for lower ceilings and Jammu and Kashmir has opted for a 12 standard acres limit, Zail Singh maintained in an interview recently that "if the size of a farm goes down below 30 acres, we cannot achieve the living standards that we want", adding however that "much depends on the location and quality of land". On March 21 the Punjab Congress Legislature Party unanimously recommended to the government a uniform ceiling of Rs 2.5 lakhs on rural and urban property in the state. The Chief Minister said he favoured the removal of all economic disparities. The next day the State Governor announced in his address to the Assembly that the government would pay special attention to the completion of agrarian reforms; tenancy legislation would be unified for the entire state, all loopholes plugged and exemptions withdrawn.

The liberal exemptions granted to mechanised farms, co-operative societies and orchards have in fact made a mockery of land reforms in Punjab. How the Punjab ministry will implement the Central directive and the Congress MLAs' resolution while safeguarding the interests of large landowners—the mainstay of every ruling party—remains to be seen. The crux of the matter is strict implementation of the laws. In past years land legislation in Punjab, as elsewhere, has largely remained on paper. The evasion of the ceiling by transfer of land to sons, daughters and other near relations, often with official connivance, resulted in very little land becoming available for redistribution. This had virtually become a scandal. On March 30, however, the government climbed down. The official resolution which the Assembly unanimously passed omitted reference to the Rs 2.5-lakh limit. It merely authorised Parliament to prescribe a ceiling on urban immovable property.

Conforming to the current fashion, the Punjab Finance Minister decided to leave uncovered the Rs 14.69-crore deficit in the 1972-73 budget. Since the state was one of the most heavily taxed in the country, and the Bangladesh levies imposed last winter were intact, he said, it would not be fair "for the present" to impose further taxes. Like the Centre and many of the states, Punjab too hopes to partially cover the deficit by tightening the tax collection machinery. Besides, it will seek institutional finance, especially from the commercial banks which have absorbed a good part of the gains from the Green Revolution. The government has also decided to mop up a part of the prosperous farmers' savings through Centrally-backed debentures. But barely four days after presenting the budget, the Finance Minister anounced that he would impose taxes on the rural and urban rich when he next came before

the House with his final budget proposals before June 30.

Himachal Pradesh has altogether different problems because of its hilly terrain and the peculiar features of its economy. Even so, it has fallen in line with the other states in expressing its determination to enforce the ceiling on property. Outlining the new Congress ministry's policy in his address to the Assembly on March 28, the Governor announced that a Land Reform Bill would be introduced very soon.

The Himachal Government has, however, expressed concern over the manner in which Wealth Tax was being assessed on agricultural and horticultural lands in the state. It intends to take up the matter with the Centre. How the Government's loudly professed socialistic objectives are to be reconciled with protests against Wealth Tax assessments is not clear. Presumably, the vested interests in Himachal's apples and potatoes (major revenue-earners) still dominate the political scene.

India-Bangladesh Trade Treaty

Nachiketa

WITH the signing of the trade treaty between India and Bangladesh, much of the uncertainty surrounding the nature of trade relations between the two countries has been removed. Though India was toying with the idea of channelling a major portion of trade between the two countries through state trading agencies, it was all along obvious to many on both sides that it would be impractical, given the character of the two economies, to ban trade through private channels.

The Indo-Bangladesh trade treaty has provided for 'border trade' between the two countries, whereby permits would be issued to people living upto 16 km on either side of the border. Persons holding such permits would be allowed to carry across the border personal consumption goods in specified quantities and money upto a value of Rs 100 only once a day in each direction or any two specified days of a week and only through some specified routes. As 95 per cent of the population of Bangladesh lives in non-urban centres, almost the entire population along the border would be in a position to take advantage of the provisions.

However, in view of the stringent limits placed on the quantum of goods and cash that could be taken across the border, traders would find it difficult to operate. In all probability, goods thus traded will travel beyond the 16 km limit even though people residing only within the 'belt' are permitted to carry on the border trade. Moreover, in the present unsettled conditions in Bangladesh and the inadequate administrative machinery, the government would find it difficult to delimit the border trade to people living in the 16 km limit. After the 1965 Indo-Pakistani conflict, Pakistan had banned trade between erstwhile East Pakistan and India, but considerable smuggling even in such bulky commodities as jute valued at several crores of rupees was reported to be taking place every year. Both the governments will probably soon find that it would be difficult to control movement of goods across the border unless they liberalise the present provisions on border trade.

Along with the provision for border trade, the trade treaty between the two countries envisages balanced rupee trade worth Rs 25 crores each way. While it is difficult to quantify the likely magnitude of border trade, it may be safely said that the rupee trade of Rs 25 crores a year, each way, forms the core of the trade agreement. The agreement mentions, specifically, that the objective of bilateral trade "can best be secured by organising trade between the two countries on a State-to-State basis as far as possible".

By this part of the agreement, among the important commodities that India has agreed to export to Bangladesh are cement (Rs 4.5 crores), raw tobacco (Rs 10 crores), cotton textiles (Rs 25 lakhs), cotton yarn (Rs 1.5 crores), coal (Rs 4 crores), asphalt (Rs 1 crore), gramophone records (Rs 20 lakhs), movies (Rs 15 lakhs), chemicals and pharmaceuticals (Rs 25 lakhs), and machinery and spare parts (Rs 50 lakhs). It should be noted that the value of the commodities flowing into Bangladesh from India would be far greater than those indicated here, as the bulk of the Indian goods would be covered under the already announced aid totalling nearly Rs 200 crores. Thus, as far as the flow of Indian goods into Bangladesh is concerned, the trade treaty would be of subsidiary importance.

As regards Bangladesh's exports to India, some of the important commodities would be fresh fish (Rs 9 crores), semi-tanned cow-hides including wet and blue (Rs 1 crore), raw jute (Rs 7.5 crores), furnace oil, batching oil and naphta (Rs 1.5 crores), newsprint and low-grammage writing paper (Rs 3 crores), books, periodicals and gramophone records (Rs 20 lakhs), and movies (Rs 15 lakhs).

Payments for import and export of commodities in excess of their specified values are to be settled in hard currencies. There is also a provision for an interest-free technical credit of Rs 5 crores, and if the technical credit requirements exceed this limit, interest would be charged on any additional facility they would be provided. As regards technical credit, it may be emphasised that the interest-free limit of Rs 5 crores is considerably higher in relation to the size of rupee trade between the two countries, compared to the interest-free technical credit limits granted to other bilateral trading partners. Another interesting feature of the agreement relates to the absence of gold clause. Both these features are sufficient indicators of the anticipated close mutual relations between these countries.

This three-tier trade agreement is confined only to one year with a specific provision for a mid-year review at the end of the first six months. As things stand, the present trade agreement should not be interpreted as a pace-setter for the future pattern of trade relations which would evolve as more experience is gathered. Both countries are aware that they have not yet made up their minds about this problem. There is also a mention about the possibility of establishing a preferential tariff system or a free trade area or a customs union. Talk about either a 'free trade area' or a 'customs union' at this time is certainly unrealistic and may even prove detrimental to Bangladesh which is still industrially very much less developed as compared to its neighbouring region of West Bengal. Such an arrangement would perpetrate industrial backwardness of Bangladesh leading to possible misunderstanding between the two countries. The jute manufacturing industry in Bangladesh would not have developed so rapidly if Pakistan had not emerged as a separate country after the Partitioning of the Indian subcontinent. At its present stage of industrial development, Bangladesh would find it difficult to compete with the already well-established industrial units in the eastern part of India. In the interest of maintaining better relations, it may be more worthwhile thinking in terms of evolving an area of preferential tariff arrangements conducive to the industrial development of Bangladesh.

HARYANA

Supersession of Municipal Committees

Partap Singh

MUNICIPAL government is subject to legislative, judicial and administrative control. The state legislature controls municipal bodies by enacting the necessary legislation, by amending statutes, and by discussing and debating their functioning. Like other higher levels of government, municipal government is subject to the usual control of the judiciary. Courts of law interpret municipal laws, and may declare *ultra vires* those municipal acts which are deemed to be in excess of the powers conferred on the municipal body. But it is the executive government alone that has to deal with municipal authorities continuously with regard to their day-to-day administration. The entire Municipal Act is replete with overriding powers to the state government on the various branches of municipal administration.

Of all the powers the state government exercises over the municipal committees, the power to supersede could properly be described as 'a sledge hammer type of power'.[1] On supersession of a committee, the municipal councillors including the president and the vice-president have to vacate their seats and their functions are performed by an administrator appointed by the state government.[2] Yet supersession of a municipal committee means the supersession of the people's rights of self-governance since a municipal committee is as much representative of its area as the state legislature is of the state as a whole.

In Haryana, supersession of municipal committees has been very frequently resorted to by the state government.[3] The view that, if a municipal committee abuses its powers or is considered incompetent to perform its functions, it should be superseded is mistaken. As Maheshwari so aptly puts it, "Mankind has not yet, and cannot ever, contrive a fool-proof legislature or, for that matter, any human organisation. If that were so, the judiciary would not have declared so many state and even parliamentary acts *ultra vires* of the Constitution. The decisions of the High Courts are sometimes rescinded by the Supreme Court. Many actions of the bureaucrats who, as a class, tend to regard themselves as the acme of wisdom and uprightness, happen to invite the wrath of the judiciary."[4]

A municipal committee, duly elected by the freely expressed choice of the people, should not therefore be superseded on vague charges of incompetence or abuse of powers. But the fact is that municipal committees are in most cases superseded for political reasons. Municipal committees in which the interests of the party in power are safely looked after escape regulatory action, even if they are in a worse state of administration than those which get superseded. That the supersession of municipal committees is on political grounds is amply seen in the fact that judicial decisions in most cases have gone against the state government. For instance, the orders of the Haryana government superseding the municipal committees of Fatehabad, Karnal, Kaithal, etc, were quashed by the High Court. In the case of the Kalka municipal committee, the state government had superseded the committee on flimsy grounds; the committee filed a writ petition in the High Court. While the Court was hearing the case, the government withdrew its order of supersession evidently since it apprehended adverse remarks from the High Court on its action.

Municipal committees are, moreover, kept under supersession for inordinately long periods. There are some municipal committees in this state which were superseded as long ago as in 1966. Since then, the state government has not taken any steps to hold elections or to restore the democratic working of these committees. Elections to the superseded committees are also postponed to suit the political convenience of the party in power. For instance, elections to the Hissar municipal committee, long overdue, are not being held. This clearly has something to do with the fact that the opposition group there is more powerful than the party in power, *viz*, the Congress.

Nor is supersession of municipal committees a satisfactory remedy for the maladies from which the committees may suffer. The appointment of an administrator to carry on the functions of a committee could be used as a drastic and timely treatment for an ailment; but no such remedy should become part of normal routine in dealing with municipal bodies. The incompetence of municipal committees in performing their functions is largely the result of the faulty administrative structure which queers the pitch for the working of the municipal bodies. The weaknesses of this structure include the absence of a strong and independent executive, undue interference by the elected members in executive matters, inefficient and unqualified municipal personnel, inadequate resources, losses due to improper assessment and collection of taxes, and wasteful expenditure. Unless these defects are removed through structural changes, a municipal committee cannot be expected to perform its duties efficiently and effectively. It is on such changes that attention needs to be focused. Political supersession of municipal committees take the system nowhere towards achieving the objectives of municipal government.

NOTES

1 V Venkata Rao: "A Hundred Years of Local Self-Government in Assam", Calcutta, 1965, p 520.
2 The Punjab Municipal Act, 1911, Section 238 (2).
3 At present, about one-third of the total number of municipal committees are under supersession.
4 Shriram Maheshwari: "Local Government in India", New Delhi, 1971, pp 318-319.

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BIHAR

Many Faces of Caste Politics

N K Singh

CASTE forms the basis of politics in Bihar. All the parties in the field recognise the force of casteism and, at election time, put up candidates on caste calculations as a matter of course. It is interesting that when R L S Yadav, a Congress leader, expressed his dissatisfaction at the way party tickets had been distributed for the recent elections — favouring the upper-castes, particularly the Brahmins, and leaving the Yadavs in the cold — New Delhi's reply was simply that no favour had been shown to any particular caste! And the caste-wise 'quota' was given as proof: Brahmins 28, Rajputs 34, Bhumihars 26, Yadavas 33, other backward castes 40, Harijans 45, Adivasis 29, and Muslims 26. The point is that in doing so the Congress was merely revealing the new strategy in caste-based politics.

Weightage of Castes

The Brahmins, Rajputs, Kayasthas and Bhumihars constitute 13 per cent of the total population of Bihar. The Rajputs and the Bhumihars — constituting about 10 per cent of the population — are the landowning gentry, accounting for 78.6 per cent of the landowners in Bihar. The urbanised Kayasthas are not a landowning caste but, being one of the most educated castes in the state, they have dominated the services and professions. The Brahmins, the highest in the hierarchy, form a special case in Bihar. Though socially recognised as the upper-most caste, they are economically among the poorest.

The so-called 'backward castes' of Bihar comprise as much as 52 per cent of the total population, and include the Yadavas, Vaishyas, Dhanuks, Telis, Kurmis, Koeris, etc. Though called 'backward', economically these castes — especially the Yadavas, Kurmis and Koeris — are reasonably well off in agriculture and cattle-breeding. But these neo-rich landowning backward castes are not considered social equals by the Brahmins, Bhumihars, Rajputs, and Kayasthas, and they have yet to attain the urbanity and sophistication of the upper castes.

The 'lower castes', known as 'scheduled castes' in government vocabulary, who account for 14 per cent of the total population, include the untouchables or Harijans. They earn their livelihood as sweepers, agricultural labourers, or landless labourers.

Historical Background

It must be remembered that, till 1911, Bihar was a part of the province of Bengal. Almost all the important offices, such as the headquarters of the provincial and central governments, the high court, and the university, were located in Calcutta. Consequently, the Bengalis more or less monopolised the jobs that were open to Indians. Understandably, the Kayasthas — the traditional scribes without much landed property — were the first to take to the colonial system of education. Faced with tough competition from the Bengalis, they spearheaded the movement of 'Bihar for Biharis'. They were joined by the Rajputs and the Bhumihars. Predictably, with the bogey of Bengali-domination out of the way, conflicts arose among these same castes. Leaders such as Ganesh Dutt (Bhumihar) and Sachchidanand Sinha (Kayastha) were merely 'caste reformers', working for the upliftment of their particular communities and not for society as a whole.

The subsequent — and consequent — caste alignment in politics may be considered under three periods: (1) the Rajput-Bhumihar domination, (2) the backward caste domination and (3) the 'all caste' period.

The first period, of Rajput-Bhumihar domination, runs roughly from the 1937 general election to the 1967 general election, i e, the era of Congress domination in the state. Before 1952, voting rights were based on property and educational qualifications, so that politics were the monopoly of a handful of rich, upper-caste people. All the Hindu members of the first Congress Ministry in Bihar, after the 1937 elections, were Rajputs and Bhumihars. Even after 1952, the political scene was dominated by these two castes. Though constituting only about 10 per cent of the total population, they dominated the state's politics through the undivided Congress. However, tough mutual competition in the social, economic, and political fields had bred enmity between them. The other castes generally sided with the one or the other faction according to their own convenience.

Adult franchise made a difference, by bringing the backward castes within the political arena. At the same time, the rise of the opposition parties was able to cash in on this change. Among the political parties, the main beneficiary of 'backwardism' was the SSP which, under the leadership of the late Ram Manohar Lohia, made 'backwardism' into a near-creed. It was able to emerge as the second largest party in the 1967 elections and again in the 1969 mid-term poll. With the SSP's backing and their numerical superiority (52 per cent of the total population belonging to this group) backward caste leaders soon came into the limelight and were able to make wide political gains. Of the seven Chief Ministers of Bihar since 1967, four have been of backward castes and one a Harijan.

A peculiar feature of the 'backward domination' period (1967 onwards) was the temporary alliance with the Brahmins following the Congress split. This 'united front' proved of mutual benefit to both castes; they captured 26 seats out of 53 in the 1971 mid-term parliamentary poll — a big improvement on their performance in the first general election. But the alliance was short-lived and broke up just after the parliamentary poll.

The other upper castes seem to have realised the folly of fighting among themselves and handing over power to the *shudras*. Hence their unity in the 1971 mid-term poll. In that election, for the first time, the established leaders of the Bhumihar and Rajput castes joined hands under the Organisation Congress which had a more feudal outlook than the ruling Congress.

Fresh Imperatives

But it was too late. The backward castes were well entrenched in the political game. However, with the Rajput, Bhumihar and Kayastha alliance, at least 'backwardism' as a basis for gaining party support has diminished in value. Political parties are now in the process of moving from their old strategy of counting on a particular caste or group of castes for political support to devising a well-proportioned amalgam of all the castes.

The 1971 election was a pointer in this direction. The ruling Congress was the first to use the new strategy, which partially explains its spectacular victory. The Organisation Congress and the SSP, the two main opponents and losers, had not yet caught on to the changed needs. While the Congress (O) was boasting of its support from the ruling

trinity of Bhumihar, Rajput and Kayastha, the SSP was still harping on the tune of 'backwardism'. The results were disastrous for both parties. As against this, the Congress (R), while it drew its main support from the Brahmins, scheduled castes, and backward castes, gave a well-proportioned representation to the Bhumihars and Rajputs.

Needless to say, in all the power politics, the position of the untouchables, living in starvation and semi-starvation, has been deplorable. In all these years, they have made hardly any progress — economic or political.

Parties, Leaders, and Castes

Just how entrenched have the political parties and their leaders been in the various castes? Partywise, the Congress, the largest political group, has been the hotbed of political casteism. Almost all its top leaders have been connected with their respective caste associations in a major way. Rajendra Prasad, who held office as President of India, was for three decades connected with the All India Kayastha Conference and had presided over its Jaunpur session in 1925. His weakness for his castemen and his distribution of favours to them were well known. A N Singh, another prominent leader, was connected with the All Indian Kshatriya Mahasabha. S K Sinha's association with the Bhumihar-Brahmin Mahasabha, and his use of it to put political pressures, are also well known.

Initially, there were six groups in the Bihar Congress: the Bhumihar group led by S K Sinha, the Rajput group led by A N Singh, the two factions of Brahmins, one led by L N Mishra and the other by Binodanand Jha, the Kayastha group led by K B Sahay, and the backward castes led by R L S Yadav. These groups were not altogether at peace among themselves. For instance, while the L N Mishra faction of Brahmins was supporting the powerful Bhumihar group, Pandit Binodanand Jha was supporting the Rajput faction. K B Sahay, the Kayastha leader, was supporting the Bhumihars till 1957, but after that he defected to the Rajput group. The backward castes' leader R L S Yadav was the political *chela* of Sahay and his loyalty used to change with Sahay's. After the death of S K Sinha, Binodanand Jha became Chief Minister. In the meantime, A N Singh had died too, and the leadership of the Rajput faction was conferred on his son, S N Singh. In the same manner, M P Sinha inherited the leadership of the Bhumihars from his father. While the Rajputs supported the 'Brahmin Raj' led by Jha, the Bhumihars, the L N Mishra faction of Brahmins, the Kayasthas, and the backward castes opposed it.

The Jha Ministry could not face such a strong opposition and the Chief Minister had to resign — under the Kamaraj plan. 'Kayastha Raj' followed, with K B Sahay as the head. He successfully won over the Rajputs — a fact that caused disaffection among the Bhumihar camp. The new power equation thus was: Kayasthas, Rajputs, a faction of Brahmins, and backward castes *versus* Bhumihars and the Binodanand Jha faction of Brahmins.

After the Congress Split

The Congress split in 1969 meant a realignment. While all the established leaders of the Rajput, Bhumihar and Kayastha communities, *viz*, S N Singh, M P Sinha and K B Sahay, remained with the organisational wing, the backward castes, who had by then split into two factions — one led by R L S Yadav and the other by his young competitor Daroga Rai — as well as the Brahmins switched their loyalties to Indira Gandhi's Congress.

At the moment there are four caste groups within the ruling Congress: Brahmins led by L N Mishra; Daroga Rai and R L S Yadav factions of the backward castes; and the Harijan group led by Jagjiwan Ram. There is yet another group, a joint front of all the upper castes (except the Brahmins), which being weak is not directly involved in politics.

The non-Congress parties have by no means had a clear, non-caste, basis or programme. In fact, till 1967, under the Congress domination, their attitude towards the ruling party depended on who, representing which caste, was in power. For instance, when Bhumihar S L Sinha was Chief Minister, the then leader of the PSP legislature, Ramanand Tewari was very critical; yet when Binodanand Jha came to power, Tewari's attitude softened — even as Basawan Singh, another PSP leader, became more critical. Tewari is a Brahmin and Singh a Bhumihar. Similarly, Thakur Prasad, the Jan Sangh chief used to maintain a lukewarm attitude towards the government headed by K B Sahay. Both are Kayasthas. At the time of the Congress division, too, the so-called ideological discussion inside each political party was actually guided by caste considerations. While the Brahmins and the backward castes of most of the opposition parties fell for the 'progressive ideas' of Indira Gandhi Congress, the Bhumihars, Rajputs, and Kayasthas, supported the old Congress.

Even the CPI has not kept clear of caste-politics. It draws its support from a section of the upper castes — especially the Bhumihars — who look upon the Congress as 'a dead horse'. Swami Sahajanand Saraswati, one of the founder-leaders of the Kisan Sabha, a CPI mass organisation, was associated in a big way with the Bhumihar-Brahmin Mahasabha. And he wrote numerous books regarding the superiority of his clan. More recently, both CPI ministers in the first UF government have been Bhumihars.

The Jan Sangh is called a 'Marwari-Bania-Zamindar party' in view of the support extended to it by the trader community and the Rajput landlords. Since the traders do not want to participate in active politics, the party is led by Rajputs and Kayasthas. One of the main accusations levelled by dissident Jan Sanghis — who recently formed the 'Rashtriya Jan Sangh' — against the state JS chief, Thakur Prasad, was 'casteism'.

Among the non-Congress parties, the erstwhile SSP — now the SP — is most influenced by casteism. It tries to draw support from the backward castes on the basis of two slogans: (i) reservation of 60 per cent seats in the legislative assembly and council, and in the services, and (ii) 'Abolish English' because it has been the language of the upper castes. Since its very inception, a struggle has been going on between the backward and the upper caste leaders of the party. While Karpoori Thakur, the party's chairman, and Bhola Singh are regarded as leaders of the backward castes, Ramanand Tewari represents the upper castes.

Nor are eminent personalities like J P Narayan 'neutral'. The Sarvodaya leader's sympathetic attitude towards K B Sahay, and later on towards Mahamaya Singh, is not without significance. All three men are Kayastha. 'JP' was vocal when the police firing took place in 1955 at Patna, but he was completely silent when Sahay took to repressive measures, and police firings took place throughout the state. Ram Briksha 'Benipuri', the noted Hindi writer, and also a very prominent leader of the Socialist Party, used to say that he was first a Bhumihar and then a Socialist. Such then is the state of political awareness in Bihar.

CEYLON

Tea and Rubber and Consciousness

Vinayak Purohit

R S PERINBANAYAGAM ('Civil Strife and Doctrine of Responsibility', December 11, 1971, pp 2491-2) has written the concluding sentence of his rejoinder to my 'Emerald Island Turns Bloody Red' (Special Number, July 1971, pp 1521-4) with hurt in his heart: "While passion, ardour and guts are imperative, intelligence and knowledge are indispensable in any programme of change". He has also subsumed my views under the category of "romantic yearning of parlour revolutionaries".

I do not propose to examine Perinbanayagam's credentials to intelligence, or knowledge or 'real revolutionism'. Such trite debating points would fall outside the tradition of lusty polemics to which Marxists are heirs. For the latter, a close examination of the contents of the opponents' thoughts is an indispensable preliminary to angry irony. Perinbanayagam has not applied his mind to the issues raised in my July analysis. I had written:

> "All independent observers are agreed that the insurgency has been more or less confined to the youth. This means that it has been confined to that segment of the population which is, one may presume, least interested in death and imprisonment and which is most interested in a future freer and better life. If Perera is not interested in the consciousness reflected by this group, then in whose consciousness is he interested? Whose consciousness is he going to raise?"

In other words, the so-called Left parties in Ceylon, the larger LSSP and the smaller CP, had abdicated their political roles during, and even more important, *before* the crisis enveloped Ceylon. When *The Nation*, an organ of the United Front, could devote a full page to 'Our Right-Wing Guevaraists' as early as December 1970, when it is conceded that the JVP was growing over the period of the last four/five years, then what efforts did the leaders of the Trotskyists and Communist Parties make to enter into a political dialogue with the rebels? What political discussions were organised? Was any attempt made to understand the political demands of the disaffected? Or did it happen that the 'real revolutionists' were engaged in 'summit politics' and 'parliamentary permutations'?

Next, let us look at the defence offered by the apologist. Is intelligence to be perverted for puerile purposes so as to condone police brutality as Perinbanayagam suggests? Does revolutionary morality demand that once young men take to arms, they must be held responsible for tortures inflicted upon them by their jailors? Since rebels rebel, anything goes? As the revolutionaries have taken the risk of protesting, therefore, should burials and cremations be organised for them 'without benefit of witnesses'? Must we be thankful to Sirimavo Bandaranaike for not allowing her military minions to go so far as to make soup out of human flesh as Hitler's underlings fried? And does international revolutionary solidarity require us to keep silent in the face of atrocities committed by the bogus Leftists of Ceylon? Yes, the atrocities cannot be blamed on the military and the police alone. Yes, the atrocities cannot be laid at the doors of Sirimavo and the SLFP exclusively. I must point my finger specifically at the criminal deeds performed with full personal responsibility by N M Perera, Leslie Gunewardene, Colvin R De Silva, and Peter Kuneman!

The real issue concerns these four Cabinet Ministers. Why did they not resign? What kind of vulgar lust for power did they acquire in British jails in India and Ceylon? How did they put such a distance between themselves and the youth of Ceylon that they could converse with the guerillas only through the rat-tat-tat of machine guns? Having abandoned the political role available to them, the LSSP and CP leaders had only a military task left to perform. And I remind the Noskes and Scheiedmanns of Ceylon that the system will expel them, or ease them out of power, as soon as their limited 'military role' is exhausted. They have raised their rifles to bring down the Guevaraists, but having performed this 'historic task' they will themselves be at the receiving end fairly soon. The portents are already visible. J R Jayawardene is joining Sirimavo and the so-called Left parties are already in disarray after N M Perera's harsh budget speech.

It has been stated that "besides vague and mindless references to 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". One marvels at the ignorance of Perinbanayagam and their ilk! It is obvious that the partial or total, anyway planned, conversion of tea and rubber estates for the use of peasants after expropriation is an eminently just, theoretically very well informed, and absolutely practicable plan for Ceylon.

First, tea and rubber estates in Ceylon, as in India, have misappropriated large tracts of land from the peasants which are *not under tea and rubber*. That such a situation obtains, will come as a surprise not even to bourgeois economists. These uncultivated acres are supposed to provide for future expansion, for periodical revolutions and consequential tax-dodging, for a hundred-and-one similar bourgeois predilections. In a planned economy, such a gross waste, amounting in India to between two-thirds and three-fourths of the overall area owned by the major tea plantation companies, will certainly not be permitted. In a socialist economy, the area actually under tea and rubber will be determined on the basis of strictly national priorities, and cultivation of tea and rubber will be expanded or contracted according to the real needs of the people.

Secondly, the objective of Ceylonese revolutionaries is not to help the tea and rubber companies to make as much money as they can. The objective for a socialist Ceylon is to feed, clothe, and care for its people. This is the supreme and the only valid aim. Export earnings out of tea and rubber are useful only so long as — and to the extent that they can — improve the standard of living of the people. Tea and rubber are not for us the gods that they are for the bourgeoisie. Only for alienated petty bourgeois who are frightened by the shadows of commodities are tea and rubber Bodhisatavas! If it is necessary to cut down every single tea bush and every single rubber tree, in order to advance the real welfare of the people, then this must be done. If it is necessary to reduce the acreage under tea and rubber in order to fill the bellies of the poorest folk in Ceylon, then that too must be done. That is why the socialist plan is so thoroughly practical. It really plans for the real human beings living in a society. If for 10 years it is necessary to give up tea and rubber cultivation in order to feed the Ceylonese, then I am sure that Ceylon's socialist planners will not hesitate to deprive the white women and men of the 'Civilised Nations' of their cups of afternoon tea and of the spare tyres for their 'Oh, so sleek!' cars.

In fact, I am very happy to learn from Perinbanayagam that the JVP had the courage and the sensitivity to put forward an absolutely correct demand for expropriation of tea and rubber estates and their socially pre-determined conversion for use of peasants. The day that the needs of the Ceylonese peasants and workers will receive higher priority than those of the tea and rubber plantation owners, that day will witness the liberation of Ceylon from not only the vestiges of British finance capital, free not only from the grip of their brown compradors, but also from their social reformist, militant militarist, hired black-legs.

LONDON

Unloading Ulster?

THE British Parliament has almost unanimously voted to abolish the independent administration of Northern Ireland, Stormont. The easy passage of the Bill removes the hope of the Protestants of Northern Ireland that there might be a revolt of Conservative backbenchers on the issue. Only sentimental ties between Ulster and the British Establishment now remain, and those can no longer do what the material ties between the two did before the First World War. Then the defence of Ulster seemed to many Tories to be the defence of the Edwardian Establishment itself, the defence of an absolutely vital beachhead of Anglo-Irish imperialism, and worth breaking the Constitution, fostering a mutiny in the army and defying the British Government.

Times have changed. Now the British Establishment regards Ulster with distaste. Its old-fashioned loyalism to Queen and Country is, in times of peace, just a joke. Economically and politically, Ulster is a liability which the British Government would happily unload on the impoverished Southern Irish if this did not involve such a catastrophic loss of face and a betrayal of the Ulstermen.

Only Alternative

Yet betrayal is becoming more and more the only possible alternative, and the abolition — or, as it is officially known, suspension — of Stormont is, in the eyes of many, a powerful step in that direction. For whatever is said, it does represent a substantial victory for the Provisional IRA. It is also a direct result of the British army massacre of 13 demonstrators on Bloody Sunday, last January 30th. Stormont embodied the power of the Ulster Establishment, of the Orange Order, the most intransigent opposition to the reunification of Ireland. With its removal, the IRA can now feel that it requires only one more determined shove to force London to give up Ulster to Southern Ireland. For the Protestants of the North also, the prospect of unification — not on Stormont's terms, but on London's — has come a step nearer. The two-day General Strike last week, the mass demonstration of the Protestant Vanguard and the development of its para-military forces, the reunion of the Orange Order militant leader, William Craig, and the erstwhile 'moderate' Stormont Prime Minister, Brian Faulkner, demonstrate the anger of the Ulstermen at their betrayal. It is said they are burning Union Jacks in the stronghold of Belfast loyalism, the Shankhill Road.

Basically the Same

However, the strategy of the British Government has not basically changed. On the one hand, its main effort has gone into massive repression, interning any and every even remote oppositionist. On the other, it has made sporadic noises supposedly to soothe and woo the Catholic middle class, in the hope that this would make possible a regime combining Protestant and Catholic middle classes embodying all the supposed virtues of the centre: moderation, secularism, equity. This, it was thought, would prevent the raising of any other issues, such as the appalling social conditions of the North, as well isolate the wild men on the fringe, the Catholic terrorists and the antiquated Protestant vigilantes. Of course, as many people pointed out to the British Government, a policy of repression and internment made any successes in the second area quite out of the question. Catholic middle class noses were also getting broken by British troops, whatever the propaganda said.

The abolition of Stormont is the first step of substance to try and woo 'moderate' Catholic opinion. The British Government pins a lot of hope on the Social Democratic and Labour Party of the North as the potential Catholic participant in an Ulster coalition. In the past, the SDLP could never afford to be seen collaborating with the British while the hard-faced men of Stormont continued in power and the British retained internment. The first condition for collaboration has now been achieved, and the SDLP has greeted the end of Stormont warmly. The centrist Catholic organisation, the Northern Ireland Civil Rights Association, has called for a month's truce on all demonstrations and activities.

Of course, the British strategy is not entirely unrealistic. No doubt a centrist consensus either to keep the present relationship with Britain or to merge with Eire is possible if only the leadership on each side can ditch its base in each community and the Protestant Establishment can be guaranteed a paramount position. The Protestant leadership would probably not resent a few Catholic Uncle Toms, provided the mass of Catholics can be excluded. For the Protestant leaders are not at all as unrealistic as they often like to appear. Even Ian Paisley, supposedly of the extreme wing of the Protestants, has been mending his fences with the Dublin Establishment, no doubt on the calculation that if there is to be unification with the South, it better be a sellout on his terms rather than those of London.

Both sets of leaders are fully aware of the dangers to both in the present situation if it is allowed to continue. But they cannot put into reverse processes they have fostered for so long. The Protestant working class, after years of being told of the Catholic menace and of being encouraged to discriminate — if need be, physically — against Catholics, cannot suddenly be told to love their neighbours, let alone abandon the whole *raison d'etre* for their existence, the relationship with Britain. The Catholic working class, for so long repressed and attacked by the Protestants, cannot suddenly be told that really their experience is a lie. The response of the IRA which embodies this experience is a bone in the throat of Ulster which cannot be removed. It is also a bone in the throat of Southern Ireland.

Crisis in the South

Eire's Prime Minister, Lynch, has been in an extremely difficult position throughout the crisis, for the turmoil of the North comes at a peculiarly painful moment for the South, a moment when

all the betrayals of Irish independence seems most vividly felt. The South is a Right-wing authoritarian Catholic regime, still heavily dependent on Britain and with an ailing economy. When the cheque of independence was cashed, it turned out to be almost worthless for the vast majority of Irishmen. Emigration continued to be the primary solution for the problems of peasant poverty, and the great exodus persists each year. Right at the moment, things are at their worst. The targets of the Third Five-Year Plan (1968-1972) are now no more than a joke, made sour by the failures of the British economy upon which Eire depends. Investment stagnates, company profits are falling, visible exports declining, and tourism — the second largest industry — in recession. Even more important, over 8 per cent of the insured population is now unemployed, and the rate of redundancies is running at three times what it was last year. The ferocious militancy of Irish workers is proverbial, and is now more and more directed against a Government unwilling or unable to offer even modest hopes.

These material agonies challenge not merely Lynch and his government, but the whole social order of the South. The IRA campaign in the North offers a return to the pristine virtues of the republican movement which seem long since betrayed in the South. Lynch has to assert his republicanism and the demand for Irish unification; to do otherwise, would be to court political suicide. Yet this brings him into some kind of support for the IRA, even though his main emphasis falls upon a rejection of IRA methods. The difficulties are compounded because the IRA also opposes the Dublin regime and is very popular in the South. The IRA argues, with some justification, that it is the only force to have advanced the cause of Irish unity one iota in the past fifty years, and that successive governments have long since in practice shown that they have sold out to British imperialism. Lynch would no doubt like to do to the IRA what King Hussein did to the Palestinian guerillas, but he is not as secure as Hussein was and must tread with more circumspection.

British Repression

Like Heath and before him, Wilson, Lynch has drifted. Heath deplored the symptoms of Protestant supremacy in the North but nevertheless used his troops to preserve it. Lynch deplored British repression in the North, but did nothing of any substance to change the situation. In practice, Lynch has been relying on Heath to do something, anything, while simultaneously protesting politely at the more brutal aspects of British policy. Heath has, by default, relied on escalating the violence — arbitrary arrests and concentration camps, secret courts and tolerated brutality in the prisons. It all did no more than increase the IRA attacks — there were 5,000 incidents in the second half of 1971, over 1 every hour — and immensely stiffen Catholic resistance (the nine-month rent and rate strike of Catholics in the North shows how collective has become the opposition).

The only qualifying aspect of British repression has been its incompetence. The usual parade of propaganda about 'our brave boys doing a difficult job in very trying circumstances' should not obscure small details like the fact that 140 prisoners escaped from Crumlin Road gaol in the last half of last year. Indeed, the gaol apparently cannot possibly be secured, so that at least part of the internment policy became a joke. The border could not be closed, so that gun-running and the escape of wanted men became reasonably easy. In addition, even where the prisoners could be held, the results seem paradoxical. The internment camps — the notorious Long Kesh, for example — have become training grounds for the IRA, the place where the mildly rebellious are converted into real oppositionists.

The abolition of Stormont has only partly changed all this. The Catholic middle class still cannot collaborate until internment is ended and the troops pulled back to the barracks. But the change does make easier a deal between London and Dublin, and Lynch needs that. He needs to demonstrate that his style of politics can win victories, that the IRA must fail. Whether Heath will do him that favour is another matter.

Little Choice for Protestants

For the radicals in the North, it has always been true that there could be no real change without a transformation of Dublin. Only then will the mass of Protestants be prepared to accept unification. The deadlock in the North depends upon the deadlock in the South. Of course, any radical change in the South would then dissuade London from collaborating. The points of the triangle have to be set in the right direction at all three corners before there can be a circuit.

Yet in the last analysis, the Protestants have little real choice. UDI was no more than late night talk. Ulster is not an economically, let alone politically, viable entity. That is why there is unlikely to be a real Protestant backlash, simply because that is likely to bring in either or both the British and Eire armies, and the Ulstermen will be the losers in both cases. For the moment, the Ulstermen must hang on to the British as the lesser evil; English generals seem less frightening than Irish bishops. If Lynch could be toppled in the South, that might not be so convincing a calculation.

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The International Monetary Crisis

(From a Special Correspondent)

THE international monetary system has been faced with recurring crises over the last few years. As is usual with bourgeois analysis, the form of the crisis is allowed to hide the content, with the result that symptoms are mistaken for causes. For instance, we find it said that the cause of the crisis is shortage of gold, or that it is the lack of confidence in the dollar.

An analysis of the underlying trends of capitalist development will show that monetary crises are rooted in the fundamental contradictions of this system of production; that crises develop not because of a shortage of gold, but that the shortage develops because the crisis creates a general demand for gold.

Credit is an important aspect of finance capital. Through the banks and other credit institutions, a great accumulation and concentration of capital is achieved. Through the State machinery, the monopoly capitalist class is able to appropriate a large share of the total national product. This method of financing through credit-creation, however, increases the instability of the whole financial system.

The power to fix prices and control the monetary and fiscal (government expenditure and taxes) system is used by monopoly capital to limit the share of the national product that goes to labour. Through budgetary deficits and public debt, the monopoly capitalists can finance expenditure greater than their receipts (this is used especially for war finance); and if trade unions are able to win wage increases these can always be nullified by corresponding price increases.

The ability of a group of monopolists to act in this manner is, however, limited by competition from other national groups of monopoly capitalists. Since the method of financing is inflationary, it has its repercussions in the international sphere, in changes in the competitive position of the various national monopoly groups. A country which has a slower rate of inflation (i e, is able to control its labour more effectively) will improve its competitive position and *vice versa*.

There is a further and more important international consideration which limits the internal power of the capitalist class, through the budget, price-fixation, and credit-creation, to spend more than it 'earns'. Excess of expenditure over receipts will also show itself as an excess of payments to foreigners over receipts from foreigners. This external deficit cannot, in a world of national economies and currencies, be financed in the same manner as the internal deficit (i e, by credit creation). An external deficit must normally be financed by running down the country's reserve of gold and foreign exchange. Thus the ability to incur deficits in international payments is limited by the country's reserve of gold and foreign exchange.

It is obvious that, if a country could have its currency accepted by other countries, then it would have the great advantage of being able to continuously incur such deficits. The process whereby a country's currency becomes an acceptable reserve is, of course, the process of imperialist domination. The colony, which is the most secure form of economic territory, can always be forced to maintain its reserve in the metropolis country's currency. Thus, in the heyday of British imperialism. India and other parts of the Empire held their reserves in sterling and formed the sterling bloc. Britain could finance its deficit with the rest of the empire merely by making these countries hold sterling. Further, through the sterling bloc, all the surpluses earned by the Empire (in dollars, etc) were placed at the disposal of the British capitalists for their own use, and, in fact, formed the basis of Britain's export of capital to America and Europe.

After the Second World War, the US emerged as the strongest capitalist economy. US imperialism had amassed huge profits during the War, and it was able to take advantage of the weakened position of the European countries to undertake large-scale expansion in Western Europe. These countries were short of capital to rebuild their industries and Marshall Aid was the main instrument of US penetration of the European economies. This was followed by inflows of large amounts of private US capital. The process of penetration has been aided by the position of the US dollar.

Like British imperialism earlier, in its days of hegemony, now US imperialism was able to force the dollar on the world as the international currency. The paucity of funds in Europe and the acceptability of the dollar (owing to the relative strength of the US economy) helped the US to dominate and exploit its rivals in the imperialist camp. Of course, we must not here forget the European fear of Soviet domination and the corresponding dependence on American arms.

Once the dollar was accepted as the international currency, it was no longer necessary for the US to balance its external payments position. Foreign economic and military 'aid', foreign investments — all these were made possible at the given scale by the position of the US dollar. Any excess of payments over receipts, was automatically converted into a reserve by the countries that had surpluses. Thus the US did not have to take any measures to adjust its international payments position. And, in effect, Europe was itself paying for the transfer of its industry into American hands. American capitalists bought up European industry and paid for it in dollars. These dollars ended up with the central banks of the countries concerned, which then either directly held them or transferred them to New York, where they were invested in US government securities. Thus for the price of US government securities in the hands of European governments, US capitalists bought up European industries. Europe got a low-earning asset (which could anyway be created almost at will by the US government) and lost a high-income asset.

Further, since this debt of the US (i e, the government securities held abroad) was in the hands of official parties (governments and central banks) it was easy to control its use. The US government as the chief defender of imperialism in the world could use its political-military relation with its allies in the imperialist camp to pressurise them into not doing anything too drastic. In fact, a large part of the various agreements entered into in the sixties among the Group of Ten (the club of the major imperialist countries) were measures to shore up the falling position of the dollar. These measures helped to convert privately-held dollars (which were volatile and not so amenable to US government pressure) into officially held debt (which was easier to control). The SDRs, hailed as paper-gold, are nothing but a final step in granting credit to the US.

Such a process of exploitation, however, has its own limitations. The US could successfully continue to do this to the extent that (*i*) its international

TABLE 1: US INTERNATIONAL FINANCIAL POSITION

(US $ billion)

Year	Gold	External Liquid Liabilities	Ratio of 1 to 2
1950	22.82	8.9	2.73
1956	22.06	14.9	1.59
1962	16.06	24.07	0.67
1971	11.04	44.13	0.25

Source: International Financial Statistics; IMF.

financial position (measured by, say, the ratio of US gold holdings to its external liquid liabilities) was strong, so that foreign holders of dollars (especially private holders whose speculative activities triggered off crises) did not feel any danger in continuing to hold dollars; and (ii) it was able to dominate, and thus force its allies to follow certain policies (the ability to do this being largely determined by the relative economic strengths of the various countries and, the overall political-military situation in Europe).

The ratio of US gold holdings to its total external liquid liabilities has rapidly dropped, from 2.73 in 1950 to 1.59 in 1956, to 0.67 in 1962, and to as low as 0.25 in February 1971 (see Table 1).

Table 2 also illustrates the deterioration of the US international economic position. In 1970, the US for the first time had a deficit on its trade account (i e, a surplus of imports over exports). At the same time, its earnings from services (i e, insurance, banking, etc) and from its capital investments abroad, have not been sufficient to offset its payments on account of military expenditures abroad, US Government loans, and export of private capital.

Underlying these changes in the financial position are the changes in the sphere of production. Productivity (roughly calculated as index of production divided by index of employment in manufacturing) only increased from 103 in 1964 to 109 in 1970 in the US, whereas over the same period it increased from 110 to 209 in Japan, 108 to 145 in West Germany, 107 to 152 in France, and 107 to 124 in the UK. The uneven development of the major capitalist countries is easily seen in their growth rates — the compound rate of growth between 1958 and 1969 has been 5.3 per cent for the US and 13.3 per cent and 7.8 per cent for Japan and West Germany, respectively.

The economic strength of the European countries (consolidated through the Common Market) and of Japan has enabled these countries to take advantage of the weakened international financial position of the United States, thus bringing about the recurrent financial crisis. In attempting to defend its position, the US capitalist class has been forced both to control its proletariat more effectively (through wage freeze) and to hit at its competitors (through an additional import duty). However, the defeat of the US in Indo-China and the increasing struggles of the oppressed people at home (spearheaded by the Afro-American movement) have left the US ruling class with little room to manoeuvre; with the result that it has been forced to devalue the dollar (and to seek an agreement with China). This action signifies the end of the United States as the undisputed leader of the imperialist camp.

Some immediate consequences follow from the present situation. The dollar, having been devalued, will no longer be as acceptable as a reserve currency, and exports of capital will have to be matched by a surplus on the trade and other accounts. As we have seen, the US in 1970, for the first time since the War, had a deficit on the trade account. Thus US exports of capital will tend to diminish.

The export of capital is, however, necessary for the continued profits of US monopoly capital. Having lost the 'natural' advantage of hegemony, they will now have to try other direct means to better their competitive strength and assure themselves markets, raw materials, and profits. Thus, from the US there will now be increased pressure to transform dependent countries from semi-colonial to neo-colonial status. At the same time, the other major imperialist countries (West Germany, Japan, and the USSR) are now in a position to, and need to, increase their exports of capital. All these countries are faced with a labour shortage and the clogging of investment opportunities. Both Japan and West Germany had favourable trade balances of about $ 4 billion in 1970 and reserves of about $ 4.8 and $ 13.6 billion, respectively. The USSR has been busy working out trade agreements and increasing its exports of capital — also using the East European countries' surpluses for the purpose. Now that the US can no longer use the privileged position of the dollar, there are bound to be increased efforts by all the imperialist countries to step up their capital exports at the cost of the United States.

In "Economic Problems of Socialism", Stalin had considered the question whether wars among the imperialist countries were still possible after the Second World War, which saw the emergence of a considerably enlarged group of socialist and people's democratic countries. He had answered that such wars were still possible, since they were the result of an imperialist redivision of the world. The events of the recent past bear out the increased competition among the imperialist countries: there is a process of redivision going on.

It is the established position of the United States which is now (or will soon be) the major obstacle to the expansion of the USSR, Japan, and Europe. The hegemony of the US dollar was one way of maintaining this position. Military strength — not only to dominate its rivals but also to prop up client and puppet regimes — is now left as the main prop of the worldwide US business interests. The Soviet Union is the best-placed to take advantage of the present situation. The Soviets have, over the last decade, built up a sizeable navy (larger than that of the United States). But Japan, especially, is also preparing to assert itself militarily. This is already apparent in the pace of Japan's re-militarisation and its declaration regarding Taiwan and South Korea as areas within its defence perimeter. Such a situation could well lead to another war among the imperialist countries, which can only hasten the collapse of the capitalist system.

TABLE 2: US BALANCE OF PAYMENTS

(US $ billion)

		1962	1967	1970
1	Exports	25.9	39.3	53.5
2	Imports	24.1	38.6	54.2
3	Trade Balance (1 — 2)	1.8	0.7	—0.7
4	Services	3.0	4.5	4.8
5	Net Real Transactions (3 + 4)	4.8	5.2	4.1
	Financial Transactions			
6	Military expenditures	—2.4	—3.1	—3.3
7	Pensions, etc.	—0.7	—1.1	—1.3
8	US Govt loans (net)	—3.0	—4.2	—3.2
9	Private capital (net)	—3.1	—4.2	—2.4
10	Sum of financial outflows (6, 7, 8&9)	—9.3	—12.6	-10.4
11	Earnings from capital (net)	3.4	4.5	4.5
12	Net financial transactions (10 — 11)	—5.9	—8.1	—5.9

Left, Right, Left: Industrialisation for the Forced March

Ranjit Sau

The Modernisation Imperative and Indian Planning by Baldev Raj Nayar; Vikas Publications, 1972; pp xii+246; Rs 30.

WITH a liberal-democratic political system, why did India adopt a particular type of economic strategy in the mid-1950s that was terribly demanding in terms of the current sacrifice by the masses? To Nayar, the economic strategy and the political system in India are incongruent. His main thesis in this book is that, not the motivation of long-term welfare to the people, but the aims of political sovereignty, military security, and economic independence have provided the main impulse for the course of economic development that has been followed by India.

There are two basic approaches in social sciences in the study of society and social groups. One is the 'systems' approach which conceives of society as an entity with interdependent parts. Systems and functionalist theorists posit an integrated social system with a consensus on shared values among the constituent social groups, see the social system in equilibrium, and evaluate social facts from the viewpoint of needs and functions of the society as a whole. Talcott Parsons is one of the eminent exponents of such systems analysis in social sciences.

At the other extreme, and opposed to the systems approach, is the 'conflict' approach which looks upon society in the light of dialectics; which sees it in a state of constant change; which assumes as the basic characteristic of society not consensus, but conflict and struggle along with coercion and exploitation of the subordinate classes by the dominant class; and which evaluates social phenomena from the perspective of groups within society and the struggle among them. Karl Marx has given the most forceful expression to the 'conflict' theory, perceiving the history of man as "a history of class struggles, contests between exploiting and exploited, ruling and oppressed classes".

Clarity of exposition is a major virtue of this book. Right at the outset the author unambiguously declares that "this study will more or less adopt the perspective of systems analysis". If you ask why, his answer is rather unconvincing. "The exigencies of manageability and feasibility" are cited as the fundamental reasons for the author's acceptance of the systems approach, and, by the same token, the rejection of the Marxian 'conflict' approach. Does he really mean to say that a Marxian analysis of the economic strategy of India is unmanageable and non-feasible?

In any case, the study is clearly based upon the premise that in India nationalism has proved to be a more deep-rooted social phenomenon than class conflict. Now, following the lines of David Apter, the author classifies government types or models as follows: (a) mobilisation, (b) reconciliation, (c) bureaucratic, and (d) theocratic. Here only the first two are relevant.

The *mobilisation* system does not accept the existing state of society, but rather seeks to reshape and radically transform society, shattering the old structures of institutions and values, and replacing it with a new one, the fervent and sacred vision of which is fortified by a comprehensive ideology. In the process, such a system tends to politicise the entire gamut of social life, with the State extending its network of control over ever-widening spheres of society. The goals of economic growth are of the greatest importance in the mobilisation system which places great emphasis on austerity, discipline, and sacrifice.

RECONCILIATION TYPE

Unlike the mobilisation system, the *reconciliation* system, on the other hand, more or less accepts the society as it is and provides a framework for the processing of only moderate change. The system's goals emerge, in the fashion of the market place, out of conflict among many groups with different aims; they correspond more closely to the capabilities of the system as well as to the demands of the important groups. Economic development can proceed only at a rate that is acceptable to key groups in the population. Economic policies therefore would be moderate and realistic, involving investments in short-term projects with a high rate of return, and realisable within the limits of available resources. Economic growth at a rapid rate, however, is not impossible, but it requires extensive self-discipline, popular participation, and great civic devotion. But these preconditions allegedly occur only very rarely in new nations. David Apter believes that governments of the reconciliation type may be condemned to such a slow rate of economic progress that they create their own disaster.

Nayar characterises the Indian political system as one of the reconciliation type. And against this background he examines the economic strategy adopted in India since the Second Plan. It is a strategy of stepping up the rate of investment rapidly; of investing in heavy and basic industries which employ relatively few people and produces return only in the distant future; and of achieving a self-reliant industrial base. Is the mass welfare in the long run the main impulse for this path of economic development? Nayar laconically adds: "If mass welfare alone were the objective of economic development there would be considerable merit in the advice of the comedian to declare war on the United States and immediately surrender." Indeed, the United States is the global godfather of mass welfare!

At this point, with copious quotations from plan documents and the speeches of such VIPs as Mahalanobis and Nehru, the author tries to establish that it is the compulsions of fervent nationalism in the form of economic independence and military preparedness that are at the root of the economic strategy of India. Of course, a strong industrial base is essential for military power.

The conclusion as such may be correct in fact. But the way Nayar has arrived at it reminds me of shadow boxing. He reads too much into the words of the plan documents and the speeches of the great men like Nehru, Mahalanobis and Patel. As a matter of fact the sections under the headings "Goals in Indian Planning", "A Note on Patel" and "Plans, Planners and Nationalism", which run into some fifty-odd pages, consist mostly of lengthy quotations.

Not surprisingly, when in the last chapter Nayar actually does examine the deeds rather than the words, the actual performance of the Indian economy rather than the pious hopes as embodied in the plan documents, he finds not a trace of economic independence in

India. He himself narrates how India's industry lies prostrate at the feet of foreign capital, and how India is pressurised from time to time by aid-givers.

In short, this is a lucid, clearly written, interesting book. But even if one grants the basic premise of the author, the book fails in its own logic. And, of course, one can always question the basic premise as well.

Spread Effects of Amul

N S Jodha

Spread Effects of Dairy Enterprise: A Case Study of Anand by Small Industry Extension Training Institute, Hyderabad, 1971; pp 82; Rs 5.

PUBLICATION of a study evaluating the spread effect of 'Amul' (Kaira District Milk Producers Co-operative Union, Anand) in its Silver Jubilee Year is most timely. But the study under review is disappointing. Firstly, a large part of the book consists of material almost bodily lifted from the publicity handouts and related literature produced by Amul itself. Secondly, in the part in which the study depends on its own investigations, the whole approach (both methodologically and analytically) is oversimplistic (for instance, chapter 3). The intention here is not to belittle the achievements of Amul, but simply to point out that an opportunity to properly and objectively assess the linkage effects of Amul during the 25 years of its existence has been missed.

The book is divided into seven chapters. Chapter one presents a profile of the Kaira district while the second chapter is devoted to historical development of the dairy industry in Anand and description of the present organisational and operational set-up of Amul. In the subsequent three chapters, the impact of Amul is studied in the contexts of (1) the economy of the milk producer, (2) the overall rural economy of the areas covered by dairy co-operatives, and (3) the dairy-linked industrial development of the area around Anand.

Criteria Not Specified

The chapter dealing with the impact of Amul on the milk producer's economy is probably the weakest in the whole study. Entitled 'The Small Milk Producer: Sample Study' and supposed to be a study of small milk producers, the chapter indicates that the average per household income of the 100 sample producers from dairying is Rs 1,547 (from agriculture it is Rs 6,583) as against the average income of Rs 800 from dairying for the members of Amul as a whole. Neither the methods employed for computing income nor the criteria for calling the selected producers as small producers are specified. Further, in the entire chapter there is strangely no mention either of actual milk production or the production base, i e, the dairy size or even of other factors affecting milk production.

The selection of ten villages (and 10 farmers in each village) was made on the basis of actual supply of milk to Amul. Ignoring all the farm level factors affecting the marketed supplies of milk (from production side or demand side), the study relates the absolute supply of milk (average for the whole village) only to factors like total population of the village or the latter's distance from the dairy plant at Anand (even when the price paid to the farmer is the same irrespective of the distance, and transportation of milk is Amul's own responsibility). Other discussion of the income and asset position of milk producers (attributable to Amul), investment in buffaloes, average income per buffalo, etc, is again presented in terms of village-wise totals or averages of the 10 households. It is impossible to make out from the Tables and discussions how farmers with different dairy size (or even land-holding) stand *vis-a-vis* benefits from the dairy.

The next chapter on 'Impact of Dairy', largely reproducing the findings of an earlier paper by Amul's staff, is quite interesting and informative. The impact of Amul is judged partly by the extent of creation of infrastructural facilities, adoption of scientific animal husbandry and generation of additional income and employment in the areas covered by Amul; and partly by comparing the situations in areas covered by dairy co-operatives (described as 'Cattle Development Area or CD) and the control area where no dairy co-operatives exist as yet.

It has been reported that average monthly income per milking animal in CD area is Rs 97.35 as against Rs 64.59 in the control area; milk yield of buffalo in CD area is 48.1 per cent higher than in the control area; a higher proportion (16.6 per cent) of animals are in milk in the CD area compared to the control area. Within the CD area overall milk production during 1969 increased by 50.3 per cent as compared to 1961. Along with increased milk production milk consumption has also increased. The per day per head milk consumption (in 1970) was 145 and 67 grams for producers and non-producers respectively, in the CD area. The corresponding figures for the control area were 108 and 34 grams. Further, it has been stated that more of agricultural labourers and small farmers (Table 4.3) have adopted dairying in the CD area.

Comparison Not Meaningful

but comparison of CD and control areas is not very meaningful, particularly since Amul has covered more than 75 per cent of the villages and the villages constituting control area are the left-overs and the most backward ones which will be the last to come into the Amul fold.

Chapters V and VI discuss the industrial impact of Amul. In the former about 7 establishments located in or around Anand, linked to dairy enterprise as input suppliers (e g, those manufacturing milk vessels, plastic measures, spoons, curd-churns, packing papers, etc) are discussed. These employ about 90 persons and represent an investment of Rs 9,41,000. Another group of 10 industries located in the area are not directly linked to the dairy, but have been discussed here to give a complete picture.

It is difficult to isolate the industrial impact of Amul from the impact or role of other agencies such as the Gujarat State Finance Corporation (Vithal Udyognagar Industrial Estate), the Charutar Gramodhyog Mandal and the policy of ruralisation of industries operating in Gujarat, all of which have contributed to the development of the industrial complex around Anand.

On the other hand a discussion of linkage effects of Amul remains incomplete unless account is taken of other factors such as growth of the number of automobile workships, etc, which have come up particularly because of operation of hundreds of private trucks used for milk assembly from the villages to Amul.

The study concludes by suggesting (in chapter 7) that through enterprises like Amul, Myrdal's spread effects can be achieved without any sacrifice in terms of backwash effects. With some more effort and methodological care the study would have been a valuable contribution.

A Policy Frame for Self-Reliance

Bimal Jalan

The purpose of this paper is twofold.

Firstly, it is an attempt to develop an analytical framework for consideration of appropriate policies for premature *self-reliance in a developing economy, dependent on foreign aid to finance part of its planned deficit in external payments or investment requirements. The need for such an analytical framework arises because while all developing countries frequently profess their anxiety to achieve self-reliance as soon as possible, none has tried to define this objective in an operationally meaningful way or attempted to devise a policy frame which would make the objective credible either to themselves or to their benefactors.*

The second object of this paper is to examine the issue of self-reliance in the wake of suspension of United States aid to India, particularly with reference to the Fourth Plan — or what is left of it.

IT should be emphasised that the paper is concerned with policies for "premature" self-reliance and not self-reliance *per se* or ultimate self-reliance. The object of aid, as we have all been told, is to end aid. Similarly, all developing countries have been planning for self-sustaining growth and for the day — however distant — when they can generate an acceptable rate of investment and growth out of their own resources. Such 'ultimate' self-reliance is the explicit objective of all normal planning exercises, development strategies, and foreign advice and this paper has nothing to add to that. However, there may be situations, when a country either as a result of realistic assessment of aid possibilities in the future or as a matter of internal or external political objective may decide to terminate aid in the near future before the point of self-sustaining growth is reached and well ahead of the anticipations of its own perspective plan. This naturally requires a mid-course adjustment in the direction of the economy and adoption of policies specifically directed to a reduction in the country's external dependence in the short or medium term. Policies directed to this end may be thought of as policies for 'premature' self-reliance as distinguished from normal development policies which would usher self-reliance "in due course".

II

Specification of the Objective

Self-reliance is a word which means different things to different people, and the first need is to specify in a more concrete and quantifiable way what exactly is meant by the term as a statement of a country's objective. Thus, in one sense, self-reliance may refer to the objective of national or intra-national *self-sufficiency* or the minimisation of the country's external or internal trade. This is the sense in which the word is used when one speaks of communities which grow their own vegetables and basic needs as being self-reliant or of import substitution as a step towards self-reliance. National self-sufficiency in food and certain other basic commodities (e g, steel and fertilisers) is thus frequently considered as being synonymous with self-reliance. This interpretation of self-reliance is, however, outside the purview of this paper.

Gross and Net Aid

In another sense, self-reliance may refer to the elimination of aid — either *gross* or *net*: Elimination of *gross* aid at some future date is implicit in the objective of "self-sustaining growth" espoused by all developing countries. It is also implicit in the emerging international consensus on the desirability of relating the terms of assistance to the debt-servicing capacity of the developing countries. The Indian Fourth Five-Year Plan on the other hand, formulated the objective of self-reliance in terms of elimination of *net* (rather than gross) aid by 1980-81. This meant that even if the objective were fully achieved, the country would have continued to receive aid, at least for some time, up to the limit of its own debt servicing obligations.

For countries which have already been borrowing for a long time, the distinction between *gross* and *net* can be quantitatively very significant. Thus, for example, in 1971-72, gross aid to India amounted to Rs 778 crores as against net aid of only Rs 328 crores — a difference of Rs 450 crores. For the last three years of the Fourth Plan alone, the difference between gross and net could amount to as much as Rs 1,400 crores or half the anticipated deficit in our balance of payments during this period. For the developing countries as a whole the difference between gross and net aid in 1970 was of the order of Rs 4,300 crores and is likely to increase in future.

Formulation of self-reliance targets in terms of *net* aid, it must be confessed, is odd and perplexing. Since aid negotiations and decisions are almost always made in terms of gross aid, it may lead to the paradoxical situation where the country becomes technically "self-reliant" but its quest for fresh aid intensifies! This could happen when fresh inflows of aid are falling over time while debt service obligations are increasing. Sometime in future the two would become equal, and the country would actually have to seek larger fresh aid from that point onwards in order to meet its rising debt service obligations. Otherwise, the country would soon become "*over*-self reliant"! This is a somewhat unwieldy concept and can be easily avoided by defining self-reliance as the state when gross aid is zero, and choosing an appropriate time-horizon for achieving this.

Time Horizon

Choice of an appropriate time horizon, it hardly needs to be said, is crucial for giving operational meaning to the objective of self-reliance. Aid that is not stolen, is either consumed, invested in new projects, or used for sustaining the existing industrial structure. *Ceteris paribus*, elimination of aid is therefore likely to affect the rate of growth of income or investment or both, and there is likely to be a clear

trade-off between the rate of growth and investment on the one hand and the level and duration of aid on the other. Much as one may want to have self-reliance as soon as possible, the question of an appropriate time-horizon thus involves a little more than finding out the terminal date of the nearest Five-Year Plan. Such a choice can be made only after an assessment of the trade-offs between investment/growth and self-reliance at different points of time.

However, there may be situations when no such choice with respect to time horizon exists — either because of internal political reasons or because of decisions made by others over which the country has no control. In such cases, the only interesting question is the period of time over which the country's balance of payments has to adjust itself to the new situation; because of the availability of short-term balance of payments support (primarily from the IMF) and reserves, the period over which such adjustment is to be achieved may be longer than the date at which aid is to be terminated. Depending on the magnitude and complexity of the adjustment problem, a country may, therefore, choose to run deficits in its balance of payments beyond the date of aid termination and finance it out of short-term borrowings or reserves. This is tantamount to "stretching" the time horizon for effective self-reliance.

Whatever the time horizon, it is clear that self-reliance would be the easiest thing to achieve — if there were not certain other growth or development objectives that had to be satisfied at the same time. All countries, developed and developing, have multiplicity of objectives, and the decision to eliminate aid may affect any one or more of them. In considering a policy frame for self-reliance, it is, therefore, necessary to specify the *minimum* of other aid-dependent objectives that have to be met at the same time. For example, a country may have been receiving aid for increase in "essential" consumption (e g, food imports), growth in industrial production (e g, raw material imports), and new investment (e g, capital goods). Elimination of aid may affect the target rate of growth in all these areas, and in planning for self-reliance it may become necessary to consider the trade-offs, if any, among these different objectives (e g, new investment *vs* capacity utilisation in existing industries). In some dependent economies, the sum of minimum expectations in all areas may turn out to be inconsistent with self-reliance over the chosen time horizon; in such cases, either expectations in some areas have to be revised downwards or time horizon has to be stretched.

II

Policy Instruments

Self-reliance over the given period would require adoption of a policy framework calculated to increase the rate of savings (over what it would have been if aid was taken) as well as improve the balance of payments. In some cases, the two processes would mean much the same thing — for example, when export surpluses provide the bulk of investible resources or when savings are sought to be increased by reduction in consumer imports. In some cases, however, separate policies for savings and balance of payments may be required; for example, this would be the case when a planned deficit in balance of payments is sought to be met through a reduction in imports of investment goods. In this paper, we shall concentrate on policies to improve the payments position on the assumption that, if required, countries would be willing to raise additional domestic resources through taxation.

There are three further points which need to be emphasised before a discussion of specific policies: (i) we are concerned only with policies which would bring forth the *additional* effort required for self-reliance — over and above what the country would have done anyway; (ii) policies that have a recognisable pay-off in the short and medium term are *ipso facto* superior to those with uncertain pay-off in the never never future. This is so because an unexpected balance of payments crisis (and the consequent "bailing out" operation by creditors) in the course of vigorous pursuit of self-reliance would be embarrassing, to say the least; and (iii) the present discussion is about feasible policy alternatives in real economies rather than "optimal" policies in idealised economies which satisfy the conditions necessary for general equilibrium. Pretence of technical objectivity notwithstanding, much of the economic discussion of public issues (especially when countries concerned are "somewhere out there" rather than one's own) suffers from a value-bias in favour of policies which promote a preferred economic system or a preferred form of economic organisation. The following discussion would attempt to steer clear of presumptions regarding superiority of one sort of measures over others on value grounds, although it must be recognised that a country could quite legitimately choose to reject some of the available options on precisely these grounds.

Export Growth

The habitual response of governments seized with a desire for self-reliance is to wish for a faster growth in exports and import substitution. While one can have little against these policies as such, the trouble with both these courses of action is that their outcome is often likely to be outside the control of the planning authorities. The issue here is not whether exports can grow or the pace of import substitution can be strengthened, but whether these can be made to grow *faster* than the rate already planned for the future — prior to the adoption of the self-reliance objective. In come countries it may be possible to do so but in some it may not be, depending on (a) how optimistic the export and import projections were to begin with, and (b) the length of time horizon chosen for self-reliance. The more ambitious the earlier targets and the shorter the time horizon chosen for self-reliance, the greater the likelihood that exclusive reliance on these policies would come to grief. Unless, therefore, one can demonstrate precisely how a faster rate of growth of exports or import substitution is to be brought about, self-reliance through these policies cannot be considered a credible objective.

It has sometimes been suggested that exports can be increased at any rate, provided a country is willing to follow a policy of a "realistic" or "equilibrium" exchange rate. However, not only is the concept of equilibrium rate in a growing and changing economy of doubtful theoretical validity, there are also other considerations which severely restrict the utility of this suggestion. Obviously, such a policy cannot be pursued by all developing countries at the same time since a large part of their exports are non-competitive with those of the industrialised countries and face a low elasticity of demand. For any particular country, on the other hand, "exports at any price that the foreigners are willing to pay" is a feasible option only if exports play an all too marginal role in the economy. Otherwise, loss in welfare and income through a deterioration in terms of trade would become significant — and self-defeating. Outside of a few socialist countries, there are hardly any countries for which this will not be true.

The possibility of import substitution depends on (a) the composition of existing imports, (b) the stage of development of the economy, and (c) import-intensity of domestic production. In all aid-dependent economies, import-intensity of domestic production outside of agriculture and simple resource-based manufacturing is likely to be high both in terms of raw material inputs as well as the initial capital cost. This becomes a matter of crucial importance if the structure of current imports is such that further import substitution can be attempted only in industries with a long gestation period. During the initial period, *absolute* dependence on imports in such cases is likely to increase rather than decrease. Paradoxically, therefore, accelerated import substitution for self-reliance in the short or medium term may be feasible only in countries which are either too underdeveloped (and, therefore, provide scope for import substitution in simple lines) or highly developed, with a well-diversified economic structure.

In countries where additional exports or additional import substitution do not provide feasible routes to self-reliance, other policies for achieving a turn-around in balance of payments have to be considered. These are likely to consist of the following: (i) change in industrial priorities in order to reduce import-dependence per unit of investment/output; (ii) cut in imports (as distinguished from import substitution), within the planned pattern of investment; and (iii) rescheduling of debt service obligations on past loans.

The first option, it will be recalled, has frequently been urged on developing countries faced with a "foreign exchange constraint". The desirability of this policy under any given circumstances should, however, depend on whether the change in priorities can be accomplished *within* the framework of a country's chosen development strategy and in keeping with its long-term development objectives or whether it calls for a major departure from the chosen strategy. When it is the latter (for example, when a shift away from heavy industries to light industries or from industry to agriculture is involved), this course of action would affect not only the *pace* of development but also the content of it. This is tantamount to salvaging the present by mortgaging the future and must, therefore, be resisted. Except in those cases where aid is the "engine of growth", elimination (and, for that matter, acceptance) of aid should be considered as determining the rate of progress towards development objectives rather than the objectives themselves.

A planned cut in imports, painful as it is, is one of most effective courses of action in the short and medium term. This is also what most countries do in the event of a balance of payments crisis. In a crisis, however, the measure becomes unnecessarily disruptive of development since imports are cut either across-the-board or on an item-by-item basis without sufficient regard for inter-industry relations and overall economic costs. If in the absence of aid, the level of imports needs to be reduced, it is much better to do so over a period and on the basis of economic criteria likely to maximise the development impact of any planned level of imports. Opinions, of course, vary on what constitutes "development impact", and each country will have to decide this for itself. For countries where imports are already down to the bone, the choice will be particularly difficult: they may well have to choose between the claims of existing industries and the need for new investment for long-run development of the economy.

Rescheduling of debt service obligations on past development loans can be an eminently sensible course of action for countries opting for premature self-reliance, especially when debt outstanding is high. However, rescheduling can take various forms, and some of them can do more harm than good. It is, therefore, necessary to lay down the conditions for a successful arrangement: (a) rescheduling should cover all development loans. Partial rescheduling, according to either source or terms of loans, is likely to create more burden-sharing problems among aid-giving countries than it solves; (b) rescheduling should cover as long a period as possible. Fifty years (which is the period of IDA credits) is likely to be a good rule; and (c) rescheduled amounts should bear near-zero interest.

The success of rescheduling operations obviously depends on the attitude of the creditors. In the past, their attitude has not been overly helpful, and rescheduling has taken the form of short-term bailing out operations in response to debt crises (except in the case of India) and has usually carried stiff terms and conditions with it. In part, this attitude has been conditioned by the fact that many of these crises had arisen because of gross mismanagement of the economy by present or past governments.

Proposals for rescheduling in the context of self-reliance, however, have to be sharply distinguished from such past cases. The presumption of bad management should not normally arise; and since the total commitment of the aid-givers would be decreasing in future, it may be assumed that their desire to keep the receiving country on short leash would also be less. There would certainly be a minor income loss to the aid-givers as a result of rescheduling, but this would be more than compensated by gain from stoppage of aid. However, if pursuant to political reasons (or prejudice) aid givers are still reluctant, unilateral action by the borrower cannot be ruled out.

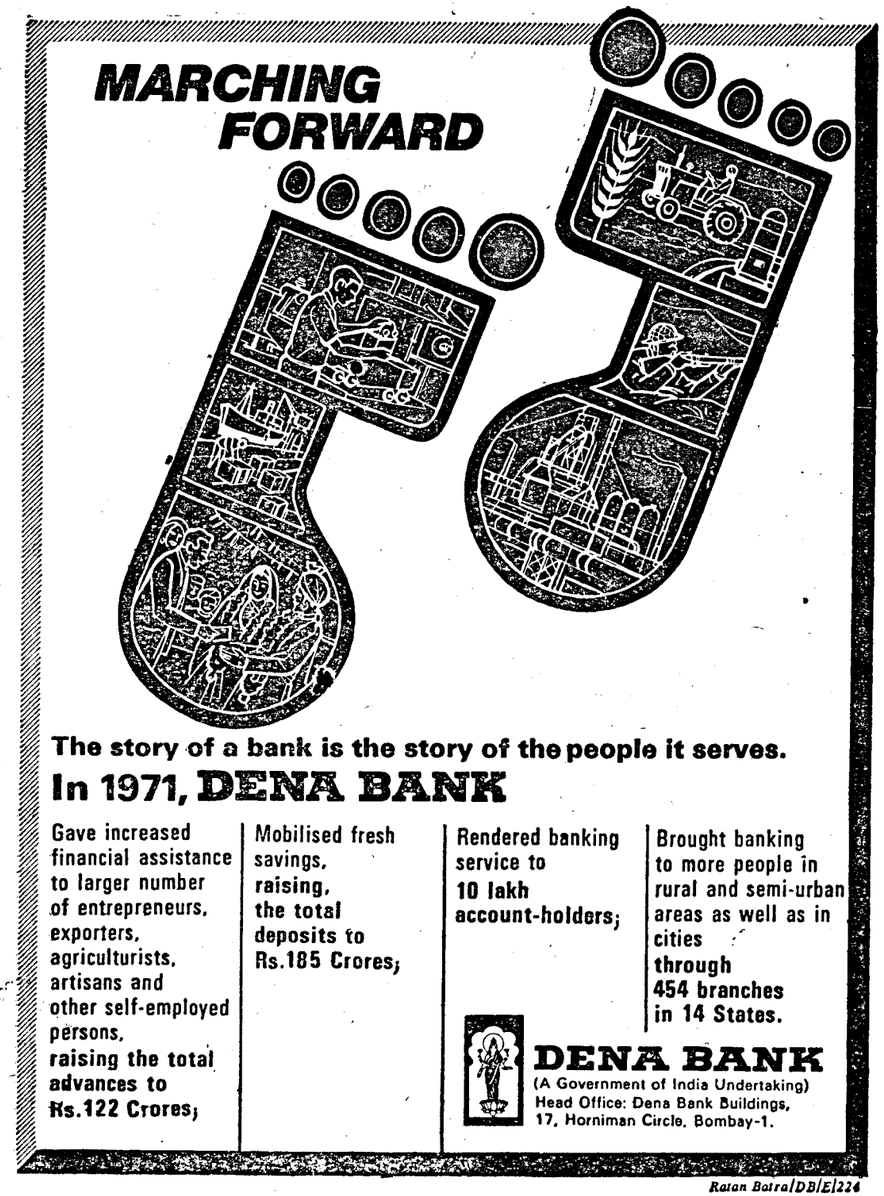
To sum up, it is clear that the set of policies necessary for self-reliance is likely to vary from one country to another depending on factors such as its chosen development strategy, present stage of development, the time horizon, the composition of its imports and so on. In some, choice of policies would be fairly easy; in others, painful choices would have to be made among conflicting ends. In most cases, however, it is likely that much more than exhortation for more exports or import substitution would be required if the desire for self-reliance is to become a credible objective of development policy.

III

The Indian Case

More than most other developing countries, India has tried to relate its five-year plans to a long-term perspective of development. Undaunted by external circumstances and temporary setbacks, in each successive plan, allocation and priority decisions have thus broadly been in conformity with the long-term strategy which was identified soon after the beginning of planning. Programming of foreign aid, however, has been an important exception. There has been no clear strategy, and the Indian attitude to aid and self-reliance has fluctuated sharply from one plan to the next depending on requirements and other circumstances.

Thus, in the First Plan, the attitude to aid was conditioned by three facts: (i) India had large sterling reserves which, together with exports, could be expected to cover the external requirements of the plan; (ii) Soviet Russia had planned "successfully" without relying on outside assistance; and (iii) India had wanted to play an active, and possibly, a balancing role in foreign affairs. It, therefore, could not risk outside interference. Accordingly, the



First Plan was firmly (and loudly) self-reliant, and allowed for only a minimal role for foreign aid in India's development. The Plan thus laid down that "external assistance is acceptable only if it carries with it no conditions, explicit or implicit, which affect even remotely the country's ability to take an independent line in international affairs." During this period, India asked for and received very little aid (amounting to Rs 204 crores).

The declining sterling reserves, the much larger resource requirements of the Second Plan, and finally the balance of payments crisis of 1958, however, soon transformed this attitude. During the crisis (India had lost Rs 500 crores in reserves in the first two years of the Second Plan), the Aid India Consortium was organised and was successful in preventing a complete disruption of the Plan and the country's external finances. This experience had a profound effect on the planners, and India became firmly pro-aid. It had planned for about Rs 800 crores by way of aid during the Second Plan, but ended up using Rs 1,500 crores (21 per cent of Plan investment).

The fondness for aid was fully reflected in the financial arrangements for the Third Plan. The Plan provided for (and received) Rs 2,200 crores by way of aid (36 per cent of Plan investment). Reliance on large inflow of aid was explained thus: "it would be advantageous from the point of view of recipient countries as well as donors to plan for substantial amounts of external assistance for a relatively short period rather than proceed with varying and uncertain amounts over an indefinite period." The period of the Third Plan, however, coincided with the period of "aid-weariness" in donor countries, and mounting tensions in the aid relationship resulting from excessive interference by aid agencies in economic policies of the recipient countries. The latter years of the Plan which culminated in the devaluation of the rupee, and the subsequent three years of Annual Plans were economically particularly difficult for India, and marked the beginning of the era of disillusion and discontent with regard to aid.

The Fourth Plan was formulated during the period when foreign aid to India had begun to decline and debt service payments were increasing sharply. There was also considerable international pessimism about the future of aid. These factors shaped the strategy of the Plan with regard to aid, and for the first time a specific date was laid down for the elimination of aid. Aid, net of debt service payments, was to be reduced to half the "current level" by the end of the Fourth Plan, and eliminated altogether by the end of the Fifth Plan (1980-81). Interestingly enough, the Fourth Plan objective has been more than fulfilled in 1971-72; net aid (of Rs 328 crores) last year was less than half the average net receipts during the Third Plan or the three Annual Plans!

However, very little satisfaction can be derived from this fact. Insofar as this can be termed self-reliance, it has been entirely the result of decisions made outside the country, and has been accompanied, not by an increase, but by a substantial shortfall in the rate of savings postulated by the Plan for these years. Balance of payments has been held in check, not by exports shooting up to meet the rising import requirements of a high growth economy, but by a substantial decline in imports consequent upon a fall in the rate of investment and industrial production. Hardly the state of affairs that would arouse the envy of the aid-dependent countries of the world!

The current search for self-reliance has to be considered against this background. Obviously, the original Fourth Plan objective with regard to aid no longer provides an adequate basis for action. It is also clear that self-reliance alone is not enough; in order to be meaningful, it has to be accompanied by an acceptable measure of progress towards other development objectives. In the context of the Fourth Plan, the first task, therefore, is to redefine the self-reliance and other development objectives in a way that would be operational as well as mutually consistent.

On the basis of balance of payments projections presented in the mid-term appraisal, it can be easily seen that "total" self-reliance is not a feasible objective so far as this Plan is concerned. Since total external payment requirements for the last year of the Plan are projected at Rs 2,913 crores (composed of imports of Rs 2,383 crores, debt service of Rs 480 crores, and other payments of Rs 50 crores) as against export receipts of Rs 1,907 crores, total self-reliance in that year would require closing the deficit of over Rs 1,000 crores by means other than aid receipts. This would require a reduction in import requirements of 40 per cent or an increase in exports of 50 per cent — *over and above* what has already been assumed in the Plan by way of import substitution and export promotion. Within the framework of the Plan and the current development strategy, this is clearly unrealistic. A much longer time horizon for total self-reliance is, therefore, likely to be necessary; and this choice, as mentioned earlier, should be exercised only after determination of the trade-off between investment/growth and self-reliance at different points of time in the future. If early and total self-reliance is considered politically imperative but turns out to be inconsistent with the present pattern of development, the country may have no choice but to undertake a radical restructuring of its present development strategy and objectives.

While the dimensions of the longer term task are yet to be specified, partial self-reliance with respect to aid from the United States has already been thrust upon the country. Therefore, whatever else one may or may not wish to do, the policies and targets of the Fourth Plan have to be made to adjust to at least this circumstance. This requires an assessment of the likely deficit in the balance of payments in the absence of US aid — and in the absence of mitigating policies. The Table below provides an estimate of the likely deficit for the last three years of the Plan (1971/72-1973/74). Figures for import requirements, export receipts, debt service and other payments in the Table are taken from the mid-term Appraisal; normal aid-utilisation from non-US sources is assumed to continue at a slightly higher rate than in the first two years of the plan; and "extra-rapid" drawdown of pipeline from both US and non-US sources is assumed to amount to Rs 100 crores a year.

The estimate below of payments deficit, in the absence of US aid, is subject to three qualifications: (i) all of this deficit is not directly *attributable* to the suspension of US aid. Fresh authorisation of aid from the US averaged Rs 250 crores in the first two years of the Plan as against average

TABLE: PROJECTED FOREIGN EXCHANGE PAYMENTS AND RECEIPTS, 1971-74
(Rs crores)

Payments	
Imports	6658
Debt servicing	1412
Other invisible transactions (net)	147
	8217
Receipts	
Exports	5327
Non-US external assistance	1500
Drawdown of pipeline	300
Deficit	1090
	8217

aid utilisation of Rs 330 crores. Therefore, even if the US had continued authorising aid at past levels, a part of the deficit would have still remained uncovered; (ii) Plan estimates of future import requirements are based on certain assumptions regarding the future level of investment and production activity in the economy. If the expected level of domestic savings and investment is not forthcoming, import requirements and projected deficit would be correspondingly reduced. At a certain lower-than-projected level, the deficit might entirely disappear! It, therefore, has to be recognised that a failure to raise adequate savings, not altogether an unlikely prospect, may simultaneously solve the balance of payments problem; and (iii) it is likely that in the last three years of the Plan, India would receive on an average at least twice as much assistance from the International Development Association (IDA) as it did in the first two years (Rs 214 crores). However, because of the lag between aid authorisation and utilisation, the full impact of this will not be felt until after the Fourth Plan.

Subject to the above, the suspension of US aid would thus require an annual adjustment of about Rs 360 crores in India's balance of payments for the rest of the Fourth Plan. Of the available policy options, it should also be clear that no amount of exhortation for further import substitution or export promotion would be sufficient to bring about this adjustment. The reason is simply that the projected imports and exports *already* assume "a determined and sustained drive towards import substitution and rationalisation" as well as an unprecedented increase in exports. Thus exports in the last three years of the Plan have been assumed to increase by an average of 7.5 per cent a year. If this is realised, this would be unprecedented for any recent three-year period of Indian planning. This is also considerably higher than the rate of growth realised in the first two years of the Plan. It would take a miracle (or another change in recording procedure!) for the country to do better than what has already been targeted.

As regards imports, the estimate of requirements provides for a decline in food imports to Rs 30 crores (from Rs 213 crores in 1970-71) and continuation of present restrictions on imports of consumer goods. In addition, for steel, "a smooth and uninterrupted operation of HSL plants has been assumed and a moderate improvement in the capacity utilisation in existing plants during the rest of the Plan period... In the case of fuel oil, although the current trends in consumption reveal a high rate of growth, it has been assumed that demand would be restrained by either imposition of fiscal levies or through physical controls... The estimates of requirements of machinery during the remaining years of the Plan have been worked out on the basis of the anticipated levels and nature of investment" (Mid-Term Appraisal, December 1971, p 35). It is difficult to see how the country can be expected to do even better than the existing, by no means modest, plans for import substitution.

The option of changing development priorities — from industry to agriculture or from heavy to light industries — as a means of reducing import dependence can also be summarily dismissed in the current Indian situation. For two good reasons: firstly, it is the industrial sector which needs revival through more investment. Growth in industrial production and investment has been well below plan targets in the last six years, and unless there is much larger investment in this sector we should be going though a period of de-industrialisation of the economy. Secondly, much of our plans for import substitution are dependent on fulfilment of production targets in industries such as iron and steel, basic metals, metal products, industrial machinery, fertilisers, newsprint, petrochemicals, railroad and transport equipment etc. Many of these items figure heavily in India's current import bill.

This leaves us with four possibilities for covering the estimated payments deficit: (a) more aid from non-US sources, (b) more bilateral trade with Eastern European countries, (c) rescheduling of debt service payments, and (d) a planned cut in imports. The success of the first two options, it can be conceded, is outside the country's control. It is possible, although unlikely, that other western countries would come forth with more aid in order to make up for the loss of US aid. More trade with Eastern European and other countries which can supply part of India's import needs is certainly a more likely possibility and needs to be explored. Since the outcome is likely to depend on the attitude of these countries on a case-by-case basis, very little can be said about the likely prospects at this stage.

There is, however, a good case for rescheduling of India's debt service payments. For the last four years, India has been receiving debt relief from consortium countries amounting to Rs 75 crores a year. This is reckoned as part of the normal aid flows and does not constitute an addition to transfer of net resources to the country. Apart from this general debt relief, however, there is a special case for an agreement on moratorium of debt service payments to the United States. The logic of development through long term loans implies a certain stable flow of gross aid until such time as a country is able to generate export surpluses over and above its own requirements. Suspension of aid at a time when import requirements are greater than export potential and the development job is still far from completed may, therefore, be deemed to constitute unilateral repudiation of a fundamental assumption behind the giving and taking of long-term development loans. Under these circumstances, the economic and moral case for debt moratorium on past development loans becomes very persuasive. Moreover, continued debt service payments to an erstwhile lender in a situation where other countries and agencies continue to give aid is tantamount to a diversion of aid from the latter to the former. This is contrary to all international understanding regarding the purpose of aid.

If an agreement on debt moratorium can be reached, this would reduce India's payments requirements by about Rs 100 crores a year. There would, therefore, still be need for a planned cut in imports of the order of 10 to 15 per cent over projected requirements. Since the scope for further tightening of direct consumer or luxury imports is almost non-existent, such a cut would naturally have to be made with respect to so-called essential imports. Moreover, since almost eighty per cent of import requirements are for maintenance imports, it is likely that a large part of the planned reduction would have to be made in this category. A cut in industrial imports can be effected in a manner so as to affect the current level of activity in specific industries only or new investment. A difficult decision would, therefore, have to be made as to where the country's industrial priorities lie in the next two or three years.

To conclude, it may be contended and, I believe, with some justification that the above discussion in terms of the Fourth Plan projections is largely academic since neither exports-imports nor savings-investment are likely to (or even expected to) behave as projected. Nevertheless, the paper would have served its purpose if it can contribute to a more reasoned debate on specification of the self-reliance objective, and policy instruments available for achieving it within a given time period.

Indo-Bangladesh Trade: Problems and Prospects

Sunanda Sen

The prospects of Indo-Bangladesh trade are circumscribed by two opposite sets of forces. Some, like the locational advantages, the political co-ordination between the two governments, the possibilities of economic co-operation, and the current ban by Bangladesh on trade with West Pakistan, tend to brighten prospects of mutually profitable trade between India and Bangladesh.

However, there are other factors that considerably limit the possibilities of such trade. The structural and policy changes in the two countries over the past two decades of Indo-Pak hostilities have replaced the earlier pattern of complementarity by a competitive relationship between the two economies. Further, Bangladesh's exports to India are not likely to substitute commodities previously exported by East Pakistan, and there therefore remain for Bangladesh the possible dangers of a diversion of exports away from third markets; and, since trade between India and Bangladesh would be financed by rupees, such trade diversion, re-export, or export of import-substitutes would amount to an increase in the foreign exchange liability of the country exporting them.

It is in the long-term interests of both trade partners that possible misunderstandings should be avoided on the 'grant' component of the trade relations between them. Exchanges between the two countries are likely to be influenced by large-scale 'smuggling' across the frontier and by possible disputes on different issues such as transit trade, fiscal allocations, quota provisions, or financing methods for trade. Here, the two decades of Indo-Pak trade disputes could provide useful lessons for policy-makers in both India and Bangladesh. The contents of such policies would be crucial to determining both the overall 'trade-bias' and the net implications of such bias for the trade between the two countries.

I

The Perspective

THE Special circumstances in which Bangladesh became independent bring to the forefront the issue of its trade prospects with India. Economic co-operation and a high level of trade were always considered vital to the wellbeing of India and Pakistan since their emergence as two separate political entities in 1947. The strained relations between the two had, however, restricted the feasibility of such programmes. Political developments in the recent past have, however, more than removed the obstacles to such co-operation between India and erstwhile East Pakistan. While the special circumstances of the initial period may for some time overrule considerations of economic efficiency, the long-term outlines of such trade will be determined largely by the economic exigencies of the developing situations. It is thus crucial at this moment to examine the problems and possibilities of Indo-Bangladesh trade in all their possible dimensions.

Three distinct aspects of Indo-Bangladesh trade relations are relevant in an analysis of their trade prospects. One needs to recognise the historical aspect of the trade relations between India and Pakistan and to distinguish its influence from the structural aspect of trade between the two. The two aspects, while interrelated, may be further distinguished from a third which encompasses such additional problems and prospects as are related specifically to the emergence of Bangladesh as a nation state — this may be called the Bangladesh aspect. While much consideration is being devoted to the problems of the trade relations between the new political unit of Bangladesh and India, less attention seems to have been paid to the first two aspects. In the following, the three aspects are examined to seek an assessment of India's trade with Bangladesh in the light of past experience and future development.

II

Indo-Pakistan Trade: Lessons from the Experience

Analysis of the experience of India and Pakistan in their bilateral trade relations provide certain broad lessons for the future policy decisions on Indo-Bangladesh trade. While many forces which dominated Indo-Pakistan trade during the earlier period are not relevant to Indo-Bangladesh trade, that experience can still be used with profit in the latter context. The issues which are relevant relate to the disputes that India and Pakistan had on crucial matters such as the problems of transit and border trade, the technicalities of entrepot trade, the size and range and implementation of quota limits in the trade agreements, questions relating to re-exports and re-imports, issues related to the imposition of different taxes and the allocation of revenues therefrom, and lastly, the problems related to the functioning of payments arrangements between the two countries. One could also draw on the experiences of India in her trade relations with other neighbouring countries, like Afghanistan, Burma, Ceylon, and Nepal, which like Bangladesh have geographic proximity as well as a past political affinity with India.

The question of transit and border trade was given considerable attention in the different trade agreements between India and Pakistan during 1947-65.[1] The problem was also considered important in India's trade agreements with Nepal and Afghanistan.[2] The Indo-Pak trade arrangements (August 1947 to December 1949) declared no restrictions on the free movement of commodities between the newly separated territories during an interim period. Consideration was also given to the removal of barriers in the way of the border, entrepot, and transit trade between them. The arrangements, however, were violated and there were successive escalations in the trade disputes between the two; these, together with disputes on certain other issues, led to a total blockage of trade during January-March, 1950.[3]

Provisions of transit trade were also included in the Agreement on Trade and Commerce concluded with Afghanistan in 1952. These aimed to provide facility for transit trade, by removing barriers on all transit traffic where the value of the consignments remained unchanged during transit.[4] The provisions, however, were of limited value, and frequent trade disputes between the two

countries often paralysed such trade.

Transit provisions were similarly included in India's Treaty of Trade and Transit with Nepal (1960).[5] The success of transit trade, again, was subject to the different forces shaping the relations between the partners to the agreement.

Quota commitments for the commodities supplied under the trade accords provided another major area of disagreement between India and Pakistan. Retaliatory actions against the violation of the minimum quota targets for certain essential commodities ultimately led to a total deadlock in such trade during January to April, 1950.[6] Despite attempts by both countries to revive trade between themselves, evident in the three-month 'Barter Contract' of April 1950 and subsequent trade conciliations between them, the total turnover of Indo-Pakistani trade came down from Rs 184 crores and Rs 87 crores in 1948-49 and 1949-50, respectively, to as low as Rs 52 crores and Rs 27 crores in 1952-53 and 1953-54, respectively.[7] The months of the Korean War were marked by the superior bargaining power of Pakistan, the primary commodity exporter. It was therefore unwilling to include any minimum quota limit for raw cotton in the agreement of February 1951. Thus India's raw cotton imports from Pakistan dropped from Rs 16.3 crores to Rs 6.9 crores and Rs 27 lakhs in 1949-50 and 1950-51, respectively — and later to even negligible levels.[8] Fulfilment of quota targets proved a major area of possible discord by 1951, and such minimum limits were restricted in February 1951 to items covered by state-trading. It was also decided that the quotas unutilised at the end of the agreement could be carried forward to the next term.[9] Quotas, both actual and targeted, were deleted from the Agreement of 1955 and the payments arrangement of December 1958 stipulated promotion of trade under the cover of the Rs 25-lakh swing limit for the (inconvertible) rupee account. It financed trade in selected items to their stated quota limits.[10] The arrangements continued through later years with changes in the value of the swing limit, but the value of trade, while it revived considerably during 1960-61, was but a fraction of the earlier figures.

Quota limits were also significant in India's trade with Burma. The difficulties in the implementation of the quota targets led to downward revisions of the target limits in the successive agreements. Trade, under the US Surplus Agricultural (Trilateral) Commodity Disposal Agreement, committed Burma to purchase textiles from countries (Japan, West Germany) which also imported raw cotton from the US and a large part of its purchases from India were diverted to other channels. Simultaneously, disputes over the price of rice, the major item of India's imports from Burma, led to an exclusion of the item from the commodities covered by the balanced accounts envisaged under the Rupee Payments provisions of 1958 and later years.[11] The above reduced the total turnover of trade between the two countries to a level which could be sustained only by their balancing policy.

Quota limits were also operative in India's trade agreements with Ceylon for 1953 and later years. The actual value of trade, however, was subject to the influence of different forces.

Taxes on imports and production provided another area of disagreement between India and Pakistan. The two countries differed on the question of allocating excise on Pak-grown raw jute imposed by India at Calcutta port. Similarly, the trade partners could not agree on the claims made by Pakistan to a share of the excise levied and collected by India on textiles consumed by Pakistan.[12] Despite the attempt to remove the fiscal barriers between the two countries, evident in the rebates granted by India on all excisable commodities exported to Pakistan, the question of fiscal barriers came once again into the forefront. Thus, in December 1949, India raised the export duty on jute products and the move had all its likely impact on prices paid for imports of raw jute.[13]

Unlike the rest of her trade-quota arrangements, India's trade arrangement with Ceylon provided for preferential tariffs for the items listed under the quota schedules. The device, however, was hardly successful in sustaining the flow of trade, which was influenced by other adverse forces.[14]

Trade and payments can also be severely affected by possible disputes over exchange rates. Thus the payments arrangements India has concluded with countries in the Soviet bloc and South Asia all contain an exchange guarantee to avoid possible disputes. The disagreement between India and Pakistan on the question of their exchange rate, during September 1949 to February 1951, led to different retaliatory measures by the two countries during the period and to consequent declines in the value of trade between them.[15] The issue, therefore, like the questions of border, transit, and entrepot trade, the quota limits, or the tariff rates, had been important in Indo-Pak trade relations over the past two decades. It would be in the long-term interests of India and Bangladesh if the lessons from the above experiences could be utilised to avoid the possibility of disputes in future.

III

Changing Structure and Implications

Trade between India and Pakistan was subject to significant changes during the last two decades. It was the frequent trade disputes and tensions that were largely responsible for the falling value and changing composition of the trade between the two countries. The autonomous changes in the demand and resource patterns of the two nations, though they were partly responsible for the actual pattern of the trade between them, were often less important than the above forces in explaining the changes in Indo-Pakistan trade. The impact of the trade-disputes on the course of Indo-Pakistan trade was felt in two directions: first, in its repercussions on the pattern of production and trade in the two countries, and second, in the changing pattern of official policy in both countries affecting the respective production and trade patterns. The two aspects were often interrelated, and the changes in official economic policies brought about by the frequent trade disputes often precipitated these changes. Similarly, the changes in trade pattern due to the frequency of disputes also necessitated corrective changes in the official policies of the two governments.

The present section outlines the major changes in Indo-Pakistan trade during the last two decades and relates them to the relevant official policies in the respective countries. The account is supplemented by another, about the simultaneous variations in the respective patterns of production, which often explain the trade patterns.

Trade opened between the two new States of India and Pakistan in mid-1947, but the bilateral relations were considerably strained by early 1948. The early years of trade disputes between the two countries were marked by significant declines in the volume of trade in a number of items, including cotton textiles, raw jute, raw cotton and coal. Such trade, in turn, provided the earlier base of complementarity between the adjacent regions. This was also watched by simultaneous declines

in the rest of the items traded between the two, and the total turnover of Indo-Pak trade fell by more than 71.7 per cent during 1948-49 to 1952-53.

Textile industries were developed in the subcontinent during the later years of the British period and the two countries started to depend on each other, both for supply of their inputs and for consumption of the finished goods. Thus the textile mills in India used to rely on Pakistan for the supply of raw jute and raw cotton, while India supplied large values of cotton textiles to it. Disputes between the two led to large-scale import substitution of the commodities in both — sometimes supported by a re-direction of such trade to other countries. This was accompanied by increases in manufacturing capacity in both countries — often supported by the official trade and industrial policies. Thus Pakistan's surplus of exportable raw jute and raw cotton was remarkably reduced during the period, and it was processing a considerable part of such imports. The spate of import-substitution of raw materials needed for textile production increased the output of raw jute and raw cotton in India,[16] and the country reduced its purchases of these items from Pakistan.[17] For raw cotton, India's imports were also diverted to other sources (the US and Egypt) which in turn substituted the Pak-grown raw materials. The reduced dependence of India on Pak-grown raw materials for its textile industry were matched by a similar fall in Pakistan's purchases of finished goods from India. Pakistan started to process a major part of its raw jute output, and by the end of the first five-year plan, in 1959-60, emerged as a major exporter of jute textiles with a simultaneous decline in the value of raw jute exported abroad.[18] By 1964-65, Pakistan produced all of its total supply of cotton textiles (domestic consumption plus exports), of which 20 per cent again was exported abroad. This indicated a considerable increase in the domestic capacity of cotton goods. Its domestic production had a 5.3 per cent share in the *total* supply of the commodity during 1951-52.[19] Incidentally, unlike jute manufacture (which was largely concentrated in the jute-growing areas of Pakistan), the cotton textile industry was more dispersed as between the two wings of Pakistan.

The changes in the composition and direction of trade in the two countries was supported by corresponding government policies, in each, on trade and investment. Deliberate attempts were made during the period in both countries to follow a price and incomes policy which encouraged the production and exports of manufactured items. In the case of Pakistan the fiscal measures were supported by the export bonus system which subsidised the major manufactured, and a few non-traditional primary, exports of the country since 1959. The discrimination in favour of the manufacturing sector was evident in the loss for agriculture in its international terms of trade consequent on the government policy adopted during 1951-52 to 1963-64.[20] The country's industrialisation plans also included other fiscal and trade devices which stepped up the production of manufactured commodities. By 1964-65, domestic supply was adequate to provide, respectively, 88.6 and 85.0 per cent of the total supply of consumer and intermediate goods. The corresponding figures for 1951-52 had been 22.5 and 26.7 per cent only.[21] By 1964-65, 50 per cent of imports were of goods needed for investment and related activities.[22] The self-sufficiency in consumer goods, however, concealed the regional disparity in the production pattern. Thus East Pakistan was still dependent for imports of food and textiles on the industrialised Western wing.[23] In India, too, production and trade patterns during the period were subject to significant changes. Official attempts were to encourage production and exports of manufactures. Apart from the fiscal devices like tax relief, subsidies, and transport concessions, use was made of a discriminatory system of import control and export promotion under cover of the import-entitlement system (1961-66). The scheme, however, was less pervasive than the Pak bonus scheme and the value of exports covered by it was a smaller proportion of total exports. The devaluation of the Indian rupee in 1966 led to a change in the Indian trade control devices and the liberalisation measures included the removal of the above scheme. The fiscal and other controls retained, however, still provided a large measure of protection for the manufacturing industries in the country.

On the whole, therefore, India and Pakistan both grew along very similar lines in the early stages of industrialisation, with marked changes in their previous pattern of interdependence. Thus the countries have become competitors in relation to each other in the third markets — both for their major exportables (say textiles, tea, hides and skins, leather) and for the import of crucial raw material (say, raw cotton, cotton yarn and thread). Trade disputes as noted above, played a significant role in shaping the structural changes in the two economies by compelling the two governments to pursue an autarkic policy. The overall pattern for Pakistan, however, sometimes concealed the disparate trends in production and trade in the two wings of it.

IV

Bangladesh and Trade with India

The emergence of the Bangladesh as a separate nation-State and economy has added several new dimensions to the possibilities of India's trade with the region, previously East Pakistan. Such prospects, moreover, have become brighter with the close political links between the two regimes over the early months of liberation of Bangladesh.

While trade between the two countries would be influenced in the immediate future by the short-term priorities thought important by the official agencies, letters have been exchanged finalising a Rs 25-crore commodity grant from India and loans of Rs 10 crores in kind (including supply of Indian commodities and services for railroad construction) and £ 5 mn in foreign exchange. The commodity grant specifies a list of Indian exports considered essential for the post-war reconstruction of Bangladesh. A separate trade communique has further specified a list of perishable and other food items India will be freely importing from Bangladesh.

The article covered by the commodity grant include essential consumer items (sugar, salt, baby food), drugs and medicines, raw materials (superfine cotton yarn, oilseeds, cement, chemicals, steel) light equipments (steel products, ferry engines, power generation and transmission equipments), and petroleum (crude and products).[24] The Rs 10-crore loan, in turn, will finance the construction of railways and 42,000 tons of foodgrains. The £ 5 mn loan is paid in foreign exchange and is repayable at 2.5 per cent rate of interest in 15 equal instalments commencing 15 years after disbursement. All commodities are to be delivered through state trading channels, and it has been proposed that the STC in India will be helped by the Indian Oil Corporation and the Indian Fertiliser Corporation for specific commodities. This list of commodities is entirely based on an *ad hoc* principle of priorities which overrules any criterion of efficiency during an emergency. Thus the list of exportables from India includes com-

moditjes which are normally exported elsewhere, produced at home as import substitutes, or even actually imported from third markets.[25] Unless the domestic production of these commodities can be raised and maintained to ensure an exportable surplus for Bangladesh, India will have to incur a foreign exchange cost for her grant programme. The latter, incidentally, will be *additional* to the real cost of such transactions. Losses in foreign exchange will also arise in the country's trade programmes with Bangladesh so long as similar articles are exported for imports which are not normally purchased by foreign currency. While Bangladesh would not pay for the Indian imports in foreign exchange, she is even less likely to offer, in exchange, commodities which economise India's foreign currency payments. Unless India is ready to *grant*[26] foreign exchange to Bangladesh, the current commodity schedules will have to be revised to a more rational pattern in keeping with the future exchanges between the two countries.

It is worth analysing the issues relevant to a far more long-standing trade relation between the two countries. The long-term prospects of trade between India and Bangladesh are likely to be influenced by the joint operation of two distinct forces. First, by the changes in production and consumption patterns in the respective economies, which in the past, have often been oriented by the Indo-Pakistan trade disputes towards a pattern of competitiveness. Second, both by the changed context in which trade between the two countries is being opened up, and to the contents of official policy during this new phase of their economic relations. The new directions of such policy may sometimes partially offset, or even reverse, the effects of the structural changes on future trends in Indo-Bangladesh trade. The determining factors including the current ban on Bangladesh trade with Pakistan, the content of production, distribution and trade policies in both countries, steps taken by the two governments to avoid the possibilities of smuggling, problems of border, transit, and entrepot trade (which are more common in the land-borne trade between two adjacent countries), and lastly, the success of the two governments to avoid disputes on matters of common concern like the quota targets for essential articles, the internal taxes affecting trade between the two, and the mode of payments for the trade between them.

Bangladesh's trade with West Pakistan constituted a significant portion of the country's extra-regional trade. The question, therefore, becomes relevant whether the newly opened up trade with India will in the long run substitute the previous inter-wing trade of East Pakistan. The outcome will depend on two factors: first, whether Bangladesh will like to retain the previous pattern and size of her inter-wing trade, and second, whether India will be able and willing to trade in items which were important in such transactions between the two wings of Pakistan. The answer to the first will depend on the future economic policies of the new State, which, in turn, is more likely to orient its foreign trade to a pattern consistent with the *new* production and consumption policies envisaged. The industrial policy of the new regime has not yet been clearly defined and it may be too early to anticipate the likely changes.

In a recent study of the two-wing Pakistan economy,[27] the rural sector of East Pakistan is shown to have an estimated per capita expenditure-elasticity of consumption higher than the corresponding estimates for the urban population (in both wings) for 1960-85. The estimates relate to essential consumer articles such as food, tobacco and clothing. The corresponding estimates, however, are higher for the urban sector for other items of consumption (including housing and local fuel). As for the pattern of food consumption, the estimates of calorie elasticity (percentage change in calorie consumption/percentage change on food expenditure) are seen to be significantly smaller than the expenditure-elasticity for rural East Pakistan — a fact which indicates a low protein-content of such food consumption.[28] If the income-distribution policies of the new Bangladesh regime are oriented towards a larger share for the rural sector, and if consumer preferences are given more weightage in the official policies shaping the final pattern of consumption, one can anticipate the following changes in the future pattern of consumption in Bangladesh. First, there will be a likely increase in the consumption of food, tobacco and textiles, and second, a less than proportionate rise in the consumption of protein food. The above, however, may be supplemented by consumption of housing materials by the government sector (say, due to subsidised housing schemes).

The assumption of a redistribution of income in favour of the rural sector of the Bangladesh economy would, therefore, open up prospects of a larger demand for food and textiles. The short-run supply situation may make it convenient to increase the imports of textiles from India while the larger food demand is not likely to curtail the export-surpluses of Bangladesh for specific food articles such as fish and fish products of interest to India.[29] Such redistribution, combined with likely increases in the absolute levels of urban consumption and industrial activity, would brighten the prospects of the country's trade with India. It may not, indeed, be too optimistic to conclude that the consumption changes in Bangladesh will largely be pro-trade-biased, and that such changes, again, will include increases in the import demand for commodities like rice, raw cotton, cotton textiles, cement, rape and mustard seeds, tobacco and manufactures, machinery and millwork, etc, which were also important items in the inter-wing trade of erstwhile Pakistan.[30]

The question whether India's trade with Bangladesh will substitute the inter-wing trade in Pakistan, would also depend on the absorptive capacity and willingness of the Indian economy. Among the commodities which featured in the inter-wing exports of East Pakistan, tea, jute goods and paper products constituted the major portion (56 per cent of total inter-wing exports valued at Rs 87 crores in 1968-69).[31] India is an exporter of the first two articles and can hardly provide any outlet for them in her domestic market. East Pakistan used to export to the outer world raw jute and jute manufactures and the respective shares were as large as 47.3 per cent and 42.2 per cent of her aggregate foreign exports (Rs 154 crores) during 1968-69. Similarly, fish, fresh vegetables, and paper products are items India would import from Bangladesh. But for paper, these articles were not exported by East Pakistan to the Western wing, and such trade will, therefore, *divert* some part of Bangladesh's likely third country exports to the Indian market (assuming the exportable surplus does not increase). Thus the pattern of Pakistan's inter-wing trade is *not* likely to influence the composition of Bangladesh's future exports to India. The possibility is thus strong of a diversion of other exports from third markets, when the *foreign exchange criteria* should be an important consideration in judging the *desirability* of such exports for Bangladesh. The inter-wing imports of East Pakistan consisted of articles which can be supplied by India even during the short run. Among the inter-wing imports of Bangladesh cotton textiles (11 per cent), tobacco and its products (9.9 per cent), wheat and wheat flour (2 per cent), machinery and millwork (4 per cent), and rice (6 per cent), were more important during 1968-69.[32] India could supply these articles (but for rice) without much difficulty provided again such trade does not conflict with the *foreign exchange criteria.*

The pattern of the newly opened up trade between India and Bangladesh will be influenced also by the trends in the official policies in both countries. As for the likely policies in the new regime, the production pattern will depend on industrial policy, the contents of which have not yet been defined. The government, however, has declared its plans to have a more equal distribution of income and, if this really comes about, the effects of an egalitarian distribution (in favour of the poorer section, the rural sector) along with a programme of industrialisation, as noted earlier in this discussion, are not likely to be autarkic for its trade with India. The recent decision of the new regime to declare its rupee to be at par with the Indian rupee (equivalent to a devaluation of the currency) will have its significance for mutual relations. The policies actually adopted, however, will have a significant influence both on the relative competitiveness of India and Bangladesh in third markets, for, a number of their major export items (textiles, hides and skins, tea, etc) and on the course and content of future trade between the two. Similar changes in import licensing or in other policies of relevance to the trade between the two, are also quite significant.

The long-term pattern of trade between the two countries will also be influenced by the locational advantages enjoyed by the two proximate regions in transporting the commodities for each other. The countries may actually find it mutually convenient to divert a part of their trade from other regions and have a larger transaction in items which are cheaper to transport in land-borne trade. Thus India would be a profitable source of coal for Bangladesh which gets its coal from Poland at Rs 300 per ton.[33] The comparative cost of the majority of the commodities traded between India and Bangladesh will be similarly affected by the lower unit cost of transport in the land-borne trade, and this may make it worthwhile to divert trade even at the cost of loss of other markets.

The closeness of the two regions will, however, introduce certain additional problems in the trade prospects between the two. The first relates to the possibility of large-scale smuggling along the frontier. Such evasions of the official trade channels may be specially profitable when the price policies in the two countries — especially in contiguous areas — are widely divergent, and second, the structures of such prices are insulated from each other by various restrictions on trade. The unofficial channels may also be profitable for re-exports to the country maintaining tight import control. Smuggling may even be the common practice with a possible unofficial flow of labour or other factors of production if the two regions have wide disparities in the respective prices of such inputs. The possibilities of such smuggling could be minimised by a vigilant customs frontier which may virtually substitute the border security forces of the earlier regimes. This might involve considerable fiscal expense for both, so that it might be worthwhile to compare the welfare implications of an alternative system of customs or economic union between the two countries which would remove the incentives for such smuggling. Even in the absence of such plans for economic integration, the two countries might find it worthwhile to provide some disincentives for such smuggling by maintaining a minimum degree of consistency in their respective price policies.

The future patterns of trade between the two countries will also be influenced by the areas left open in Bangladesh to *private* foreign capital and enterprise. The Indian private sector will seek an outlet in the other economy by opening collaborator firms and trading agencies. The services of the trading agents may be temporarily welcome to the private sector in Bangladesh wherever these trade channels were previously organised by people belonging to West Pakistan. The question of collaboration will be settled by the new regime when it takes decisions on the major industrial policies.

The longer-term prospects of trade between India and Bangladesh seem to be circumscribed by two opposite sets of forces. Some like the geographical proximity, the political co-ordination between India and Bangladesh, the possibilities of economic co-operation, and the current ban in Bangladesh on trade with West Pakistan, will tend to increase the size of mutually profitable trade between the two countries. There remain, however, factors like the lack of complementarity between the two countries, the difficulties of substituting the inter-wing exports of Bangladesh by additional exports to India, the possibility of a diversion of exports from third markets (or re-exports), and the related foreign exchange costs, the ineffectiveness of official channels consequent on large-scale smuggling, and the possibility of trade disputes between the two countries — all of these factors will tend to have adverse repercussions on the trade between the two. The actual turnover will depend on the relative strength of these opposing forces. The observations, however, are largely tentative, and a firm prediction of the future trade developments between India and Bangladesh can only be based on detailed empirical studies of the demand and the comparative cost patterns in the two countries.

Notes

1 See, for both transit and border trade provisions, the Standstill Agreement, August 1947, Trade-Quota Agreement, May 1948, June 1949. Government of India, White Paper on Indo-Pakistan Trade Relations, August 15, 1947, to December 31, 1949, pp 1-4. For border trade provisions, Trade-Quota Agreement, September 1955. Trade and Payments Agreement, February 1957, in Government of India, "India's Trade Agreements", 1957. An analysis of the working of the different bilateral trade and payments arrangements between India and other countries is available in a separate study by this author: Sen, Sunanda, "India's Bilateral Payments and Trade Agreements", Calcutta, 1965.

2 See, the Indo-Nepal Treaty on Trade and Transit, September 1960. Indo-Afghan Treaty of Trade and Commerce, 1952 (Articles X, XI): Government of India, "India's Trade Agreements", 1962.

3 A chronology of the violations may be recorded as follows:

(i) October 1947: Restrictions by Pakistan (Sind provincial government) on the movement of commodities between the two territories and on the entrepot services of the Karachi port.

(ii) April 1, 1948, India treated as a 'foreign territory' by Pakistan following exchanges of *aide-memoire* between the two countries during October 1947 to April 1948.

(iii) Review Session, Calcutta (April 1948) and Karachi (May 1948), discloses transit difficulties for Indian goods *en route* East Bengal.

(iv) Raw jute in transit through Pakistan as purchased by India before September 1949 (the date when currencies of the two countries ceased to be at par following Pakistan's decision to avoid devaluation) detained by Pakistan. The Government of India suspended, from December 25, 1949, all despatches of coal to Pakistan. The latter act specifically violated Article V of the 1949 Trade-Quota Agreement and the decisions reached on the movement of coal on

July 13, 1949.
See, White Paper, *op cit*, Annexures 13, 14, 15 and 16, pp 63-112 and p V; RBI, *Reports on Currency and Finance*, 1949-50, pp 104-6, and Sen, *op cit*, pp 147-154.
Government of India, "India's Trade Agreements", 1955. See also Sen, *op cit*, pp 169-176 for analysis of the impact of Indo-Afghan agreements on trade.
Government of India, *op cit*, 1962. Difficulties in fulfilling quota limits for essential articles (coal, imported steel, raw cotton, raw jute, etc) and the commitment to have free trade in perishables (Agreement on Mutual Supply of Essential Commodities, May 1948) made it necessary to have downward revisions in the quota schedules of the Trade-Quota Agreement, June 1949. A disagreement on the exchange rates following the unilateral devaluation by India led to a sequence of reprisals, which included: (i) Pakistan's suspension of OGL for Indian imports, September 21, 1949; (ii) refusal of Indian Jute Mills Association (IJMA) to purchase raw jute at the minimum prices offered by Pakistan; (iii) restrictions imposed by India on the OGLX covering essential imports from Pakistan; (iv) deadlock in trade but for coal for which Pakistan was ready to pay from the Reserve Bank of India account; (v) India's ban on all coal movements to Pakistan on December 25, 1949 — leading to a total blockade of trade between the two.
Monthly Statistics Relating to the Foreign Trade of India (by countries and currency Areas and Supplements).
See, Sen, *op cit*, pp 134, 152, 158, 162 for an analysis of the above factors.
Ibid, p 152.
Ibid, pp 305-7, 155.
Ibid, pp 108-124.
Government of India, White Paper on Indo-Pakistani Trade Relations, August 15, 1947 to December 31, 1949, pp 10-11.
Ibid, p iii.
Sen, *op cit*, pp 181-7.
Ibid, pp 150-2.
The domestic output of raw jute increased in India from 2,055 bales in 1948/49 to an average of 3,722 bales during 1952/53 to 1955/56. This went up further to 4,641 bales in 1959/60 and 4,062 bales in 1960/61. Similarly, the domestic production of raw cotton, at 2,188 bales for 1947/48, was more than doubled by 1954/55 — followed by more significant increases during the later years. (Source: *RBI, Reports on Currency and Finance* 1954-55, 1961-62.)
17 The value of India's total imports of raw jute (all from Pakistan) was Rs 71.2 crores in 1948/49, an average of Rs 15 crores during 1952/53 to 1955/56, Rs 3.4 crores and Rs 7.5 crores for 1959/60 and 1960/61. India purchased Rs 16.38 crores worth of raw cotton from Pakistan during 1948/49, which was sharply reduced to Rs 6.9 crores in 1949/50 and to figures negligible during later years. (Source: *Ibid.*)
18 The share of (cotton and jute) textiles in Pakistan's total exports went up from an average of 0.7 per cent (1951/52 to 1954/55) to an average of 20.2 per cent during the Second Plan years of 1960/61-1964/65. The corresponding share for raw jute declined from 46.1 per cent to 39.2 per cent. A large part of the increased output in jute manufacturing was exported and the percentage of the total intermediate goods production, which was exported in 1959/60, was 51.7 — a figure much higher than the 0.5 per cent share for 1951-52. (Lewis, S R: "Pakistan: Industrialisation and Trade Policies", OECD, 1970; pp 12-13.)
19 Lewis, *op cit*, pp 107-8.
20 The ratio of the actual to hypothetical terms of trade (which could exist in the absence of the economic policies) for agriculture, as calculated by Lewis, was considerably small — indicating the discrimination against agriculture under government policies. Such loss, incidentally, was all the larger for East Pakistan which was also less developed industrially. See, Lewis, S R: 'Effects of Trade Policy on Domestic Relative Prices: Pakistan 1951-64' *AER*, March 1968; Also, Lewis, S R, *op cit*, pp 148-149.
21 Lewis, S R, *op cit*, p 107.
22 *Ibid*, p 11.
23 See, data on Inter-Wing Trade from *Economic Survey, op cit.*
24 *Statesman*, January 18, 1972.
25 India imported an average of Rs 91.16 crores of iron and steel, Rs 17.7 crores of medicines and pharmaceutical products, Rs 115.0 crores of petroleum and its products, Rs 30.3 crores of fertilisers, and Rs 85.6 crores of raw cotton, during 1967-68 to 1969-70. The country, moreover, exported sugar to the US and UK (together comprising 80 per cent of the total sugar exports by India during 1969-70), while for cement and coal the domestic production was inadequate to meet local demand. The short-run scarcity in coal is evident from the recent claims put forward by the West Bengal coal miners that the industry needs an additional supply of 3-4 thousand wagons per day in order to reduce the current stock of pitheads (which exceeded by 4.5 mn tons in 1971 the 4 mn ton figure of 1968). The transport bottleneck made itself felt in the rise of coal prices in the northern states of India. Similarly, the Indian Engineering Association has estimated the country's aggregate requirement of steel for 1972-73 at Rs 75 crores — a figure much larger than the official plans for Rs 50 crores. The open market prices of steel rose by 15 per cent in December 1971, following the news of the cut in steel imports. See, Reserve Bank of India, *Reports on Currency and Finance*, 1969-70. Statement 91 p S 142. *Economic Times*, February 1, 1972, and December 31, 1971.
26 The emphasis on the *grant* element of trade is significant since the transactions of two equal values of commodities may theoretically imply a foreign exchange cost for one country when its exports to the other consist of re-exports (of goods purchased by foreign exchange), import-substitutes, or commodities which do not have any export surplus, while the corresponding imports do not entail any saving in foreign currency.
27 David Ole and Norbye Koht, "Development Prospects in Pakistan", Universitetsforlaget, Oslo, 1968, pp 93, 97-8.
28 *Ibid*, pp 103-4.
29 "...The catch can be increased in the Bay of Bengal which will be more than enough to satisfy domestic demand and still have a sufficient surplus for export... Natural resources will *not* set *any limit* to the expansion of fisheries". *Ibid*, p 42.
30 In 1968-69, East Pakistan imported Rs 1,850 mn (Pak currency) worth of commodities from West Pakistan of which rice (6 per cent), wheat and wheat flour (2 per cent), tobacco and its products (8.9 per cent), cotton goods (11 per cent), and machinery and millwork (4 per cent) were more important, *East Pakistan Economic Survey, op cit*, p 28.
31 *Ibid*, p 27.
32 *Economic Survey, op cit*, p 28.
33 *Economic Times*, February 1, 1972.

Vijaya Bank's New Deposit Schemes

VIJAYA Bank has introduced the following four new insurance oriented deposit schemes:

1 Treble Insurance Fixed Deposit Scheme,
2 The Two-Year Insurance-Cum-Deposit Scheme,
3 Insurance Oriented Fixed Deposit Scheme,
4 Premium Linked Deposit Scheme, and three other deposit schemes.

In the Insurance Oriented Deposit Schemes, the client deposits a fixed sum with the Bank and the Bank agrees to pay the premium on the policies which are linked with the deposits. Each of the first three schemes is linked with a different type of policy issued by the LIC, while the last scheme can be linked up with any policy of the LIC. The premiums are payable out of the interest.

In all these schemes, the interest payable by the Bank attracts the provision of section 80 (L) of the Income Tax-Act. The premium paid to the LIC also attracts the provisions of Section 80(C) of the Income-tax Act. The amounts therefore are eligible for tax rebate which is a substantial benefit accruing to the depositor.

Caste and Status in an Indian City

Mark Holmstrom

Caste, in traditional India, implied a certain kind of value judgment: power was to be respected only when it was shown in its proper relation to religious duty. This judgment was clear even when the boundaries and rank of groups were not clear. It was still possible to say: 'Status means caste rank; this is the only thing that confers a moral claim to respect, and any kind of status that is valued must be turned into and called caste'.

This is no longer so. But people continue to use the same moral vocabulary in making judgments about status.

In this article are examined the kind of status judgments that are made in modern India — specifically, in a village which has become a part of an industrial city — to show that, while people use the same words, they often mean something quite different by them, and that the key to what they mean lies in changes in ideology.

It is not hard to see why people in an expanding industrial economy should have changed their ideas like this. The author maintains that it is not economic determinism, however, to say that their situation gave them reason to think one thing rather than another; it is simply that in revising their social categories — which is what social change means — people take circumstances into account. People also take ideas into account directly — ideas they get from parties or sects or reading or travel or contacts.

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I SHALL deal with two problems: what does 'caste' mean in modern India; and how far can we apply our categories of 'class', 'status', etc, and theories of stratification developed in western societies, to another society.

The best starting point is Weber's distinction of status and class. He uses 'class' like Marx, to mean a position of economic power, which is a matter of objective judgment; but unlike Marx, he distinguishes class from 'status', which is a subjective judgment on someone's position, by reference to some standard of value: achievement or breeding or goodness or racial superiority or something else. Weber recognises that in most societies status is closely matched to class or economic power. This is an important empirical fact, and we can see good reasons for it; but it does not follow directly or necessarily, and it is not always true. Wealth or power *by themselves* hardly ever entitle anyone to respect: there must be wealth plus something else, like time or manners or generosity or a white skin; and some positions are respected although the people in them are poor. Weber goes on to make a distinction — which fits modern India very well — between class relations on the scale of the national economy, and relations among status groups which often mean most on the scale of small communities of residence or birth.

But having distinguished class and status, we are no nearer a general theory of how they are related in different societies — in other words, of how status can be justified, and wealth (for example) can be turned into status. To make comparisons, we need more subtle terms and relations between terms; and the place to find these is not in some *a priori* theory of stratification and its causes, but in people's social experience of different situations, and the concepts they use to make sense of this experience.

'Caste' is one of these concepts. It is a straight translation of an all-India word, or rather two words, *viz*, jati and varna; but for my purpose, jati is the important one. It means any of the ranked, more or less closed, groups one is born into. The limits of your caste depend on the situation: it may mean one thing for marriage, another for occupation or as a reference group in the village, something else as a political pressure group. These different groups are sometimes distinguished as subcastes and even sub-subcastes, but Indian languages use the same word jati for all of them.

It is a mistake to identify caste with apartheid or the colour bar or a type of 'stratification' in which status depends on birth into closed groups, because this external similarity hides a basic difference in values. This part of my thesis is taken largely from Dumont (1961). There is no point in repeating or defending his arguments in detail. Here I assume that the traditional ideology of caste is relatively uniform throughout Hindu India; and that Dumont's account of it is generally true, and is borne out by a mass of ethnography of rural India.

The racialist believes in equality, with racial difference as a special exception: all (white) men or all (black) men are created equal, and the more this equality is insisted on inside the group, the higher it is necessary to raise the barriers which separate groups. Society is, or ought to be, like a pile of homogeneous slabs lying on top of one another: here the metaphor of 'stratification' is especially appropriate. You could take out one slab and have a complete, working, all-white or all-black society. This is what apartheid means.

But this slab-like image does not fit caste society at all. Caste follows from a belief that the natural order of society and the universe is hierarchical, and that relations of equality are the exception. The only final or religious justification of caste is that it is a realisation of a continuous hierarchy ranging from God, through gods, Brahmins, other castes and untouchables, to animals and things. The highest castes are closest to the divine sources of purity, and the rules about contact among castes express this fundamental polarity of purity or spirituality, and gross matter or biological process. Individual people or castes get value only by occupying a place in this hierarchy, and by keeping the moral rules appropriate to their level. The point about castes is not that they are ranked, and that each is necessary to the whole: a caste could not exist in isolation, though a race could. In this ideology, every kind of work is necessary, and in principle the work you are fitted for is

a consequence of your rank; you are not ranked *because* you do a certain job. To call this a division of labour is to miss the point, which is a religious point. In the same way castes are endogamous because they are ranked, not the other way round.

Endogamy follows from two beliefs: (i) status depends on birth, and (ii) close contact with lower castes is polluting. This is a matter of degree, not of clear-cut yes-or-no choices: since intercourse pollutes a man less than a woman, hypergamy is often allowed, and is fully compatible with caste ideology. To say this is to shift the emphasis from castes to caste as an aspect of social relations, or from the boundaries between groups to the idea of a hierarchy running all the way down. The boundaries between named 'castes' are more marked than the boundaries between 'sub-castes' in a caste and between families of different prestige in a sub-caste, but this again is a matter of degree.

It is true that not everyone believes in this ideology with the same conviction: for obvious reasons, Brahmins and dominant castes make the most of it. But then caste morality is not the whole of Hindu morality; nor is caste the whole organisation of Hindu society. This is what caste means to most Indians: people can justify their actions quite explicitly by appealing to the commonplace judgments that each caste has its own rules which are right for it but not for others, they all serve each other, etc. Non-Indian are not free to redefine this name for an Indian institution to suit themselves; and to stretch its meaning to cover other kinds of stratification, such as apartheid, is to do violence to the facts — if people's understanding of their own society is a fact.

In principle, caste ideology is very rigid: a caste's position is divinely ordained and fixed for all time. But in practice, it is quite flexible: there have always been ways for rich castes, or groups, of intermarrying families to form a separate sub-caste or marriage circle, to use a rise in economic status to justify a collective rise in social or religious status, without admitting it. The relative rank of castes is often doubtful. A caste can claim it has fallen from its true position: castes divide, coalesce and change their names; and it is not always clear which caste a sub-caste belongs to or which sub-castes a family can marry into.

So 'caste' in traditional India implied a certain kind of value judgment: power was to be respected only when it was shown in its proper relation to religious duty, and this judgment was clear even when the boundaries and rank of groups were not clear. If we except the *sanyasi* or ascetic, who was outside ordinary social relations, it was still possible to say: 'Status means caste rank. This is the only thing that confers a moral claim to respect, and any kind of status that is valued must be turned into and called caste'. This is no longer so; but people continue to use the same moral vocabulary in making judgments of status. I shall examine the kind of status judgments that are made in modern India, specifically in a village which has become part of an industrial city, to show that although people use the same words they often mean something quite different by them, and that the key to what they mean lies in changes in ideology.

Garudapura

I call the village Garudapura.* It was founded near Bangalore around 1800, and has an establishment of old families, belonging mainly to peasant castes, who produced food for the city market until the village was surrounded by the city in the 1950s. A cigarette factory was founded near the village in 1912, and some of the villagers worked there. There are still a few fields and vineyards. The richer peasants planted vines 40 years ago, and used the profits to become building contractors, wholesale merchants, and landlords to immigrant workers. Their sons, who had been educated in Bangalore schools, trained for skilled jobs in Bangalore's post-War industrial boom, and the village attracted immigrants, some of them skilled, to work in the newer factories making aircraft, machine-tools, telephones, car parts, electronic equipment etc.

The city now has 1.4 million people the village 6,800. Half the villagers are literate—or two-thirds of the males aged over 12; a few men belonging to old village families are professional or highly skilled men. Half the people, mainly immigrants, speak Tamil; the rest speak Telugu and Kannada, which are related to Tamil. Of the people 18 per cent are Christians, and there are a few Muslims. The rest are Hindus, belonging to over 20 named castes and many more sub-castes, some of which intermarry. Traditional service relations among the castes have almost gone, except as an ideal to be revived at festivals: barbers and washermen, for example, are paid in cash and generally at piecework rates. All families of good caste must have a Brahmin at their weddings — usually a paid Brahmin from outside — but there is only one old Brahman family in the village, that of the temple priest, who also works full-time in the aircraft factory.

As far as status in the village is concerned, the top of the hierarchy in practice is the large block of castes which call themselves 'middle' castes, together with most Christians. This block contains two-thirds of the population. Men of this group, except for a few vegetarians, will eat with other men of the group: often women will eat only with their own caste or relatives. Outside the village, most men eat with anyone: men who keep rules of pollution inside the village say explicitly that these do not apply in a restaurant or factory canteen, where you can eat with anyone. A liberal minority ignores caste rules entirely, even endogamy: and apart from possible complications with close relatives, there is really no sanction, or even any strong feeling, against them — they can do as they like.

Though all 'middle' castes are roughly equal, the hierarchy is more marked in the lower ranges: the small group of 'low' castes (washermen, barbers and voddas or navvies, in that order); and below them the Harijan or ex-untouchable castes who live outside or on the edge of the village; except for some immigrant Tamil Harijans who live in the village centre, either openly among tolerant neighbours or passing for members of a higher caste.

But in spite of this rough equality among the castes that most people belong to, the idea of separation and rank is still present: implicitly in the rules about marriage and eating together; explicitly in the myth of the four varnas which people can use to justify the separation of society into castes, and in the commonplaces about each caste having its own special aptitudes and duties and rules which it has found by long experience are best for it but not for others. These differences do not amount to much in practice: little details of the wedding ceremony, or caste reputations, are given an inflated importance simply because there is nothing else left to distinguish one caste from another, when most people's job has no relation to their caste. Just to be different is a matter of pride, though the difference may be trivial; and it does not matter that the relative rank of middle castes is never tested since

* See my account of a municipal election there (Holmstrom, 1969).

the two poles of the hierarchical structure are clear: Brahmins at the top (theoretical Brahmins, often the ideal Brahmins to be distinguished sharply from the lazy, greedy, cunning Brahmins you see these days) and untouchables at the bottom.

A caste group on the village scale is usually a number of households bound together by a complicated pattern of marriage, especially marriages with cross-cousins and nieces. The households may be joint or nuclear; they live apart but they are closely linked by sentiment and mutual support. Within this local caste group, the word 'kudumbam' (Tamil) or 'kutumba' (Kannada) 'family' can mean either a household or a loose federation of households bound together by no consistent pattern of descent or alliance, but recognising a common head or 'big man' on ceremonial occasions and sharing a reputation. Lineages are important only for certain purposes, like the cult of family gods.

Marriages are arranged inside or outside the village, between households. Families of similar status within a named caste have probably always tended to intermarry and to continue their alliances within more or less closed groups, especially on the South Indian preference for cross-cousin marriage. It is hard to draw a line between marriage with preferred relatives, a strong desire for continuing alliance between families and a firm rule of caste endogamy. A separate caste name or customs may reinforce the rule, but these things are neither necessary nor sufficient to make an endogamous group. Customs are forgotten or imitated. Names change; castes take on prestigious mythological names; the name of a part comes to be used for the whole, or *vice versa*. Any caste-like community is a possible base for marriage alliance; and each family arranging a marriage has to define the circle of acceptable alliances for itself, according to its ambitions, its ideals, and the pressures of its relatives. To marry into a group with different customs is hard, to marry into one with a different name may be harder, but either may be more acceptable than making a marriage which is unacceptable in other ways, such as a marriage with a family of different economic class or education.

Take the Golla caste, traditionally cowherds. Like similar herding castes elsewhere, they call themselves Yadavas (Krishna's clan). Forty years ago, some of them claimed that Yadavas were really Naidus, these being a badly-defined group of castes with pretensions to high status. These so-called 'Yadava Naidus' stopped marrying ordinary Gollas and tried to marry Naidus instead. Some Naidu castes, which intermarry, also marry Gollas; but the Yadava or ex-Golla Naidus, who once tried to raise their status by calling themselves Naidus, now find that many Gollas refuse to marry them.

There are two main sub-castes of Gollas, called One-pandal (or One-marriage-booth) and Two-pandal Gollas, because of a difference in wedding customs. A One-pandal family became the richest landowners in Garudapura, and their sons were well-educated. They were faced with a shortage of suitable brides and grooms. One related family solved the problem by marrying a Golla girl across the border in Madras state but their orthodox relatives boycotted them. A young lawyer of the leading family refused to marry an uneducated cousin and married, for love, a girl of his sub-caste whose brother and other relatives had married out of caste altogether, because they belonged to a reformist sect and observed no caste rules. His family and the village were split dramatically at the time, but he and his wife are now highly respected. His younger brother wanted to marry this man's wife's sister, and the family quickly arranged a marriage between them. By this time, the One-pandal/Two-pandal division had become a joke to younger people: an educated Two-pandal man suggested to his parents that he should marry a certain One-pandal girl, related to them by a long chain of marriages outside the village, and the marriage was arranged. Within three months, there were two more marriages between the sub-castes. Then the top One-pandal family, which had boycotted the family that married into Madras state, married into the Madras family themselves. The Two-pandal family in Garudapura, which had first married into this One-pandal family, completed the triangle by marrying into the Madras family.

There are similar ambiguities about the boundaries between different Naidu sub-castes, from ex-barbers up; between two kinds of Okkaligas; and between Mudaliars and other Tamil groups, including untouchables who pass as Mudaliars. Then there are a surprising number of marriages, even arranged marriages, between Hindus and Christians, who may or may not belong to castes; and a small but growing number of marriages which are openly out of caste.

Most of the intermarriage is almost accidental, a by-product of a tendency to explore a wider field especially for bridegrooms. Caste comes into match-making as one thing to be weighed against others and setting certain limits — like money and education. Castes are still supposed to be endogamous, and there is not much left to separate most castes, except this theoretical endogamy.

To put it another way: two-thirds of the people get some status from belonging to a middle caste, it does not matter which, provided that it is still distinguishable *as a caste*. Caste is now part of status, but it does not mean status as it did in traditional India. The reason is that caste ideology accounts for the division of labour within a small unit, and justifies it in religious terms. The modern division of labour is market economics, tempered by nepotism and influence, organised on a large scale with alternative careers and training. It might be reconciled with the *existence* of castes, but not with anything that could be called a caste *system* or caste *ideology*.

The Tamil word which means, roughly, status is mariyadai 'respect' (maryada in Hindi is different). Garudapura people use the word or its Kannada or Telugu forms often, to mean either a subjective attitude of respect or signs of deference. They distinguish the two separate aspects when they say for instance that respect given to creditors or rich men is forced or insincere. The assumption seems to be that respect is given freely. The case of those who have to give it becomes an exception to be explained.

There are two kinds of deference: deference owed by an inferior in any relation, e g, to parents or an elder brother and the deference owed to anyone, even an inferior, in an exchange of courtesies.

If one asks how respect is shown, the first example people give is attending weddings. Every wedding should be respected as a holy occasion, but to attend a wedding is to approve of it and to recognise that the couple's status is not too different from your own. You must attend weddings of relatives, or of your caste in the village. It is a sign of belonging to an old village family that you attend weddings of other families in this group without invitation, including weddings of low castes like barbers though not Harijans. You show more respect by eating the wedding meal, and low castes are said to employ firms of Brahmin cooks so that 'middle' caste guests can eat the food.

The few idealistic men who attend weddings of Harijans, or of workers of a much lower grade in their own factory, do so explicitly as a gesture of equality. When the context of a wedding is given, mariyadai can mean a wedding present.

Other ways of showing respect of the exchange of courtesies kind — the respect due to equals or inferiors — are visiting them in their houses, stopping to talk to them in the street, listening to their troubles and offering sympathy if not practical help, and above all spending a long time in their company. Respect of the substantive kind — i e, to a superior, even a temporary superior like a son-in-law on his first visit — is shown by listening patiently, deferring to his opinions, looking after his comforts, and not meeting him in situations which imply equality and make it hard to keep a respectful distance. The word 'respect' is used especially when people are accused of lacking it, behaving badly in public, or not showing respect to elders or respectable men. Mariyadaiyullavan (maryadesta in Kannada) 'respectable men' generally means someone who is entitled to more respect than others.

The ideal view of respect is that anyone has the opportunity to acquire it, through age, good conduct, and associating with the right people. Good conduct means behaving modestly, showing courtesy to everyone equally, helping neighbours (finding them jobs, serving food at their weddings, arranging funerals), serving the village by spending for the public good, organising festivals and public events, reconciling others who quarrel etc. Bad conduct which loses respect means quarrelling, using bad language, watching girls in the street, and making suggestive remarks, keeping a mistress, bigamy, drinking, cheating, interfering unnecessarily in others' affairs etc. A respectable man spends his time with other respectable people, either friends of his own age or older people. Wealth, education and caste should make no difference: many people can name a highly respected Harijan, though they would not eat with him or have him in their houses. If most Harijans are looked down on, this is said to be because they drink and have dirty habits.

The New Gap

Clearly many kinds of respectable conduct are only open to the rich and influential, who can spend on temples and festivals, find jobs for others and mix with respectable people. The criteria for respect coincide closely but not exactly with differences of wealth and power. The cynical view is that respect *ought* to be given to those who behave well or have some other moral claim to it, like age, but it *is* given only to the rich and powerful. A rich man can do anything, his sins are quickly forgotten, as the example of rich men who have kept mistresses, falsified documents, or married bigamously shows. This is because people have become selfish, they no longer live simply and work for the common good, their respect is self-interested etc; alternatively, it is because they are still 'backward' and have not learned to be independent fo the rich and to work for the common good etc.

This cynical view is also a moralising view: the ideal is put in the past or the future, and contrasted with the present practice of other people. Whatever expedients one is forced to justify, a pure cynicism, making no distinction between wealth and status, or between what is and what ought to be, is almost unthinkable as a rule anyone could defend in public.

The internal counterpart of respect is manam 'honour'; it is one's conception of one's own worth, a concern for the opinion of others. It may be used almost as a synonym for manasu 'conscience'. It is generally used in the compound mana-mariyadai 'honour and respect' (or 'respect for honour'). Honour should be a sufficient condition for respect: people should respect someone because he is a manastan or 'honourable man'. In practice, it is a necessary condition but not a sufficient one. In consequence, the word is almost always used negatively, as when someone is said to have lost his honour, or to have no honour. You do not accumulate honour as you accumulate respect, for example by spending for public purposes: everyone has it until he loses it by some offence. In principle, at least, honour is egalitarian where respect is hierarchical. Honour belongs to a man as a man, while respect belongs to honourable men who are born into or work themselves into respectable positions. An offence which costs you your honour affects the 'name' or reputation of your family rather than the honour of its individual members, though this is not entirely clear.

Vetkam 'shame' is a synonym for honour, in its aspect as sensitivity to public opinion: for women it means modesty or chastity. To call someone a 'shameless one' or 'one without honour' means that he no longer cares about the legitimate criticism of others, that he is not only doing wrong but refuses to be corrected, for instance someone who insolently refuses to pay a debt. Even worse is mana-mariyadai-vittavan 'one who has abandoned honour and respect'. It means that he does not care for either of the complementary values on which social morality is based: the honour which must not be lost, and the respect which must be gained. A man's social position is defined by the complementary pressures of his conception of his own worth, which is honour, and the extent to which others accept this valuation, which is respect.

A whole caste group, a loosely organised family, or a household, may have a 'name' (per) or reputation. In the case of a family, this is literally a name: not a surname — South Indian Hindus have no true surnames — but the name of a 'big man' who is consulted on family problems and who acts as master of ceremonies at weddings; or of a dead man who acquired a great personal reputation, often because he first built up the family's fortunes. A household is more or less free to bask in the reflected glory of a respected relative, or to strike out on its own. A household which becomes an embarrassment, perhaps because of an undesirable marriage, may be cut off by others in its circle; some 'big men' have been angry when their names were printed on relatives' wedding invitations without permission.

Andastu (antastu in Kannada) 'rank or dignity' means 'prestige' in Banton's (1965:37) sense of a ranking of roles, as distinct from 'esteem', which is an evaluation of how well someone performs his role. Banton says, roughly, that:

prestige + esteem = status.

For Garudapura people, when they take the ideal view of respect, this would read (in Tamil):

andastu (prestige) + manam (honour) = mariyadai (respect).

This 'prestige' belongs especially to roles involving wealth, power and influence. The word distinguishes these aspects of status, as something objectively given, from those which involve a moral claim to respect, like good conduct, age, and perhaps education. From the point of view of village opinion, prestige is an ascribed status, even if the qualifications for it (e g, money) have been achieved elsewhere. Caste also comes into prestige: it is something given, not achieved. An occupation may have it, but this is closely related to the income that goes with it. Thus it seems that, 15 years ago, skilled manual workers had less prestige than clerical workers, but this is no longer true: skilled work is better paid, and technology is in fashion. 'Prestige' on the local level reflects class positions which can be seen as a system only on the scale of the national economy, or at least the city. A family arranging a marriage will try, among other things, to improve its class position, and to ensure the material comfort of its sons or daughters by an alliance with a family of high class and 'prestige': I think the word is most often used in the context of matchmaking.

There are several words for someone who is generally respected: the commonest means 'big man'. It can be used for the head of a group like a family, but the 'big men' of the village are a loosely defined local establishment, often spoken of as if they were a group in relation to the village. They all belong to 'middle' castes and have some kind of 'prestige', but not all of them are rich. The Patel or headman has 'prestige' only because of his office, though he has no power; another man has political connections etc. If you ask what 'big men' do, the stock answer is that they take part in panchayats or arbitration courts, though now these are seldom or never called. They do take the lead in many kinds of joint action: they are temple trustees; they attend meetings to organise festivals, they help find jobs, and at elections they conduct public meetings to decide which candidate the village should support for the party 'ticket' or at the poll. Even when they agree, they can no longer be sure of carrying even a majority of the village vote with them. They are expected to behave in the approved ways, to live and dress simply, to mix with everyone, talk to them and attend their weddings, to spend money in the proper ways, preferably on public objects like festivals and entertainments rather than private objects like weddings. They all belong to old village families, and this is the key to their position: in a situation where most functional and economic relations are outside the neighbourhood or urban village, and where village religion and other institutions are kept alive out of nostalgia or idealism, these 'big men' are associated with the idea of the village as a place where relations are moral rather than functional, and where those who deserve respect get it. Not only members of the old families, but many immigrants who are emotionally attached to the village, appear to accept this valuation of the 'big men's' position. In urban conditions, where hardly anyone is now a peasant, a sort of pastoral myth lies behind this extraordinary idealisation of such village institutions as the establishment of elders or 'big men'.

So 'respect' in the village has an objective, *de facto* component: wealth or influence or inherited position. Using the people's own category, and extrapolating from the common use of the word, I call this andastu or 'prestige'. It has a moral, *de jure* component, which is manam or 'honour'. The 'big men' are the most respected group. They emerge from the respectable old village families, whose members enjoy certain formal advantages, especially on religious occasions, and the real advantage of a connection with the 'big men'. Their social equals, except in these two regards, are the respectable Hindu or Christian immigrants with some education and skilled, semi-skilled or clerical jobs. Below them are the poor, illiterate, unskilled labourers, old families or immigrants, divided chiefly into known Harijans and others.

These are status groups in Weber's sense, with what Weber calls their own 'styles of life' and restrictions on 'social' intercourse. The words for respect mean something very like Weber's 'status' or 'social honour'. Members of these groups also have status in other kind of groups, e g, in regional caste networks and at work. But the village is what Bailey calls an 'arena', in which claims to respect can be made and an important man can get a reputation which is both satisfying and useful to him. This is why big fish continue to live and accumulate status in this small pond, instead of losing themselves in the larger ponds which are the fashionable middle-class suburbs.

This does not explain why other people, especially immigrants, should play the respect game as well. Apart from the idealisation of the village, with a common good which the 'big men' guard, it is an asset as well as a satisfaction to have some personal and family reputation, and some connection with the 'big men', in a community of densely populated small houses, where one's private affairs are often common knowledge; where mutual aid between neighbours provides some social security against illness and unemployment, as well as services like child-minding to replace the vanishing joint family; and where it is useful to have friends with contacts in different circles outside the village. There is always someone to arrange a funeral, find a job, take an application to the right official or recommend a printer for wedding invitations. The village or neighbourhood is not a social system but a clearing house for diverse interests, and the man who is respected has his interests cleared first.

Many of these interests have their origin in the wider society, particularly the economy. 'Prestige' is the channel through which class positions in this economy are introduced into the village or projected on the village scale of values, to be modified there by the moral judgment of honour. Honour is no longer much influenced by the consideration of caste, partly because the ideological justification for equating 'good' and 'high' caste has been undermined by devotional religion and democratic ideals, partly because almost all those who have any claim to prestige belong to the middle block of castes. If caste rank is held constant, the chief caste relations are not in or between local caste groups but within the networks of existing or potential marriage circles, which lead far outside the village.

Instead of the more straightforward correspondence between status and economic, political or caste relations, which seem to have existed in Garudapura 15 years ago and still exist in country villages, status as a moral fact is separated from prestige as an objective one, and the standards of moral judgment applied tend to be universalistic. Only a few men, like shopkeepers and contractors who have some of the village poor dependent on them, can compel respect and turn prestige into status directly. In all other cases a fiction of equality must be kept up, at least in public: a man will have time for everyone and dress like a peasant in a place where hardly anyone is a peasant and everyone knows he is a rich wholesaler. The quest for status is an immensely strong motive for action, but a man who wants to be respected must himself respect the autonomous judgments of other villagers, who in principle are free to give or withhold respect.

Thus the fit between the facts and the old ideology of status is getting looser. Caste is adaptable and can include new kinds of relations, but it no longer includes status. Nowadays endogamy follows from class as much as from caste, and it does not matter so much whether the endogamous group has a caste name or not. To the extent that a caste still has a rank, this is justified directly by the kind of work its members are believed to do, and changes accordingly.

Are there any unifying principles

behind these ideas of status, something that could be compared to ideologies of status elsewhere? Not the forms of status groups themselves: it is much too simply to say, for example, that class is replacing caste, 'achieved' status is replacing 'ascribed' etc. We have seen it all before: it happened elsewhere and now it must happen in India; the only question is when. Alternatively, this is what happened when the bourgeoisie with its liberal ideology triumphs over feudalism. This is to assume we know the answers already. People's ideas make sense in their situation, and we should get as much mileage as possible out of their reasoned explanations before looking for different or deeper reasons. But to get at the unifying principles we must look in the middle ground between people's own explanations which may be true but explain too little, and general theories of stratification which try to explain too much because they start from general principles and then account for each case by appealing to some economic or psychological determinism.

It is true that as caste boundaries changed, now self-conscious kinds of caste group have emerged, with caste associations, political pressure groups, etc. It is sometimes suggested that these streamlined forms adapt caste wonderfully to modern politics and economics, and that they will last. But caste associations are completely irrelevant to many people who, in other situations, act as members of castes (including almost everyone in Garudapura); their practical importance, even in politics, may have been exaggerated; and in any case the division of society into competing blocks cannot be reconciled with traditional caste ideology and there is no worked-out ideology to replace it.

The last link between modern caste and caste ideology, which was the *movement to sanskritise* or purify one's customs in order to gain prestige of the traditional kind, has gone or is going. That particular game has lost its point. What is left is not a new ideology but short-term expediency which is visibly just that — naked and unashamed. In politics it is called casteism. The use of caste — as distinct from particular relatives — to get jobs and favours, is seen as a necessity in a phase of cut-throat competition and unemployment, and is not as universal as some people suggest. One ought to look after one's own, there is a strong moral obligation here, but the value of caste itself is no longer universal; it is relative to particular situations. Castes have their own customs and reputations, but these tend to be signs of separate existence rather than different status. Moral thinking tends to be universalistic: what is right for one caste is right for another.

Harijans, for example, used to be in a position of absolute moral inferiority, but since they were in that position it was positively right for them to eat beef, remarry widows etc. Now moral standards belong to a common culture: Harijans can only be condemned for having 'dirty' or 'backward' customs, if the implication is that they can reform their customs and be accepted into respectable society. The same commonplace is used both by upper-caste men who want to justify inequality, and by those who for moral reasons want to see it ended. The point is that inequality has to be justified at all.

Wealth still cannot confer status directly. It has to be converted into status by generosity and the right kind of consumption; but it is the individual and his immediate relatives who get the status rather than the whole caste, who by universalistic standards are not responsible for this man's respectable behaviour. To be a self-made man, to have risen from humble origins by one's own efforts, is itself a source of pride, and the lower the origins the greater the pride.

It is not hard to see why people in an expanding industrial economy should have changed their ideas like this. It is not economic determinism to say that their situation gave them strong motives for thinking one thing rather than another, and that in revising their social categories — which is what social change means — people take circumstances into account. They also take ideas into account directly: ideas they get from parties or sects or reading or travel or contacts. We should distinguish clearly between these two kinds of changes in thought — the taking into account of changes in circumstances of constraints or institutions, which may be historically based in changes in *someone else's* ideas, (e g, politicians' or administrators' or businessmen's ideas), and the direct intellectual or moral confrontation with ideas which are understood *as ideas*, as distinct from taking into account of external circumstances.

This may sound like the old, exploded commonplaces about the transition from traditional to modern, folk to urban, or Gemeinschaft to Gesellschaft. But the old commonplaces were very often true: the mistake was to think that they were necessarily true. Thus one can see good reasons why industrialisation should go with individuation, a universalistic ethic and an idea of status that can plausibly be defended by universalistic standards, but there is no necessity about it. It could have been otherwise; in some countries it probably is otherwise: and if it is happening in India, this is not something inevitable but an important new fact.

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Modi Spinning and Weaving

MODI Spining and Weaving, which has already invested over Rs 20 lakhs in other companies' shares, proposes to make fresh investment of upto Rs 65 lakhs in 'Modi Rubbers' — a new company promoted by Modi Industries to manufacture automobile tyres and tubes. Modi Rubbers proposes to issue equity shares of the face value of Rs 6 crores. Modi Spinning's proposed investment will thus be equal to 10.83 per cent of the proposed total subscribed capital of Modi Rubbers. The proposed new investment, together with investments already made by Modi Spinning in other bodies corporate, may exceed any or all of the percentage as specified in section 372 (2) of the Companies Act, 1956, and the provisions thereto. The company is therefore seeking approval of the shareholders and will thereafter approach government for necessary sanction. The directors evidently expect Modi Rubbers to declare dividends at about 15 per cent per annum, from 1975 to 1978, and thereafter at still higher rates. These dividends will not be liable to income-tax in the hands of the company for about 5 years in view of the provisions of section 80-K of the Income-tax Act. This investment will provide the company with a 'constant' flow of income which will be available for distribution to the shareholders in the form of dividends and/or bonus shares.

States' Annual Plan, 1972-73

(Rs crores)

	Agriculture and Allied Programmes	Irrigation and Flood Control	Power	Village and Small Industries	Industry and Minerals	Transport and Communications	Education	Health	Water Supply and Sanitation	Housing, Urban and Regional Development	Welfare of Backward Castes	Social Welfare	Labour Welfare Craftsmen Training	Other Programmes	Total
Andhra Pradesh	1700	2000	4190	152	262	419	459	150	669	224	235	9	11	20	10500
Assam	873	691	690	130	230	484	411	149	116	60	107	11	17	56	4025
Bihar	1960	2509	2450	161	251	849	803	240	416	156	141	3	43	18	10000
Gujarat	1730	2463	2846	73	342	793	796	175	474	210	200	10	36	452	10600
Haryana	1460	1616	2185	104	73	1476	498	306	290	61	76	10	19	26	8200
Himachal Pradesh	741	6	489	60	86	688	221	95	100	104	29	8	14	16	2657
Jammu and Kashmir	624	242	934	90	125	640	241	105	246	85	15	6	14	233	3600
Kerala	1283	620	2130	208	251	380	376	211	675	169	46	7	20	24	6400
Madhya Pradesh	2834	2042	2192	176	216	837	716	300	594	300	418	21	32	222	10900
Maharashtra	5011	3318	4505	295	587	1420	2054	172	1858	451	311	14	48	515	20559
Manipur	109	48	82	33	12	226	97	44	25	15	36	1	1	21	750
Meghalaya	218	5	42	30	30	278	81	30	40	13	—	3	—	55	825
Mysore	1887	1341	1775	177	231	327	426	180	500	155	140	17	44	30	7230
Nagaland	172	—	51	15	83	298	109	41	73	42	—	3	—	13	900
Orissa	1313	770	1787	81	124	379	488	195	214	205	121	4	24	37	5742
Punjab	1453	909	4348	77	204	506	392	165	220	107	50	10	34	25	8500
Rajasthan	762	1758	1740	15	147	190	602	181	812	152	70	11	17	43	6500
Tamil Nadu	2325	814	3266	500	380	573	1233	350	949	688	447	27	27	56	11635
Tripura	206	12	195	22	3	124	106	25	19	17	45	3	2	21	800
Uttar Pradesh	4646	3328	7892	350	386	1559	1527	856	400	323	205	22	54	952	22500
West Bengal	1344	848	1870	147	360	336	802	330	177	1027	40	18	42	11	7352
Total	32651	25340	45659	2896	4383	12782	12438	4300	8867	4565	2732	217	499	2846	160175*

Wheat: Area, Production and Yield

(Area: '000 hectares, Production: '000 tonnes, Yield: kgs per hectare)

State		1964-65	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	Percentage Change in 1970-71 over 1969-70
Bihar	Area	637	675	809	1054	1095	1145	1230	+ 7.4
	Production	418	477	365	914	1259	1200	1192	— 0.7
	Yield	656	707	451	866	1149	1048	969	— 7.5
Gujarat	Area	444	515	461	553	503	433	577	+33.3
	Production	416	554	457	700	621	592	939	+58.6
	Yield	937	1075	992	1267	1235	1386	1628	+18.9
Haryana	Area	722	685	738	845	895	1017	1118	+ 9.9
	Production	920	902	1054	1466	1522	2120	2340	+10.4
	Yield	1274	1317	1428	1734	1701	2084	2093	+ 0.4
Jammu and Kashmir	Area	179	185	161	187	200	210	210	0.0
	Production	82	122	112	142	210	250	250	0.0
	Yield	457	656	696	762	1050	1190	1190	0.0
Madhya Pradesh	Area	3158	2402	2130	2661	3056	3176	3328	+ 4.8
	Production	1981	1330	1031	1882	2008	2216	2528	+14.1
	Yield	627	554	484	707	657	698	760	+ 8.9
Maharashtra	Area	886	833	876	891	873	865	882	+ 2.0
	Production	408	280	367	360	428	391	451	+15.3
	Yield	460	336	418	404	490	451	511	+13.3
Mysore	Area	294	249	298	305	310	327	305	— 6.7
	Production	108	47	47	133	160	136	95	—30.1
	Yield	367	190	158	438	517	418	310	—25.5
Punjab	Area	1563	1548	1615	1804	2086	2162	2200	+ 1.8
	Production	2360	1916	2494	3352	4520	4800	5145	+ 5.2
	Yield	1510	1238	1544	1858	2167	2220	2339	+ 5.4
Rajasthan	Area	1183	967	961	1265	1162	1254	1471	+17.3
	Production	1103	785	872	1319	1178	1275	1945	+52.5
	Yield	932	812	907	1043	1014	1017	1322	+30.0
Uttar Pradesh	Area	3965	4115	4394	4970	5239	5378	5863	+ 9.0
	Production	4118	3755	4230	5841	6087	6314	7541	+19.4
	Yield	1038	912	963	1175	1162	1174	1286	+ 9.5
West Bengal	Area	41	41	55	79	150	240	320	+33.3
	Production	28	34	46	71	300	400	700	+75.0
	Yield	686	825	821	900	2000	1667	2188	+31.3
Himachal Pradesh	Area	283	296	269	311	313	330	289	—12.4
	Production	262	136	250	263	259	300	268	—10.7
	Yield	928	458	930	845	829	909	926	+ 2.0
All-India	Area	13422	12572	12838	14998	15958	16626	17892	+ 7.6
	Production	12257	10594	11393	16540	18652	20098	23520	+17.0
	Yield	913	827	887	1103	1169	1209	1299	+ 7.4

Public Distribution of Foodgrains

('000 tonnes)

	1968			1969			1970			1971		
	Rice	Wheat	Total	Rice	Wheat	Total	Rice	Wheat	Total	Rice	Wheat	Total
Opening Stocks												
With State Governments	547	502	1269	927	764	2048	981	299	1507	950	651	1671
With Union Government	100	258	408	328	1362	1918	718	2030	2855	885	2476	3664
Total	647	760	1677	1255	2126	3966	1699	2329	4362	1835	3127	5335
Procurement												
By State Governments	2413	582	3575	2514	53	2871	1632	413	2220	1029	970	2072
By Union Government	960	1791	3230	1192	2364	3635	1440	2770	4522	2478	4113	6833
Total	3373	2373	6805	3706	2417	6506	3072	3183	6742	3507	5083	8905
Imports	446	4766	5694	487	3090	3872	206	3425	3631	241	1814	2055
Issues												
By State Governments	2455	2980	6606	2550	1723	5026	2186	1546	4160	2190	821	3117
By Union Government	751	2775	3534	934	3472	4438	878	3801	4695	949	3619	4591
Total	3206	5755	10140	3484	5195	9464	3064	5347	8855	3139	4440	7708
Closing Stocks												
With State Governments	927	764	2048	981	299	1507	950	651	1671	822	684	1529
With Union Government	328	1362	1918	718	2030	2855	885	2476	3664	1484	4349	6348
Total	1255	2126	3966	1699	2329	4362	1835	3127	5035	2306	5033	7877

Source (for both Tables) : Agricultural Prices Commission, Government of India.

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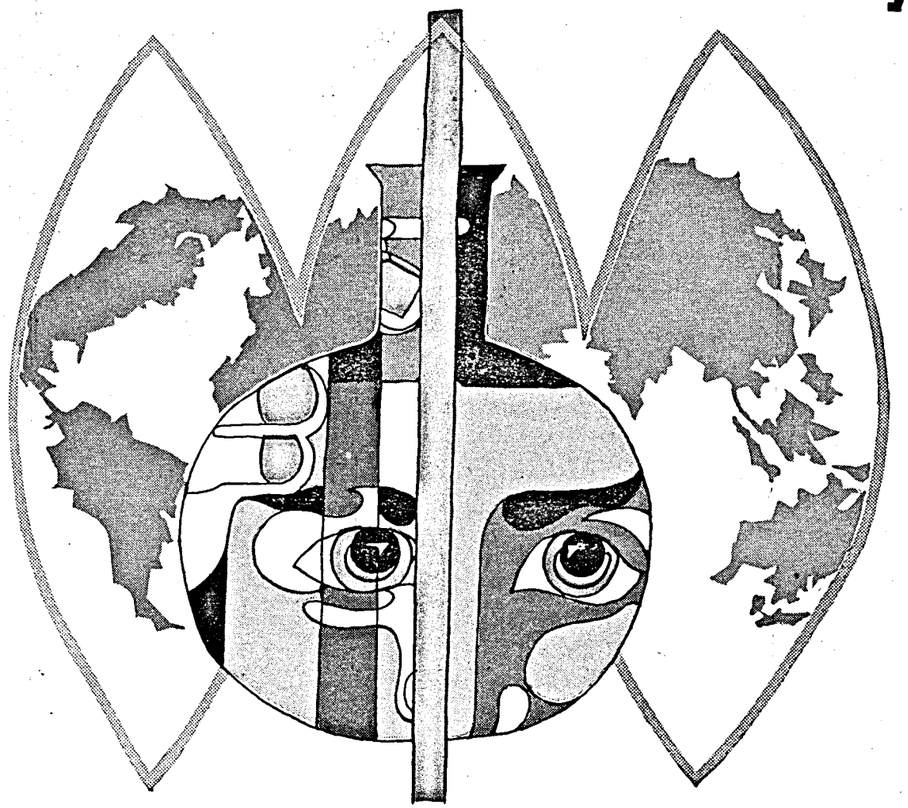
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ECONOMIC AND POLITICAL WEEKLY

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PLANNING THE FIFTH PLAN

THE ELECTION IN WEST BENGAL

PROFITABILITY AND GROWTH: REGIONAL DIFFERENCES

THE NAXALITE-SARVODAYA SYNDROME

ON THE NOTION OF ADMISSIBLE PROGRAMMES

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ECONOMIC AND POLITICAL **WEEKLY**

Founder-Editor: **Sachin Chaudhuri**

Vol VII No 16 **April 15, 1972**

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• 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

Mea Culpa

THE annual farce over the procurement price of wheat has been dutifully staged. As usual, the Agricultural Prices Commission sent in its report recommending varying cuts in the prices of different varieties of wheat and, as usual, the Chief Ministers, after journeying all the way to the capital to "discuss" the Commission's report, have told the Commission to go suck its thumb. All this has become very familiar by now. And yet the Agricultural Prices Commission may be pardoned if, for once, it had some faint hope that its labours might be at least partially rewarded this year. For, had not almost all the states been brought back under the Congress umbrella once again? And was it not true that the political influence of the Congress party's central leadership over its state units was stronger than perhaps at any time in the last decade? Many of the new Congress Chief Ministers — Zail Singh of Punjab, for instance — had been hand-picked by the Prime Minister. Finally, had not the opposition in most of the states been so decimated in the recent assembly elections that the Congress governments did not have to worry about the political consequences of taking an unpopular decision? The impression that at last the states might be brought to heel was confirmed by the pronouncements of Central Ministers prior to the Chief Ministers' conference. In her reply in the Lok Sabha to the debate on the President's address, the Prime Minister herself had stressed the need to strike a balance between the interests of producers and consumers of foodgrains and warned that maintenance of prices of farm produce "at artificially higher levels" would generate inflationary pressures in the economy.

And yet the Chief Ministers not only summarily turned down the suggestion to reduce procurement prices, but also — once again contrary to the Agricultural Prices Commission's recommendation — got the Central government committed to a target of procurement of 6.5 mn tonnes of wheat. Further, they even stipulated that they should be consulted before the Food Corporation made any open market sales of wheat in their respective states. As interesting as the extent of the Centre's capitulation was the ease with which it was extracted. The Chief Ministers' conference was left to be handled by the Minister for Food and Agriculture, who is on the verge of being retired to a state governorship and is by common consent among the most ineffectual members of the Central cabinet. The Finance Minister and the Planning Minister also put in appearances at the conference, but from newspaper reports it does not appear that they contributed anything besides sundry witticisms. The Food Minister himself did not present anything which might be described as the Centre's position on the question of wheat prices; indeed, he did not, or could not, even rebut the wild charges flung at the Agricultural Prices Commission by the spokesmen of the states. But most intriguing of all was the Prime Minister's own absence from the conference. Everything considered, this was a very different situation from the one before the assembly elections when the Prime Minister appeared to shuffle Chief Ministers and party candidates with such ease and aplomb. The difference is perhaps explained by the fact that in the one instance she was dealing with individuals, in the other with entrenched interests. And yet the government would still have us believe that these same Chief Ministers will now proceed to lower the ceiling on agricultural holdings and distribute the surplus land among the landless and, further, to administer a stiff dose of taxation to the richer peasants — once the report of the committee on taxation of agricultural income and wealth is in their hands!

—

The implications of "artificially higher" purchase prices of wheat are not only for the Central Budget, substantial as these are going to be this year. It is significant that though mainly only three states were interested in high wheat prices, almost all the Chief Ministers opposed any cut in procurement prices. The other states no doubt expect similar price support operations on behalf of the crops in which they are particularly interested when the need arises. Gujarat, for instance, has not been slow to point to the inequity of the Centre's treatment of wheat and cotton in the matter of price support and has succeeded in getting the Cotton Corporation involved in cotton purchases. This, one may be sure, is only the beginning. All this makes little sense at a time when a basic economic task before the government is that of mobilising a much larger amount of investible resources from the agricultural sector. Clearly, it is unrealistic to entertain too high hopes of direct taxation in this regard. As a contributor to this journal recently pointed out ("Mopping Up the Agricultural Surplus", March 25), apart from taxation of agricultural income and wealth, a number of fiscal and para-fiscal measures, such as "stiff indirect

levies on agricultural inputs, . . . lower prices for agricultural commodities procured by the state trading agencies and increased betterment levies and irrigation charges" would be needed if adequate agricultural surpluses are to be siphoned off for industrial growth. But as things are, it would appear that more than whatever the land-owning classes are made to part with through direct taxes — if and when they are levied — would continue to be surrendered to them in the form of subsidies and so-called incentives.

The government evidently seeks a respite from these immediate tasks of economic mobilisation by losing itself in a review of the development strategy as a whole. The Prime Minister was the first to don ashes and sack-cloth in public. In her by now widely noted address to the annual session of the FICCI, she questioned the wisdom of having had growth of GNP as the basic objective of planning. The cry was picked up by the Minister for Planning in his speeches in Parliament while initiating and winding up the discussion on the annual plan for the current year. "The centre-piece of the Fifth Plan" he is reported to have informed the House, "will have to be the provision of basic immediate needs to our people within a time-bound schedule." In the meantime, the Planning Commission has formulated the basic approach to the Fifth Plan calling for a "direct approach to reducing poverty" (see report from our Delhi Correspondent elsewhere in this issue).

While discussion of the new approach must wait till more details are available, the obvious point needs to be stressed that provision of even substantially larger allocations for employment-oriented programmes and social services, though very desirable in itself, is not the same thing as a strategy which would lead to a minimum level of living for the entire population within a given period of time. Indeed, it does appear at first glance that the government is about to abandon one misconception — that rapid economic growth measured in terms of rates of increase of national income would solve the problems of poverty and unemployment — only to plump for another — that it is possible to achieve a minimum level of living without aiming also at high rates of investment and growth. A plan which seeks to expand employment and raise incomes and consumption at the lower reaches of the population must bring about a reduction of consumption at the higher reaches so that a high level of investment can be achieved simultaneously. True, in his reply to the debate on the annual plan in the Lok Sabha the Minister for Planning did refer to the need to restrict "conspicuous consumption". However, a strategy for a minimum level of living and a high rate of economic growth — the two have to go together — would need to restrict not only the "conspicuous" consumption of the top one or five per cent of the population but also the not-so-conspicuous consumption of much larger sections of the people. How precisely does the Planning Minister expect to achieve this — if it can at all be achieved within the framework of the present political-economic system? Surely, the answer to this question ought to be at the core of any strategy of planning for a minimum level of living, not simply the allocation of larger funds for rural works programmes and social services or the substitution of employment targets for those of growth of production and national income.

Pakistan

Midway to Anywhere

ALL the publicity that the three Indian journalists who visited Pakistan have given Bhutto only helps prove that he has told them so much that he has told them nothing. More pertinent than his conflicting statements are the contradictory pressures at work on him. And one can only make reasoned guesses as to the nature of these pressures. Bhutto's decision to end Martial Law (in force since 1958) with the proviso that his interim constitution be approved first, his casual delay in changing the Governors of the North-West Frontier Province and Baluchistan as desired by Wali Khan and Maulana Mahmood, his walkover election as President of the National Assembly, all perhaps point to a certain degree of confidence that the crucial make-or-break period for him is over.

Yet, there are other indications that these may be the days of relative calm before the storm. The delay in changing the Governors could be a sign of derision for the potential regionalist pull of the National Awami Party of Wali Khan or it could be the result of the ever present centralist pressures from the army and the large group of Punjabi members within his party.

Nor does one know how the interim constitution was arrived at. If reports that it is modelled after the British 1935 Act concerning the governance of India are correct, then there will be some devolution of power to Pakistan's four provinces, but in Islamabad, Bhutto will presumably have the same veto powers that the person-age in the Viceregal Lodge had between 1935 and 1947. Is disguised viceregal rule about to substitute military rule? If this is the case, the portents for Bhutto are not too happy because apart from those outside his party who tend to see him as a megalomaniac, there are some within the People's Party who are beginning to regard him with suspicion. Two members of the National Assembly elected on the People's Party ticket have already resigned from the Party and one of them recently fumed: "We have no faith in the Government because the past of its members is black". In Bhutto's home state of Sind there are also signs of student and peasant restiveness. But these negative signs for Bhutto could all be outweighed if he has managed to win the confidence of the army, assuming that it is still a fairly homogeneous and disciplined force. And on this point it is difficult even to guess.

Credit Policy

Uncooked Hares

WHAT is known in Indian banking parlance as the busy season, is drawing to a close. Data available so far on credit trends in the season remind one of an old adage or a variant of it: the banks seem to be catching more hares than they can cook! The date for which the latest data are available (March 31) also happens to coincide with the last day of the financial year 1971-72. Over the year, the growth in the scheduled commercial banks' deposits was Rs 1,106 crores (19 per cent) and in their credit (including bills) Rs 496 crores (10 per cent), giving an incremental credit-deposit ratio of about 45 per cent — compared to around 80 per cent in the past decade. In terms of its impact on "money supply", which is expected to expand over the year by more than Rs 900 crores (12.5 per cent), net bank credit to the commercial sector is negative during the year — the credit expansion of Rs 462 crores (including bills) being more than counterbalanced by time deposit accruals to the extent of Rs 682 crores. Incidentally, with movements in foreign exchange assets being negligible, almost the entire increase in "money supply" would be taking place under bank credit to the government sector (estimated at nearly Rs 1,000 crores).

Reverting to the seasonal trends, the Reserve Bank had at the beginning of the busy season projected a credit expansion "of a higher order than last year" and given currency to a figure of Rs 480-500 crores of credit growth during the season. It stuck to this view even in its mid-season review in this February. But what is taking place appears to be quite different from what was expected. Between end-October 1971 and end-March 1972, bank credit expanded by Rs 416 crores against Rs 487 crores during the comparable period of last year. True, there has been practically no additional drawal of credit for food procurement — not so much because the Food Corporation has operated its stock for bringing down wheat prices as because its repayment obligations to government have been put off. Net of food procurement, credit during the comparable period last year was Rs 392 crores. An interesting development in the current busy season is the sharp decline in the quantum of credit expansion under "Inland Bills Purchased and Discounted". Under this head there was an expansion of Rs 260 crores during the first four months of the 1970-71 busy season. This time the expansion has been only Rs 96 crores, reflecting the discontinuance of the old Bill Market Scheme. The new Bills Rediscounting Scheme has gathered some momentum and Bills rediscounted with the Reserve Bank had reached Rs 42 crores by March 31 (they were Rs 9 crores a year ago).

On the whole, the resources position of the banks is so comfortable that they are operating under a credit-deposit ratio of 74 per cent during the peak of the season, almost the same as it was at the beginning of the season (73.4 per cent) but considerably lower than the level at this time in 1971 (80 per cent). In March, the busiest month, credit expanded by only Rs 80 crores as compared with Rs 119 crores in March 1971 when borrowers and banks were both just settling down to the stringent credit policy measures announced in January 1971. The increases in output and prices of major industrial commodities have been certainly higher during these months than in the same period last year (except, perhaps, for sugar).

True, on the eve of the current season the Reserve Bank Governor had enjoined upon the banks "a cautious approach so as not to aggravate the inflationary factors in the economy". In the same breath, banks were advised "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 caution against inflation had been there even earlier, but the major banks, being still "commercial" in their outlook and operations, were anxious to employ a large part of their deposit accruals for credit expansion so as to earn a profit. Is this "commercial" spirit getting eroded under the public sector dispensation? For, otherwise, caution against inflation and all that cannot fully explain the idling away of over 50 per cent of the deposit accruals in low-earning assets other than bank credit.

True, in the past, there were ready takers of bank credit among the large business houses and speculators and hoarders. The long delay in the availability of banking statistics prevents one from speaking of any definite trends in this regard. However, that bank nationalisation combined with a relatively cautious credit policy has curbed bank credit to these elements is evident from certain indicators (other than the complaints of the affected parties, of course!).

The Reserve Bank's latest study of 290 large private sector companies (with paid-up capital above Rs 1 crore but accounting for 72 per cent of the share capital of the RBI's sample of 1,501 companies) reveals that their additional bank borrowings were Rs 103 crores in 1966-67 and Rs 95 crores in 1967-68. Thereafter, there has been a noticeable decline; in 1970-71 additional bank borrowings amounted to Rs 38 crores. During the three years 1968-69 to 1970-71, these companies experienced an output growth of about 40 per cent accompanied by only 12 per cent increase in bank borrowings. A part of the decline is explained by reduced stock holding, but bank borrowings as a proportion of inventory have also declined over these years. The lower inventory holdings were probably partly due to the credit squeeze, particularly in respect of speculative hoarding of scarce raw materials. Many of the companies were known to finance even a part of their long-term assets through bank credit. On the recommendations of the Dehejia Committee (1969), this was sought to be discouraged, and the Credit Authorisation Scheme, whereby the Reserve Bank's prior authorisation was acquired for bulk lendings of Rs 1 crore and above, was restructured with a view to "aligning bank credit with Plan priorities" (Reserve Bank's Annual Report 1969-70, p 70). In June 1970, the scheme was widened to cover credit appraisal by banks "with a view to imposing financial discipline on the large borrowers" (Reserve Bank's Annual Report 1970-71, p 70). The discontinuance of the old Bill Market Scheme and the attempt to persuade banks and their clientele to opt for the new scheme must also be bringing about a gradual change in the methods of bank lendings.

These procedural changes themselves, however, do not explain the slack in bank credit, nor even the selective credit controls on advances against raw cotton imposed with a view to curbing speculative hoarding. The fact is that there are a sufficient number of potential borrowers with socially acceptable productive schemes. At the same time, the banks possess surplus funds. The safe limit prescribed by the monetary authorities for credit expansion during the busy season has not been reached. This situation is likely to continue for many months to come.

The major issue, which has long-term ramifications, is, therefore, that of the organisational preparedness of the banking system to shoulder the new responsibilities that have devolved upon them. These organisational constraints have, of course, been recognised, but more as apologia for the recent setback in lending to the "priority sectors" in respect of which there has been a significant levelling off of the growth of bank advances in recent months (Economic Survey 1971-72, pp 48-9), rather than as part of a serious appraisal by the government and the banks with a view to evolving a sensitive management structure, working strictly on commercial lines, undertaking risk and responsibility and absorbing the import of new methods, procedures and directions of lending. If these organisational reforms are not attempted immediately, the possession of excessive liquidity by the banking system (in a capital scarce economy) will sooner than later compel the monetary authorities to make relaxations in favour of the old order. Multiplication of slogans and labels like "priority sectors", "social schemes", and "differential interest rates" will not stop the drift. The answer lies in a sharp motivational change in the top managements of the nationalised banks, which, everything considered, still prefer to play safe.

Vietnam

Nixon's Credibility Crisis

A Correspondent writes : —

BY resorting to the use of the heaviest available weapons of destruction, the United States may still be able to hold some ground in Vietnam. But there is little doubt that like the Tet offensive of 1968, the current thrust of the various liberation forces in Indochina will destroy the credibility of Nixon's claim that peace is round the corner in that region. In fact, it will now be impossible for him to use his other foreign policy manoeuvres to cover up his abysmal failure to evolve a new policy towards Vietnam.

This may hurt him grievously in the forthcoming elections. Many observers in America and abroad had begun to take it for granted that Nixon would be returned to power again and no Democrat could hope that any of his available nondescript candidates would beat the Republican leader. The situation can now be expected to change radically, particularly if the United States is to commit more of its ground forces in the area. The Vietnamese always knew that the crucial vote in the American elections was going to be theirs and not Mao Tse-tung's or Brezhnev's. Their current attempt to gain military victories may in fact have been caused by the thought that Nixon would be able to use his efforts to improve relations with Russia and China to win the next elections which, in the absence of a revision of American policies towards Vietnam, could only mean a prolongation of the agony of its people. It is interesting that the Vietnamese decided to launch their assault on the American forces after Nixon's visit to Peking and before his visit to Moscow. This throws Nixon's policies towards the two communist great powers out of gear because neither of them can directly refuse to support the people of Vietnam.

Whether this will lead to the postponement of Nixon's visit to Moscow is not yet clear. But if he does decide to go there, he will have to do so in the full consciousness that his position *vis-a-vis* the Soviet Union has now become much weaker than it was a few weeks ago. If his visit to China had given him some extra levers in dealing with the Soviet Union, the crisis in Vietnam deprives him of virtually of all of them.

This development illustrates, as much as Bangladesh did, that the present international situation does not permit the great powers to attempt to build any superstructure of accord among them which ignores the interests and aspirations of other peoples. The whole question of peace in Asia, therefore, may have to be viewed in an entirely different perspective not only by the United States but also by the Soviet Union and China. The smaller Asian powers are bound to count for a great deal unless all the great powers can agree to deny to them their sovereignty and independence. It is most unlikely that such a situation will ever come into being and certainly there is no sign of it yet.

It is in this context that the Soviet call for a collective security system in Asia and its explanation that such a system is only meant to improve relations among the states and would not be directed against any country, acquires great significance. If Nixon goes to Moscow, he may well choose to use the occasion to discuss the Soviet proposal in all seriousness and to see if it does not lead to the creation of a solid base for the superstructure which he is apparently determined to build. The domestic compulsions on Nixon are such that he cannot easily admit that he has failed to evolve a meaningful policy towards Asia. He can, however, now face the American electorate only if he can convince them that the old Nixon doctrine is dead and that some new approaches are being thought of. It is not impossible, therefore, that Nixon's Moscow visit will turn out to be an event of historic significance and it will go down as the occasion where the Americans admitted their defeat and sought the co-operation of the Soviet Union in saving themselves from even greater disasters.

Banking

Beyond the Statistics

FOR the commercial banks, 1971 was a year of unprecedented deposit increase, slackening of growth of advances and fairly rapid branch expansion. The Union Bank fits fairly smoothly into this overall picture. Its deposits increased by 20.5 per cent, close enough to the average of 20.6 per cent for all scheduled commercial banks. The distribution of the incremental deposits between demand and time deposits also conforms to the pattern for the banking system as a whole, with time deposits increasing at a rate only a little less than twice as fast as demand deposits. Where Union Bank's experience diverges from that of banks as a whole is perhaps in regard to advances. Its advances increased by 21.3 per cent which, while well below the increase of 29 per cent achieved in 1970, was very much higher than the 11.5 per cent rise in the advances of the banking system as a whole. Consistent with this, profit (before provision for bonus) rose to Rs 74 lakhs from Rs 49 lakhs in 1970.

Significantly, advances to the 'priority' sectors played an important part in sustaining the growth of Union Bank's overall advances. These sectors accounted for 58 per cent of the total increase in the bank's advances during the year, small-scale industries accounting for 22 per cent of the increase, agriculture for 13 per cent and export credit for 10 per cent. Though still small in absolute amount, advances to retail trade and small business witnessed a threefold increase during the year from Rs 71 lakhs to Rs 213 lakhs. As a result, the share of the priority sectors in the bank's total advances increased from 38.8 per cent at the end of 1970 to 42.2 per cent at the end of 1971.

About the only discordant note in Union Bank's performance in 1971 is struck by branch expansion, the number of new branches opened in 1971 being only 59 as compared to 101 in 1970. The Directors' Report claims that the slower pace of branch expansion was "in line with" the experience of the banking system as a whole. But the drop in the rate of opening of new branches for the banking system as a whole in 1971 was not anywhere near as sharp as that for Union Bank. The Directors' Report pleads that fewer branches were opened last year because of "acute personnel constraints" — which could only be the result of a serious failure to anticipate personnel requirements.

So much for the statistics. What one misses in the Directors' Report is a discussion of the qualitative aspects of Union Bank's entry into new areas of activity and of the problems it must have encountered. Thus, while the statistics show the bank's agricultural advances at 10 per cent of its total advances at the end of 1971, what has been the bank's approach to agricultural lending? Has it followed the area approach? Has it tried to tie up its lending with the operations of input, particularly fertiliser, suppliers? What arrangements has it made for provision of the minimum extension services to farmers? What has been its experience with regard to supervision and follow-up of agricultural advances?

On the lead bank scheme, again, the bank appears to have followed the textbook. It has completed surveys of its five lead districts, opened branches at all the centres allotted to it in these districts and set up district consultative committees in all of them to secure the co-operation of state government officials and other local bodies. This is all to the good, but one would have liked to have some discussion of the bank's efforts to initiate development activity in the lead districts — which is the role assigned to lead banks.

Following the nationalisation of the 14 major banks, many new ideas have been introduced into commercial banking. The lead bank scheme and commercial bank lending to agriculture are two of these. Banks are in the process of determining the approach, organisation and procedures to undertaking these new tasks. At this stage it is important, therefore, that there should be exchange of experience and discussion of problems. This is much more important than retailing bland statistics.

Textiles

Not Trendy Enough

EXPORTS of mill-made cotton textiles which rose consistently from Rs 82 crores in 1967-68 to Rs 115 crores in 1970-71, suffered a setback in 1971-72, declining to Rs 110 crores. The decline was shared mainly by cotton piece-goods and cotton yarn, while exports of apparel increased substantially. During the last five years exports of cotton piece-goods have fluctuated between Rs 60 crores and Rs 68 crores. What is disturbing about cotton yarn is that exports spurted from Rs 7 crores in 1967-68 to Rs 29 crores in 1969-70 but thereafter they declined rather sharply to Rs 21 crores in 1970-71 and Rs 14 crores in 1971-72. Exports of apparel, however, reveal a steady growth from Rs 3 crores in 1967-68 to Rs 13 crores in 1971-72. The decline in overall exports of cotton textiles last year could be partly explained by the unusually high prices of raw cotton. From present trends it appears that availability of raw cotton would improve appreciably in the current year and this should improve the competitive position of our exports.

Though cotton piece-goods continue to be the most important single item of export among textiles, their performance has been rather disappointing during the last ten years or so. Exports of piece-goods increased marginally from $ 97 million in 1961 to $ 103 million in 1964 but thereafter declined steadily and stood at $ 86 million in 1971. In the case of cotton yarn, in spite of the decline last year, exports increased from $ 8 million in 1961 to $ 36 million in 1970. Similarly exports of apparel increased from $ 0.3 million in 1961 to $ 13 million in 1971. Thus the relative stagnation in exports of mill-made cotton textiles is primarily due to the unsatisfactory trend in exports of piece-goods. Of course, it is not only the mills sector which has fared badly; handlooms and as well as the other sectors have not performed particularly well either.

The main factors responsible for the stagnation in textile exports appears to be the country's inability to adjust to the changing composition of world demand and of the international trade in textiles in the last 15 years. The changing pattern of international trade is clear from even a cursory analysis of the post-War success of Japanese textile exports. Japan's total exports of all textiles and clothing increased from $ 692 million in 1955 to $ 2,207 million in 1970, reflecting a 9 per cent annual rate of growth over the 15 years. During the same period, exports of cotton fabrics declined from $ 230 million to $ 188 million while those of non-cotton fabrics (especially synthetics) increased from $ 208 million to $ 940 million and of clothing from $ 107 million to $ 462 million.

It would thus appear that India is trying to compete in a declining world market of cotton fabrics while world trade is increasing rapidly in synthetic and mixed fabrics and clothing. India has entered both these fields only recently and that too in a hesitant manner. Due to the relatively small scale of manufacture and high domestic prices, synthetic and mixed fabrics manufactured in India continue to be non-competitive in world markets. The same holds good for clothing as the basic materials used continue to be high-priced. Our inability to fulfil even the modest quotas granted by developed countries like the UK is sufficient proof of the fact that demand in these countries is shifting fast in favour of synthetic and blended fabrics. The future for our textiles exports would thus appear to hinge on selective modernisation of mills tied to specific export commitments and the pre-emption for export of a substantial proportion of the projected increase in production of synthetic fabrics.

STC

Streamlining without Purpose

THE STC Group has brought out, within three weeks of its year-end, a performance budget for 1972-73 and a performance review of 1971-72. This record, commendable in any enterprise, is particularly so for a large enterprise such as STC.

The document is akin to what Unilever would have brought out in the colonial days to record its trading operations up-to-date. There are in STC's performance budget figures on past forecasts, actual trading operations, and expected operations; these are depicted group-wise while cost estimates are given branch-wise, with a further break-up under heads such as advertising and promotion. The whole exercise would satisfy the taste of any business tycoon anywhere in the world; and so would the sales-talk which Tandon appends. He follows up with impressive references to 'profits', 'cash management', 'shareholder', 'service' and 'staff'. One could not ask for more from a commercial enterprise.

But is this a sufficient basis for STC's operations? There are two questions that arise: one from what is stated and the other from what is not stated but is significant.

First, as regards the budget for 1971-72, the latest estimates show that STC's performance was better in imports and domestic sales, but is the same in exports: as other agencies in this country have also found, it is easier to excel import targets than export targets. It is not surprising that the profits before tax show a rise, from Rs 8.8 crores (in the budget) to Rs 13.8 crores (latest estimated.

Further, the STC promises that, in 1972-73, its exports will rise faster (from Rs 94.5 crores to Rs 127.5 crores) than imports will (from Rs 228.2 crores to Rs 236.9 crores); of the rise, Rs 19 crores is accounted for by STC and Rs 11 crores by the Projects and Equipments Corporation. One must watch whether, with the further canalising announced in the new import policy, imports do not in fact rise faster than estimated.

Secondly, one looks in vain, in all the talk of 'inventories reduced' and 'cash generated', for a purposive policy on operating the STC to meet India's needs. Almost two-thirds of STC's operations still comprise imports. Increasingly, these imports come from general currency areas, with imports from 'Credit Sources' (US AID?) declining heavily — for STC alone, from Rs 65.29 crores in 1971-72 to Rs 28.61 crores in 1972-73. Imports from, and exports to, 'Rupee Trade Areas', are expected to show a marginal increase only.

It is in fact this lack of purposive philosophy with regard to trade that is most striking in STC's operations. The objective seems to be to take the easy way out, muscling in on existing trade relations and showing fancy profit and balance-sheet positions, rather than to attempt the more arduous path of building up new markets abroad. Exports to such markets — such as in Africa and Asia — might be less glamorous and may not run into crores of rupees in the near future; but STC must be judged by its ability to build up the country's *export potential*, not by its rupee profits. It is time STC moved away from its new-found slickness to a more purposeful approach.

Indian Council of Social Science Research, New Delhi

Training Courses in Research Methodology

The ICSSR is organising training programmes at different centres of higher learning. These programmes are specially meant for students registered for Ph.D and for young lecturers and scholars.

The courses run this year are of two types. The GENERAL COURSE is designed to give the trainee an orientation to research methodology — the logic of scientific research, the techniques of data collection, knowledge of basic statistics, and the mechanics of analysis and report-writing.

The SPECIAL COURSES are discipline-based and are at an advanced level.

Following is the schedule of Training Programmes:

Venue	Date of Commencement	Duration	Course Director
I *General Course*			
1. Tata Instt. of Social Sciences, Sion-Trombay Road, Bombay.	17.4.72	8 weeks	Dr K. G. Desai
2. Council for Social Development, 53-Lodi Estate, New Delhi.	15.5.72	8 weeks	Dr B. N. Mukherjee
3. Loyola College of Social Sciences, P. O. Sreekariyam, Trivandrum.	15.5.72	8 weeks	Rev. Dr. J. Puthenkalam, S.J.
4. A. N. Sinha Institute of Social Studies, Patna.	5.6.72	8 weeks	Prof. Sachchidananda
5. Indian Institute of Technology, Kanpur.	4.9.72	8 weeks	Prof. Kamta Prasad
6. Department of Political Science, Rajasthan University, Jaipur.	4.9.72	8 weeks	Prof. S. P. Varma
7. Department of Psychology, Utkal University, Bhubaneshwar	30.10.72	8 weeks	Prof. R. N. Rath
8. Indian Statistical Institute, Calcutta.	3.10.72	8 weeks	Prof. R. Mukherjee
II *Special Course*			
9. Department of Anthropology, Saugar University, Sagar (M.P.) (Emphasis: Anthropological Research)	1.11.72	4 weeks	Dr Leela Dube
10. Madras Institute of Development Studies, 74-Second Main Road, Gandhi Nagar, Madras-20. Venue: Department of Economics, Andhra University, Waltair. (Emphasis: Economic Research Methodology)	8.5.72	6 weeks	Dr B. Sarveswara Rao
11. Sardar Patel Institute of Economic & Social Research, Ahmedabad. (Emphasis: Mathematical and Statistical Methods in Economics)	3.4.72	8 weeks	Dr R. J. Mody
12. University School of Social Sciences, Gujarat University, Ahmedabad. (Emphasis: Sociological Research)	4.5.72	6 weeks	Dr Vimal P. Shah

Those desirous of participating in any of the training programmes listed above should contact the Course Director concerned immediately, giving the following details: Name; Date of Birth; Academic Qualifications (Degree, Discipline, Division); Whether registered for Ph.D., if so when; University; Name of Guide; Topic of Research; Any research publications (list them); and Address.

The application should come through the guide or head of the department.

Selection will be made by the Course Director. Selected Candidates will be given second class rail fare. Lodging and boarding will be free. No fees will be charged. Set of books on research methodology will be presented.

J. P. Naik
Member-Secretary

Groping for Relevance

Romesh Thapar

A POINTER to the psychological state of the Capital is the kind of speculation that is sparked the moment Indira Gandhi declares that she is off on a two-day holiday. This is a rare event in the crowded, disorganised life of the Prime Minister, but immediately the rumour spreads that she is "withdrawing" to Dehra Dun to finalise the belated reshuffle of the Union Cabinet. Sitting here, one wonders why so much time and effort is spent on such speculation when the material available for ministership is so non-descript.

Our tiny middle class elite must of necessity titillate itself on the game of ministerial chairs because it doesn't have the perception to realise that power has passed to a single person and no really independent contribution to decision-making is possible from the ministers unless solid homework is done by them. The ministerial team now assembled, and likely to be assembled from those available in Parliament, lacks the capacity or inclination for such independent action. After all we are what we make of our feudal selves — servitors, by and large.

The pressures are also most unlikely to build from the Lok Sabha and the Rajya Sabha. These very expensive, resource-consuming institutions, which are the backbone of democratic functioning, find it difficult to muster the tiny quorums which permit uninterrupted debate. The bulk of MPs seem to be interested or involved in activities other than parliamentary. And there is no one to crack the whip — or no one who wants to.

If our politicians present a lazy spectacle, this should not persuade us that we are drifting. Indeed, we are in a tense, busy period. The war situation in Vietnam is apparently entering a qualitatively different phase with Hanoi moving for decision. At home, the long-awaited negotiations have begun with Pakistan; we will have to stress a final settlement of all borders on the subcontinent as part of a generous peace and friendship package. All this requires a great deal of diplomatic skill. What's more our relations with the USA and China will have to be watched. So much for external affairs. The overriding concern remains the internal economic situation, full of immense possibilities and yet enveloped by gloom.

Significantly, for the first time, after many years, and despite the plethora of socialistic talk, one can again hear the thesis propounded that only a clearing of the jungle of controls, regulations and inhibitions, can restore health to the national economy. The confusion which prevails in the socialist/communist camps, and their failure to produce meaningful solutions to the problems which have arisen, are persuading devotees of planning to think of freer markets! This debate, far from the limelight as yet, will spill over the policy planners if they do not work out sharply different alternatives which make sense.

The Prime Minister will not be immune from these pressures. Powerful as she is, she cannot function in isolation from the political calculations thrown up by these pressures. The doodles of the Planning Commission — the promise to abolish poverty by 1982! — attempt to hide the programmatic bankruptcy in almost every ministry of the Government of India, but anyone who bothers to study Delhi's doings knows that at this rate of progress Indira Gandhi will have to change the slogan of *Gharibi Hatao* into *Gharibi Ghatao*. Then the politicians will be *gheraoed*.

It is surprising how many thinking people see the outlines of a crisis situation developing before the end of this year. There is health in this. It means that the exultant Indian is after all a creation of the Western newspaperman. The MPs may not think so, judging from their attendance in Parliament. The ministers may not think so, judging from the even tenor of their cliches. But the people, roused as never before, are concerned. Those who share their concern will become relevant.

What we are witnessing today at the political, economic and social levels is the search for relevance in a changed situation. It is not as simple as it sounds. The slogans are easily coined. Their implementation boggles the best of minds, for the answers to the challenges are not written in the stereotyped models of the Right and Left. And, so, the groping continues.

April 10

LETTER TO EDITOR

Holding Together on the Left?

I HAVE carefully read your correspondent's article on West Bengal, "Holding Together on the Left?", published in your Annual Number, 1972. I do not intend to comment on the diverse opinions and articles of faith of your correspondent with which he has embellished his article. I only want to record my protest against the mischievous misrepresentations and insinuations that he has put in there. Though no name has been mentioned, I take it that I was meant. For I am the Head of the Political Science Department of Vidyasagar College for Women, Calcutta. I was threatened by an alleged 'Chhatra Parishad' organiser of the Vidyasagar group of Colleges and his accomplice on January 12 last. I took the matter before the West Bengal College and University Teachers' Association that very evening. The General Secretary of the Association, Mrinmoy Bhattacharyya, reported the matter to the Police Commissioner, Calcutta, and wrote to the Governor demanding immediate steps. It was further decided that a number of teachers would escort me to the College on the following days. An Emergency meeting of the Executive Committee was held on the following evening where a resolution condemning the action of the two rowdies, demanding strong measures by the government and delineating further steps for mobilising public opinion was unanimously adopted. It may be noted that the meeting was attended by members belonging to the Congress and the CPI(M), as well as members of other political parties, besides non-party individuals.

The Association took the following steps: (1) A press conference was organised and the matter received a 'good press', excepting in two well known Calcutta dailies; (2) a meeting with other teachers' and non-teaching staff associations was held which passed a similar resolution and decided to hold a public convention; (3)

a meeting was held with representatives of students' associations, including the Chhatra Parishad. On January 17, the President of the Chhatra Parishad, Subrata Mukherjee, issued a press statement condemning the action. It was when the representatives of different teachers' and non-teaching staff associations met to finalise the draft resolution that the decision was taken not to mention any names, as the demand to mention the name of Chhatra Parishad was countered by the demand to mention CPI(M) rowdies, where the latter had been the tormentors. This meeting, too, attended by both CPI(M) and Congress members, took the decision unanimously. All agreed to focus attention on two basic issues, *viz*, (i) the right of free access to the place of occupation by teachers and members of non-teaching staff, and (ii) freedom of academic institutions from vandalism by rowdies. Though all political parties were approached to send representatives to address the convention, the CPI(M) and other 'Left Front' parties declined to do so, as the Congress was not being condemned by name. Only Chitta Basu, Forward Bloc MP, and Principal Santi Kumar Dasgupta, ex-Minister for Education, of the Congress party spoke on be half of their parties. There was no question of putting up "a Congress(R) teacher as the main speaker". He certainly did not speak of "paying CPI(M) back". He congratulated the organisers for holding such a convention, but added that it should have been held some time back when Congress teachers were being beaten up.

Further, it was completely false to say that CPI and other teachers had sat idle while CPI(M) teachers had been subjected to intimidation. The WBCUTA had always condemned such acts, but, as Mrinmoy Bhattacharyya the General Secretary of the Association said, this was the first occasion when a victim had directly appealed to the Association for intervention when steps could possibly be taken.

Incidentally, will your correspondent kindly inform his readers as to how he has come to know of the following gem: "Pathetic pleadings by the victim, that his party was a close ally of Congress(R), cut no ice with his tormentor..."? How does he know how I pleaded? He was certainly not present on the occasion. I was alone with my "tormentors" for about twenty minutes, joined later on by the Principal of my College. He certainly did not contact me. Or, has he some secret channels of communications with these same "tormentors" who have supplied him with such lurid but utter falsehoods? Are not correspondents expected to follow certain codes of honest journalism? Or, maybe, I am wrong. He is referring to some other teacher in some other college, involved in some other incident. This is very unlikely, but it needs clearing up.

SYAMAL CHAKRABARTY

Calcutta

Our Calcutta Correspondent replies:

SYAMAL CHAKRABARTY's elaborate reference to West Bengal College and University Teachers' Association (WBCUTA) is largely irrelevant. This organisation unites under its banner teachers of many shades of political opinion. If the general secretary of this body belongs to CPI, the president and one of the vice-presidents are CPI(M) activists. Aware of this reality, this correspondent did not refer to WBCUTA as such. His critical comments were directed against CPI circles.

Chakrabarty has, by implication, admitted the subsequent blunting of the edge of the campaign that followed his ordeal. But he has sought to exonerate CPI circles from any responsibility in the matter, by referring to the unanimous decision of the meeting of the representatives of the mass organisations that sponsored the convention. This is only a half-truth. While the Executive Committee of WBCUTA, meeting on the the morrow of Chakrabarty's encounter with the Chhatra Parishad toughs, according to *Kalantar*, the CPI daily, (January 15, 1972), had named the principal culprit and had demanded his arrest, the draft resolution put forward in the sponsoring bodies' meeting, according to this correspondent's information, by a leading CPI teacher-activist, merely condemned vandalism in educational institutions in general without naming any name. This reporter has been further told that CPI(M) cadres present in that meeting of the sponsoring bodies had strongly and persistently pressed for a specific mention of the miscreants in the particular case, but in the face of the CPI circle's inflexible opposition to the demand, had finally acquiesced in accepting the draft for the sake of a consensus.

This reporter's appreciation of the reaction of the CPI circles to the victimisation of CPI(M) teachers is confirmed by a long article by a leading CPI teacher-activist published in *Kalantar* (January 26). Writing under the caption "Educational World under Attack" he not only all through harps on CPI(M)'s past misdeeds, but also pointedly concludes:

> "It would be utmost unprincipled opportunism to seek political profit from the present situation by forgetting (one's) own past practice. We all have to admit that we started during the second UF regime an unparallelled example of wide outside interference in educational institutions with a view to establishing the hegemony of political parties. The people of our country got the preliminary instructions under the tutorship of the Education Ministry [under a CPI-M Minister] of the second UF cabinet [in such matters as] that an old man can be murdered by entering into an educational institution, that a teacher can be ousted by gherao, that management can be acquired by using the Writer's Building [the State Secretariat] — and in all these misdeeds, strong alibis can be established in favour of the miscreants by putting the blame on the victimised side. Unless self-criticism is made on the basis of how many teachers were killed, how many beaten, and how many forced out in 1969, nobody will have faith in the sincerity of the present movement. The student leaders of the Presidency College subsequently joined CPI(ML). When its laboratory was smashed, they were workers of the CPI(M)-influenced student organisation. Can the CPI(M) leadership deny the responsibility for the smashing of the Presidency College laboratory?"

That the former Congress Minister was the main speaker at the Convention is clear from the report in *Kalantar* (January 26), unless of course the CPI daily was guilty of incorrect reporting. Of all the many speakers at the Convention, *Kalantar* in its coverage quoted from his speech only while it dismissed one other speaker with just a few words — "Forward Bloc leader Chitta Basu, MP, spoke at the meeting". And, this is how the Congress leader spoke at the meeting, according to the same source:

> "It would have been better if this effort had been made in 1969. The present situation is not more deplorable than the grave situation at that time. As the acting principal of the Birati College, I was then faced with such a bombing spree [bomb-bazi]...
>
> "At last, Shri Das Gupta said in his speech that some persons had done this in the name of Chhatra and Yuba Parishad and Chhatra and Yuba Parishad leaders have openly condemned them." (*Kalantar*, January 26.)

This reporter got the account of Syamal Chakrabarty's 20-minute encounter with his gun-toting tormentors from dependable CPI sources. These sources expressed their utter disappointment that even after Chakrabarty had made the offer to take the 'dispute' to Siddhartha Sankar Ray, the tormentors did not relent. If this report lacks substance, this correspondent tenders his apology.

No Longer the Props

Hansavivek

ASSOCIATED BEARING's board says that steps are being taken to set up the company's own selling organisation, but SKF Ball Bearing has been re-appointed as sole selling agent for another five years from May 9 next. Sale of all the company's products will be carried out by the selling agent up to the end of 1974. It is stated that, as from the beginning of 1957, the company will itself take over sales of its entire range of products, except for bearing replacement sales amounting to about 30 per cent. These deliveries will continue to be handled by SKF as "it will be more economical for our Company". A special resolution is proposed to seek the shareholders' approval, since B Fredrikson, Technical and Managing Director, is also Managing Director of SKF. Sole selling agents' commission for 1971 exceeded Rs 74 lakhs, and for 1970 it was over Rs 66 lakhs. SKF has been marketing the company's products since it was founded 11 years ago. Fredrickson's own remuneration from the company during 1971 amounted to Rs 1,93,413. The total payment to and provisions for the approximately 1,100 employees of the company aggregated less than Rs 95 lakhs.

Despite a 12 per cent increase in turnover, ABC's gross profit shrank by 6 per cent during 1971. It is stated that additional profits were "more than counterbalanced by a substantial increase in the cost of raw materials". As the past years' tax reliefs and allowances had been completely utilised in 1970, the full impact of tax was felt in 1971. The reduction in tax relief to priority industries and the surcharge on income-tax introduced in the supplementary budget further increased the tax burden. Moreover, the company became liable to sur-tax for the first time, with the result that net profit turned out to be substantially lower than the previous year's. Even so, to please the shareholders, dividend is stepped up by 2.5 per cent to 15 per cent — of course at the cost of the cover, which has shrunk from 3.22 to 1.73 times. Nearly three-fourths of the dividend is expected to be exempt from tax.

The company attained full licensed capacity for ball bearings and textile items. It has still not received 'letters of intent' for the manufacture of additional ball bearings and textile items, though its applications submitted in June 1970 and were past the Licensing Committee stage in early 1971. Meanwhile, prices of raw materials and capital goods have increased and will probably increase further by the time the industrial licences are received and implementation of the project starts. The capital cost of the project will thus be higher than originally budgeted. The development rebate of 35 per cent to which the company was previously entitled has already been reduced to 25 per cent and will be abolished completely in respect of plant and machinery installed after May 1974. As most of the equipment required for the expansion programmes will be received after this date, the tax burden on the company would also increase.

The company has not been permitted to import materials from sources of its own choice, and this has adversely affected costs. Efforts are being made by the company to be restored on the IDA list.

INDIAN ALUMINIUM commissioned its Taloja sheet mill in December 1971. All the major items of equipment, including the hot mill, the cold mill, and the remelt furnaces, are in operation. At Belgaum, 50 out of the 82 pots in the fourth potroom were commissioned last year. The company has applied for an industrial licence to expand further the Belgaum smelter by addition of two more potrooms with the associated expansion of bauxite and alumina facilities. The two additional potrooms will add about 20,000 tonnes per annum to Belgaum's metal capacity. During 1971, production from the company's smelters was 79,901 tonnes — 29.6 per cent over the preceding year when there had been a 90-day strike at the Hirakud smelter. Metal production at Alupuram was 19,282 tonnes (18,257 tonnes), at Hirakud 23,138 tonnes (16,198 tonnes), and at Belgaum 37,481 tonnes (27,210 tonnes). Production of alumina at Belgaum, during the first full year of operation of the plant, was 88,100 tonnes; at Murf production of 78,600 tonnes created a new record. Bauxite mining at Chandgad and Lohardaga kept pace with the increased alumina requirements. Record production levels were also achieved at the sheet rolling mill at Belur and at the extrusion presses at Alupuram. The Kalwa plant was shut down for two months owing to labour trouble, and foil production was therefore lower at 2,062 tonnes (2,249 tonnes). Powder and paste production at Kalwa was almost unchanged. Output from the properzi mill at Alupuram was lower than in the previous year due to interruption in production for installation of larger holding furnaces to effect better quality control, INDAL's sales, at 75,758 tonnes, reached a record level in 1971 and showed about 21 per cent increase over the year. The sales realised Rs 39.94 crores against Rs 35.40 crores. With margins enhanced, gross profit rose from Rs 8.20 crores to Rs 12.87 crores. Despite the considerably increased provision for depreciation and the tax liability taking away Rs 1.92 crores against nil, net profit was Rs 1.65 crores higher than in the previous year. Equity dividend is stepped up 3 points to 17 per cent and still enjoys cover of 1.33 times. The directors complain that raw material prices are increasing rapidly and that despite representations, government has not allowed any increase in selling prices fixed by and large at the levels of the company's net selling prices obtaining in February 1970. They add that costs were kept under reasonable control through improved efficiencies at all the plants, but the overall impact of rising raw material prices is now becoming increasingly evident as the "margin for further improvement in efficiencies is progressively narrowed". The management is also concerned about the increase in the effective rates for power supplied to the company's smelters in Kerala and Orissa. The company continues to resist these increases through legal remedies, and cases are pending in the High Court of Orissa and at the Supreme Court.

DUNLOP INDIA established a new export record in 1971 by earning foreign exchange worth Rs 3.34 crores — an increase of about 10 per cent over 1970. It exported to 71 countries, including highly developed ones such as the US. As an export house, the company developed overseas markets for a wide variety of goods made by small-scale manufacturers. A large number of tennis and squash rackets were exported to Dunlop Sports Company in the UK. Last year, the company spent about Rs 30 lakhs on technical development activities, which enabled it to introduce new and better products and achieve further progress in import

substitution. One of the recent projects has been the development of the mainwheel tyre for the Boeing 747 Jumbo Jet. The company is now establishing a research and development centre for cycle tyres and tubes with a view to exporting knowhow for the manufacture of these products. Dunlop's expansion applications, both for automotive tyres and industrial products, are pending with government. During 1971, demand for automotive tyres and tubes increased by 15 per cent. Although the company's production was higher than in 1970, demand could not be fully met. Dunlop's production would have been still higher, but for losses suffered at the Sahaganj factory because of power-cuts and high absenteeism — particularly in the first half of the year. Demand for industrial products, particularly conveyor-belting, could not be fully met either — owing to limitations in capacity. Following the declaration of national emergency, the company's employees worked on Sundays and holidays to produce for additional defence needs. Dunlop is the only manufacturer in the country of aircraft tyres and military tank tyres. The expansion programme for 2.5 lakh automotive tyres and tubes at Ambattur, for which an industrial licence was received in December 1969, was completed last year. That factory also started production of bicycle rims. Efforts are being made to undertake new lines of production as a part of diversification programme. The range of Metalastik rubber-to-metal bonded products was enlarged with the introduction of draft-gear pads required for the centre buffer couplers of railway wagons. Although Dunlop's total income for the year, at Rs 99 crores, was once again a record and exceeded that of the previous year by 12 per cent, pre-tax profit declined by over 14 per cent to Rs 6.03 crores. R G S Nairn, chairman, ascribes reduction of margins to the static selling prices of automotive tyres and tubes coupled with substantial increases in various cost components. He points out that growth in production volume and turnover is essential if selling prices are to be contained and a reasonable level of profits is to be earned in an inflationary environment.

KAMANI ENGINEERING, despite steel shortage in the first half, could marginally raise its production of towers and other structures during the year to September last. Production could have been considerably better, but for the strain on working capital on account of exports aggregating Rs 6.17 crores. The completion of the turnkey job in Sudan has enhanced the company's prestige in the international market. Fresh orders for execution of turnkey projects worth Rs 15.5 crores have been received from West Asia and South East Asia. As at the year-end, export orders aggregated Rs 24 crores. In order to increase its effectiveness in the international arena, KEC has started using computer for development of designs. Efforts are also being made to accelerate the management information systems to facilitate clearer and more timely managerial decisions. The rolling mill, established at Jaipur with a capacity of 20,000 tonnes per annum, will soon commence trial production. With it, the problems relating to obtaining the availability of non-rationalised and matching steel sections would be eased. The turnkey job of the hydro-power station at Ukai — one of the biggest contracts undertaken by the company and requiring deep rock excavation, heavy civil engineering work, mechanical erection and commissioning of equipment including turbines and generators — is nearing completion. With increase in margins, a small rise in turnover has more than doubled the gross profit. Equity dividend is stepped up by a point to 10 per cent and is covered 5 times as against 3.43 times previously.

The Week's Companies (Rs in Lakhs)

	Associated Bearing		INDAL		Dunlop India		Kamani Engg	
	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 30-9-71	Last Year 30-9-70
Paid-up capital	400	400	1241	1241	1070	1070	112	112
Reserves	385	323	2397	1911	1382	1141	124	78
Borrowings	125	199	2632	2303	1064	1022	1820	1223
of which Term borrowings	122	152	2629	2303	550	537	76	35
Gross fixed assets	729	694	7098	5705	3102	2512	308	305
Net fixed assets	417	438	5133	4196	1809	1289	217	228
Investments	—	—	—	—	16	18	2	2
Current liabilities	162	130	1064	844	1570	1061	430	409
Current assets	654	614	2245	2039	3305	2890	2235	1570
Stocks	464	452	1688	1313	1820	1688	626	419
Book debts	179	159	477	511	1251	1090	1584	1121
Net sales	885	790	3994	3540	7638	6916	1499	1423
Other income	16	13	53	80	67	70	288	290
Raw material costs	250	203	1324	1000	4709	4250	1026	1050
Wages	97	80	552	474	1183	1034	244	223
Interest	12	19	184	176	120	97	119	67
Gross profit(+)/loss(—)	306	396	1287	820	751	835	66	41
Depreciation provision	66	66	403	293	148	131	16	15
Tax provision	133	64	192	—	225	302	—	—
Net profit(+)/loss(—)	111	196	692	527	378	402	50	26
Development rebate provision	7	25	273	252	61	32	1	—
Transfer to reserves	44	111	67	82	113	165	32	17
Dividend								
Amount	60	50	P 2 E 204	P 2 E 168	P 5 E 200	P 5 E 200	P 2 E 8	P 2 E 7
Rate (per cent)	15	12.50	P6.25 E 17	P6.25 E 14	P8&5.50 E 20	P 8&5.50 E 20	P7&9.5 E 10	P7&9.5 E 9
Cover (times)	1.73	3.22	1.33	1.49	1.56	1.82	5.00	3.43
Ratios (per cent)								
Gross profit/sales	34.57	41.26	32.22	23.16	9.83	12.07	4.40	2.88
Net profit/capital employed	12.19	21.26	11.03	9.66	10.74	12.43	2.43	1.84
Inventories/sales	52.43	57.21	42.26	37.09	25.49	24.41	41.76	29.42
Wages/sales	10.96	10.13	13.82	13.38	15.49	14.95	16.28	15.67

NEW DELHI

Planning the Fifth Plan

THE work of framing the Fifth Five-Year Plan may be said to have formally begun with the full meeting of the Planning Commission under the chairmanship of the Prime Minister on April 7. Revision of the Fourth Plan, about which there had been much talk earlier, has now been pushed into the background. It dos not seem likely that such an effort would now be made. The step-up in Plan outlay, provided for in the Budget for the current year, would appear to be the most that the government is in a position to do to salvage what it can of the Fourth Plan. If the higher outlay can be spent effectively and a similar increase in investment is achieved next year, the Fifth Plan may yet start from a more viable base than appeared possible even a few months ago. This prospect appears to have revived interest in problems of planning to some extent. Also, the Planning Commission appears somewhat more confident about firmer and more purposeful political support to its efforts.

The drawing up of a time-schedule for the preparation of the Fifth Plan was the principal item on the agenda for last Friday's meeting of the Planning Commission. However, this is only the formal aspect of the work on the Fifth Plan. More interesting and noteworthy is the document prepared by the Planning Commission entitled "Towards an Approach to the Fifth Plan". It attempts to outline what is sought to be described as a new development strategy. To the extent it can be made the basis for the formulation of the Fifth Plan and gets the necessary political and administrative backing, it may at last end the prolonged period of *ad hoc*-ism in economic policy-making since the close of the Third Plan in the mid-sixties.

The main point of departure of the Approach paper is that the Fifth Plan must make a "direct approach to reducing poverty" and that this should become its "main thrust". The earlier plans proceeded on the assumption that a fast rate of growth of national income would create employment and higher living standards, but that the scope for reducing disparities in income and wealth through redistributive policies *per se* was limited. The Approach paper now takes the position that if one were to rely on growth alone without directly tackling the problems of unemployment and income redistribution, it may take another 30 to 50 years for the poorer sections of society to reach minimum levels of consumption.

The assumption of a conflict between growth and social justice was, according to the approach now outlined, based on the argument that whatever surplus could be created was needed for investment to raise the future rate of growth and that only a small part of the surplus could be spent to meet the requirements of social justice or improving the living standards of the people. This does appear to be an oversimplification; for, it can hardly be contended that all these years the entire available surplus has been committed to investment and that very little has been diverted to satisfying the needs of current consumption. However, the authors of the Approach paper themselves concede that the emphasis on growth in the initial years of planning has some justification. What they argue is that the economy has today reached a stage where larger availability of resources makes it possible to launch what is described as a direct attack on unemployment, underemployment, and poverty, while at the same time assuring adequate growth. To this extent, the achievements of the first phase of developmental effort are seen as the starting point of the new approach.

The claims of evolving a new strategy notwithstanding, the profile of the development effort proposed for the Fifth Plan does not appear to be radically different from that of the earlier plans — and in the Fourth Plan, in particular. The two main areas which have been given importance in the new approach are a programme of large-scale rural employment combined with a significant expansion of social services, and provision of the means of social consumption in the form of education, health services, nutrition, drinking water supply, housing, communications and electricity, particularly in the rural areas. It can hardly be contended that these schemes and programmes did not find a place in the earlier plans. What the new approach calls for is a major step-up of effort and larger outlays in these fields. The economy, as stated earlier, is probably in a much better position now than in the past for such a step-up of efforts.

The 'basic minimum needs programme', as it is called, is spelt out as follows: elementary education upto the age of 14, minimum health facilities integrated with family planning and nutrition for children, rural water supply, rural roads, rural electrification and home sites for the landless in the villages and slum improvement in the larger towns. It is estimated, very tentatively of course, that this programme, if it has to make any impact at all, will require resources of about Rs 3,000-3,500 crores in the Fifth Plan. Another Rs 7,500 to 8,000 crores would be required for the employment programmes, mainly in the rural areas, relating to minor irrigation, soil conservation, area development, dairying and animal husbandry, forestry, fisheries, warehousing and marketing, small-scale industries including agro-industries, roads and such special programmes as SFDA, MFAL and CSRE, and programmes for drought-prone areas. All of these have been included in the Fourth Plan but have been badly neglected in implementation. In this context, the Planning Commission has taken note of the importance of the administrative machinery, and recognised that without effective implementation the "considerably increased outlays on these may degenerate into large-scale doles and/or get diverted into the hands of middlemen".

In effect, therefore, what the Planning Commission is proposing for the Fifth Plan is a big step-up in outlays — of the order of Rs 11,000 crores or even more — on rural works programmes and social services. The Approach paper admits that these programmes alone cannot constitute the Fifth Plan and that in fact they will constitute the smaller part of the Plan. It is suggested that to expand the production of goods and services and to safeguard future growth, the total outlay on the Fifth Plan would have to be around twice the size of the Fourth Plan. However, the provision of larger employment opportunities and the basic minimum needs of consumption will determine the sectoral rates of growth of production and the composition of investment as well as the implied effort at resource mobilisation.

To finance the outlay envisaged, it would be necessary to raise an additional Rs 6,000 to 7,000 crores by way

of taxation during the Fifth Plan. This will mean an average additional tax effort of between Rs 250 to 300 crores per annum at the Centre and Rs 150 to 200 crores in the states. This will have its own policy implications, though the document prepared by the Planning Commission contains no fresh thoughts except for a reference to the Wanchoo Committee report on direct taxes and the Raj Committee on agricultural taxation.

The above outline of the new approach should make it clear that what is being proposed is not a radical departure from the previous plans. However, some ideas have been thrown in which, if elaborated and developed, can point to new lines of action. Stress has been laid on reorienting investment and production policies so that production of items of mass consumption receives priority. Again, radical land reforms and land redistribution are advocated and it is suggested that land ceilings should be brought down to 10 to 15 acres for irrigated land and 20 to 35 acres for unirrigated land. Land reform, it is said, would have to be a "major surgical operation rather than the usual tinkering with the symptoms here and there".

It may be taken for granted that there will be general agreement on the ideas contained in the Approach paper. The problems will arise when they are elaborated and precise programmes of action are formulated.

In its approach to the Fifth Plan, the Planning Commission appears to bank heavily on the restoration of political stability and the emergence of a strong political leadership. Speaking of radical land reforms, for instance, it says that the "government is better placed today than perhaps at any other time in the past to take up a programme of land reform which is designed to make a significant contribution towards the elimination of poverty". The Approach paper also speaks of the massive mandate received by the present government and the assurance of political stability during the period of formulation of the Fifth Plan and in the Plan's early years. This emphasis on political stability might be somewhat misplaced, considering that powerful lobbies of vested interests are still very much in existence and have to be reckoned with — as is clear enough from the fierce opposition to the Agricultural Prices Commission's recommendation to lower wheat procurement prices and to land reforms.

The issues raised by the Planning Commission in its Approach paper will come up for discussion before the National Development Council next month. The proceedings of the Council will, therefore, be interesting to follow. According to the programme drawn up in Yojana Bhavan, the final Approach paper on the Fifth Plan will be ready by September this year and the first version of the draft outline of the Plan will be out by April next year so that it can be presented to the National Development Council by June 1973. The aim is to have the final version of the Plan presented to the nation by the end of June 1973 — well before it is launched early in 1974. If this schedule is maintained, it will be the first time that a plan will be ready before it begins to be implemented.

GUJARAT

Crisis as Usual

THE new Congress government in Gujarat has had to get down to business right away. In fact, some of the newly appointed ministers have had to shuttle between Ahmedabad and Delhi even before they could move their families to their ministerial bungalows in Gandhinagar. The power and coal shortages and the slump in cotton prices have presented the government with something of an *economic* crisis. Besides, the rise in edible oil prices suggests that, as in practically every year in the past decade, the distribution of edible oil at fair prices is likely to be a major headache for the government this year as well.

The stoppage of supply from the Tarapur atomic power plant necessitated a 25 per cent cut in power supply to industrial units — a majority of which in Gujarat consists of textile and cotton ginning and pressing units. The power cut was recently reduced by half, thanks to additional supplies from Mysore. But the power shortage will continue till the middle of May when the gas turbine unit at Dhuvaran is expected to start generating electricity.

As for cotton, neither the state government (under President's rule) nor the Centre had planned any policy for the marketing of the very much larger crop this year. And so cotton prices in the state came tumbling down after the harvest. Of the crop of about 24 lakh bales, about 15 lakh bales still remain to be sold and a good deal of the rest was disposed of at distress prices by the smaller farmers. Many co-operative societies relying upon cotton cultivation and trade are on the verge of bankruptcy.

As the power supply situation shows little signs of improvement, the mills are cautious in their offtake of cotton, despite the relaxation of the ceiling on stocks. In this way the power cut and the larger cotton crop have combined to cause the near-crisis situation in the state. The cotton grower is now waiting for the Cotton Corporation to bale him out.

The power generation capacity in the state is not insufficient to meet the state's requirements. The problem is of inadequate and uncertain supply of fuel — gas and coal — for the power stations. Though gas is produced in Gujarat, its supply to the power stations is controlled by the Union Petroleum Ministry which has been haggling over its price for a decade now. Similarly though coal is not in short supply, Gujarat is starved of it because of difficulties of railway transport. Thus while under successive five-year plans large sums of money have been invested to build up sufficient generating capacity to meet Gujarat's growing demand for power, not enough planning has been done to ensure regular supply of fuel to make full use of the generating capacity created. The result is that while gas from the oilfields gets burnt and coal gets piled up at pitheads, Gujarat's power capacity remains idle and the state's industry (and now even agriculture) is every year threatened by power cuts. In this context, it is often suggested that creation of a national grid is the answer to Gujarat's power supply problem. But a national grid will not solve the problem of adequate supply of fuel to Gujarat's power stations. The new state government, now that it is of the same party which rules at the Centre, must persuade the Centre to arrive at a permanent and enforceable agreement on the question of price of residual fuel oil (RFO) and the allocation of railway wagons for transport of coal to the state's power stations.

The decline in cotton prices has been somewhat stemmed by the decision of the Cotton Corporation to enter the Gujarat market, ostensibly in a big way. But the sharp slump in cotton prices this year has shown that while the government seeks to encourage growers of cash crops to take to high-yielding varieties, it has no policy to handle the larger production that results. As it is, cotton and oilseeds have been losing acreage to wheat and bajra over the last decade. This trend may be strengthened by the mishandling of this year's bumper cotton crop. The fall in cotton prices began some weeks ago, but it took a month to persuade the Union Foreign Trade Minister, L N Mishra, to move the Cotton Corporation to enter the market. True, the Reserve Bank did go through the motions of tinkering with the margins on bank advances against cotton. But in the face of the continuing power shortage this predictably had little impact on purchases by traders and mills. Gujarat's demand for bulk purchase of cotton by CCI is difficult to resist considering that for the last four years the Food Corporation has been subsidising the wheat growers of Punjab, Haryana and UP in the face of the repeated recommendations of the Agricultural Prices Commission to lower wheat procurement prices. As it is, the belated entry of the CCI is likely to help mainly the large growers who could wait, whereas the small ones have already sold their cotton at distress prices. The large growers and the intermediaries are now organising to extract the maximum benefit out of the CCI's entry. The CCI wants to have 1969 prices as the floor, but the growers want at least 25 per cent more on the ground that use of the high-yielding varieties has raised costs by one-fourth compared to 1969.

Like the power cut, the problem of edible oil prices has become an annual ailment of Gujarat's economy. The new Minister in charge, Sanat Mehta, had in the past, as a PSP leader, led several agitations against high edible oil prices. Now as the concerned Minister he knows that he has no solution to the price rise which will reach a crisis point soon. He is toying with the idea of setting up a public corporation for procuring oil (through a levy or through co-operative purchases) and distributing it at fair prices. But this is not going to work so long as the outflow of groundnut and groundnut oil from Gujarat to vanaspati producers outside the state cannot be brought under regulation. The outflow is likely to increase further as edible oil imported under PL 480 is no longer available to vanaspati-makers.

Tailpiece: It has not gone unnoticed in Gujarat that while the commercial banks have been lending money to Food Corporation to finance its massive wheat price support operations at 8 per cent per annum, the Cotton Corporation is required to pay 12 per cent — the same as for private cotton traders and 1 to 2 per cent higher than the banks' normal *commercial* lending rates — on bank advances for its cotton purchases.

Differential with a Difference

(From a Special Correspondent)

THE decision of the government of India on differential interest rates on advances by public sector banks has come as a disappointment to all who have been following this issue closely. The exercise which was started about two years back and had raised high expectations has ended, so to say, in a whimper. It is clear that the government has meekly surrendered the initiative and succumbed to the traditional conservatism of bankers.

The statement of the Union Finance Minister refers to the policy of differential interest rates as one of the steps taken "to bring about basic changes in our economic institutions and policies for furtherance of our social and economic objectives". It is also claimed by the Finance Minister that banks will use their "ingenuity, imagination, and resources" to make the differential interest rate policy one of the important instruments for reducing disparities in income and wealth and for encouraging talent and enterprise that go waste for lack of support. The interest rate structure has thus been elevated to an instrument of socio-economic transformation, it should be wielded effectively and with purpose. There is no evidence of this in the scheme now announced.

What has finally emerged is not a policy of differential interest rates. A differential interest rate structure, as understood in plain language, has necessarily to consist of two segments —higher rates for certain categories of borrowers, i e, the affluent, and lower rates for the opposite categories. The differential should also be wide enough to make the structure meaningful. It is easy to see that what has been formulated now is merely a scheme for lending to certain vaguely defined categories of borrowers at a concessional interest 2 per cent below the current bank rate. To characterise this as a policy of differential interest rates is either a misunderstanding of language or a distortion of facts. This is indeed differential interest rate with a real difference!

The test of government's boldness and sincerity lay in its ability and willingness to charge a wide ranging differential rate, levying a higher interest rate to borrowers belonging to affluent sections. Apart from the social philosophy implicit in it, the significance of a higher interest rate for affluent borrowers would be that it would enable generation of resources and in turn widen the field to be covered by lowering interest rates for the smaller borrowers. In other words, there is a direct link between higher rates and lower rates and unless this totality is kept in view, the very rationale of differential interest rates goes overboard. The official hand-out mentions that the question of charging higher rates from the affluent borrowers is beset with operational difficulties. What these operational difficulties are and why the government is not able to solve them, nobody knows. It would not be incorrect to presume that the government is not willing to hurt these sections of people even to the smallest extent.

The details of the scheme as enunciated make curious reading. Borrowers have been described by various categories and by different sectors. Why this elaborate categorisation has been undertaken is not evident. One of the criteria for qualifying for lower interest rates—this, it should be noted, is an essential condition—that the borrowers are "prepared to work hard". It is easy to imagine how and in what manner bank managers will conduct a test for hard work! Another condition is that the borowers should become economically viable within a period of three years. About the sectors where banks should look for parties who deserve the differential interest rates, a statement on the following lines is made: "People *physically* engaged on a *modest* scale in the fields of cottage and rural industries... [for example] cutting cloth and sewing garments, making *reasonably cheap* eatables, home delivery service of articles and commodities of daily use, running wayside tea stalls, plying of *self-owned* manual rikshaw and cycle rikshaw, basket making by hand, etc. A better example of vagueness and lack of clarity would be difficult to find. It is obvious that the conditions attached to the categorisation and the illustrations would render the operation of the scheme impossible, particularly when the implementation is to be entrusted to bank managers who are traditionally opposed to lending to the smaller men and the poorer sections.

Having thus watered down the differential rate structure to one of just concessional interest rates and having further fettered its implementation by a variety of conditions, the scheme goes further to limit its own scope. The magnitude of lending for the deserving categories of borrowers

is stated to be about Rs 20 crores for the whole country. It is also stipulated that each bank should select one branch out of every 8 or 10 and in making such a selection, it should ensure that backward pockets are well represented. It is also laid down that banks will have to maintain continuous touch with the borrowers to whom the benefit of the differential is extended. The amount of Rs 20 crores works out to a mere ¼ per cent of the aggregate lending of the banks in a year.

It is obvious that the amount allotted is extremely meagre and distributed all over the country on the basis of the criteria laid down, only a small number of borrowers in each district will benefit by the scheme. The scheme will have no significant impact on the distribution of credit in the country.

It is useful to recall that the Committee on Differential Interest Rates whose recommendations have formed the basis of the present decision of the government was set up with the following terms of reference.

(i) To review the scope and the extent to which differential interest rates are already being charged by banks to borrowers in each sector.
(ii) To determine the criteria for identifying the borrowers who could be granted the benefit of a lower interest rate within each sector.
(iii) To indicate the range of the differential that could be allowed in each sector.
(iv) To examine if any other concessions could be granted either in lieu of, or in addition to, lower interest rates.

While the present decision of the government covers the recommendations of the committee in respect of the terms of reference (i) to (iii) no decision has been announced on item (iv). In fact, the Committee made a departure from its general conservative approach and recommended that depending on merits, unsecured loans could be sanctioned and unconventional items also accepted as security. It also suggested that margin requirements may even be entirely dispensed with in deserving cases and loans sanctioned to the extent of the full value of the security offered. In his dissenting note, Ashok Mitra rightly pointed out that the inequalities in the credit structure embrace margins and collateral and there is a built-in regressivity in the present arrangement regarding margins, with affluent parties receiving more favourable treatment all along the line. The government decision ignores these important aspects which, in fact, constituted the only unanimous recommendation of the Committee.

Nothing tangible seems to have emerged for more than two years on this important aspect of credit policy. There is lack of direction on the part of the political leadership and there is the usual indifference on the part of the administrative bureaucracy. In his dissenting note, Ashok Mitra rightly stressed the need for national credit planning involving allocation of credit among different sectors and groups in terms of national priorities and in line with socio-economic goals. No attention has been paid to these observations. The present position was summed up by Mitra in the following terms:

> "Bank advances have been used in the past to foster, nurture and enhance the inequalities of incomes and asset-holdings in society. Those in charge of loanable funds not only diverted the overwhelming proportion of such funds to favoured groups; the funds were offered to these groups also at relatively favourable rates, terms and conditions. If I may reiterate, I regard the task of this Committee as one to provide a scheme for the correction of this historical perversity. True, such perversities cannot be eliminated overnight. There is a certain inertia in the system which we cannot get rid of at one fell stroke; to try to do so might do damage to the production process. It is however necessary that we do not err at the other extreme, and shun exploring the range of reforms that are possible to be accomplished in the short run even within the constraints of the given situation."

The future will not perhaps be very different and years later another committee set up by the government may sum up the position in not very different terms.

MYSORE

Not Quite a New Era

THE elections to the state Assembly seem to have confirmed the trend made evident in the mid-term poll, though this further manifestation of the Indira wave was thought to be unlikely by many. For, in Assembly elections, local issues, alignments, and personalities play a more important role. Moreover, in Mysore, caste has always been a major factor in politics. It was clear that the Congress in Mysore was finding it no easy job to distribute tickets: allowances had to be made for castes, groups, regions and even districts. It was therefore expected that Congress(O) would be able to put up a stiff fight. Some commentators even forecast a comeback by Congress(O). However, the result has been a massive win for the Congress.

This turn of events has to be appraised against the background of Mysore politics prior to the mid-term poll. After the split in the Congress, Mysore remained solidly with Congress(O). The Veerendra Patil Ministry was well-entrenched. It had acquired a reputation for dynamism and efficiency. Significantly, it enjoyed the support of the two major communities in the state — the Lingayats and the Vokkaligas. Ever since the reorganisation of states, the Lingayats have enjoyed an enviable degree of political power. Every ministry since November 1956 has been headed by a Lingayat: Nijalingappa, Jatti Kanti, Patil. It is this power of the Lingayats which was really responsible for the demand for 'Old Mysore' — a cause championed, in the main, by Vokkaligas who, prior to 1956, were politically on top. For most people there was little prospect of a non-Lingayat Chief Minister in Mysore. And the prospect of a non-Lingayat non-Vokkaliga Chief Minister was so remote as not to exist.

In the light of this, the achievement of the present Chief Minister, Devaraj Urs, to build up the Congress party is quite remarkable. There is little doubt that he and his band of followers were given a tremendous boost by the mid-term poll and the Indira charisma. All the same, Devaraj Urs' efforts should not be underestimated. He belongs to a minority community. That is the biggest handicap for any aspirant to leadership in Mysore.

After the mid-term poll, the Congress received an avalanche of defections. The defections were of such magnitude that, in no time at all, the Congress was in a position to form a Ministry. That it did not do so is a tribute to the political astuteness of Devaraj Urs.

A section of the party headed by Siddaveerappa, then the leader of the Congress in the Assembly, was anxious to form a ministry. Their theory was that it is never too early to form a government. Siddaveerappa is a Lingayat who hails from Davangere, the stronghold of Lingayats in old Mysore. He was a member of K Hanumanthaiah's cabinet (1952-56). Later he was in the wilderness largely due to personal antagonism between him and Nijalingappa. Still later he joined the Janatha Paksha which consists of an odd assortment of people, largely veterans. Then he joined Congress(R).

Siddaveerappa, a very old hand at the political game, is Urs' main rival in the party. In the bid to form a ministry he was supported by quite a few Vokkaligas also, like M V Krishnappa, now an MP. Urs opposed the move. His logic was that a ministry then formed would largely consist of defectors and the party could never have a fresh team. Secondly, Urs must have seen in Siddaveerappa's haste an attempt at becoming Chief Minister. The support of some Vokkaligas for forming a ministry indicated the anxiety of the two major groups to block the emergence of a leader from a minority community. However Urs has always enjoyed the support of the High Command and has won the day.

Prior to the elections, Urs announced that he would not contest the elections — a move wrongly interpreted by many as the end of his hopes of being the Chief Minister. Actually, Urs played his cards well. Had he contested, he would have been forced to step down from the Presidentship of the party, thereby losing control over the selection of candidates. As it turned out, he supervised the selection of candidates. This is not to deny that compromises were made. In Mysore city itself, K Puttaswamy, a Minister in the Patil Cabinet, was preferred to Jayadevaraj Urs who has been largely responsible for building up the party in Mysore district. But this merely illustrates the victory of a major group — in this case the Vokkaligas — over a minor group — the Ursus. Nevertheless, Devaraj Urs was able to have a big voice in the selection of candidates.

Once the elections were over, Urs' hat was in the ring for the leadership of the party. So was Siddaveerappa's. When it appeared that a large section of the new MLAs would plump for Urs, the Lingayats and some Vokkaligas panicked. Kollur Mallappa, a Lingayat MP, appeared on the scene. In the guise of a peace-maker, striving for a consensus, Mallappa began to mobilise opinion in favour of Siddaveerappa — or alternatively himself. There seems little doubt that the Lingayats and Vokkaligas tried to form a common front against Devaraj Urs. When the party met on March 18 to elect the new leader, a resolution was passed, moved by Siddaveerappa and seconded by a veteran Vokkaliga, S Kariyappa — leaving the choice of leader to Indira Gandhi.

It is obvious now that Indira Gandhi and the High Command supported Urs because of their keenness to break the 'communal' hold over Mysore politics. Urs is the first man from outside the two major groups to emerge as a leader in Mysore. However, it is too early to assess the impact, of Urs' election as leader on the caste factor in Mysore politics. In the formation of his ministry Urs has had to make the usual allowances for representing different groups and regions. Still, there are some noteworthy features.

Siddaveerappa gets only the relatively minor portfolio of health. The hope of the Vokkaligas that one of their senior men, S Kariyappa, would be Minister for Education has been unfulfilled. The education portfolio is held by A R Badrinarayan, a Brahmin. Chennabasappa, a Lingayat, but a firm supporter of Urs, gets Public Works, although Major Irrigation has been detached from his portfolio. Finance is held by M Y Ghorpade, the Sandur prince—versed in economics and a Cambridge product. The one major portfolio for Vokkaligas is Industry and Commerce, held by S M Krishna, now an MP. But Krishna is young and enjoys a reputation for dynamism; it is not a choice to be cavilled at. An important feature of the ministry is the clean swing in the balance towards old Mysore.

Urs claims that his ministry is a blend of youth and experience. But then this is a claim made by Chief Ministers all over the country. There is some new blood which is welcome—Ghorpade, Krishna, Nanje Gowd, and one or two others. But the normal concessions have all been made.

In spite of this, the two major groups feel frustrated. The truth is that they are yet to reconcile themselves to the loss of the leadership of the state. There are already remours of a Lingayat-Vokkaliga axis against Urs. Such a caste-alignment cannot be ignored with caste being so deeply entrenched in Mysore politics. It may be too much to hope that the present success of Urs has ushered in a new era in Mysore politics.

SOUTH

Impact of the Wave

Mohit Sen

THERE is no doubt that the so-called southern states would take some time to settle down following the impact of the Indira wave. The results in Andhra and Karnataka would have repercussions beyond the frontiers of these two states, above all in Tamil Nadu where the DMK rules and in Kerala where the Congress is in coalition with the CPI, Muslim League, RSP and a few others. The wave, however has not settled issues but provided a new setting in which these would be fought out.

Incidentally, the results also indicate the all-India character of Indira! How many pundits, including those quite active in party affairs, had confidently predicted that the Indira wave would not have that kind of effect in the southern states as north of the Vindhyas. Some had based on this prediction their forebodings and, perhaps, hopes for the fragmentation of our country. Others had built an entire revolutionary strategy on the concept of regional take-overs to be followed by some linkage at some future date. They, too, are more than a little taken aback at the fairly even nature of the sweep. Both these sets of political analysts have overlooked the fact that India is not only a country of uneven development among its regions and states. It is that, of course. But it is something more also. It is also an evolving community of peoples— a community shaped by a long history as well as the united sweep of the freedom struggle. It has been further advanced by post-Independence developments which have created a unified market and a spreading material base of productive forces (including the new Indian working man) while at the same time accentuating regional disparities. Every now and again national political events demonstrate that the superstructure is responding to, being shaped by and reacting back upon these developments at the base.

It is necessary, therefore, to get some kind of clarity as to the nature of the wave and what it has accomplished. Of course, it has a many-sided content and so would its consequences be multilinear. But there is a central thrust to it. And this is the moving to positions of confused radicalism of the millions. As Lenin had said long ago, serious politics begins where the millions are and not in the overheated atmosphere of coffee shops. One has to grasp both the confusion and the radicalism. An example of this is provided by the way

in which many women of traditional Left families voted for Indira Gandhi as they saw in her the symbol of their liberation from their double oppression. And this is characteristic of large numbers of the new generation who have swung behind the Prime Minister.

Failure to understand this quite complex phenomenon leads to extremely curious political analysis producing diversionary and disruptive political slogans for action. A quite classic example of this is the now notorious "theory" that all is to be explained by "rigging". Starting from 18 constituencies in West Bengal it has spread in A K Gopalan's imagination to Andhra (though the Andhra Committee of his party has been more circumspect in this regard) and Dinkar Mehta of Gujarat has thought up a whole machine which produced stamped ballot papers! Strange "rigging" that the top leader of the West Bengal unit of the CPI(M) was blissfully unaware of anything in the offing as late as the very last day before the actual voting since he writes in the official party paper that his party would secure a majority. A "rigging" against which also not a single protest action has so far been organised anywhere in that state. One has to go into this point here since future plans of campaigns and action in Andhra, for example, cannot even begin to get off the ground if this spurious explanation was to hold the field.

It is absurd for the CPI(M) to deny that in Andhra its vehement and indiscriminate anti-Congressism combined with a concentration of fire on the CPI has led it to a total fiasco. Not only did the CPI secure seven more seats compared to its solitary win but the former's vote was about double the latter's. The undoubted initial revival of the communist movement in Andhra is clearly taking place around the CPI given the debacle of the Naxalite movement and the downfall of the CPI(M). The problem confronting this reviving movement is how to link up to and raise the level of the confused radical masses to that of concrete action for concrete radical change. Its problem is that of simultaneously winning an extending mass base which would act as the nucleus for this linkage and grow through this linkage. It cannot even begin to think of how to solve this problem if it thinks that semi-fascism has advanced through the "rigged" victory of Indira Gandhi.

A peculiarity of the situation in Andhra is that the massive Congress victory achieved on the basis of this equally massive confused radicalism has combined with a sharpening of the factional struggle within the Congress. The appeal for stability for progress has led to a return of Congress MLAs and Independents who can combine and recombine in a bewildering variety of patterns. The cross-voting in the recent Rajya Sabha elections and the subsequent suspension of prominent Congress leaders are important signals. The Congress in Andhra has never been more unstable than it is today.

The reason for this is not only that the Brahmananda Reddi faction is on the warpath. This is certainly a major factor but not the main one. The main factor is that the Congress in the state has not seriously felt the impact of the conflict over policies which had led to the dramatic division at the top in 1969. The nature of the Congress being what it is, the failure of significant policy differences developing led to the factional pre-eminence and consolidation of the Brahmananda Reddi group. It should be remembered that the separate Telengana movement which erupted at around this time also aided the process of Brahmananda Reddi being bolstered up by the very forces in the central Congress leadership which might otherwise have compelled a policy conflict if not change. And the eruption of this separatist movement also held up the coming to the fore of the challenge of the forces of radical change which for about two years were thrown on the defensive.

The result is that the change of Chief Ministership signified absolutely no change in course. As was stated in these columns at that time Tweedledum was replaced by Tweedledum, even Tweedledee did not seem to be around. Consequently the factional squabbling has erupted with full fury immediately after the elections. All the faction leaders know that in Andhra Pradesh factions cohere not so much on a caste basis and not at all on questions of ideology or policy. Factions in the state hold together mainly on the basis of patronage. This was the secret of Brahmananda Reddi's so-called power And if P V Narasimha Rao or anybody else is to finally break that power he must demonstrate that patronage can no longer be extended by the ex-Chief Minister. Naturally that doughty manipulator is not going to let this happen easily. And he is helped by the ineptitude and lack of will displayed by the present Chief Minister who does not at all seem to know what to do.

Obviously, the Left parties can have nothing to do with this faction fighting in the Congress which has absolutely no principle involved in it whatsoever. But this faction fighting certainly would help to reduce the power of attraction of the Congress as well as the capacity of the state machine to disrupt and repress mass movements for radical reforms. And it is in these movements that all the hopes of Andhra's advance are reposed. There is any amount of inflammable material around in the myriad villages of this peasant state. The increase in the spectacular forms of assault upon the Harijans is only a sign that the landlords of both types in the villages are wanting to strike down the emerging new force of the agricultural labourer who cannot now be avoided or evaded by anybody in Andhra. In his smouldering rage and new aspirations lies the strength of the state which soon enough must come into its own.

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Concessional Rates Are Not Applicable to Institutions

The Naxalite-Sarvodaya Syndrome

The Patnaik Case

M R

ACHARYA Vinoba Bhave's *bhoodan* (land gift) campaign, launched over 20 years ago from Pochampalli village in former Hyderabad state, was the Gandhian answer to the communist challenge that had taken the form of armed struggle linked to an agrarian programme in Telengana. Land was the key issue in the struggle. Cominform intervention forced an end to the armed struggle and CPI settled for peaceful constitutionalism in 1951. Bhoodan has since been part of the Sarvodaya movement, which functions outside the spectrum of parliamentary politics and seeks to achieve through change of heart what legislation cannot achieve. By Sarvodaya norms, even legislation is violence.

Nearly two decades of the Sarvodaya movement alongside land reform legislation have failed to solve the land problem. The minuscular Maoist uprising in the tiny enclave of Naxalbari in West Bengal underlined this failure. Naxalbari threw up more Naxalbaris, big and small — in Srikakulam, Mushahari, Debra-Gopivallabhpur, and other pockets. It also marked the beginning of the Maoist perspective in the Indian communist movement, and threw up an extra-spectrum movement which owes its relevance to the land problem. The circle was complete. The challenge posed by the Telengana armed struggle returned after two decades of Sarvodaya work and legislation. The Naxalite movement seeks to achieve, through a Maoist model revolution, what neither change of heart nor legislation and parliamentary politics could achieve. Herein lay the significance of Naxalbari.

The Rationale

It was a bizarre spectacle, when Sarvodaya leaders like Jaya Prakash Narayan were prepared to go with the Naxalites upto a point and the parting of ways began when it came to the vexed question of means. In Orissa, the Chief Minister once branded all Sarvodaya workers 'Naxalite' agents because they were sheltering wanted Naxalites and were working with them among the peasantry. Both are extra-spectrum movements aiming at solution to the land problem. Both are convinced of the futility of legislation and participation in the parliamentary system. The Sarvodaya workers are getting disillusioned with their non-violent methods too, in the face of class violence of the landlords and the violence of the State machinery which backs the landlords. Yet they are not prepared to accept violence as the means. All the same, they are willing to go a long way with the Naxalites. This is the rationale of the Naxalite-Sarvodaya syndrome.

The syndrome finds striking expression in the Nagabhushan Patnaik episode. Patnaik, a 36-year-old CPI(M-L) Central Committee member from Orissa has been sentenced to death for the murder of a landlord in Srikakulam district across the Orissa-Andhra Pradesh border. Though a lawyer by training, the unrepentant Maoist leader refused to participate in the trial or to defend himself. When sentenced to death, he refused to appeal against the judgment or plead for mercy. His father and wife have sent in a mercy petition to the President of India, several members of the Orissa legislative assembly and the Parliament have signed an appeal to the President. Jaya Prakash Narayan has written to the President pleading for commutation of the death sentence on Patnaik to a life-term.

Even a common criminal is entitled to amnesty, if he pleads for it. Here is a case where the accused had no personal motive or objective in carrying out the alleged murder. It was in implementation of his party's line of annihilation of class enemies. The inadequacy of Anglo-Saxon jurisprudence, on which our criminal law is based, stands exposed here. The only technical hurdle in the way of amnesty for Patnaik is his refusal to plead for mercy. Petitions from his aged father or his wife are inadequate from the law's point of view. Patnaik had all along held that he recognised only the people's court and that he would not defend himself before any other court or plead for mercy.

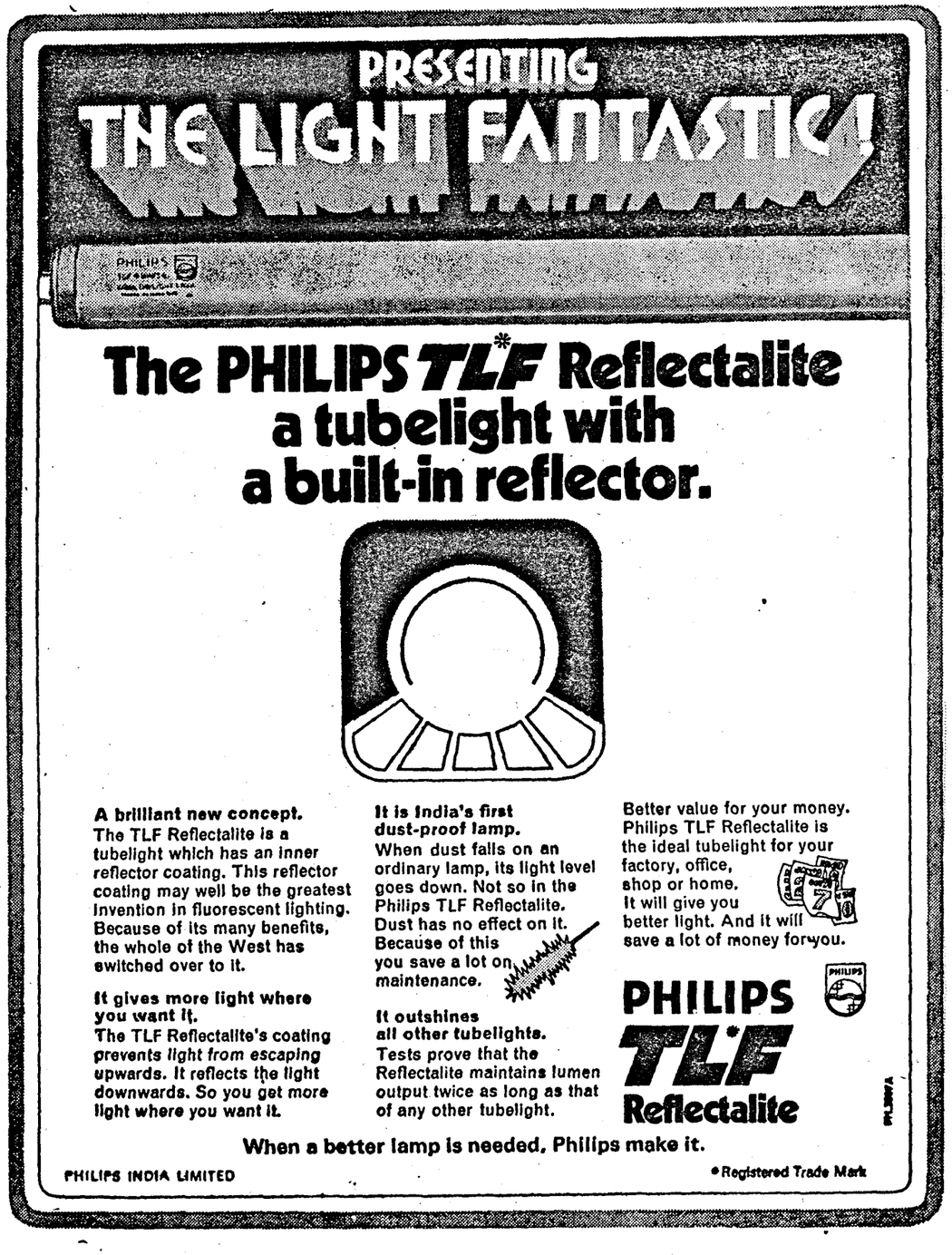
Active in the campaign to save Patnaik's life have been the Sarvodaya workers of Orissa. Ratan Das of the Orissa Sarva Seva Sangh and Nabakrishna Choudhury, former Chief Minister and a respected Sarvodaya leader, are among them.

No political prisoner has been executed after Nathuram Godse who killed Mahatma Gandhi. The system is now on trial. Another case, also from Andhra Pradesh and involving three Naxalite prisoners, provides an interesting commentary on the situation. The Supreme Court has given special leave to the state government to appeal against the High Court's judgment raising *inter alia* a question of law: Whether under the Indian Penal Code a deliberate and planned murder committed by a Naxalite was different from a murder committed by any other persons; and whether the fact one sincerely believed in political violence as the means of achieving an ideal society warranted reduction of a death sentence to a life-term.

No Faith in Bourgeois Courts

The three Naxalites were charged with the murder of a landlord in Nellore district in May 1970. The Naxalites denied the offence and pleaded not guilty, but refused to engage any counsel at the trial stage. They did not cite or examine any witness in their defence and refused to cross-examine prosecution witnesses, on the plea that they had no faith in the bourgeois courts. Even when the services of a criminal lawyer were offered to them, the Naxalites were not prepared to instruct him. The trial court sentenced two of the accused to death and one to a life-term.

In disposing of an appeal preferred by the third accused (against his life-term) and also the 'referred' trial for confirmation of death sentence on the other two, the High Court recalled some of the prosecution witnesses and gave the accused an opportunity to cross-examine them. The High Court observed that the two sentenced to death appeared to labour under the sincere belief that organised violence in rural areas, directed against rich landlords who are labelled by them as enemies of the people, would lead to a revolution, and thereafter to the abolition of inequality and to happiness, prosperity and peace for all. The High Court thought: "While it is true, on the one hand, that the accused killed an innocent person who had done them no harm, it must also be borne in mind, on the other hand, that they did not act out of any personal motive but out of what they conceived to be a public motive. They had no personal animosity against the deceased and they sought no personal gain. The means of murder employed by the accused as a step to achieve their ultimate goal was certainly blameworthy, but it cannot be said that their motive, according to their contention, was low or mean. While it



is necessary to recognise that the dictates of conscience which lead to injury to others may also merit severe punishment, sometimes it is also necessary to recognise that people acting out of genuine and passionate motives according to their conscience do not merit extreme punishment."

The Andhra Pradesh government does not share this view of the High Court and has gone to the Supreme Court in appeal. The issue simply is this: Can a political murder, which has no personal motive, be treated on par with other murders? In the past, the State has made no distinction between the two nor the courts, and have not treated them as cases of culpable homicide not amounting to murder.

The Andhra Pradesh High Court seemed to realise the implications of this in an extreme case, where the accused refused to participate in the trial. The Sarvodaya leaders are seized of the issue and are doing everything possible to save Nagabhushan Patnaik from the gallows, while the Left parties functioning within the parliamentary system are disinterested in the basic issue raised by Patnaik's conviction. Left intellectuals find it more comfortable to demonstrate for the release of Angela Davis; but to campaign for Nagabhushan Patnaik's life needs extra courage which only the Sarvodaya workers seem to possess.

DACCA

A Conversation with Bhashani

AN *open door*. No personal guards outside. No people hanging around. An ordinary, single room in the Hotel Purbani, Dacca, where so many Indian *journalists stay*. April 2, 45 minutes before his first public speech in the capital of Bangladesh. He is sitting cross-legged on the bed in a not too recently washed greyish-white kurta and lungi. Collected and calm. A slightly bent figure with a pillow on his lap and his forearms relaxing on his knees. Short, probably not much more than five foot two, happily plump, a pleasant grand-fatherly face, only slightly wrinkled for his ninety eventful years. Wispy white beard, middling length. He is quiet, but a murmur of talk among the ten or twelve simply dressed, gentle party faithfuls and working class men and two or three pious looking women in the room. Happy to see a journalist. Do I speak Bengali? No. Urdu? Hesitation on my part. (Have been told that Urdu-speakers are not too popular.) So I say I speak Hindi, not Urdu. Decidedly he says, he will speak in Urdu. No opening question from me. But without any prompting he launches into a softly spoken, very articulate, unhesitant but rambling, discussion — mostly monologue — in chaste but unpretentious Urdu.

His first remark: "If you want to know about Bangladesh, find out about its kisans and mazdoors". Then a long statement on how East Bengal has always been exploited. By the landed classes and the Marwaris before 1947 and the Pindi regime after that. Digression into political history, much of it early twentieth century. Congress' Surat split of 1907. The factions. The Muslim League. Reference to the convolutions and contortions of nationalist politics. All the changes, but no change for the people. Unlike most other political leaders, he does not refer to personalities at all in his 15 minute historical narrative. Then he switches to today. The price of rice has gone up to Rs 80 per maund. Even during the worst part of the Pakistani occupation the price was Rs 30. "The kisan or mazdoor earns one rupee a day. Half the population are women. They usually earn half what the men get. With one and a half rupee per day per family, how can they manage? They cannot buy anything. During the fighting the price was thirty rupees. Now due to chorbazaari it is eighty rupees. Smuggling to India is the problem... We are grateful to India but due to those who smuggle the friendship could come to an end. That is why Marwaris and smugglers must be kept at bay by India... Pindi ke Marwari aur bhi behtareen hai! (Pindi's Marwaris are even smarter!)." Further discussion on Marwaris and their bothersome role.

"One is not Hindu or Muslim; there are poor everywhere in India and Bangladesh.... Rasta revolution hai (The path is revolution). Your Prime Minister has said that there will be socialism through parliamentary means. Our Prime Minister also thinks like your Prime Minister. But this has never happened anywhere. Socialism can only come through revolution." I manage to push in a question: "Who, which party, group, is going to organise for, bring about, the revolution?" Bhashani: "The Krishak Samiti and National Awami Party will play some part in bringing socialism through revolution. The kisans are becoming conscious of being a separate kaum (community with a definite identity) and not being just Hindus or Muslims. This consciousness will bring about revolution." I interject: "Mujib is popular." Bhashani: "Naya cheez mazedaar hota hai (A new thing is fun, tasty)". (The reference is evident.) Then, perhaps, thinking of the future of the Awami Lague, he goes back to the fate of the Muslim League. (But this is only conjecture on my part.) He says: "The same Muslim League that created Pakistan is now dead. Hamare log zindabad zor se lagate hai aur murdabad bhi zor se lagate hai (Our people shout 'long live' loudly and they also shout 'death to' loudly)."

Rather cussedly I come back to the organisational aspect of revolution and ask again: "But which group is organising the people?" Bhashani: "Kisan khud-b-khud organise kar rahe hai." Gives me the feeling that he has an almost sentimental faith in the peasantry. I add: "What do you think of the Naxalites?" Bhashani: "Naxalites ham pasand nahi karte (We dont like Naxalites)." "Why?" "They have no programme. They are not for the kisans, the people." This is the only occasion where his tone is sharp, curt.

Then we ramble on again and he talks a little about himself, for the first time. He takes pride in always having been in opposition. And says that he will always continue to oppose (the Establishment). "Getting power is not difficult. It is more difficult to do something with that power. No government (in East Bengal, in the subcontinent?) has done anything for the poor."

Someone interrupts and says that the Maulana is getting late for his public meeting. I try to retreat. He insists I must have tea. But no tea available. As I get up he puts one, then another, banana into my hand, saying that I should not leave empty-handed. I cannot but help liking this kind, gentle, incorruptible man of the people. But I dismiss any vague ideas of a Bengali Mao that I might have had before, as I leave the room.

— J L

ITALY

Marx plus Madison Avenue

THE thirteenth congress of the Italian Communist Party (PCI), which took place in Milan in the middle of March, was unusual in several respects.

First of all, this was the first congress held during an election campaign. The premature poll was ordered because of a serious political crisis. Secondly, it was the first congress of the Italian party in the post-War period which was not preceded by a draft thesis setting out the guidelines. This would imply a more democratic pattern of discussion than on earlier occasions. Thirdly, the congress marked the change of guard which brings to the top a man whose political maturing took place after the War. Bowing out was the aged ailing 72-year-old Luigi Longo, a veteran of the Spanish war and companion of Palmiro Togliatti who laid the foundations of an ideological thesis which helped Western communist parties to break away if they wished from the central direction of the Kremlin. The successor is 49-year-old Enrico Berlinguer whose non-revolutionary temperament makes him something like the chief executive of Siemens or Philips. The proceedings of the Milan congress are of special interest because the PCI is the world's best organised non-ruling communist party.

Immediately after the War, when de Gasperi led the Christian Democrats to power in Italy after more than two decades of fascist rule, one South Indian newspaper headlined the event as "Italy rejects communism". But the democratic experience of Italy since the War has been bedevilled by the splintering of non-communist parties. In recent years, political factionalism has reached such a stage that one would need a knowledge of integral calculus to assess the impact of each one of the numerous parties.

The Italian elections are scheduled for May 7 and 8 and Berlinguer, in his report to the congress, said: "We are the only party which can give guarantees, after defining the programme and political proposals which we will present to the electorate". Three years ago, when the congress met in Bologna it had to acknowledge a decline in its popularity. Between the end of 1969 and the end of 1971 it added some 20,000 new members. And Berlinguer claimed that this year the party added 80,000 new members including 18,000 young people, taking the membership tally to 1.6 million.

Berlinguer's report, sprawling across five full pages of the party paper, *L'Unita*, concentrated on domestic matters — a sort of election manifesto. The Milan Congress marks a significant departure which confirms the non-revolutionary approach of the PCI today in a country which has become heavily industrialised and prosperous, thanks to more than a decade of rapid growth, fortified by the Common Market. At Bologna three years ago, the PCI changed its stand to constructive opposition from the earlier campaigns of continuous struggle. This constructive opposition meant non-participation in the central government in Rome but influencing the government from inside parliament, and a bid for regional and commune authority. Now the PCI is presenting its claim to a share in government, provided it is an administration which sets its sights on "democratic renewal". The face the PCI is presenting to the electorate is that of a prudent and reasonably party which wants to be democratic.

As Berlinguer put it in his emphasis on the need to give a new political direction: "In a country like Italy, a new perspective can only come about through the collaboration between the three great popular currents: communist, socialist and catholic. For this collaboration, unity of the left is a necessary but not a sufficient condition.... We are disposed to assume our responsibilities."

Berlinguer, in his report to the congress, went on explain why participation in government can now be justified. He said: "Participation is admissible on two hypotheses. The need to face a reactionary attack which creates a situation of emergency for the fate of democracy, or the existence of conditions which allow the implementation of a programme of renewal which has the conscious and active support of the great masses and tends to strengthen the unity of the workers. The nature of the Italian crisis is such that these two conditions tend today to coincide."

In Berlinguer's view, the PCI does not seek an enlargement of the centre-left coalition which has tried to manage Italian affairs for some time. It proposes doing away with it, and "the ending of the anti-communist discrimination".

Co-operation with the communists has emerged as a major issue even for the Christian Democrats. The PCI chief put this "as the central problem of the life of our country". The PCI strategy involves appealing to the Socialists and the left-wing Catholics. The leftist groups among the Catholics are the more important, and the PCI aim is to splinter the Christian Democrats and create a break-away leftist catholic group which will co-operate with the socialists and the communists. If the PCI strategy is to have any chance of success in the next elections, the Christian Democrats would have to lose both to the rightists and the leftists. The rightist bogey is necessary to make the communists acceptable.

Berlinguer went out of the way to be soft in his speech to the Socialist PSI which has been co-operating with the PCI in local and regional administrations. The PCI's aim is the destruction of the centre-left coalition which has been a feature of Italian politics during most of the sixties. The PCI wants the loose arrangements to be replaced by a strong leftist majority rule, with communist participation. Immediately after the Milan Congress, the PSI secretary, Giacomo Mancini, rejected the ground rules set by the communists. The PSI said it was not giving any undertaking not to join yet another centre-left coalition.

The more Marxist sections lost no time in mocking at the constitutionalist pretenses of the PCI. The pragmatism of Berlinguer can be praised as political flexibility or condemned as opportunism pure and simple. The PCI chief's report went to the extent of saying that further nationalisation measures were not generally necessary on the economic front. The PCI described the role which private enterprise can play. In what is possibly an appeal to the Catholics, the PCI declared its opposition to the permissive society and easy divorce!

One European commentator has described the Italian Communist Party as a "compound of Marx, Machiavelli and Madison Avenue". While the PCI has stated that it will not be permissive on a matter like divorce, in the economic field a permissive attitude to the private sector is evident. This attitude came out clearly in a series of interviews in the left-wing Italian magazine, *L'Espresso*, given by Luciano Barca, a member of the central committee and others. Barca talked aloud of the need for a great increase in social consumption like houses, schools, hospitals which could win the support of a wide-based alliance for progress. "We hold," Barca added, "that private enterprise will have its own role to play at every level, provided that it is conditioned by clear programmatic and political options".

Barca did not fight shy of borrowing ideas from Wall Street when he described the American Stock Exchange regulations as the basis for reforms of the Italian stock exchanges, to convert the Italian bourse from a speculative centre into a financial market. Fiat need not be taken over, it would only have to reduce its emphasis on private cars and produce more public transportation vehicles.

Naturally, the PCI reasserted its independence from the Kremlin, at the Milan Congress. "The socialism which we propose to build in Italy", it said, "does not seek to copy any of the existing models which are based on economic, social and cultural situations which are different from ours. The socialism which we want will be what our working class and our people want it to be."

KATHMANDU

Hopefully a New Chapter

Bhola B Rana

NEPALESE Prime Minister Kirti Nidhi Bista begins a fortnight's offical visit to India on April 17. Bista was originally scheduled to visit India last December. But then the war with Pakistan erupted. Immediately after the war Delhi was preoccupied with the state elections which again forced the postponement of the Prime Minister's visit to India.

Bista knows India well and has travelled widely all over India. He studied at Lucknow University for his Master's degree in Political Science. His old university will confer an honorary doctorate on him when he returns to the UP capital, this time as the Prime Minister of Nepal.

Bista has established close personal contacts with the present Indian leadership during various missions to India and the visits of Indian leaders to Nepal. He will, therefore, be in the midst of old friends — a factor which should help in initiating a fruitful dialogue between the leaders of the two countries. For Bista, personally, the visit could not have been better timed. He has outlived the anti-India image that was tagged onto him, presumably because of his demand in 1969 for the withdrawal of Indian military personnel from Nepal's northern border with China. Ruffled feelings have now been soothed and there is increasing awareness in official Indian thinking that the withdrawal call was not made at the instance of any foreign power and that, in asking for the withdrawal, Nepal was only trying to make its non-aligned policy more meaningful — a process which is in the interest of non-alignment and also in the long-term interest of better understanding between India and Nepal. The withdrawal of Indian military personnel has, in fact, made it possible for Nepal to become more cordial towards India without incurring the displeasure of China. The presence of Indian military personnel was not beneficial to Sino-Nepal relations nor did it help Nepal to adopt policies which would promote a closer Indo-Nepal relationship.

To cite another instance of misunderstanding, Nepal's demand for an alternate overland transit trade route *via* the Indian town of Radhikapur on the Bangladesh (then East Pakistan) border raised a hornet's nest in India and delayed the signing of the Indo-Nepal Treaty of Trade and Transit for about nine months. When the Treaty was finally signed after much haggling, Nepal did not get the transit facilities it wanted through Radhikapur. India then interpreted Nepal's demand as politically motivated although New Delhi has now agreed to provide those very facilities after the creation of Bangladesh.

Nepal's future trade with Bangladesh is expected to figure in Bista's talks with Indira Gandhi. India envisages a tripartite arrangement between itself, Bangladesh and Nepal in order to start the flow of trade between Nepal and Bangladesh. Kathmandu has already placed an order in Bangladesh for three hundred tonnes of newsprint which is in short supply in Nepal and is keen to export stone chips for construction purposes to Bangladesh. A trade delegation will shortly be flying to Dacca to explore the possibilities for development of trade between the two countries. India wants to curb the outflow of unwanted commodities into its territory from Nepal. But if, for this reason, India places severe administrative and inspection checks on Nepal-Bangladesh trade, it would be impossible for Nepal to develop trade ties with Bangladesh under such circumstances.

Recent developments, like the emergence of Bangladesh and the rapprochement between China and the United States, have led to new power equations in the South Asian region. While Nepal has welcomed the moves towards normalisation of Sino-US relations as a vindication of Kathmandu's policies there is obviously growing scepticism in India over the nature of the Sino-American *detente*. The Indo-Soviet Treaty of Peace, Friendship and Co-operation, in the Nepalese view, seems to have furthered the Soviet aim of embracing South Asia in a collective security scheme which would include Nepal. Kathmandu is averse to such a security system because it is aimed aganst China with whom Nepal enjoys friendly relations. These developments in South Asia are expected to figure in the Bista-Gandhi talks. Committed as Nepal has always been to an absolutely neutral policy in regional affairs, it will be surprising if it abandons its present policy of maintaining an equidistance between Peking and New Delhi, despite the emergence — with Soviet backing — of India as the dominant power in this region.

Bista's visit to India has been described as purely a "goodwill" mission. However, the leaders of the two countries will, no doubt, utilise the opportunity to review several aspects of Indo-Nepal relations, particularly economic co-operation between the two countries. Despite its commitments to Bangladesh, India is expected to offer additional assistance to Nepal for the construction of the central sector of the Mahendra Rajmarg which is an ambitious plan to link east and west Nepal by a five hundred mile motorable road. India has already agreed in principle to construct the central sector of this road at an approximate cost of Rs 22 crores. The eastern sector linking Itihari with the sacred city of Janakpur has almost been completed with Indian assistance. Indira Gandhi is also expected to convey India's readiness to buy power from the proposed Karnali hydel project in west Nepal to meet the current shortage of power in parts of UP. The Karnali scheme is as ambitious as India's Bhakra Nangal project. When it is finally completed, the entire economic picture of west Nepal will change, bringing Nepal very large revenues from the sale of power alone to India. The lack of a market for the power to be generated by the Karnali hydel scheme was stalling Nepal's efforts to get the plan beyond the drawing board.

India is apparently very keen to reassure the new and youthful King Birendra of its best intentions towards Nepal. It is not a mere coincidence that the Nepalese Prime Minister has chosen to visit India first before going on missions to other countries. This will be his first foreign visit after the unexpected death of King Mahendra three months ago. Bista's visit to India underscores the importance that Kathmandu attaches to its relations with New Delhi.

Union Bank of India

Report of the Board of Directors

THE year 1971 saw bank deposits far outstripping bank advances. This was because of much better accretion to deposits on the one hand and lower demand for bank credit on the other, as compared to the previous year. Despite the fact that during the year National Income increased by only 4 per cent and industrial production was in a state of near stagnation, the aggregate deposits of scheduled commercial banks increased from Rs 5,685 crores on the last Friday of December, 1970 to Rs 6,856 crores on the last Friday of December, 1971, thus registering an increase of Rs 1,171 crores or 20.60 per cent as compared to the increase of Rs 808 crores or 16.58 per cent in the year 1970. On the other hand, as a result of subdued industrial activity the demand for bank credit was on a low key. During the year bank advances increased by Rs 514 crores, from Rs 4,452 crores to Rs 4,966 crores, i e, an increase of only 11.54 per cent as compared to the increase of Rs 836 crores or 23.13 per cent in the previous year. Consequently, by the end of the year, the credit-deposit ratio had declined from 78.32 per cent to 72.43 per cent.

Compared to 1970, the branch expansion programme of scheduled commercial banks slowed down a bit in 1971, with only 1,805 new branches being opened in the year as against 2,137 opened in the previous year.

In the above background, Union Bank's performance during the year under review was quite satisfactory in all respects, despite some unfortunate spells of industrial unrest.

The Bank's deposits at the end of 1970 which stood at Rs 163.79 crores (after disregarding, as clarified in the last year's Report, Rs 11.95 crores of application money in respect of a new share issue, placed with the Bank in current deposits during the last fortnight for a very temporary period) rose to Rs 197.34 crores at the end of 1971, i e, an increase of 20.48 per cent. If the deposit figures of the last Fridays of 1970 and 1971 are compared, the Bank's growth rate came to 28.39 per cent as against 20.60 per cent for all scheduled commercial banks.

Traditionally, in the deposit-mix of the Bank, the current account deposits have always been preponderant. This trend changed during the year under review. As in the Banking system as a whole, the Bank's time deposits expanded at a faster rate of 27.48 per cent than demand deposits which increased by 15.64 per cent. As a result, time deposits constituted 43.25 per cent of the total deposits of the Bank as against less than 41 per cent in the previous year.

Another redeeming feature of note in deposit mobilisation during the year under review was that, contrary to popular notion, the Bank's branches in rural areas achieved a very encouraging deposit growth rate, as can be seen from the following table showing area-wise distribution of deposits of the Bank:

(Rupees in lakhs)

Area	Total deposits at the last day of		Increase during	Percentage Increase during
	1970	1971	1971	1971
Metropolitan	91,97.84	106,96.74	14,98.90	16.30
Urban	41,91.46	51,65.69	9,74.23	23.24
Semi-urban	19,44.18	24,08.73	4,64.55	23.89
Rural	10,45.82	14,62.68	4,16.86	39.86
Total	163,79.30	197,33.84	33,54.54	20.48

Though the demand for credit was perceptibly low for the major part of the year, the total advances of the Bank, as at end of 1971, reached Rs 135.34 crores (including Rs 5.00 crores for food procurement) from Rs 111.54 crores at the end of 1970, i e, an increase of Rs 23.80 crores. This increase of 21.34 per cent is well below the increase of 28.95 per cent during the previous year, but compares quite favourably with the increase of only 11.54 per cent in the banking industry as a whole. In line with the trend of declining credit-deposit ratio of all scheduled commercial banks, which dipped from 78.32 per cent on the last Friday of December 1970 to 72.43 per cent on the last Friday of December 1971, the Bank's credit-deposit ratio also declined from 76.02 per cent to 69.75 per cent during the corresponding period.

The Bank's assistance to the priority and hitherto neglected sectors increased at a faster rate than the growth rate of total advances during the year. Credit to these sectors increased from Rs 43.30 crores to Rs 57.07 crores i e, by Rs 13.77 crores. Thus, though the Bank's total advances during the year increased, as stated before, by 21.34 per cent, its advances to priority sectors improved by 31.80 per cent. If, however, the traditional priority sector of exports was excluded, the growth in the Bank's assistance to other sectors claiming socio-economic priority amounted to over 44 per cent. Admittedly, the growth rate of 31.80 per cent does not compare well with the growth rate of 59.02 per cent by the Bank in these sectors during 1970. Apart from the fact that growth in the first full year after nationalisation, when the banks diverted their attention to these sectors for the first time, was bound to be steep, the comparative slower growth in 1971 can also be attributed to the overall sluggishness in the economy. Yet, the share of advances to the priority sectors in the total advances portfolio of the Bank improved from 38.82 per cent in 1970 to 42.18 per cent in 1971. Considering that investible funds increased by Rs 22 crores, the diversion of as much as Rs 13.77 crores to the priority sectors measures upto well over 62 per cent of the incremental investible resources of the Bank. Table A on p 799 reveals that the Bank's lending operations are characterised by an increasing emphasis on assistance to priority and neglected sectors.

In the matter of branch expansion, it was felt that in view of the acute personnel constraints the Bank should concentrate on consolidation of its position before embarking on further expansion. The Bank, therefore, opened 59 branches only during the year under review as compared to 101 branches in 1970. This lower rate of branch expansion was in line with the expansion of commercial banks as a whole. Out of the branches opened during the year, 49 were opened at centres having population of less than 1,00,000,

Area	Union Bank of India			All Commercial Banks		
	June 1969	Dec 1971	Percentage Increase	June 1969	Dec 1971	Percentage Increase
	No	No		No	No	
Rural	47	136	189.4	1832	4889	166.9
Semi-urban	59	121	105.1	3322	4224	27.2
Urban	62	89	43.5	1447	1850	27.9
Metropolitan and Port Towns	72	87	20.8	1661	2022	21.7
Total	240	433	80.4	8262	12985	57.2

TABLE A

(Rupees in lakhs)

	Balance Outstandings		Increase		Percentage to Total Advances	
	1970	1971	Amount	Percentage	1970	1971
				%	%	%
Agriculture	*1053.2*	*1360.0*	*306.8*	*29.1*	*9.4*	*10.0*
i) direct	748.3	1002.9	254.6	34.0	6.7	7.4
ii) indirect	304.9	357.1	52.2	17.1	2.7	2.6
Small-scale Industries	1344.6	1872.6	528.0	39.3	12.1	13.9
Transport Operators	76.8	173.7	96.9	126.2	0.7	1.3
Retail Trade and Small Business	70.9	229.7	158.8	224.0	0.6	1.7
Professionals and Self-employeds	13.5	55.4	41.9	310.4	0.1	0.4
Educational Loans	7.0	8.1	1.1	15.7	0.1	0.1
Sub-total	2566.0	3699.5	1133.5	44.2	23.0	27.4
Exports	1764.0	2008.0	244.0	13.8	15.8	14.8
Total	4330.0	5707.5	1377.5	31.8	38.8	42.2

of which 39 were in unbanked centres. With the opening of 17 new branches in the Bank's Lead Districts all the identified centres allotted to the Bank have been banked. The vigorous branch expansion programme implemented by the Bank since nationalisation, with a bias towards non-urban centres, is reflected in the figures at end of column 2 on p 798.

As a first step towards intensifying the Bank's assistance to the hitherto neglected sectors, the schemes in force in the Bank were re-aligned with the recommendations contained in the Thakkar Committee Report. Several special schemes have already been implemented and various others are under process of implementation. Schemes have been evolved and implemented for artisans, craftsmen and other categories of self-employeds like handloom weavers, bamboo-mat weavers, potters, bangle-makers, rope and broom-makers, basket weavers, toy-makers, launderers, etc. and for transport operators including rickshaw and hand-cart pullers, and educated self-employeds like engineers and women holding diploma in dress-making. Similarly, schemes have also been devised for gainful employment to retailers like hawkers dealing in eggs and dry fish and fruit and flower vendors. Apart from such schemes for direct assistance to these sectors, the Bank has entered into an arrangement with the Invention Promotion Board to finance the inventors for commercial exploitation of their inventions patented and approved by the Board. Under similar arrangements with financial institutions notably Uttar Pradesh Financial Corporation Ltd, Kerala State Finance Corporation Ltd, and Gujarat Industrial Investment Corporation Ltd, the Bank provides working capital assistance to such units as have been financed by the Corporations for their fixed capital requirements.

With the completion of the survey reports in respect of all the five lead districts allotted to the Bank, attention was directed towards effective implementation. Initially, the Bank had set up one office for the four lead districts in Uttar Pradesh and one in Ernakulam district in Kerala, to exclusively look after the lead bank operations. With a view to intensifying the developmental efforts, an additional Lead Office is being set up in Azamgarh in UP. As noted earlier, all the centres identified in the survey and allotted to the Bank have now been banked. Emphasis is now being placed on initiating new schemes for assistance to borrowers in these centres. Besides, the developmental process being a continuing one, it is proposed to undertake further surveys with a view to assessing the impact of the Bank's developmental efforts so far and locating fresh credit gaps. Special schemes like finance to handloom weavers in Varanasi, carpet-weavers at Bhadohi in UP, and bamboo mat-weavers in Ernakulam were evolved. District Consultative Committees have been set up in all districts with a view to seeking co-operation from officials of State Governments and representatives of other local bodies, in the developmental efforts of the Bank.

In consonance with the qualitative changes brought about in the Bank's functioning during the last few years, the Bank's organisational set-up was closely reviewed and redesigned. Apart from suitable re-structuring of management at the centre, new levels of operation management have been created in various regions as a further step towards decentralisation.

Significant efforts were made during the year to bring about far-reaching and qualitative changes in the training programmes conducted for staff at various levels at the Bank's Staff Training College in Bombay. The training programmes have been geared not only to cope up with the quantitatively growing requirements but also to equip the Bank's personnel in handling operational and organisational problems that have assumed new dimensions in the recent past. The process of redesigning the existing training programmes initiated last year was continued and during the year the curriculae were further revised. Besides the new specialised courses for financing agriculture and small-scale industries, a new programme in the form of a workshop for the senior personnel in the Central Office designed to develop decision-making skills was also introduced during the year. So far, the training of the new entrants was confined to on-the-job grounding and had remained the responsibility of the Branch Managers or departmental heads. With rapid expansion, at several branches officers with short service and limited work experience had, of necessity, to be posted to responsible positions. These personnel, themselves imperfectly trained, could hardly be expected to train others. In the circumstances, training centres for new entrants became a necessity. With this objective, Regional Training Centres were planned at a few centres. One has already gone into operation in Bombay, where three Induction Courses, each of four week's duration, have been conducted before the year ended.

With a view to improving the standard of customer service and reducing operational costs the Bank had, as reported last year, initiated rationalisation of procedures, most of which had a great safety and security bias. The effect of these changes and innovations is reflected in improved profitability in the year under review. Despite the fact that in

1971 the Bank absorbed a substantial burden of establishment expenses arising from the revision of pay scales and emoluments of the officer staff, the net profit of the Bank, after making all usual and necessary provisions, amounted to Rs 74,05,467.18 which has been appropriated as under:

1970		1971
Rs		Rs
9,75,000.00	Amount transferred to Reserve Fund in terms of Section 3(6) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.	18,00,000.00
21,50,000.00	Amount provided for Bonus to Staff.	37,55,000.00
17,48,826.75	Balance amount to be transferred to Government in terms of Section 10(7) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.	18,50,467.18
48,73,826.75		74,05,467.18

The year under review witnessed an unfortunate setback in the hitherto cordial industrial relations in the Bank, culminating in agitations and strikes. Both the Management and the workmen's Union are actively engaged in taking steps for restoring the old harmonious relations. It is hoped that with proper appreciation of, and mutual respect for, each other's role and areas of functions there should be no room for conflict.

In conclusion the Board express their thanks and appreciation to the Custodian, Executives, Officers and other members of staff, but for whose hard work and devotion to duty these results would not have been possible.

For and on behalf of the Board,

P. F. GUTTA
Custodian

Bombay,
29th March, 1972.

THE FOURTH ESTATE

A Range of Vested Interests

Nireekshak

THE big newspapers are in a quandary. With newsprint quotas trimmed, a bill to regulate prices of newspapers passed, and the prospect of advertisements attracting tax, it cannot be otherwise. To top it all, the possibility of a newspapers ownership diffusion bill in the next session of Parliament hangs like the sword of Damocles over them.

The mouthpiece of the big newspapers, the Indian and Eastern Newspaper Society, has done much lobbying in Delhi recently, but it has failed to extract any assurance from the government that the *status quo* will continue. On the other hand, the Indian Federation of Working Journalists — whose sole right to represent the working journalists has been recently challenged by the newly formed National Union of Journalists — is gradually building up political pressures for changes in the structure of the newspaper industry.

Interestingly, both the I&ENS and the IFWJ base their case on the recommendations of the Press Commission set up almost 20 years ago. The I&ENS has discovered there a case for *status quo*, while the IFWJ interprets the recommendations to be revolutionary. Since the Press Commission submitted its report in 1954, many changes have come about in the Indian press — some of them not even contemplated by the Commission. It is high time to investigate how these changes have affected the functioning of the press. Another Press Commission is called for.

The big newspapers also constitute the quality press, because, with their huge financial resources earned mainly from heavy advertising, they can afford quality editorial services. They can also provide the widest news coverage. Wages apart, the facilities the big newspapers extend to their correspondents, earn the envy of many a journalist working on small newspapers, though few would like to see these trimmed. What the IFWJ and other professional bodies want is their extension to the have-nots in the profession. The IFWJ has a grouse not against the journalists working in big newspapers but against their proprietors who, having other businesses, besides newspaper business, try to use the mass media controlled by them for purposes other than journalistic.

MISPLACED ATTACK

But in their crusade against the big newspapers, the government and the IFWJ often take untenable positions. For example, addressing the Newsprint Advisory Committee last week, the Minister of State for Information and Broadcasting, Nandini Satpathy, said that the growth of bigger newspapers was unhealthy because their economy was based "More on advertisements than on circulation". The *Hindustan Times* was quick to catch the Minister on the wrong foot and editorially commented: "Apparently the Minister of State for Information has little idea of the basic facts of newspaper publishing. There must be few, if any, newspapers anywhere in the world where there is a free press whose overheads or even direct costs are fully met from circulation revenues. A newspaper is one product which is frequently priced below its actual cost — and for good reason. If a reasonable measure of advertising support were not available, newspapers could not sustain their sizeable costs on paper, printing, and editorial services, and would either have to be priced far beyond what the average reader could afford to pay or would have to be heavily subsidised, thereby undermining the freedom of the press. It does not need the proposed fact-finding committee on newspaper economics to discover this basis fact."

Kashmir has always provided good news copy. It was so again last week. The release of 164 political detenues in the state and the withdrawal of the externment order on Begum Abdullah provided the occasion. Then followed the statement of Mohiuddin Karra, president of the Jammu and Kashmir Political Conference, that he and his party have accepted the view that the state's accession to India is final. Karra made no secret of the fact that the recent events in Pakistan and the emergence of Bangladesh made him and his colleagues change their earlier views on accession, though they would still like to bargain on the quantum of autonomy that the state enjoys within the Indian Union. Sheikh Abdullah also expressed similar views in his interviews with the correspondents of *Reuter* and the *Times*, London. This change in Kashmir's political climate has been editorially noted by most newspapers.

KASHMIR ISSUE

The pro-RSS-Jan Sangh English daily, *The Motherland*, has welcomed Karra's statement and "the new mood in the state"; but in the same breath it struck a note of caution: "The way Shri Karra has raised the issue of autonomy while eschewing secessionism is not a good augury. All kinds of reactionaries are likely to flock to his new banner and try to vitiate the atmosphere in the state. Shri Karra's suggestion that Sheikh Mujibur Rahman should mediate on the question of 'securing a place of honour and dignity for Kashmiris' is sinister. There is a lesson for the Centre also in this. At the root of the autonomy demand is the 'special status' mistakenly given to Kashmir in the Constitution. How Sheikh Abdullah got Article 370 inserted in the Constitution has been exposed in the recently published book, "Sardar Patel's Correspondence". There is nothing in the Instrument of Accession signed by Maharaja Hari Singh to warrant any special status for Kashmir. Now is the time to have Article 370 scrapped."

The *Hindustan Times*, which has been a staunch critic of the Central Government on the Kashmir issue, has also hailed the "welcome change in Kashmir politics" and has discussed the "new opportunities opening for reconciliation in Jammu and Kashmir" which, it insists, "must be seized". The paper is confident that "an honourable reconciliation of opposing viewpoints, without prejudice to Indian sovereignty and vital interests, is possible and many past wrongs will automatically be dissolved in this reconciliation which will also give fulfilment to the aspirations of the people of Jammu and Kashmir. An internal settlement on these lines would greatly strengthen the Government of India's hands when it comes to negotiating a settlement with Pakistan."

Hindustan Standard of Calcutta sees developments in Kashmir from a different angle. "This [Karra's changed attitude] may shock all those who were hoping that the Bangladesh developments would help secessionist trends in Jammu and Kashmir. There is no state in India which does not want more powers for itself and Mr Karra's revised demand should not attract official opprobrium as long as he seeks an accommodation within the framework of the present relationship between the Union and the state."

OCCASION FOR PUNGENCY

The recognition of Bangladesh by the United States Government was another important event of the week. That it came late and was more or less expected deprived it the first lead position in the newspapers. But it did produce some hard-hitting editorials. Most pungent was New Delhi daily *Patriot's* comment. Wrote *Patriot*: "Mr Rogers who spoke on behalf of Mr Nixon and his mentor, Dr Kissinger, has shown them (Peking and Islamabad) how easily a bitter pill can be swallowed. Without batting an eye-lid and magnanimously forgetting that the Seventh Fleet task force would have suppressed the freedom of the people of Bangladesh, if it only could, the US Secretary of State talked of the 'good wishes of all the American people' and hope of "good relations with the new country'."

Hindustan Times saw in American action "its willingness to take a second hard look at the realities of South Asia and adjust its policies to them". Commented the *Indian Express*: "In the circumstances, the US recognition proceeds from a situation of weakness rather than strength. That fact seems to have escaped the notice of President Nixon and his advisers. It has not escaped the notice of some other people." According to Bombay's *Free Press Journal*, US recognition of Bangladesh is part of a calculated strategy. "If things cannot be brought back to the pre-March 1971 level, then the next best thing surely is to establish some leverage in Dacca so that India at least may be put in its place. Putting India in its place is also Peking's declared objective, *vide* the Sino-American communique."

'April fool' reports are not the Indian press's cup of tea. But the press does take delight in reporting how other newspapers elsewhere in the world fooled their readers. The story filed by the *Associated Press*, as to how the Jakarta newspaper *Indonesia Raya* fooled its readers by reporting a coup in the Portuguese part of Timor located between Australia and Indonesia, has been used in most provincial dailies. According to *AP*, one of the victims of the Jakarta newspaper's hoax was the Foreign Minister of Indonesia, Adam Malik. Someone in this country too played the April fool joke with Air India: a bomb scare at Delhi's Palam airport. It made a good box item for most Delhi and Bombay newspapers. Madras had its own April fool story. Reports *Hindu*: "Attracted by an advertisement in a morning paper, they (persons eager to buy fancy goods) rushed in cars and taxis to Pallavaram. The advertisement has stated that a foreigner leaving the city, would sell 'golf sets, stereo LPs, tapes, electric toys and cosmetics at 9 a m on a first come first basis'. But the prospective purchasers who arrived at the notified address, found no such seller and the whole thing turned out to be a hoax."

MEETING OF MINDS

The New Delhi Representative of *Financial Express*, Kewal Varma, has unearthed an interesting instance of virtual plagiarism in high quarters — to wit, the Prime Minister's speech-writers. In his New Delhi Letter of April 13, Kewal Varma quotes extensively from a recent article by the Pakistani economist, Mahbub ul Haq, to show how similar the themes of the Prime Minister's last few economic policy statements have been to the ideas contained in Haq's article. However, it is not merely a case of borrowed ideas; as Kewal Varma says, "some of [Haq's] sentences were physically lifted and incorporated in the Prime Minister's speeches". Examples:

Mahbub ul Haq: "The very institutions we created for promoting faster growth and capital accumulation frustrated later on all our attempts for better distribution and greater social justice."

The Prime Minister: "The very institutions we have created for promoting faster growth and capital accumulation now seem to frustrate our attempts for better distribution and greater social justice."

Again, Haq: "Once you have increased your GNP by producing more luxury houses and cars, it is not very easy to convert them into low-cost housing or bus transport."

The Prime Minister: "Once resources are committed to luxury goods it is not possible to convert them into commodities of mass consumption like bus transport or houses for the poor."

A not altogether unhappy portent for the Prime Minister's forthcoming summit with Bhutto, one might say!

Trot-Bits

Tirril Harris

On Lenin by Leon Trotsky, translated and annotated by Tamara Deutscher; with an introduction by Lionel Kochan; Oxford University Press, 1971; pp 204; Rs 10.

"WHEN a really great revolution comes, a great people always find for every part a suitable actor, and one of the signs of the greatness of our revolution is that the Communist Party advanced from its midst... so many able people suited to this and that governmental function. Most of all suited to their parts are the two strongest of the strong — Lenin and Trotsky." This was the view of A V Lunacharsky, Soviet Commissar of Education, in 1923, and it has been increasingly widely accepted in the last fifteen years, after decades in which Trotsky has been the standard target for all malignments and misrepresentations. And indeed the reissue of these notes 'On Lenin' is the measure of exactly this reinstatement; for, as Trotsky himself said, it is a 'sketchy work', not a full study of Lenin, published in a hurry in 1924 before he had even assembled all his reminiscences, and only in the context of an already existing interested reading public is it worthwhile to issue such books. It has not appeared in English since 1925, and is often omitted from bibliographies of Trotsky's works. The present edition is filled out with some additional material, texts of speeches and articles in *Pravda* translated for the first time by Tamara Deutscher.

Disappointing Verdict

As the verdict of one of the strongest of the strong upon the other it is disappointing. Large sections of it seem to share with subsequent Soviet accounts of Lenin a semi-religious adoration: personality characteristics are listed to show that Lenin is the embodiment of the two classes behind the October revolution: "there seems to exist between the vital forces of the country and the leader some organic, indissoluble link deep down at the roots of his being...". The occasion of his being wounded by a terrorist attempt on his life, or of his first stroke, call forth tributes from his devoted comrade which, if they were not at the time, have since been rendered cliches by the mountainous volume of subsequent hagiography. In another chapter Trotsky analyses in meticulous detail some not even particularly charming childrens' poems about Lenin, summarising them and then redescribing Lenin along similar lines. In another we are given a picture of Lenin 'on the rostrum' which amounts to little more than a catalogue of his movements and gestures, with barely a mention of what he might be talking about. This might fill a gap for those who have never seen a silent movie of Lenin speaking, but coming from Trotsky's pen it is disappointing. Even when he takes issue with Gorky and with H G Wells for the false portraits he considers they have given us of Lenin, he does not make him really come alive for us. These two articles are, however, unlike some of the other sections, good literary Trotsky. Particularly in his review of H G Wells his dialectical approach is clear — he neatly derives the English Fabian's conceit in reporting his conversation with Lenin from his political position of collective evolutionism, and the whole piece is cleverly pointed against the MacDonald government. The text resounds with that scathing irony so familiar in his later analyses of Stalinist logic and those skilful verbal side-swipes reducing Wells' comments to pure ridicule: "Now you will understand, I hope, why Wells did not at all notice that famous laughter of Lenin about which he had been told so much. Lenin was in no mood to laugh. I even fear that he might have been a victim of quite the opposite temptation. But his versatile and clever hand, as usual, rendered him a service by concealing just in time an unkind yawn from a visitor preoccupied with his own person." Trotsky's treatment of Gorky, while less of a literary performance, is also well grounded in his appreciation of the political differences between Gorky and Lenin, and hints at the complex issues dividing Bolshevism from the progressivism of the left intelligentsia which he expounds so brilliantly elsewhere in his theoretical analyses. But it still does not really convey to the reader what Lenin was like. This begins to emerge in some of the historical chapters, many of which will already be familiar to readers of Trotsky's "History of the Russian Revolution" and his autobiography. Here we are given graphic pictures of Lenin taking political decisions and arguing with that uncompromising concentration which was his hallmark. In some of the sketchier chapters about the post-1917 years too we get some insight from anecdotes, many of which suggest an unexpected tendency to giggling in Lenin. In one of these Trotsky tells how he phoned Lenin to remind him of a new 'rule' they had introduced together to the Council of Peoples' Commissars that anyone coming more than ten minutes late to a session should pay a fine, and to warn him that he had only three minutes left before the next session: "'It's all right' answered Ilyich with a little giggle the sense of which I understood only later." On arriving at the meeting Trotsky found Lenin already there: "True it seemed to me that someone resembling Vladimir Ilyich flew by towards the Cavalry Building, but I could not imagine that the Chairman of the Peoples' Commissars would — in the full view of all — rush like a hurricane across the esplanade of the Kremlin. Ilyich was chuckling; he was triumphant."

Sauce for the Titbits

As sauce for these titbits there is an introduction by Lionel Kochan while combines a sympathetic outline of Trotsky's own life with some rather questionable remarks about the importance of Jewish membership on the Central Committee of the Bolshevik Party for maintaining the internationalist ideology, and about Stalin's "greater sensitivity to extra-Russian affairs than Trotsky" (*sic*). He notes the 'fulsome adoration' that Trotsky shows for Lenin in these notes and gives a sensitive account of their relationship over the years and the stages of the revolution to explain it. But to leave it at that level of individual psychology is perhaps to do Trotsky an injustice. His admiration for his leader, it is true, borders on hero-worship at times in this volume, but this can be forgiven, for it appeared shortly after Lenin's death. While it may not be clear here, it emerges in his "History of the Russian Revolution" not as a freakish adoration but as an historical judgment, albeit extreme, but entirely convincing on the basis of the evidence assembled there: "Had I not been present in 1917 in Petrograd the October Revolution would still have taken place — on the condition that Lenin was present and in command. If neither Lenin nor I had been present in Petrograd, there would have been no October revolution: the leadership of the Bolshevik Party would have prevented it from occurring — of this I have not the slightest doubt." This is why this little book 'On Lenin' can never be more than a side-dish to the main meal of his other work.

Badly Chewed Cud

M D Nalapat

Sales and Excise Taxation in India by Walter R Mahler, Jr; Orient Longmans, 1970; pp 426 + xv; Rs 45.

THIS book, based on a thesis submitted to Syracuse University, contains strands of thought that are too elementary to be called 'analyses' and has too few statistics to be called a compendium of information on the subject of indirect taxes in India. Mahler begins by stating that "the most important concern of fiscal policy in general — and of taxation policy in particular — in the underdeveloped countries, is with economic growth" (p 1). He then follows up with a 19-point list of tax 'objectives'.

Mahler knows his Ricardo well — perhaps too well — as witness this comment: "In developed countries *the best contribution a tax system can make to growth is to maintain as much neutrality as possible among different incomes and expenditures*" (p 2) (italics mine). Even Samuelson would blush at this.

Persistence with Self-Evident Statements

Had Mahler confined himself to documenting the contours of the indirect tax system of India, the book might have gained. But he persists in making self-evident statements, such as that "for an underdeveloped country India has a very complex and sophisticated system of taxation" (p 5) or wrong statements such as that "the relative importance of direct taxes tends to increase (in the stage of growth in which India is)". Even theoretically (*vide* Hinrichs, "A General Theory of Tax Structure Change during Economic Development", 1966) it is accepted that, in this stage, excise taxes dominate over the rest; it is only in the final stage, of 'maturity', that direct taxes become preponderant.

Mahler follows the text-book economists well, in that such unmentionables as illegal incomes and tax evasion are beyond him. He puts down the decline in the share of customs duties from 39 per cent in 1950-51 to 22 per cent in 1968-69 as proof of the doctrine that "the economic development of a country is accompanied by a decline in the relative importance of customs duties" — such factors as smuggling not entering the picture at all!

The next 46 pages are a rehash of economists' views on equity, inflation, incentives, *et hoc genus omne*, interspersed with his own views that exhibit naivety in analysis and ignorance of the many implications of the present income distribution in India. There are also statements such as: "The increase in the price level which results from a commodity tax is unlike the usual inflation because it does not give rise to additional money income which generates further inflation" (p 38). The government presumably just hoards all this money.

TEC Sneered At

Mahler then proceeds to give a tedious account of trends in excise revenue, while mentioning policy objectives and giving commodity breakdowns. He sneers at the Taxation Enquiry Commission's desire to encourage production by labour-intensive methods by superciliously remarking: "Apparently the TEC felt that inefficiency deserves protection if it results in increased employment" (p 77). Surely, labour-intensive methods, given India's capital-labour mix, need not be economically inefficient. Besides, employment provided is also an index of the 'efficiency' of government policy if not of the particular industry concerned.

Among Mahler's beliefs, one (p 86) is that "there is very little to support the contention that the distributive trade has the degree of monopoly power attributed to it". This is incorrect: without appeasing the distributive trade no small producer can get his goods into the market or hope to get the retailers to push them. The distributive trade may not seem so powerful when it is itself dealing with a monopolistic producer but this is not true when it is dealing with by far the major section of India's producers.

After wrapping up the entire Indian excise system in 139 pages, Mahler devotes almost the same number of pages (140, to be exact) to sales taxes! And, expectedly, the mistakes are not long in coming.

Informing us that "there are five basic types of sales taxation in existence in various parts of the world", Mahler, in the next paragraph, asserts that he feels the "major advantage of the multiple stage sales tax over single stage sales taxes is basically political [how does this square with his earlier preference for a single-stage excise levy?]; it can raise a given amount of revenue at a lower rate of tax; this lower rate tends to simplify administration somewhat as it reduces the gains to be achieved by evasion of the tax" (p 141). If you want to raise Rs 25 crores from an industry with a turnover of Rs 100 crores, with five processes (or, in the book's terminology, 'stages'), each accounting for Rs 20 crores, you would have to levy tax of one-fifth of Rs 25 crores on each stage, *viz*, Rs 5 crores, *viz*, a 25 per cent levy on each stage! Has Mahler forgotten that 'rate' is computed on a percentage basis, and that a Rs 5-crore tax on a Rs 20-crore turnover is as hurtful as a tax of Rs 25 crores on a Rs 100-crore turnover? Also, while the absolute gains (from tax evasion) may be less in this system, the percentage gains need not be. And this is more important. It is foolish to try to tell a manufacturer that he is 'better off' because he is paying only Rs 5 crores as tax whereas he would be paying Rs 25 crores had the tax been on the final turnover of Rs 100 crores; for, in the latter case, his turnover too would have risen (to Rs 100 crores). It is only if he faces an elastic market for his final product but has an inelastic demand for his raw materials — which is unlikely — that he will suffer more under a single-stage system than under a multiple-stage one.

Superficial and Inadequate

In his inimitable way, Mahler goes on to tell us what may be the best type of sales taxation for India (p 205: "There is very little agreement on what would be the best pattern of sales taxation in India"); then to give general suggestions for reform (p 216: "There is a very good case for doing away with multiple point sales taxation in India"; and then to state the reasons why, which are all summarised in a mere four paragraphs. It would be to give too much importance to the book if I were to detail these here. The book is superficial and the topics are covered inadequately. It is not a book to be recommended to any serious student of the subject.

The 1972 Election in West Bengal

Biplab Dasgupta

The spectacular victory of Congress in the 1972 election in West Bengal has come as a big surprise to many. Although many observers probably expected a Congress victory — because of Bangladesh and other factors — the result was anticipated to be a close one, particularly because this time CPI(M) was contesting in alliance with almost all the Left-wing parties in the state. That the number of seats won by CPI(M) should crash from 113 in 1971 to 14 in the recent election was totally unexpected, as was the Congress party's tally of 216 seats.

Here the author examines the various theories which have been advanced to explain the startling results of the 1972 election in West Bengal. A detailed, quantitative analysis will follow later.

THE spectacular victory of Congress in the 1972 election in West Bengal has come as a big surprise to many. Although probably many observers expected a Congress victory — because of Bangladesh and other factors — the result was expected to be close, particularly because this time CPI(M) was contesting in alliance with almost all the left-wing parties of the state excluding CPI. That the number of seats won by CPI(M) should crash from 113 in 1971 to 14 in the recent election was totally unexpected as also the tally of 216 seats for Congress. Many experts have now begun saying that the CPI(M) would now end up the way parties like Congress(O), Jan Sangh, Swatantra, PSP and SSP have ended in the rest of India. This victory of Congress also marks the gaining of power through absolute majority after a gap of five years during which in three successive elections — in 1967, 1969 and 1971 — the Congress party was defeated in attaining this objective.

Is this the end of CPI(M)? Certainly not. The number of seats bagged by that party in the recent election is misleading and unfair as a measure of its popular support. Even ignoring the complaints about the unfair nature of this election, CPI(M)'s share of votes, at 28 per cent is quite high. If the number of seats obtained by it reflected its popular support in terms of percentage share of votes, there would be 78 CPI(M) members in the assembly now instead of 14. This percentage share is higher than the 19 per cent CPI(M) obtained in 1969, although it is lower than the 32 per cent votes the party registered in 1971. Its position in terms of percentage share of votes is only slightly worse than that of Congress (29 per cent) only a year ago, in 1971. So, if the Congress organisation was not finished by the votes it obtained in 1971, CPI(M) can hardly be said to have been destroyed because of the reverses it has suffered this time. On the other hand, there is no evidence of a uniform swing of public opinion against CPI(M). It has lost in many constituencies, but it has also gained in many others. The CPI(M)-led front as a whole has managed to get about 36 per cent of the votes and 20 seats.

Here I propose to examine various theories which have been advanced from various quarters for explaining the startling electoral results of the 1972 election. A detailed, quantitative analysis will be taken up some time in future.

One popular hypothesis can be stated as follows: The people of West Bengal twice rejected Congress and voted the United Fronts of left-wing parties to power during 1967-71, but on both of these occasions their expectations were not fulfilled. Not only that the United Fronts failed to produce good government or to introduce significant changes, but they broke up eventually because of serious factional conflicts within the United Fronts. The people of this state, after having tried the United Fronts for several years, are now convinced that alternatives to Congress would not work, and so are prepared to give Congress another chance to prove itself.

This hypothesis, although widely publicised by the Congress press of Calcutta, contains many flaws irrespective of one's opinion about the performance of the United Front governments of 1967 and 1969-70. First of all, the records of the United Front governments were discussed and voted upon during the 1971 election, when the voters gave their massive support for CPI(M) by increasing its percentage share of votes from 19 per cent in 1969 to 32 per cent in that election — a fantastic growth by almost any standards. In any case, this issue is incapable of explaining the differences in voting behaviour between the elections of 1971 and 1972. Secondly, although CPI(M) was the largest group within such United Fronts, Bangla Congress and CPI followed CPI(M) in order of strength inside the United Front, and these two parties have now joined the Congress alliance. During the 1967 United Front government these two parties together had more seats than CPI(M), and in the 1969-70 government also these two parties, with the support of some other parties in the United Front, matched the strength of CPI(M) within the alliance. In fact on both of these occasions the Chief Minister was Ajoy Mukherjee of Bangla Congress who has now returned to Congress, and the CPI(M) leader Jyoti Basu was denied that post because of strong opposition of these two parties. So, even assuming that the record of the United Front government was not very impressive, these two parties which are now constituents of the Congress alliance are as much to blame for that as CPI(M) or other parties. (However, the question of the performances of the United Fronts in West Bengal during these two terms in office should be discussed separately because of its obvious importance.) Thirdly, although it is true that both of these two United Fronts suffered from internal differences, and eventually broke up, the differences were mostly of ideological character — on issues like land reform, police policy, industrial relations — with their necessary educative implications. These differences underlined the class composition of various parties in the United Front, forced the rich peasant parties like Bangla Congress to come out openly in support of their supporters and helped their disintegration as political entities. On the other hand, both the Congress ministries which were set up during the 1967-71 period — P C Ghosh's ministry of 1967-68 (for five months) and Ajoy Mukherjee's 3-month ministry following the 1971 election — broke up after very short periods be-

cause of rivalries between different Congress factions. It it significant that the newspapers of Calcutta hardly mention these two ministries in their account of the 1967-72 period, not to speak of their record or of the way they eventually disintegrated. On the other hand, if one treats the terms under Governor's rule as Congress rule (in fact during 1971-72 it was Siddhartha Ray, the present Chief Minister, who was ruling West Bengal as a Central Minister), the United Fronts only ruled for 21 months out of the 60 months of the 1967-72 period, and for two-thirds of the time the state was under Congress rule of various sorts. Considering also the fact that under the Indian constitution and the existing financial arrangements the states are not powerful autonomous bodies, and the Centre is largely responsible for the developments in the individual states, the verdict of the people on the basis of the present state of affairs in West Bengal, should have gone against Congress.

The explanation for the massive Congress victory, and the defeat of the CPI(M) front should be sought in the events which took place during the twelve months following the March 1971 election — such as the creation of Bangladesh, the stability of the Central government, the "left" image of Indira Gandhi, the alliance of Congress with CPI and the firm support of the Soviet Union, the liquidation of the Naxalites and their implications for the Congress organisation, the growth of Youth Congress and the systematic terrorisation and suppression of the left-wing parties by the joint activities of the police and the military and the anti-socials. In the following pages I will make an attempt to examine the implications of these events for the 1972 election figures.

First of all, Bangladesh, a subject which has always been very close to the heart of the Bengalis of West Bengal. This event certainly influenced the decision of the election strategists of Congress to hold elections in West Bengal in March 1972, whereas earlier this state had not been included among those where elections were to take place. What is not clear is why the verdict on Bangladesh should go against CPI(M). Unlike its position on the border war with China, which was not popular, CPI(M) was this time on the right side of the popular sentiment from the very beginning. It was the first party to demand the recognition of Bangladesh, and one of its main criticisms against the Indian government was that the latter was not doing enough to help the liberation fighters and was looking for a solution of the refugee problem within the framework of Pakistan. If the party has done so well in the past in spite of its unpopular position on the question of border war with China, why should it suffer now when it cannot be faulted as standing against the prevailing mood of popular opinion. Perhaps, the vote in 1972 was not against CPI(M), but it was in favour of the Indian government for sending the army and liberating Bangladesh. It is true that all the parties co-operated with the government on this issue; Bangladesh was a national issue, but the party in power was always likely to gain most from a popular government action. The Bengalis were grateful to the Indian government for marching to Dacca, and securing the surrender of the oppressive Yahya army, and it was a vote of support for that action. All the other issues faded into insignificance in comparison, and the verdict should not be interpreted as support for Congress policy in other spheres, or as a vote of no-confidence in CPI(M). The appearance of Sheikh Mujibur Rahman alongside Indira Gandhi at the Calcutta Maidan, and the former's expression of gratitude to the Indian government only a few weeks before the election, certainly helped Indira Gandhi in monopolising the credit for the liberation of Bangladesh.

For various reasons, mainly because of the more effective propaganda machinery for the ruling party, the unfavourable implications of Bangladesh for the ruling party were never in the limelight — for example the alliance of Congress with Muslim League (a party which was opposed to the formation of Bangladesh) in running the three-month government following the 1971 election in West Bengal and its continuing alliance with that party in Kerala, or the case for greater autonomy of the states and a reallocation of power between the Centre and the states in favour of the latter, or even the question of suppression of democracy in West Bengal. But in the long run these issues, arising out of the Bangladesh struggle and concerning secularism, democracy, and regional autonomy, would assume more importance than the fact of the creation of Bangladesh as a new nation of 75 million Bengalis.

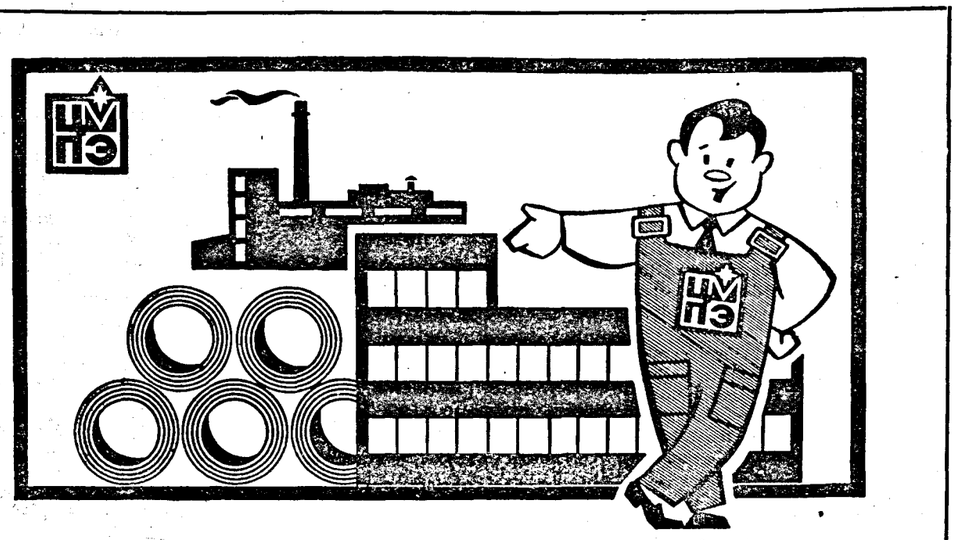
Can it be said that it was not so much Bangladesh after all, but the victory of the Indian army over the arch-enemy Pakistan, the undoing of Partition to a certain extent, and the establishment of India's claim as a major power in this part of the world which were the real issues which roused aggressive nationalistic feelings and helped the victory of Congress? As regards West Bengal this is not likely to be an important factor influencing the outcome of the election in such a big way, although in other states the feeling of national pride probably played a significant role in crushing all opposition to the Congress party.

Another explanation is the so-called "Indira wave" which has swept aside all opposition to the ruling party all over the country including West Bengal. One main difficulty in accepting this explanation is that even in 1971 the "Indira wave" was very much in evidence in the rest of India and all the opposition were crushed, but in West Bengal the tide was effectively stemmed by CPI(M), which came out with half of the parliamentary seats for that state. West Bengal proved to be an exception last year, but why has it lost that distinction this time? The difference between the two elections in terms of Indira Gandhi's image in West Bengal can be found in the following factors — Bangladesh which we have already discussed, the role of CPI and Soviet Union which we will discuss below, and the establishment of a stable government at the Centre following the 1971 election victory for Indira Gandhi.

When the assembly elections took place in West Bengal in 1971 there was no guarantee that Congress would be returned with a large majority in Parliament. The country was being run by a minority government, and the situation was chaotic in most states. In West Bengal in particular there was no prospect of Congress being returned to power as a single majority party. In contrast the present election took place under more stable conditions — Indira Gandhi was firmly established in power, and the Congress party was expected to win the election in all the other states (ignoring Goa and Meghalaya). Indira Gandhi in her 20-odd election meetings all over West Bengal promised more money for West Bengal for projects like Haldia Port, the second bridge over the Hooghly, an underground railway in Calcutta and for solving the unemployment problem, but while making these promises she made them conditional on a good Centre-state relationship and a vote for the Congress in the state elections. It is not unlikely that some voters were influenced by the "bandwagon" effect of Indira Gandhi's victory in the rest of the country, and also by the fact that the development of West Bengal was not possible without the support of the

Centre which was not going to come without a Congress government at the state level. The daily press of Calcutta, particularly the editorials, went over and over this point, that progress of West Bengal could be ensured only by having a Congress ministry. They were frank and truthful in admitting that a non-Congress government in West Bengal would be discriminated against by the Centre and Indira Gandhi also made no attempt to hide this fact in her election speeches.

Seeing it in this way, then the vote for Congress in West Bengal in 1972 was a vote for the political power at the Centre which promised support for West Bengal's development. It was not a vote for the Congress in West Bengal, which has not been trusted by the Bengalis since 1967. Such interpretation would explain both the vote for Congress in the elections and the lack of jubilation on the part of the people



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because it has brought to power the disreputable Congress politicians of that state.

A third explanation is the support for Congress by CPI and the Soviet Union. During the 1971 election CPI contested separately in alliance with a number of other parties like Forward Bloc, Socialist Unity Centre, and SSP, although in a large number of constituencies the CPI front, Bangla Congress and Congress made 'no-contest' agreements and put up jointly supported candidates. This time CPI was formally a part of the Congress alliance, the front led by CPI was split, but the major portion of it participated in the CPI(M)-led front. The crucial question before the election was how the 19 per cent vote that the front secured would be divided between Congress-CPI front and CPI(M)-led front. One possibility was that CPI, by joining Congress, would simply lose its credential as a Marxist and non-Congress party, and hence would become a liability to the Congress organisation. On its own it would be unable to win a single seat, and by tailing Congress it would merely destroy itself. Another theory was that the support of CPI, which is known as a left-wing party, would make the Congress slogan of "banish poverty" credible to the people, and would help it to assert its claim as a "leftist" party. At the same time CPI would also gain in terms of seats, whatever be the long-term implications of such a policy. Both CPI and Congress also gained from the fact that the Soviet Union was seen as the most dependable ally of India on the question of Bangla Desh, and the pronouncements of the Soviet leaders on the "progressive" nature of Indira Gandhi's regime also helped to improve its image among the masses.

While the Congress party certainly gained from the support of CPI, particularly in areas like Midnapore or 24 Parganas, the CPI(M) led front also gained from the support of parties like RSP, SUC and Forward Bloc. During the 1971 election CPI(M) was for all practical purposes contesting alone because the parties which joined its front were no more than splinters, but if all the parties which joined CPI(M) in 1972 had supported CPI(M) in the previous election the latter would have got a comfortable majority in that election. The front which was established during the 1972 election included all the major non-Congress and left-wing parties of the state excepting CPI. This time it could not be said that CPI(M) was isolated. Taking both sides of the equation into account, on an *a priori* basis at least it was not clear why Congress should gain more from the support of CPI than the gains CPI(M) made from the support of all the other left-wing parties.

A fourth explanation is that the people voted on the issue of law and order. This is the least convincing of all the explanations. If one makes a graph of the number of violent incidents in the state, the graph would show a sharp increase after May 1970, when the Naxalites launched their offensive "annihilation campaign" in urban areas. During the one year of the much-maligned United Front rule of 1969-70 there were about 70 political murders, all resulting from clashes between rival armed groups either in mines or factories or in the course of land struggles between the kulaks and the landless. In comparison in the following two years of direct or indirect Congress rule there were several weeks when the weekly murder figure reached 70 or more. The targets of Naxalite attacks were either CPI(M) functionaries or petty businessmen or low level police officials. Very few members of the other political parties were attacked by the Naxalites during this period, whereas about 800 CPI(M) sympathisers or members were killed. The responsibility for Naxalite violence rests on Congress for several reasons — the Congress leadership in West Bengal never criticised or condemned the Naxalites and instead blamed CPI(M) whenever they were attacked by the Naxalites for "giving birth to the cult of violence", in many places the Congress worked in close link with the Naxalites in "liberating" areas from CPI(M) as also during the 1971 election and the anti-social element in the Naxalite movement joined the Youth Congress after July 1971 and has been very active since in conducting their anti-CPI(M) activities. There is also suspicion that after May 1970 there was large-scale penetration of the Naxalite organisation by police informers, who misdirected the movement against CPI(M), and after July 1971 in a series of operations covering a period of barely two weeks liquidated the serious element in the Naxalite movement while at the same time causing the defection of the criminal element of the movement to the side of Congress. Since then it is Congress which has continued the offensive against CPI(M), and has been responsible for a large number of murders in co-operation with the police, CRP, and military. Neither at the government level (because of its inability to curb violence, and also because of the way it employed the coercive powers of the state against the opposition), nor at the party level (by recruiting anti-socials and creating a reign of terror through them), can Congress escape the responsibility for the present state of affairs in that state.

Perhaps such an explanation in terms of the law and order issue can be justified to some extent in the following ways: (1) Because until July 1971 the two main parties in the conflict, as seen by the people, and as publicised by the press, were CPI(M) and Naxalites, both claiming allegiance to Marxism, the people wanted to reject both and favour a party like Congress. This is probably true in places where cases of violence were few, but where the propaganda about violence, and the alleged responsibility of CPI(M) for it, reached through the Congress-dominated press. (2) Because the press, which is traditionally pro-Congress in Calcutta, maintained a "conspiracy of silence" about the role of Congress rowdies in committing violence and creating a reign of terror, the people in general (excepting those who were directly affected by it) were not kept informed. Excepting for papers like *Economic and Political Weekly* or *Economic Times* or some foreign papers which have made mention of the "strong arm methods" of Indira Gandhi's boys, the scope and extent of terror unleashed by the Congress gangsters has remained largely unreported in the popular press. There has also been many deliberate distortions. For example, in a recent case, a CPI(M) activist Nirmal Chatterjee was hacked to pieces in front of his wife, and his wife was raped, in Sonarpur, and subsequently his wife made a statement implicating a local Youth Congress leader and his gang for this murder and rape, but the daily press published a report with the headline, "Congress leader Nirmal Chatterjee murdered by CPI(M) gangsters". By both suppressing the truth and by suggesting the false, and by throwing away even the pretence of unbiased reporting, the press of West Bengal has helped the cause of Congress. It is not only terror, but terror plus propaganda which makes out the victim of terror to be responsible for terror, which to a certain measure has influenced those who have not directly witnessed the atrocities. (3) It is also possible that some people still voted for Congress, knowing fully about the role of Congress in perpetuating the atmosphere of violence in the urban areas of West Bengal, in order to see an end to the continuation of the present unsettled condition even if it meant that the undisputed rule of Congress rowdies would be imposed. There are always some people in every country who would prefer stability to progress when these two are presented as alternatives to them, although in the case of West Bengal it cannot be ascertained how

many voted for Congress for this reason.

Lastly, we will examine the allegation of CPI(M) that the election was not free and fair. It is not for the first time that such allegations have been made against the way the elections are conducted in India. At one time it was quite commonplace for a candidate to buy up his opponents and to ensure an uncontested election, and at least in one election in Kashmir the opposition was routed as a result of the nomination papers of the opposition candidates being rejected. Large-scale imprisonment of opposition candidates during election took place in Kerala (particularly in 1965 when CPI(M) won a majority in the state legislature, but 28 of its candidates had to fight from prison), as also in West Bengal (in 1971) in the past. In this election also four of the candidates contested from prison and two were not allowed to go to their constituencies for campaigning. Impersonation, false voting, tampering with the ballot box, all these have also been alleged from time to time.

The CPI(M) allegation is related to a number of points. First of all it is related to the general atmosphere in the state — with 16,000 to 20,000 persons in prison without trial, with about 2,000 murders in two years, with the application of Prevention of Violence Act and Maintenance of Internal Security Act against the opposition, with the threat of arrests hanging over the heads of thousands of CPI(M) workers, it was not possible for the opposition to work openly without fear. In addition, the Congress rowdies were taking over ("liberating" in their language) one area after another from where the CPI(M) workers were being thrown out through massive attacks with the support of police and military. According to one estimate, there are about 10,000 CPI(M) "refugee families" in Calcutta and 24 Parganas who had to leave their home under the threat of murder, and in many places had to leave their jobs as well, and who have now crowded into areas which are more effectively protected against such attacks. But every week such areas affording protecting are shrinking and open political activity is becoming impossible. It is probably not a gross exaggeration to say that during the 1972 election about three-fourth of the CPI(M) organisation had to work in the underground. In many places there was no question of openly asking for votes for CPI(M), and the party tried to reach voters either through their women volunteers or through the post. But the women also came under attack, and in fact about 20 women volunteers or workers have lost their lives over the past two years.

The usual method for "take over" of an area by Congress is for the police to move in first, to make a number of arrests and killings, and then to allow the Congress rowdies to move in.

Secondly, the degree of violence varied from one constituency to another. In Kalna for example, the offensive was launched in mid-1971 by the murder of the local CPI(M) secretary at the railway station, followed by 29 other murders, and by the time of the election the CPI(M) activities had been erased from that area. No form of campaigning of any degree was possible in the circumstances, no posters could be pasted, no person could be approached for campaigning, no office for campaigning could be opened, and no polling agent could be sent to the booths. It was a walk over. In this traditional CPI(M) seat its candidate managed to get only 929 votes. In Burdwan also the same story was repeated. There were 11 murders between April and August 1971, and the CPI(M) organisation was similarly thrown out of that area. Similar stories are being told about 52 constituencies where gangsterism was at its height during the election. All these constituencies share a number of common properties — the left movement was traditionally strong in these areas and the CPI(M) front was expected to win almost all these seats in a fair election. In all these places the offensive against CPI(M) was launched some time towards the middle of 1971, in some of them there was no trace of the CPI(M) organisation during the election, and in others CPI(M) could survive only in a small part of the constituency. In all these constituencies CPI(M) polling agents were driven out of most of the booths, and there were reports of false voting coupled with reports that genuine voters were not allowed in.

As evidence is support of their allegation the CPI(M) leadership has produced figures for various booths and constituencies. One feature of these figures is that the turnout of voters in the disturbed constituencies is exceptionally high, much higher than the previous record for the same constituencies, and inconsistent with the general voting trend in the other constituencies of the state. These high turnout figures are also surprising because these constituencies were the most affected by disturbances even during the election day. It was also surprising that the voting was completed in many of the booths within four hours of the start of polling despite the introduction of a new and time-consuming voting system in this election. A significant example is Baranagore, the constituency of Jyoti Basu, the CPI(M) leader, where about 90 per cent turnout was reported despite widespread clashes all throughout the day, including the murder of three workers of CPI(M), and the imposition of section 144 in a section of the constituency. In almost any constituency the number of those who have left or died or were sick, disabled or otherwise busy, and so on, would give a figure of more than 10 per cent. To register a 90 per cent turnout would practically mean that all those who were capable of voting have voted, which is incredible by almost any standard.

Another feature of these figures is that in these constituencies, which are known as left-wing strongholds, Congress has won this time with huge majorities of 40,000, 50,000, and even 60,000 in some cases. Such majorities are neither consistent with the past record of those constituencies, nor with the trend in the rest of the state. In fact in about 47 constituencies which are known as Congress strongholds the CPI(M) front has increased its vote. The explanation offered by CPI(M) is that Congress concentrated its gangsterism in areas which were previously known for their anti-Congress tradition, while they did not find it necessary to employ the same tactics in its own strongholds. CPI(M) has also alleged rigging of various other kinds in 87 other constituencies. It is significant that, despite this large majority for Congress, there is no sign of jubilation among the people. The historic mass rejoicing of the days of 1967 and 1969, when Congress was defeated, has not been noticed. This also would support the view that the election results do not reflect the popular mood.

It is not easy to assess the impact of the Congress terror tactics on the share of votes for the contestants. Since the Congress margin of majority is huge, the daily press of Calcutta is now willing to concede that the election was not free in 50-odd constituencies, but then they are also commenting that even with these 50 odd seats CPI(M) could not win the elections. According to them, Congress would have won anyway — for Bangladesh and other reasons — and the strong arm methods have only increased the Congress majority. Probably they are right, probably not, but how can one assess the impact of such tactics on votes? If the ruling party is capable of crushing opposition by annihilating and terrorising the workers of the opposition party, then it is also capable of other less spectacular unfair practices. By employing these methods the ruling party has put the entire election machinery into disrepute, and the electorate system has lost credibility.

On the Notion of Admissible Programmes

Jayabrata Bhattacharjee

Kornai in his pioneering attempt in 1965 (available in English in 1967) on multi-level planning techniques, raised the question of "politically admissible" planning programmes. Though he did not carry his analysis to any length, Kornai threw up some extremely suggestive pointers on the dichotomy between "feasible" plans and "admissible plans" which have been explored further in this paper.

An attempt has been made here to concretise the problem area and to set the planning process in its relevant socio-political context. This is however an exploratory approach intended to demarcate the regions where further research is called for. A conceptual framework has been built up within which the inter-relationship of "feasibility" and "admissibility" is studied and a behavioural pattern sought to be established.

[The author expresses his gratitude to Vinod Mubayi for his invaluable help and co-operation.]

KORNAI[1] in his discussion of "politically admissible" planning programmes introduces a threefold distinction between "feasible" programmes (F), "possible" programmes (K) and "politically admissible" programmes (H). F comprises the set of all programmes which satisfy the resource constraints and the optimisation of an economic objective-function subject to such constraints. Thus F is arrived at by solving in detail the mathematical model of planning incorporating the parameters associated with the particular economy. The set K is an estimate of the set F and comprises programmes which are not obviously unattainable but which are impossible to finally categorise as "feasible" or "non-feasible" without going through the exercise referred to earlier. In Kornai's terminology therefore, the process of "technocratic" planning is one of weeding out the non-feasible elements in set K to finally arrive at set F. In a typical two-dimensional case, we can depict the situation as in Figure 1.

Supreme Politico-Economic Bodies

In Figure 1, x_1 and x_2 are the two economic variables which constitute the planners' targets. In this case set F is wholly contained within set K; a more reasonable assumption would of course be a situation where F and K have a large intersection without F being a complete sub-set of K. The process of planning however does not come to an end with the demarcation of set F because not all the constituents of F are admissible to the "supreme politico-economic bodies" as Kornai labels them. Since final decisions rest with the political authorities, we now have to reckon with a third set, H which denotes the set of "admissible" programmes. A simple example of the limitations imposed by the presence of set H is brought out in Figure 2.

In this case, the only plans which would be approved by the highest political authorities are those that guarantee a minimum level x_1 (H) of x_1 and x_2 (H) of x_2. The set H therefore is the area marked by vertical lines, bounded on its left and lower sides by straight lines reflecting the constraints x_1 (H) and x_2 (H). The intersection of H and F is the area with a chequered pattern and portrays the set of programmes which are both feasible and politically admissible. It is only when this area is demarcated that the planning process may be said to have been logically completed.

We can modify Kornai's approach slightly and attempt to place the notion of admissible programmes in the newer context. The planning process is still a two-stage operation, in the same way as Kornai's complete specification of the process as a movement from K to F and F to H, but the interpretation is as follows.

Stage 1: Optimal Attainment of Feasible Targets

We assume there are m planning targets, $x_1, x_2 \ldots x_m$, which include all goods and services in the society. These targets are measured in terms of a common unit which could be money for example. This approach might seem a heroic simplification but on closer inspection this does not turn out to be so. We could have dealt with targets in physical terms and then chosen the appropriate price vector to reduce everything to a common denominator — a problem which invariably arises when dealing with national income measurement and evaluation.

The planning operation begins at time t=0. At this point of time there are certain resources (raw material, labour, installed capital goods, etc,) which we shall call $r_1, r_2 \ldots r_p$. The planners specify feasible targets which are arrived at, in Kornai's terminology, by weeding out the non-feasible targets in K with the help of resource-based consistency exercices. Let the feasible targets be called θ which can be then thought of as a vector in the $x_1, \ldots x_m$ space. Adding the time element t to denote the fact that these targets are time-related, we now have.

$$\theta = [\, x_i(t),\ i = 1, \ldots m \,]$$

The θ targets will be reached optimally by solving the following:

$$\frac{dx}{dt} = f\left[\, x_i(t) \ldots x_m(t), r_1 \ldots r_p \,\right] \quad \ldots (1)$$

where $r_1 \ldots r_p$ are the resource-constraints as mentioned earlier; subject to the minimisation of

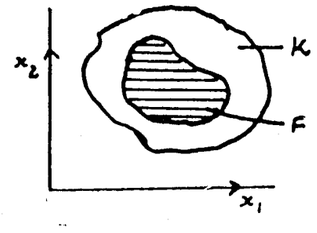
$$J = \int_{t_0}^{t_1} f\,dt \quad \ldots (2)$$

t_0 is the period when the planning begins and t_1 is the terminal period marking the completion of the process.

Pontryagin Principle

This is a simple application of the Pontryagin principle,[2] the implications of which in the present case are interesting. $r_1 \ldots r_p$, the resource-constraints, are the 'controls' in the Pontryagin sense, and the solutions of Equations (1) and (2) yield the optimal

Figure 1



arrangement of the controls. In other words, when we solve the system of Equations (1) and (2), we get the best possible combination of the community's resources required to achieve the feasible targets in an optimum manner.

Stage 2: Matching the Feasible and the Admissible Targets

We label the politically admissible targets ψ which can be thought as a vector in the $x'_1 \ldots x'_m$ space where the x_i's are politically admissible amounts of goods and services e g,

$$\psi = [x'_i(t), i = 1 \ldots m]$$

The x'_is are generated because of the actions of the class-forces or interest groups which constitute the final political decision-making authority in the country. The simplest assumption of the *modus operandi* of these class-forces would be of the following type. We have earlier assumed that the targets are measurable in a common unit. Since the targets include all goods and services in the community, the summation of the targets will give us a measure of the National Product, however imperfect it may be. We can therefore say

$$\sum_{i=1}^{m} x'_i = Y$$ where Y is a measure of the National Product.

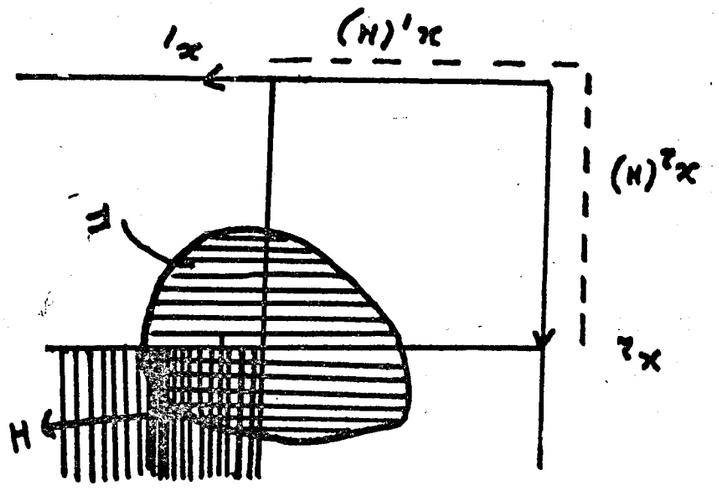
We can now put forward a definite hypothesis of the operations of the class forces.

Hypothesis of Class Behaviour: If there are k class-groups constituting the political decision-makers of the country, we postulate that the class-groups endeavour to appropriate a minimum proportion P_i of each target to themselves. This proportion P_i is dependent not only on the targets x_i but also on the variables $u_1, u_2 \ldots u_k$ which represent the operations of the class-forces. The relationship between the u_is is known to start with, based on sociological concepts and observation. The summation of the proportions in each target which the class-groups want to appropriate would give the proportion of National Product kept by the class-forces

$$\sum_{i=1}^{m} P_i (x'_i, u_1 \ldots u_k) \; x'_i = A$$

A represents the *minimum acceptable* proportion of National Income below

FIGURE 2



which the class forces will not permit the planning process.

We can now formalise our hypothesis of class-behaviour. The object of the class-forces is:

$$\text{Maximise} \sum_{i=1}^{m} x'_i = Y \quad ..(3)$$

subject to the constraint

$$\sum_{i=1}^{m} P_i (x'_i, u_1 \ldots u_k) \; x'_i \geqslant A \quad ..(4)$$

This is a Lagrange multiplier optimisation problem, the solution of which gives us the x'_is (the politically admissible targets).

The dynamic path through which the ψ targets are reached is traced by the following equation

$$\frac{dx'_i}{dt} = h[x'_i(t) \ldots x'_m(t), u_1 \ldots u_k] \quad ..(5)$$

The job of the planners still continues since they have to reconcile the difference between feasible targets and admissible targets. The function of the planners is not only to minimise the difference between θ and ψ, but also to minimise the difference between the approach paths based on the feasibility criteria and the admissibility criteria respectively. Minimising $|\theta - \psi|$ is merely a static exercise but a dynamic minimisation procedure of the following type,

Minimise

$$L = \int_{t_0}^{t_1} (f-h)^2 dt \quad ..(6)$$

where t_0 denotes commencement period and t_1 termination period of the planning process; minimises the absolute difference between the feasible path and the admissible path as well as the absolute difference between the end products θ and ψ. It is only when Equation (6) is solved that the planning process comes to its logical conclusion.

The foregoing is in the nature of a conceptual framework with operational ramifications. By its very nature it has had to be as general as possible but we believe it can be made into a fully working model specially if the hypothesis of class-behaviour is explored further and an attempt is made to quantify it. This can be done on the basis of a study of past trends, concentrating on the identification of the P_is and A of Equation (4). In any case the aim of this effort has been to demarcate a region where fruitful inter-disciplinary research is possible, blending the elements of modern economic and sociological theory.

NOTES

1 Kornai, Janos: "Mathematical Planning of Structural Decisions", 1967.
2 Pontryagin, L S, *et al*: "The Mathematical Theory of Optimal Processes" (Translation) 1964.
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Regional Differences in Profitability and Growth

A Comparison between Gujarat and Maharashtra Firms

K K Subrahmanian
T S Papola

This paper attempts an assessment of the differences among regions in terms of their attributes as economic environment. The purpose is to discover whether there is a 'regional effect' on the growth of manufacturing industries—if other variables such as industry and size are controlled.

Regional differences in the profitability and growth records of manufacturing units are thus studied. The two regions compared in the paper are Maharashtra and Gujarat. The analysis is on the basis of the performance record of a sample of quoted companies, selected from the two states on a random basis, and studied in a comparative cost framework.

It is seen that there are no significant differences between the averages of return to capital and the differences in the average rates of growth of companies between the two regions. But there are regional differences in their performance, to the extent that, individual industries have been more profitable in one region than in the other. There is thus evidence to suggest 'relative regional effect' for industrial growth.

THIS is a study of regional differences in the profitability and growth records of manufacturing units, the purpose being to assess the differences among regions in terms of their attributes as economic environments. The question is: if other variables such as industry and size are controlled, is there an independent 'regional effect' on the growth of manufacturing industries? Regional environment may be considered an important variable influencing the performance record of firms. To draw an analogy from agriculture: the firm is as a seed of a given variety (industry), the seeds (firms) being planted (located) in different plots of land (regions). The yield (performance record) would vary from seed to seed (from firm to firm) depending upon factors such as the variety of seed (nature of industry), the treatment received (regional environment), and the time period. A comparison of the performance record of comparable firms over a given time period in a given pair of regions would thus indicate differences if any between the regions as economic environments.

While economic environment represents a composite of a large number of circumstances, some of its easily identifiable components are: external economies in terms of infrastructure facilities and conglomeration economies due to the location of input-supplying and output-consuming industries, expanse of the market, proximity to the transport mainheads, availability of requisite capital and labour supplies, and institutional factors such as taxation and pricing of electricity etc. Once significant differences are observed in the growth of firms as between regions, it may be worthwhile to go into their causes in terms of these factors.

A comparative study of the regional record of performance could also form the preliminary basis for assessing the overall advantage of one region over the other for industrial location. The locational decision of an entrepreneur is influenced largely by his estimate of the performance prospects in the region The average performance of the existing enterprises in a region can be expected to have a bearing on the entrepreneurs' estimate of performance prospects. If there are regional differences of significance in the mean profitability, the expectation of the entrepreneur planning to locate the production unit in the region with the higher mean would be to do better on average than in the region with the lower mean — other things remaining the same. It is plausible that the mean profitability rates would not differ among regions: instead they would tend to be equal for comparable industries in all the regions since they determine and reflect the regional allocation of industrial capital. But this would be true in an equilibrium situation only, and in the real world this equilibrium need not exist. If there are some cost differentials of significance arising from differences in regional environment, the mean profitability of the regions would be invariably different — unless there are compensating advantages. If there are observed similarities in profitability between any given pair of regions, it would mean that the cost differentials are negligible or that the compensating advantages are of such significance that entrepreneurs are indifferent in their choice as between the two regions for industrial location.

The two regions compared in this paper are the states of Gujarat and Maharashtra.[1] The analysis has been made on the basis of the performance record of a sample of quoted companies selected from the two states. The procedure has been to make a selection, at random, of 50 companies which have their plants located exclusively in the Gujarat region.[2] Each Gujarat company has been then matched by a company whose plant is located exclusively in Maharashtra, and which is in the same industry, and is of similar size as that of the Gujarat company. The sample population of 100 companies covered in the analysis thus consists of 50 Gujarat companies and 50 comparable Maharashtra companies. The object has been to compare like with the like as far as possible in order to assess the comparative advantage of a manufacturing unit being located in Gujarat as compared to Maharashtra or *vice versa*.

The company accounts data required for the study have been compiled from the Stock Exchange Directory.[3] The period covered is 1962 to 1968, and the sample companies have continued to be in existence throughout the six-year period. The book value of the total capital employed has been taken as the indicator of the size of the company and the yearly percentage changes in the size has been taken to measure the rate of growth. Gross profit (inclusive of interest charges but exclusive of depreciation provision) expressed as percentage of the relevant asset size (total capital employed) has been regarded as the relevant profitability rate and in some sense indicates the rate of return to capital.

To begin with, we have computed the regional means of profitability and growth rates and tested for the statistical significance of difference between the two sample means. The mean pro-

fitability rate of the sample for Gujarat has been 7.6 per cent and that of Maharashtra 6.8 per cent. The figures of mean growth rates have been 12.0 per cent and 10.3 per cent, respectively. Gujarat region would appear as having an edge over Maharashtra region in average performance, the first having provided the manufacturing units located in it marginally higher rates of profitability and growth. Tests have shown, however, that the differences in the regional means have not been statistically significant: For profitability value of $t = 0.87$ and for growth $t = 1.01$, neither being significant at 5 per cent level.

The alternative method of handling matched observation is to test the mean of differences between the paired companies rather than the difference between the regional means. Such a test has, therefore, been made on the data of profitability and growth rates of paired companies. For profitability $t = 1.36$ and for growth $t = 1.012$; neither of which is again found significant at 5 per cent level.

The analysis of both regional means as well as paired means thus shows non-significant differences as between the two sample means. The evidence thus fails to signify a difference in the average performance record of firms as between Gujarat and Maharashtra. This does not necessarily mean, however, that the economic environments of both the regions have the same effect on industrial growth; it only means that the analysis does not provide convincing evidence to the contrary.

The analysis made so far has been on the basis of univariate, rather than bivariate, relationships while we have assumed locational decision to be dependent on both growth and profitability. In order, therefore, to take into account the characteristics of a linear combination of growth and profitability, for distinguishing Gujarat from Maharashtra companies, the use of discriminant function analysis has been made. The test for significant discrimination has then been considered equivalent to testing for significance in the differences between two-dimensional column vectors composed of the regional means of growth and profitability. A discriminant function of the type,

$$d = \lambda 1\ g + \lambda 2\ p$$

(Where g = growth, p = profitability, $\lambda 1$ $\lambda 2$ are the respective constants) has been used so as to optimally distinguish Gujarat from Maharashtra observations. The calculated discrimination function has been:

$$d = 0.0002156\ g + 0.000629\ p$$

The calculated value of F is 1.12749, which is not significant at 5 per cent level. Thus the analysis of the means of growth and profitability in both univariate and biavariate relationships did not show up evidence of difference between Gujarat and Maharashtra as environments for the performance of manufacturing units.

Range of Performance Record

The analysis made so far has been confined to mean performance. The mean is only one moment of a given distribution, whereas the other moments are also important to draw economic implications of the observations. For instance, let us suppose that the regional means are equal between a given pair of regions but the regional variances are different and the distribution symmetrical. Under such conditions, although the expectation of future profitability on the basis of past record would be the same in both regions, a firm planning to locate in the region with smaller variance would have on average a smaller chance to fall short of its expectation as compared to the region with the larger variance. In other words, the entrepreneur who chooses the lower variance region may have a lower chance of doing very well but certainly also bears a lower risk of doing very badly. On these considerations, the locational advantage might lie with the lower variance region as compared to the other, notwithstanding the same regional means. The point for emphasis is that characteristics other than the mean of regional distribution are relevant for drawing up conclusions on the relative advantage of the regions as economic environments for industrial growth.

Let us, therefore, first examine the characteristics of the distribution of the two regions under study. The simplest tool to study the difference between the two distributions appears to be the x^2 test. The distribution of the companies by mean profitability and growth presented the following picture (see Table 1).

The calculated x^2 for the distributions of both profitability as well as growth (6.796 and 5.3844) have been found to be non-significant at 5 per cent level for five degrees of freedom. Thus the tests do not suggest significant evidence of difference between the regional distributions. It may be noted, however, that when the distribution classes have been reduced to four, from six, significant values have been obtained so the two regional distributions appeared different rather than similar. The contradictory results only suggest that the power of x^2 test varies with the size of the sample and cannot therefore be entirely relied upon for drawing conclusions. Besides, tests have been performed on univariate regional distribution, whereas the bivariate effect of profitability and growth may be significant. Further tests have, therefore, to be made on the regional observations.

For this reason, a discriminant function analysis has been used to distinguish the two samples on the basis of the variance of distribution. For computational convenience, the range of growth and profitability have been used in place of corresponding variances. Let r (g) be the range of growth over time (i e, the difference between the largest annual percentage increment in growth and the smallest) and let r (p) be the corresponding profitability. The calculated discriminant function of the type specified earlier yielded the following result:

$$D = -0.00007958\ r\ (g) + 0.000039992\ r\ (p)$$

The value of F is 2.354, which is not found significant at 5 per cent level. There is thus no evidence to suggest significant differences between the regions in the variance of rates of growth and profitability.

So far we have been considering the aggregative variation in the average differences in regional performance record, the total variation can be resolved, however, into its components and each source of variation be considered separately. The total variation has, been resolved into three components: (1) Industry (2) Region and (3) Time. All these sources act individually, or may interact with each other. For instance, industry as a whole may have better performance in one region as compared to in the other; at the same time a particular industry may flourish more than average in a given region because that region is particularly suited to its needs. The sources of variation may thus be studied by using the technique of analysis of variance.

Table 1: Distribution of Companies

Range	by Mean Profitability		by Mean Growth	
	Number of Gujarat Companies	Number of Maharashtra Companies	Number of Gujarat Companies	Number of Maharashtra Companies
≤ 3	7	16	6	6
$3 \leq 6$	8	5	7	7
$6 \leq 9$	20	15	7	7
$9 \leq 12$	8	5	10	10
$12 \leq 15$	6	5	11	4
> 15	1	4	9	16
	50	50	50	50

Table A

Industry	Asset Size Class (Rs lakhs)							
	Less than 100	100-200	200-300	300-500	500-700	700-1000	Greater than 1000	Total No
Textile	1	6	5	6	2	2	1	23
Engineering	2	3	5	1	2	—	—	13
Chemicals	1	—	1	—	1	2	1	6
Paper	2	1	—	—	—	—	—	3
Electric power	1	—	1	1	—	—	1	3
Pottery and glass	—	—	1	1	—	—	—	2
	7	10	13	8	5	4	3	50

The companies in the sample have been classified into six industry groups. The groups' means of profitability and growth were calculated for each year, 1962 to 1968, for each of the two regions, *viz*, Gujarat and Maharashtra. These aggregation provide six groups of observations over six years for regions.

The analysis of variance table for growth has revealed (see Table 2) that there are no significant variations between the regions considered as a whole.[4] The time-region interaction is also found not significant: as time has proceeded the regions have not become more different. Similarly, the industry-region interaction is also not found to be significant. Time and industry interaction, however, has been significant so that individual industries have become more and more different through time when the regions are considered together.

The analysis of variance calculation for profitability has revealed (see Table 3) that there are no significant differences between regions considered as a whole. But region-industry interaction is found significant so that the average performance of each industry in terms of profits has been affected by the region in which the industry is located. This seems an important result, especially when there are no significant differences between the regions considered as a whole. Thus, although regions, as such, do not differ from each other, individual industries do differ and the difference between them depends on the region in which these industries are located.

This study in a comparative cost framework made on the profitability and growth rates of manufacturing units in Gujarat and Maharashtra regions shows that there are apparently no significant differences between the averages of return to capital and the differences in the average rates of growth of companies between the two regions. In other words, it may be possible to distinguish between Gujarat and Maharashtra companies on the basis of mean difference record when the influences of time differences between industries are averaged out in making regional comparison. Thus, although, on average, there was no difference in the performance between the Gujarat and Maharashtra manufacturing units — if these are compared in regional groups — there are regional differences in their performance to the extent that individual industries have been more profitable in one region than in the other. There is thus evidence to suggest *relative* 'regional effect' for industrial growth. The performance record *inter alia*, has been found to depend on the region where the manufacturing unit is located so that some industries are more suited to Gujarat and others to Maharashtra. The better than average industries in each region, however, more or less balance with the worse than average — with the result that Gujarat and Maharashtra appear similar as economic environments in the overall attributes of industrial location.

Nevertheless, the observed similarity between Gujarat and Maharashtra in the preference record and, by implications, similarity in the overall economic environments of the regions suggests that, given a free choice, an entrepreneur would be indifferent in deciding the location as between Gujarat and Maharashtra. Of course, there would be issues like the type of industry and the specific areas within the regions. Given all these, the observed similarity in the actual performance record, and and thus the expectation of prospective entrepreneurs, the policy question boils down to the competing fiscal and other measures that each regional government can provide to make the respective regional environment relatively more profitable and assure steadier rate of growth for industrial activities.

Table 2: Analysis of Variance for Growth

Sources of Variation	Degrees of Freedom	Sum of Squares	Squares Mean	F
Region (R)	1	66.0480	66.0480	2.2866
Industry (I)	5	1080.5370	216.1074	*7.4819
Time (T)	5	1382.7500	276.5500	*3.9679
R x I	5	144.4190	28.8838	0.8222
T x I	25	1742.3770	69.6051	*1.9840
T x R	5	139.3990	27.8798	0.793
Residual	26	913.3168	35.1276	
Total	72	5468.8468		

* Significant at 5 per cent level

Table 3: Analysis of Variance for Profitability

Sources of Variation	Degrees Freedom	Sum of Squares	Mean Squares	F
Region (R)	1	83.1830	83.1830	1.36
Industry (I)	5	576.1099	115.2219	1.89
Time (T)	5	236.9698	47.3929	2.03
R x I	5	305.0711	61.0142	*3.95
T x I	25	582.3150	23.2926	1.51
T x R	5	26.6842	5.3368	0.35
Residual	26	401.4655	15.4409	0.35
Total	72	2211.7985		

* Significant at 5 per cent level

Notes

1 In a study made by Hart and Macbeen in respect of companies in Scotland and England on the basis of mean measures, it was shown that there were no significant differences between the regions (see Hart and Macbeen, 'Regional Differences in Productivity, Profitability and Growth: A Pilot Study', *Scottish Journal of Political Economy*, Volume 8). The conclusion of Hart and Macbeen was subsequently questioned on methodological grounds. (See Smyth, R L 'A Note on Regional Differences in Productivity, Profitability and Growth', *Scottish Journal of Political Economy*, Volume VIII, and G Fisher 'Further Calculations on Regional Differences in Profitability and Growth', *Scottish Journal of* Political Economy, Volume 9). The present study takes care of the methodological objections raised against Hart-Macbeen study and the suggestions made by the later authors.

2 The 50 companies randomly selected from Gujarat region reflect the industry-wise and size-wise distribution (See Table A).

3 Issued by Stock Exchange, Bombay.

4 It is, however, noteworthy that calculated F value lies close to the significant margin level.

Dissecting the Tax Structure

A Comment

Ved P Gandhi

I WISH I could spend more time to point out the misrepresentations and misstatements about my book "Some Aspects of India's Tax Structure: An Economic Analysis" which Amaresh Bagchi has made in his review.[1]

In the Preface to my book I wrote "This book has no pretentions to providing final answers. Its major objective is to generate meaningful discussion on the economic analysis of India's tax structure." I am grateful to Bagchi for taking the time to read the book and writing a lengthy review. Unfortunately, a large part of his review was directed to only two chapters[2] and I only wish that the rest of my book also had received equal attention from him.

In may opinion, Bagchi's comments can be divided under three broad headings: (a) misrepresentations and misstatements; (b) analytical comments (which I consider somewhat minor); and (c) emotional comments (which, by the way, are his substantive comments).

Misstatements

Let me briefly refer to some of his misstatements and misrepresentations of my position and dispel them quickly so as to get on to his more substantive comments.

For example, Bagchi quotes my sentence "Every tax has an explicitly defined base" (which clearly was made to initiate a chapter) and accuses me of having implied that Indian income tax has an explicitly defined base. Not at all. Did I not say that income taxation everywhere has the practical problems of measuring self-produced income, the tax treatment of durable consumer items, incomes received in-kind, etc? (Book, pp 4-5) Did I not say, once again, that in administering the income tax, the authorities are likely to face the problems of separating business from personal expenses and of differentiating capital from income? (Book, pp 8-9) Then where was the need for Bagchi to describe the serious problems of separating capital from income receipts (Review, p 108) or business expenses from personal expenses (Review, p 110)?

Again, Bagchi misrepresents my position when he says that I consider income tax in India to be based on the "accrual" concept (Review, p 109). This comes as a surprise since I have said in no ambiguous terms that "In view of these difficulties in measuring accrued income of an individual, income taxation in many countries, including India, has been based on the concept of 'realised' income". (Book, p 4) I even went on then to describe the problems of the latter. All that was said in my book was that to the extent the annual value of house property and income in-kind of individuals do get taxed in India, the concept inherent in India's tax structure went past the "realised" stage and came closer to the "accrual" stage and this was readily acceptable in the circumstances. I explicitly mentioned that the Indian income tax ignored "unrealised" capital gains and undistributed profits of the companies accruing to the individual but yet "unrealised" by him (Book, p 6). Bagchi himself does not seem to be saying anything more than this (Review, p 109).

Let me point out another misstatement. Bagchi complains that I have ignored the non-tax influences on corporate profitability in my chapter on the incidence of the corporation tax (Review, p 111). Is that really so? My PAT/NW ratio for the corporate sector is explicitly shown to be a function of the "average" tax rate as well as the ratios of sales to capital employed, investment to national income, inventories to sales and per capita income (Book, pp 77-78). What else are the latter factors if not the non-tax factors? Anyone who reads Chapter 7 would easily see that the inclusion of the non-tax factors in the incidence of the corporation tax was the major thrust of my own empirical analysis.

Another gross misrepresentation of my position is when Bagchi states that I recommend the taxation of profits on the basis of accountants' profits and then goes on from there to narrate the problems with this base (Review, p 110). Bagchi obviously picks this statement out of the context where I compare the corporation tax in India with that of other countries and conclude that the "ideal" tax will be one which for all practical purposes does not exist and which, I categorically say, does not lie in the realm of practical politics (Book, p 108). As a matter of fact, how could I be said to have made this recommendation when I explicitly recognise the justification of the total disallowance of some of the corporate expenditures for tax purposes (Book, p 46).

Then Bagchi accuses me of not providing a clue as to the reasons for the divergence of my own results regarding the incidence of corporation tax with those of the earlier studies (Review, p 111). Did I not state the basic differences in our methodologies and point out the methodological problems with the earlier studies (Book, p 73-75)?

I could go on describing such misstatements and misrepresentations of my position by Bagchi, but I believe no useful purpose will be served by it. For the benefit of the readers, as well as for policy purposes, I consider it more useful to concentrate on his minor and major comments.

Minor Comments

Bagchi distrusts the quality of published data I have used in my empirical work, and these include, among others, the published data of the Reserve Bank of India and the Income Tax Department, and consequently he distrusts the conclusions derived from them. Surely the quality of data in a country like India can always be questioned but, in the present case, they appear to be unacceptable to Bagchi particularly because they do not yield the conclusions more akin to his own feelings and prejudices.

It is not only the data gatherers who Bagchi thinks are not doing their job well; the same applies to lawmakers, tax administrators and auditors. The lawmakers apparently are not doing their job well because they deliberately leave so many loopholes in the tax legislation (Review, p 108). The tax administrators are not doing their job well because they let the previous years' cases accumulate (Review, p 110) and do not tax the in-kind benefits properly (Review, p 109). The auditors are not doing their job well because they fall prey too easily to the interests of the taxpayers (Review, p 110). In a situation of this kind, is it a surprise that Bagchi does not think that no researcher can do his job well either!

Bagchi not only dislikes my using the published data and my having faith in these professionals, he also questions my partial equilibrium approach. I admit having used it in my analysis of corporation tax incidence but then the difficulties of using a general equilibrium approach in this regard are well known to any fiscal economist and I have yet to see a single study based on the latter. But what surprises me is Bagchi's statement that I have used it all along in my book, the exception being my chapters on agricultural taxation (Review, p 107). He does not readily give me the credit of pointing out the relevance of the public expenditure patterns in my analysis of personal income tax (Book, p 22) and corporation tax (Book, p 108).

Let me now highlight the substantive issues which are implicit in Bagchi's long review and which, I believe, have serious policy implications. A meaningful discussion of these issues amongst economists and policy makers is clearly called for.

Major Comments

There are three major comments which Bagchi seems to have made on my book. First, he is in favour of the levy of a capital tax on corporations and does not accept my arguments against this tax. Second, he rejects my arguments in favour of the value-added tax as unconvincing and presents his own reasons for rejecting the tax. Third, he admits that India is the "highest-taxed nation" (and that the "scope for .... stepping up the rates of direct taxes is nearly exhausted") but then does not accept my conclusion that such high rates of direct taxes have serious disincentive effects on personal savings as well as corporate investment. His argument is that if my conclusions are valid then how does one explain the "conspicuous consumption that hits one in the eye" (Review, p 107).

Conspicuous Consumption

To take his last point first, Bagchi is puzzled by the fact that, despite the high rates of direct taxes in India, conspicuous consumption like the capacity utilisation of five-star hotels, huge businesses of dazzling shopping centres, impressive celebrations of weddings and festivals, years-long queues for the cars, exhorbitantly expensive housing constructions, etc, are all visible to the naked eye. How does one explain it? The question obviously is a pertinent one and its answer must be sought in right earnest.

The answer given in my book is that high direct taxes have discouraged the motivation and propensity to save and have encouraged private consumption. Besides, they have encouraged the rich taxpayers to avoid taxes (Book, pp 20-21) in order to consume rather than save. Consistently, therefore, as the government raised tax rates in the past in order to raise more revenues, it simply encouraged further erosion of the tax base, expansion of consumption and reduction of savings. This applied not only to individuals but to companies as well. High corporation tax rates encouraged companies to incur "wasteful" expenditures and inflate their wage bills through the grant of "generous" perquisites, bonuses, employees' welfare expenses, etc (Book, pages 81, 115, 126, 185, 188). I, therefore, suggested that "the simultaneous existence of so many tax avoidance devices in the income tax structure reduce its effectiveness ... It may be advisable to close these loopholes and simultaneously reduce the extremely high tax rates presently levied on high income brackets" (Book, p 14). By the way, this was also Kaldor's advice in the mid-fifties.

Obviously, Bagchi is not satisfied with these answers. (Or, perhaps he believes that not enough emphasis has been placed on these in my book.) Let us see what his own answer is. Bagchi feels that direct taxes in India are high in "nominal" terms only. In "effective" terms they are not high because of the "ingenuity" of the taxpayers in taking advantage of the loopholes like HUFs, trusts, etc. The direct taxpayers not only avoid taxes, they also evade taxes. Companies for example, are helped by "dishonest" auditors in evading taxes. In his opinion, thus, both tax evasion and tax avoidance have eroded the tax base and significantly reduced the "effective" rates of direct taxes. For Bagchi, it matters little whether it is avoidance or plain evasion which has caused it (Review, p 110).

Evidence

To support his argument, he presents three pieces of evidence: (a) the inelasticity of income tax in India[4] (b) the low ranking of India in an IMF cross-section tax effort study; and (c) the bullish tendencies in the stock market in 1970. Bagchi asks if the "effective" burden of direct taxes were high in India how could one explain all these facts.

Let us look at his evidence closely It is totally untrue that income tax in India has low income elasticity. Taking a much longer period, a more recent IMF study has estimated this elasticity to be 1.7[5] which is substantially over unity. The same IMF study also establishes India to be a country with an extremely high tax performance[6] — taking into account both the "static" and "dynamic" indices of tax effort. Thus neither of the first two pieces of evidence presented by Bagchi is valid.

Regarding the performance of the stock market in 1970, Bagchi chose to omit the reference to the difference favourable budgetary factors made as stressed in the source quoted by him.[7] In any case what is relevant is not the short-run performance of the stock market but the long run. And here the facts reveal quite the contrary. According to the Reserve Bank of India, the index number of variable-dividend-industrial-securities has rarely reached the level it had in 1960/61 so that the gross yield on these securities has declined from 8.11 per cent in 1965/66 to 5.53 per cent in 1970/71.[8] I would suggest to Bagchi not to use the performance of the stock market as evidence on the question of the relationship between direct taxation and its effects on savings.

All the same I would be the last person to deny the importance of large exemptions, allowances and even loopholes in India's direct taxes and this, as I have indicated above, is accepted in my book as well.[9] I would also readily admit of the fact of large tax evasion, especially by the rich; this, once again, is pointed out in my book (Book, pp 31-32). Yet I refuse to admit that the inverse causal relationship betwen high direct taxes and personal savings does not exist. I still remain to be convinced that whatever "savings" are generated through tax avoidance and tax evasion are utilised to earn more incomes (with the knowledge that they will be subjected to still higher taxes) than to enjoy "luxury" consumption. I believe this to be an area of further research.

Capital Tax

My own arguments against the levy of a capital tax on the corporations are given in the book and it would be no use repeating them here. However, I would like to comment on Bagchi's arguments in favour of this tax.

Bagchi gives two main arguments in favour of the tax. First, wealth constitutes an index of the 'ability to pay' and should, therefore, be taxed. Second, the levy of a capital tax on the corporations is an effective way of reaching the "unrealised" capital gains of income taxpayers.

The concept of the 'ability to pay' as evolved in the theory of taxation is based on the sacrifice principle and as such relates to the individuals. It is not clear what the 'ability to pay'

[The views expressed in this paper do not necessarily reflect those of the organisation with which the author is presently associated. The author wishes to thank S P Gupta for his kind help in the preparation of these comments.]

of a corporation is which is to be measured by its wealth.

Again, it is true that the "unrealised" capital gains of the individual go untaxed under the income tax, but do they also go untaxed under the individual wealth tax? If individuals do get taxed on the appreciation of the value of their corporate stocks under wealth tax, what is the logic of "double taxation" of the same? In any case, a capital tax on the corporations will seriously affect their retentions and encourage debt capital over equity capital.

It was largely for these reasons that Kaldor and Gulati intended that wealth tax be levied only on individuals and unincorporated businesses and not on corporations.[10] It was also precisely for these reasons that wealth tax on companies was abolished in 1960-61. It is surprising to find Bagchi making the arguments which have been rejected by economists and politicians alike.

Value-Added Tax

Once again, my arguments in favour of the Value-Added Tax (VAT) are given in the book.[11] I shall, therefore, concentrate on Bagchi's reasons for rejecting the tax.

Bagchi believes that the tax will be inequitable—it will tax the wage earners, if passed backward and it will be regressive, if passed forward. Secondly, he believes that the tax will be difficult to administer and will in all likelihood be evaded.

Regarding the equity aspect of the tax, it will obviously depend upon the incidence of the tax. As indicated in the book, while in the short run consumer prices may rise somewhat,[12] in the long run I believe that the tax will be shifted backwards. Even if the wage bill is to be exempted from the tax (although the case for this is not necessarily clear), VAT will still be borne by interest and rent incomes and this will be an improvement over the existing profits tax especially because it will, at the very least, not discourage equity capital and encourage debt capital.

The administrative difficulties of VAT, as mentioned in my book, are no more or less than those of any other new tax and just because there is a likelihood of evasion that is no reason to reject a tax. Surely every tax is likely to be evaded, some more than others, and if that were the criterion all tax reform would be shelved.

Yet one finds that in country after country, VAT is being adopted successfully. "In 1965, VAT was used only by France with Finland and Michigan using modified forms. Today it is one of the world's most productive taxes and its rate of introduction is accelerating".[13] In the less developed world Ivory Coast, Senegal, Malagasy Republic in Africa, and Brazil, Uruguay and Equador in Latin America are administering the tax with great success. Value-Added Tax legislation is also being drafted in Colombia, Argentina, Mexico and Taiwan as in all these countries the tax has been accepted in principle. Besides, even Value-Added Tax administrators themselves have admitted that "there is no unusual nor basic difficulty in the administration of a value-added tax... that administration of this tax need not be a serious factor in any decision regarding its merits".[14]

However, the real question is: Will the tax exasion be more serious under the value-added tax? I will let Kaldor answer this question. "The most important administrative advantage of a universal value-added tax is its self-reinforcing character which would provide the revenue authorities with an invaluable weapon against tax evasion, and not only in the enforcement of this particular tax, but of other taxes as well".[15] It is only if the standards of tax morality and administrative competence are considered extremely low or collusion among businesses is very widespread that the Value-Added Tax would become ineffective. But then this would be a very harsh commentary on the reality in India.

NOTES

1 *Economic and Political Weekly*, January 15, 1972, pp 107-114.
2 Chapters 2 and 9.
3 Nicholas Kaldor, "Indian Tax Reform", p 3.
4 Sahota's estimate of 0.565 which Bagchi quotes relates to the "built-in elasticity" of the income tax of early fifties and this is a less relevant measure for the issue in question. It ignores the effects of substantial revisions of tax rates, extension of tax base, etc, which have been associated with planned tax effort. Including these factors, Sahota made a "buoyancy" estimate of 2.04 for income tax in the early fifties. Bagchi misuses my own statement insofar as my reference to regressivity of income tax in India is "inter-temporal" only. See G S Sahota, "Indian Tax Structure and Economic Development", p 20.
5 Raja J Chelliah, "Trends in Taxation in Developing Countries", *IMF Staff Papers*, Vol XVIII, No 2, July 1971, p 265.
6 *Ibid*, pp 304-305.
7 To complete his quotation (Review, p 107), "But by far the most encouraging factor was the Budget, the positive points of which exceeded even the most optimistic anticipations... the tax exemption limit in respect of income arising from investments in the Unit Trust of India and shares of Indian companies was raised to Rs 3,000... Marginal relief was also granted in direct taxation and the limit of exemption in respect of wealth tax was enlarged". *Commerce*, Annual 1970, p 324.
8 Index numbers of variable-dividend-industrial-securities were as follows: (1960-61=100)

1965-66	75.9	1969/70	95.8
1966-67	81.1	1970/71	100.1
1967-68	77.5	Nov 1971	89.0
1968-69	87.9		

9 But, unlike Bagchi, I would not ridicule the taxpayers for taking advantage of these. He should perhaps blame the politicians. Simon once very aptly described the coexistence of high tax rates and loopholes as a "subtle kind of moral and political dishonesty... a grand scheme of deception, whereby enormous surtaxes are voted in exchange for promises that they will not be made effective. Thus, politicians may point out with pride to the rates, while quietly reminding their wealthy constituents of the loopholes". Henry C Simon, "Personal Income Taxation", p 219.
10 Nicholas Kaldor refers only to individuals as taxpayers in his recommendations on net wealth tax. See his Indian Tax Reform, pp 19 and 26. Also see I S Gulati, "Capital Taxation in a Developing Economy", pp 37, 116 and 199. Apparently, when the Government levied the wealth tax on companies in 1957, simply to abolish it in 1960, Kaldor supported it only half-heartedly. See his "Essays on Economic Policy", Vol I, pp 223-224.
11 By the way I never said that VAT will result in lowering of prices of consumers goods (Review, p 112) which is another misrepresentation by Bagchi.
12 The NEDO Report which Bagchi himself quotes forecasts a price rise of only 1 1/2 to 2 per cent from a value-added tax and this is shown to be consistent with the behaviour of prices before and after the introduction of VAT in the Common Market countries. See E G Horsman, "Britain and Value-Added Taxation", *Lloyds Bank Review*, January 1972, p 33.
13 Richard W Lindholm, "The Value-Added Tax: A Short Review of the Literature", *Journal of Economic Literature*, December 1970, p 1179.
14 Clarence W Lock, "Administrator's Point of View on the Value-Added Tax" in Tax Institute of America, "Alternatives to Present Federal Taxes", pp 61 and 63.
15 Nicholas Kaldor, "Essays on Economic Policy", Vol I p 269. Also see Joint Tax Programme, "Fiscal Policy for Economic Growth in Latin America", Papers and Proceedings of a Conference held in Santiago, Chile, December 1962, p 102.

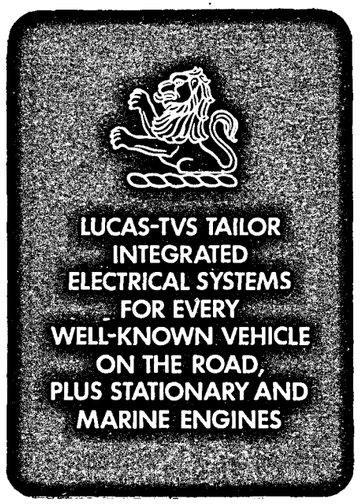


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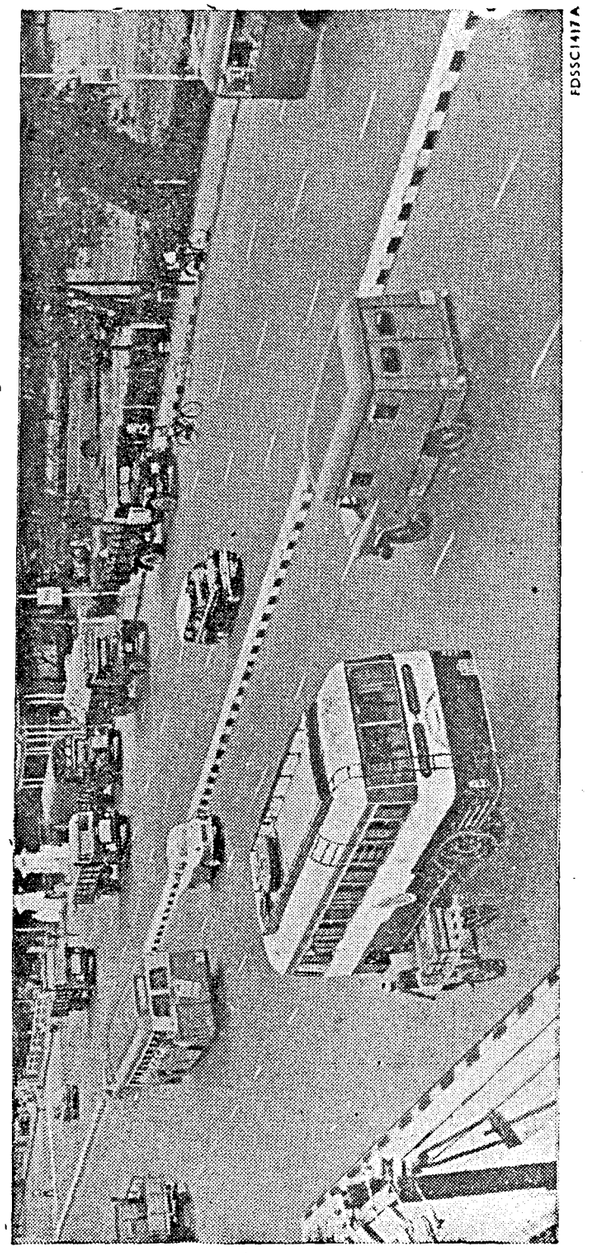
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Phones 266072, 260566, 260192

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

With Such an Enemy...

WHEN — after more than a decade of futile military involvement in a distant land, after the blanket and blind killing of hundreds of thousands of mostly non-combatant Vietnamese, after the mindless destruction of an entire countryside by a higher tonnage of bombs than was dropped during the entire Second World War, after a so-called wide-spread anti-War agitation within the United States, after the forced withdrawal of a President from seeking re-election, after the attempted *neutralisation* of the other two super powers by another White House incumbent and, most vitally, after the Vietnamese people have made clear their determination to control their own country — an American President can do no better than pop out his politically impotent fighters and bombers to try and settle a crucial political issue, then the efficacy and the very *raison d'être*, not only of Nixon and the American political system, but of the way of life of an entire people must come into question.

Too often have the horrors inflicted on Vietnam by the Americans been fobbed off by blaming a Johnson or a Nixon or their advisers or the Pentagon or 'the military-industrial complex'. Excuses have been poured out about the basic 'decency' and 'niceness' of the God-fearing American man and woman. Yet, even today, after eleven lost years and after hundreds of thousands of lost lives, there is no more effective protest within America than the 'sit-ins', the breaking of campus window-panes and the mouthings of liberal senators and congressmen and presidential hopefuls. And after all this Nixon will probably be voted into power again by common consent. The crude fact is that tens of millions of Americans are so insensitised and so wrapped up in the self-seeking, rampant individualism which is an intrinsic and necessary part of Western industrial societies that the violence, the War and the killing, especially of Asian 'gooks' and 'dinks', is to be forgotten, if not to be positively encouraged. It is not that the Americans have a monopoly of insensitivity or racial arrogance which makes the American system a destructive monster, but that this arrogance is married to a technological and economic machine which through a vicious circle is creating destructive, anti-social beings.

In contrast, North Vietnamese society, for all its exposure to violence, is not reacting like a self-destructive engine. Does this have something to do with the conscious creation of an economic and social system which is geared towards collective effort, the fruits of which are equitably dispersed and not concentrated in a few hands? Added to this is the relative imperviousness to disruption of a self-sufficient peasant society. Its resilience and intrinsic community consciousness and cohesion make it impossible for the Americans "to bomb it back to the Stone Age". While the violence and criminality of the Vietnam War are being carried back to an already tense and violent American society, there are no indications that the War is having any such effect on North Vietnam.

It could be said that the North Vietnamese and the Viet Cong would not be able to sustain their struggle without external — mostly Russian — armaments. But the Americans themselves admit that Russian military aid to North Vietnam and the NLF last year — amounting to some $ 100 million — was only about five per cent of that given to the Saigon regime by the United States, quite apart from the gigantic expenditure of the American forces themselves. If the human cost and the ideological bases of the War could be momentarily set aside and an audit of the War done purely in American business efficiency terms, the American side of the audit would be a recital of colossal waste and a totally inefficient use of resources. In contrast, the North Vietnamese and the NLF would stand out as ingenious, frugal and economic users of the relatively meagre resources at their command.

At any and all levels — military, psychological, economic, political and even technological — the Americans have proved to be bunglers. They just have not been able to use the abundance of instruments they have for the right role at the right time. The most glaring instance is their blind use of air power to try and win a war, when all the accumulated experience — including their own "Strategic Bombing Survey" of the effects of bombing on Germany — show that mass air bombardment has a counter-productive effect. It usually steels the will of the opponent to keep on fighting, destroys much civilian property, but does not significantly affect the capacity of the opponent's armed forces to continue a war. Yet, we find a morally and politically bankrupt leader and his nation resorting to the same sterile tactic. With such an enemy, the Vietnamese can manage without friends, perhaps, as the Russians and the Chinese are learning.

Soviet-Iraq Treaty

Another Special Relationship

A Correspondent writes:

WHETHER in personal life or in international politics, the value of special relationships vary *inversely with their* number. The signing of the treaty of peace and friendship between the Soviet Union and Iraq could not, therefore, have been particularly welcome to Egypt. Not that it could do anything to prevent such a development. And it may even try to use the Soviet-Iraqi treaty to its advantage. Cairo's bargaining position *vis-a-vis* Moscow can improve a great deal if it can have the co-operation of Baghdad in framing Arab demands on the Soviet Union and other socialist countries.

But if its relations with Baghdad do not remain cordial enough for such co-operation, Moscow can play one against the other in order to ensure that the Arabs do not want anything more than what it can concede. The fact that historically Baghdad has always attempted to emerge as a centre of Arab revolution and to deprive Cairo of some of its appeal to fellow Arabs in the east makes it obvious that it may not be easy for President Sadat to work out a new pattern of relationship with Iraq.

There is also the problem of the role and place of the Baath parties in Arab politics. Neither Egypt nor Syria is at the moment well disposed towards the Baathists and the new prominence of Iraq may once again project this particular brand of Arab socialists as a viable alternative to the existing regimes, particularly in the Levant.

The Soviet Union has scrupulously avoided a public position on the issues of domestic politics in various Arab countries. But it is bound to have its preferences in this regard. There is little doubt that some of the developments in Sudan, Egypt and Libya would have caused some worry in Moscow and, even if President Sadat has been able to convince Russia that these would make no difference to Soviet-Egyptian relations, it may not be easy to fathom what precisely the Soviet Union wants.

The emphasis on Iraq certainly opens up new options for Moscow in the Arab world. It also could mean an attempt on its part to turn the focus of Arab politics on inter-Arab relations rather than on the need to avenge the various defeats at the hands of Israel. Even if the reports of a softening of Soviet attitude to Israel are not correct, there is enough evidence to indicate that the Soviet Union is reluctant to permit any further Arab action against Israel in which the Arabs may once again be defeated. In this context, the Soviet attitude becomes understandable though it may mean serious trouble for the present regime in Cairo which is apparently still trying to find its feet.

There can of course be another way to interpret the Soviet-Iraqi treaty. It is obvious that the non-Arab countries of West Asia are emerging as powerful factors in the politics of the region. It is in these countries that the Western powers have major interests and a large number of friends among the ruling classes. With the collapse of the unity of Pakistan, Iran in particular becomes an extremely important force for West Asia. There are some indications that its ambitions in the region are growing and that it might like to make some gains. While the position of the Arabs remains weak and the situation of the Arab world fluid, the Soviet-Iraqi treaty could prove to be an insurance against the southward movement of the non-Arabs in West Asia. This is particularly relevant for politics in the Persian Gulf which, in its turn, is interconnected with the politics of the Ocean. At least, from the Iraqi point of view, this would have been the major rationale for the treaty. The Soviet Union, however, does not intend to antagonise either the Iranians or the Turks and moves are currently afoot to further strengthen Soviet-Turkish and Soviet-Iranian relations. The standard Soviet explanation that the treaty is not aimed at any third party may, therefore, be far more significant in this case than in the case of the other two treaties that Moscow has signed in recent months.

Monopolies Commission

Irrelevance Abounding

A N Oza writes:

THE government remains as confused as ever about the role of the Monopolies Commission. After the Commission's appointment in August 1970, it was not till late January 1971 that the first case was referred to it. The government's reaction to the Commission's subsequent working has been such as to give the impression that it regards the Commission essentially as an embarrassment to the industrial policies it wants to pursue.

The Monopolies Commission got going just when the growth of industrial production was at its lowest. Without a planned approach to reviving industry, and unable to effect a significant rise in public sector industrial investment, the government had no answer to the private sector's cry that industrial growth was being kept down by procedural delays in industrial licensing, etc, and the so-called curbs on the private sector. Prominent among the 'curbs', as private industrialists saw it, were the activities of the Monopolies Commission.

True, the government did refer to the Commission some two dozen proposals for expansion or setting up of new units, though only half of them were of any significance from the point of view of concentration of economic power, involving large projects and large groups like Tatas and Birlas. In contrast to the casual approach of the government's industrial licensing machinery, the Commission went into details of the projects concerned, calling for a certain amount of awkward but meaningful information from the sponsors and even inquiring into the socio-economic credentials of some of the projects. Also, its approval of projects was qualified and contingent upon fulfilment of conditions relating to capital structure, price, exports, etc.

The results were not unexpected: the Monopolies Commission immediately came under a barrage of criticism from influential industrialists. The manner of conduct of the Commission's inquiries and its approach to the problem of concentration were, it was alleged, holding up major industrial projects in the 'core' sector and generally providing a damper on investment by the large houses.

The government's discomfiture over the working of the Commission has been aggravated by the fact that in almost all important cases (e g, Century, Telco, etc) the Commission has been divided in its verdicts. The divided verdicts of the Commission in important and politically sensitive cases have made decision-making difficult for the government. The government has been compelled to take the safe way out of accepting the majority view, even though this meant permitting some of the largest business groups to expand.

Some time ago, when the Leftist elements in the Congress were pressing for a more effective policy of curbing concentration, the government is said to have considered splitting up the Monopolies Commission and constituting an independent body to deal with control of monopolies and restrictive practices and another (to be called perhaps the Industrial Reorganisation Commission) to tackle the question of concentration of economic power. However, the low rate of industrial growth, the lack of any coherent policy to lift industry out of the recession and the consequent dependence on large business groups soon made the government abandon the idea of a separate commission to tackle the problem of concentration. Now the government is falling back on tinkering with the size of the Commission. Induction of a few more members is expected to take care of the problem of division of opinion within the Commission as well as that of delays in the Commission's investigations.

The reasoning betrays the government's lack of seriousness about the Monopolies Commission. For instance, it is no answer to the problem of differences within the Commission to pack it with new members who will take positions acceptable to the government. Differences in the approach to concentration cases will be inevitable in view of (i) the absence of any guidelines on the manner of conducting the Commission's inquiries (this came out prominently in the Telco case), (ii) the MRTP Act's definition of inter-connected undertakings having become operationally meaningless after the abolition of managing agencies, and (iii) the interpretation of the effects of concentration having become highly subjective as a result of the Act's very broad criteria of public interest.

It is true that the present size of the Commission is not adequate for it to perform all its three functions — investigation of concentration cases and investigation and control of monopolies and restrictive trade practices. But as things are, even the present three-member Commission does not have enough work to do. In the last three months only a minor case relating to concentration has been referred to it. This being so, there is no case for expanding the Commission on the ground that the volume of work before it is more than it can cope with.

If the government were serious about tackling the problem of concentration — which it clearly is not — the right thing to do would be to have another body which would be concerned only with controlling concentration. This body would investigate cases of existing concentration without waiting for a large group or a dominant undertaking to apply for an industrial licence for expansion or for setting up of a new unit.

At the same time it is difficult to appreciate the Monopolies Commission's complaint that the government is not referring enough cases for it to investigate. Surely, the members of the Commission know that the Act gives the Commission *suo moto* powers to take up for investigation the behaviour and performance of monopolistic undertakings and restrictive trade agreements? What is more, such investigation will in many cases necessarily extend to the problem of concentration of economic power in the hands of large groups. For, almost every one of the 20 largest groups control at least one or two giants which in their respective industries are in a dominant or oligopolistic position. Thus the Commission could have, under its *suo moto* powers, taken up for investigation all the important cases that it has examined so far, such as Century and Gwalior Rayon, Hindalco, Telco, DCM, Dunlop and Vidyut Metallics, even if these units had not sought expansion licences and their cases had not been referred to it by the government.

To sum up, the government is becoming increasingly reluctant, under pressure from the private sector, to refer cases of concentration to the Monopolies Commission and the Commission, for its part, is unwilling to use its powers to take up cases of monopoly and restrictive trade practices for investigation on its own without waiting for references by the government. Clearly, in the circumstances it is as irrelevant to expand the Commission as it is to set up a separate body to deal exclusively with concentration of economic power.

Money Supply

Non-Credit Credit

MONEY supply data for the financial year 1971-72 have just been released by the Reserve Bank. Over the year, money supply as officially defined (currency plus demand deposits, including 'other deposits' of RBI) has surged by a phenomenal figure of Rs 918 crores as against Rs 750 crores in 1970-71. Among the major factors affecting money supply, net bank credit to the government sector has increased by as much as Rs 1,185 crores (as against Rs 511 crores last year), while net bank credit to the commercial sector actually contracted by Rs 42 crores (against an expansion of Rs 390 crores in 1970-71). This, it may be suggested, is as it should have been. For, the burden of looking after the refugees from Bangladesh as well as that of the war with Pakistan imposed a severe strain on the finances of the Central government so that in the circumstances the central banking authorities had to restrain credit to the private commercial sector. However, even after making allowance for these factors, the data put out by the Reserve Bank are not readily comprehensible.

On the government side, against the net bank credit of Rs 1,185 crores, the budgetary deficit of the Centre and states together is only Rs 68 crores higher in 1971-72 than in 1970-71 — the deficit of the Centre rising from Rs 285 crores to Rs 385 crores and that of the states declining from Rs 225 crores to Rs 138 crores. These figures were recently furnished by the government in reply to a question in Parliament. They are apparently based on the revised estimates for the Centre and on the likely outstandings of borrowings by the States from the Reserve Bank (net of variations in cash balances with RBI). In respect of the Centre, it is unlikely that there would be any significant variation between the revised estimates and the actuals. In regard to the states, however, it appears from the data on loans and advances by the Reserve Bank that their deficit in 1971-72 would would be around Rs 200 crores or Rs 62 crores higher than the amount mentioned above. This would give a total

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FACTORS AFFECTING MONEY SUPPLY

(Rupees crores)

	Variations during	
	1970-71 (March 27 to March 26)	1971-72 (March 26 to March 31)
(A) Money supply with the public	+ 750	+ 918
(a) Currency with the public	+ 370	+ 423
(b) Demand deposits	+ 382	+ 495
(B) Factors affecting money supply (1 + 2 + 3 + 4 — 5 — 6)		
(1) Net bank credit to Government sector	+ 511	+1185
(2) Net bank credit to commercial sector *of which*, Banks' net credit to commercial sector (a — b)*	+ 390	(—) 42
(a) Claim on commercial sector	+ 841	+ 598
(b) Non-monetary liabilities of banks	+ 498	+ 741
(3) Net foreign exchange assets of banking sector	— 28	+ 68
(4) Government's net currency liabilities to the public	+ 21	+ 10
(5) Net non-monetary liabilities of the Reserve Bank [Increase (—)]	— 80	— 377
(6) Residual	— 62	+ 73

* Excluding Reserve Bank.

budgetary deficit of Rs 585 crores, which still falls short of the figure of net bank credit to the government sector by as much as Rs 600 crores.

It is true that the budgetary deficit of the Centre, as defined by variations in the Reserve Bank's holdings of *ad hoc* Treasury Bills and government balances with RBI, is a concept narrower than 'net bank credit to Central government'. The latter concept takes into account variations in (i) Reserve Bank's holdings of rupee securities in its Issue and Banking Departments, (ii) bills purchased and discounted by Reserve Bank (including government Treasury Bills), and (iii) Reserve Bank's rupee coin holdings. But these do not account for the gap of Rs 600 crores mentioned above. The Reserve Bank's holdings of Government of India rupee securities in its Issue Department rose by Rs 484 crores between March 26, 1971 and March 31, 1972. But during the same period its holdings of rupee coin declined by Rs 15 crores. Figures of government securities in the Banking Department are not separately available. Everything considered, over Rs 150 crores of credit to government do not get accounted for. Where they have come from is a minor mystery.

That there have been some accounting re-adjustments during the year is suggested by one of the contractionary factors in the process of money creation, namely, net non-monetary liabilities of the Reserve Bank, which showed a sharp increase of as much as Rs 377 crores. This must have worked as an offsetting factor against the expansion under credit to government. As for these liabilities, the only factor of significance known to the public is the contribution of Rs 60 crores to the three agricultural and industrial long-term funds maintained by the RBI (see Reserve Bank's Annual Report, 1970-71, p 110).

It seems thus that net bank credit to the government sector at Rs 1,185 crores is definitely higher than what is warranted by the real budgetary gap, though exactly by how much the figure has been inflated it is difficult to work out. Surely, it is necessary in the interests of an understanding of the actual trend in money supply in 1970-71 that the Reserve Bank makes known to the public any methodological changes which it may have effected in its money supply data.

Yugoslavia

Socialist Stock Exchange?

THE Italian Communist Party has found it necessary to de-revolutionise its concepts and to publicly assign a major role to private enterprise. In neighbouring Yugoslavia, the ruling maverick communists under the leadership of Tito are contemplating what may be deemed by orthodox Marxists to be further de-socialisation on the economic front.

An attempt towards a form of shareholding in business enterprises was made in the middle of 1968 by the Red Flag automobile factory which makes several Fiat models adapted to Yugoslav needs. It sold bonds which entitled the purchasers to have priority in the allotment of cars for which people sometimes have to wait for two years. Other firms thought they could emulate the example of the big automobile factory but were stymied by opposition from Edward Kardelj, the leading theoretician of the Yugoslav self-management system.

The demand for an even more direct capitalist type participation in ownership has come from Slovenia, the home republic of Kardelj. The Slovenian Prime Minister, Stane Kavchich, is the sponsor of the idea. Slovenia, bordering on Italy and Austria, is the most advanced of the six republics which comprise Yugoslavia. It is some months since the proposal was mooted and the central government and the party have not taken any steps to implement or condemn it.

According to Kavchich, since more and more Yugoslavs are holding surplus money from their labour, it would be natural and useful if they could provide their money to some enterprise to expand its production according to the shareholding principle. He has said: "Instead of travelling to the Fiji Islands or spending a million dinars on a vacation, it would be much better to give the money to an enterprise which could invest it, return interest and perhaps a little more, according to the net profit realised." The Slovenian Premier's argument is: "Socialism should create new instruments of integration, and one among them should be the investment of private capital in the socialist sector, and the participation of private capital in the realised returns, as stipulated by society."

Kavchich claims that he is not alone in advocating the shareholding system in Yugoslavia. Among the Croats there are many who share the Slovenian approach to greater liberalisation of the economy. Croatia is next to Slovenia in level of economic development. Slovenia is small, but Croatia is the second biggest in size and population of Yugoslavia's six republics. In recent months, many of the advocates of liberalism and nationalism (provincialism in Indian terminology) in Croatia have lost their party jobs in a widespread purge. What is of interest is that Kavchich's ideas have found an echo in Serbia, the largest of the republics, and a region considered to be the centre of comparatively orthodox Marxist thinking in the Yugoslav context. The Prime Minister of Serbia, Milyenko Boyanich, has also suggested the introduction of the shareholding system.

Boyanich has said highly favourable conditions exist in Yugoslavia for the shareholding system. He has rebutted doctrinaire communists who say that the system of shareholding would mean a restoration of capitalism. Boyanich has stated that "socialist stock is absolutely justified." The shareholders would have to buy and sell, and *Boyanich claims that a stock exchange* need not be capitalist, but could be a socialist stock exchange!

Branko Horvat, a Yugloslav economic theoretician, has suggested the introduction of a system of "share-bonds" which would not provide the right to ownership but would provide a voice in management. The shares would be transferable on a financial market. The keenness to deny the concept of ownership is a rider to ensure the socialist protestations of the Yugoslav system.

Nutrition

Protein Is Good for Some

THE Protein Foods Association has just celebrated its fourth annual general meeting with much fanfare. Its members, totalling 32, include such major companies and institutions as Tata Oil Mills, Glaxo, Cadbury-Fry, the Food Corporation of India, and the Government-sponsored food research institutes in Hyderabad and Mysore. The purpose is to make people aware of the need for balanced nutrition and to promote the demand for fortified foods — which, incidentally, most of the members produce or mix. Such foods include 'fortified' atta (flour), protein-rich biscuits, beverages, powders, etc. More products are under development. The dissemination of nutritional awareness is organised with professional competence, and in 1970-71 cost the Association Rs 7 lakhs.

The Association has also managed to convince government of the importance of its activities. Government thus bears the cost of the fortification of atta (a programme which is today limited to Bombay and Calcutta) and has waived excise duty on the 'Indian Multipurpose Food' made up mainly of edible oilseed flour and claimed to contain 39 per cent protein.

Who are the people whom the Protein Foods Association hopes to benefit through its activities? According to the Association's own claims its lowest economic 'target group' consists of families earning Rs 250 to Rs 500 per month. It should be clear from this that 'the nutrition problem' that the PFA talks about is simply not *the* nutrition problem in the country. The government's financial and other support of the PFA's programmes has to be judged in this light.

If PFA were to restrict itself to manufacturing products for which there is effective middle-class demand and promoting its market by spreading awareness about balanced nutrition, it would be operating like any commercial organisation. But in its attempt to promote its markets and exact official concessions, it has been using the facts and images of undernourishment as it exists at the lowest levels of society — far below the 'lowest segments' aimed at by its commercial campaigns. The 54 per cent of urban poor and 38 per cent of rural poor who emerge from Dandekar and Rath's study of Poverty in India (January 2 and 9, 1971) as being below the poverty line are undernourished because, at their levels of income, they simply cannot afford enough cereals and pulses, not because normal Indian diets — whatever that be — are not nutritively balanced. Pulses are protein-rich, but their production has been stagnant and their new 'catch' varieties have still to be seriously promoted. So has production of edible oils lagged behind.

In his presidential address to the Agricultural Economics Conference last month, P V Sukhatme has drawn attention to the distortion of priorities in agricultural planning in developing countries caused by the new, internationally promoted 'synthetic protein' cult. In a series of papers, conferences and resolutions, UN bodies have been selling the idea of the crucial role of protein nourishment in body sustenance and growth, and the need, therefore, to give synthetic protein 'supplements' to the undernourished of the world — through fortifying foodgrains with protein or through supplementary feeding programmes. According to Sukhatme, while the undernourished do suffer from protein deficiency, it is false to argue that protein deficiency can be overcome by increasing protein *per se* in the diet in much the same way that calorie deficiency can be made up by supplying more calorie intake. There is a complex relationship between calorie and protein intake and in developing countries, protein malnutrition is the indirect result of inadequate energy intake. If people were to have a sufficient calorie intake of rice/wheat *and* pulses, their energy as well as protein or body-building and tissue-replacing needs would be fully met. If a diet is protein-sufficient but does not have enough calories to synthesise and retain the protein, the primary need is for more food than protein *per se*. The point is elaborated with reference to sample studies of populations and to biochemical and metabolic findings.

With a large proportion of India's population undernourished in calorie terms, it is wasteful and inefficient to think of protein-rich feeding programmes without first ensuring that the calorie requirements are adequately met. Here, the constraint is lack of *effective* demand or purchasing power among these sections of the population. Clearly, no amount of supplementary feeds can solve the problem of poverty. Sukhatme himself says: "... our efforts should be to encourage pulse production and involve the small farmer as best as we can into the effort of food and milk production ... Emphasis on amino acid fortified foods can be understood in affluent countries which have an appreciable part of their population overfed. Consumption of large quantities of protein relative to energy intake may be beneficial in reducing body fat. Where, however, under-nutrition is rampant, it is important that the first priority should be given to more food (energy) than to protein *per se*." In our circumstances, school feeding programmes and the like emphasising protein fortification smack of Victorian do-gooding for commercial ends.

Sports Goods

Export Hopes Belied

THE initiative taken by the Trade Development Authority (TDA) in sponsoring an international team to study India's sports goods industry is expected to significantly improve the export prospects for Indian sports goods, particularly to Europe and North America. Although Indian sports goods are even today exported to a number of countries, TDA's present initiative should be considered the first major attempt to systematically tap the large markets for sports goods in Europe and North America.

India was expected to emerge as a leading exporter of sports goods following the partial withdrawal from this field of the industrialised countries — particularly Japan. But India's share in the international trade in sports goods has remained very small. While in 1969-70, the total world trade in sports goods was about Rs 27 crores, India's share in this was only Rs 61 lakhs. The Sports Export Promotion Council had fixed an export target of Rs 2 crores for 1970-71, but actual exports came

to only Rs 80 lakhs. This is largely because India has not been able to make a dent in the major markets such as the UK, West Germany, Australia, Canada, Middle East, and East Africa. China, Hong Kong, Pakistan and Japan have a big lead over India.

The main hurdles to increasing India's exports of sports goods are the limited exportable surplus, non-availability of the right quality of goods popular in foreign markets, and uncompetitive prices. Thus the present production of sports goods is worth only Rs 3 crores per year, and of this only one-fourth is available for export. Further, India is not able to meet the demand for high quality leather footballs and waterproof leather hockey balls much demanded in European countries and being supplied mainly by China, Hong Kong, and Pakistan, who also have a price advantage over India.

It is evident, therefore, that the present initiative of the TDA to promote exports of sports goods would have to be underpinned by systematic efforts to strengthen the indigenous sports goods industry. First, the output would have to be increased to create the necessary exportable surpluses and those items would have to be produced which have a ready and growing overseas market. At the same time, unless the increased production is at lower unit cost, it would not be possible to withstand competition from the other exporting countries.

This is no easy task. India's sports goods industry, which produces as many as 190 items is wholly in the small-scale sector. There are as many as 660 units, employing over 20,000 workers, and the industry is concentrated in Delhi, Jullundur and Meerut and to some extent in Bombay and Calcutta. There are, in addition, 175 firms which are engaged only in exporting sports goods, mostly operating without first-hand knowledge about preferences in the importing countries. On the other hand, the export prospects appear promising in view of the availability of good leather which accounts for about 25 per cent of the total cost in leather balls manufacture. This gives India competitive strength *vis-a-vis* some other competing countries such as Hong Kong and China who use synthetic material in place of natural leather. Several countries prefer leather balls, so that if India can produce goods in the required type and quality, new markets can be captured.

But it would still be necessary to modernise existing production methods which are outdated. While the industry's concentration in the small-scale sector may be a hurdle to major modernisation, applications from certain units for importing the latest machinery at small foreign exchange cost have been pending a long time with the government. It is in areas such as this that the TDA and the STC can be of direct assistance to the industry. These organisations could also undertake — in addition to TDA's present project — periodical market surveys in overseas markets, so that the changing preferences and the size of demand for various sports goods in different markets are properly assessed.

LETTERS TO EDITOR

Who Won in West Bengal?

ASHOK RUDRA's "Who Won in West Bengal?" (April 1, pp 691-2) reminds me of a cryptic remark that Keynes once made, writing about the German inflation after the First World War: "If it be true that university professors in Germany have some responsibility for the atmosphere which bred war, their class has paid the penalty." It is all very well for our Indian Professor to talk about "armed insurrection", so long as he is sheltered and nourished by the society which he wants *others* to destroy. But if an armed revolution does take place, will he escape its wrath? In a society where a person earning just Rs 5,000 per year comes within the top one per cent of the population, where does our professor belong? Would his earning be reckoned as mere "wage"? And what may be the rate of return that he now enjoys from the investment that was once bestowed on him? But perhaps our professor feels in his bones that an armed insurrection is not a likely contingency even in West Bengal and that he does not need to worry about anything happening, in spite of his literary exhortation, for which he, or his class, would be called upon to pay a penalty.

A K DAS GUPTA

New Delhi

Mode of Production in Indian Agriculture

I WAS dismayed to read the article on "Mode of Production in Indian Agriculture" by Paresh Chattopadhyay (Review of Agriculture, March 25, 1972). Chattopadhyay begins by attributing a certain view to me and then quotes from a statement of mine which should make it evident that that is not my view. I doubt that Chattopadhyay is so naive as to think that my statement that there are difficulties in applying the concept of class to the study of rural India is equivalent to the view, which he attributes to K N Raj and myself, that "it is not possible to apply the Marxist method of analysis" to the study of Indian society. K N Raj has written extensively on the Marxist approach; why does Chattopadhyay have to rely on something that Raj is reported to have said while ignoring the many things that he has written? I fail to understand what people like Chattopadhyay seek to gain, materially or morally, by distorting the views of others in this way.

ANDRE BETEILLE

Delhi

The Radicalisation of Indian Economists

YOUR report on the seminar organised by the Department of Economics of Bombay University ("The Radicalisation of Indian Economists", April 1, pp 697-8) contains a serious error in regard to the conclusion of my paper. My paper as well as my oral presentation highlighted the empirical evidence available from the NSS and the Rural Labour Enquiry to the effect that the problem of open unemployment or even of visible underemployment (defined as involuntarily part-time work and reflected in the availability of persons for additional work) is much less widespread than we tend to think. However, it would certainly be erroneous to infer from this that the problem of disguised unemployment is less widespread. To quote from my paper, I emphasised that "the links between the problem of employment and unemployment and poverty in India are not amenable to measurement through the time criteria. An improvement in the level of productivity or income is the crux of the matter". Even with respect to agricultural labourers, "the problem of equality of employment appears more important than that of the duration of employment".

PRAVIN VISARIA

Bombay

In Search of New Pastures

Hansavivek

WESTERN INDIA MATCH COMPANY is exploring new fields of activity to augment its earnings. The objects clause of the Memorandum of Association is being amended to include a wide variety of new businesses. Listed among the diverse businesses are manufacture of paper, pulp, boards, containers, drums, tubes, packings, electrical and electronic apparatus, instruments, accessories, razors, razor blades, vacuum flasks, pencils, advertisement materials, foodstuffs and food products, pharmaceuticals, drugs, chemicals, fertilisers, dyes and dyestuffs, petroleum products, soaps, cosmetics and even businesses of cultivation of land, and export and import of various goods. No indication, however, has been given by the management as to which specific lines the company intends to take up in the immediate future.

During 1971, WIMCO's production of paper was adversely affected by industrial unrest in Calcutta coupled with load shedding and other technical problems. Output of paper dropped from 5,581 tonnes to 4,628 tonnes, but that of chlorates rose from 5,066 tonnes to 5,304 tonnes, perchlorates from 3 tonnes to 20 tonnes and of salt from 19,500 tonnes to 25,645 tonnes. Production of matches declined by 11,622 cases from the previous year. The company's production was fully disposed of and, in addition, some quantities of matches purchased from the small-scale sector were marketed. Akbar Hydari, chairman, complains that the company's share of the market has fallen further, while that of the small-scale industry has risen from 660,000 to 7,00,000 cases. The output of the latter, he adds, has been rising steadily to show an increase of 41 per cent over the past 7 years. He points out that excise duty is being evaded on a growing scale of match manufacture, and his estimate is that more than Rs 12 lakhs per month are being lost to the exchequer. Besides, the duty-evaded supplies are underselling legitimate goods and constitute a 'serious threat' to WIMCO in a number of markets. Hydari expresses the hope that the committee set up by government to review the excise payment procedures will effectively tackle this evil.

WIMCO earned a lower profit in 1971 compared to the preceding year in spite of considerably higher net sales. This is ascribed to all round rise in costs. The company commissioned the perchlorates plant in the second half of the year. As demand is on the rise, the company may soon consider expansion.

TATA MILLS, after 60 years of its career in the cotton textile industry, intends to diversify its activities so that it should not have to depend for profits solely on textile operations. For

The Week's Companies (Rs in Lakhs)

	Wimco		Tata Mills		Svadeshi Mills		Union Carbide	
	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 31-12-71	Last Year 31-12-70
Paid-up capital	495	495	126	126	136	136	1228	1228
Reserves	277	240	139	120	161	161	1058	835
Borrowings	130	69	524	456	431	366	1073	1166
of which Term borrowings	21	20	119	110	106	109	549	648
Gross fixed assets	826	773	726	693	726	721	3457	2879
Net fixed assets	424	396	331	329	207	231	2100	2029
Investments	21	21	9	9	14	14	1	1
Current liabilities	538	482	174	123	179	156	742	535
Current assets	994	869	623	487	686	574	2001	1735
Stocks	350	294	489	368	503	393	1460	1217
Book debts	479	418	131	116	176	169	378	355
Net sales	1836	1515	1117	1059	1005	1054	5113	4254
Other income	41	36	7	6	21	17	40	42
Raw material costs	835	548	568	441	487	390	2271	1927
Wages	361	349	297	284	268	264	894	724
Interest	1	1	61	52	53	47	82	80
Gross profit(+)/loss(—)	217	224	61	83	70	85	1063	849
Depreciation provision	36	34	33	68*	30	36	275	227
Tax provision	103	112	—	—	24	25	390	284
Net profit(+)/loss(—)	78	78	28	15**	16	24	398	338
Development rebate provision	5	4	27	—	1	4	66	13
Transfer to reserves	14	15	—8	—8	—1	4	117	141
Dividend								
Amount	59	59	P 3 E 6	P 3 E 6	P 1 E 15	P 1 E 15	215	184
Rate (per cent)	12	12	P 9.5 E 6	P 9.5 E 6	P7.14 P 12 E 12	P7.14 E 12	17.50	15
Cover (times)	2.17	2.25	—	—	0.93	1.26	1.54	1.76
Ratios (per cent)								
Gross profit/sales	11.82	14.78	5.46	7.84	6.96	8.06	20.79	19.95
Net profit/capital employed	8.64	9.70	3.54	2.13	2.09	3.62	11.85	10.46
Inventories/sales	19.06	17.41	43.78	34.75	50.05	37.28	28.55	28.68
Wages/sales	19.11	23.04	26.58	26.82	26.66	25.04	17.48	17.02

* For 1969 and 1970. **Adjusted against previous loss.

quite some time now, the industry has been passing through 'a crisis of a magnitude unprecedented in its history'. The company has applied for an industrial licence for manufacture of flat steel products in coil form. Total cost of the project, based entirely on indigenously available scrap and sponge iron, is estimated at Rs 10 crores; and the foreign exchange requirement for the equipment will be Rs 4.3 crores. The project, based entirely on indigenously available scrap and sponge iron, is intended to be set up in the industrially 'backward' area of Chanda in Maharashtra. The proposed diversification is expected to lend a degree of stability to the profit position of the company. It is also proposed to carry on the business of purchase and sale of chemicals, such as soda ash, sodium bicarbonate, benzene hexachloride, bromine, etc, and to undertake, at an opportune time in future, the manufacture, purchase and sale of any type of plant, machinery, tools, etc. Owing to 'difficult trading conditions', Tata Mills showed a poor performance during 1971, with a 26 per cent drop in gross profit at Rs 61 lakhs despite a 5 per cent increase in sales at Rs 11.17 crores. Net profit was higher than last year's since provision for depreciation was required for one year, as against two years last time. During the year, plant and machinery worth about Rs 41 lakhs was installed. Value of works under construction and of machinery awaiting installation at the year-end was Rs 4 lakhs. Further orders have been placed in the current year for machinery, of the value of about Rs 17 lakhs. Exports declined from Rs 39 lakhs to Rs 26 lakhs, owing to a steep rise in cotton prices, which undermined the company's competitive capacity in international markets.

SVADESHI MILLS had to contend with frequent 'labour disturbances' last year. Since July 1971, some of the 2-loom and 4-loom weavers whose one and two looms, respectively, could not be worked for want of beams refused to shift to alternative 2 looms and 4 looms offered to them and continue to work only one and two looms, respectively. This resulted in a loss of 6,000 loom-shifts during 1971. The company had filed an application in the Labour Court to have the recalcitrant attitude of weavers declared as an 'illegal strike'. The Labour Court, however, took the view that the dispute was not an industrial matter. The company went in appeal to the High Court, whose judgment is awaited. The disruption in work on account of the industrial unrest in the textile industry in Bombay in October 1971 on the question of bonus for 1970 resulted in a loss of production of about 4.25 lakh metres and of a loss of profit of about Rs 3 lakhs. This apart, the 1971 results were affected by the steep increase in cotton prices, coupled with further increases in costs under various other heads. The company earned a lower profit following contraction of sales and margins. Exports declined from Rs 70 lakhs to Rs 43 lakhs, because exorbitant rise in cotton prices made the products uncompetitive in world markets. Prospects for the current cotton season appear to be bright, as prices of all varieties of cotton have come down and they are not expected to reach the peaks witnessed during the last year. Plant and machinery worth about Rs 7 lakhs, including an eight-colour printing machine and a doubler winder, were installed at the mills. 'Coromandel Garments', in which the company has an interest, is doing well, and is expected to double its production by the end of this year. It has on hand several export proposals.

UNION CARBIDE INDIA's programme for the modernisation and upgrading of battery and flashlight manufacturing facilities is progressing rapidly. The company is now able to make indigenously most of its battery manufacturing equipment. Construction of additional battery zinc rolling facilities at Madras is expected to be completed this year. Industrial licences have been received for manufacture of hard-facing and wear-resistance products and also for expanding the capacity of carbon electrodes. The management is also negotiating with government for the expansion of shrimp fishing activities. Application has been made for industrial licences to manufacture agricultural pesticide 'Sevin'. Last year, the company incurred capital expenditure of Rs 3.22 crores, against Rs 3.44 crores in the preceding year. Demand for the company's products showed appreciable increase last year, and shortages in the market were noted because of constraints on capacity, particularly in the case of polyethylene and batteries. The company's application for expansion of existing facilities for production of polyethylene, submitted in 1970, is still being considered by government. The directors say that, despite a strict retail price supervision, batteries are being sold at retail prices higher than those stipulated by the company. Sales of zinc plates were limited by inadequate allocation of zinc spelter and 'substantial' increases in cost of raw spelter. Sales of shrimp were delayed by delay in certain government approvals. Some of the problems were resolved towards the year-end when export sales to USA commenced. UCI has turned out good results for 1971, with increases in sales and earnings in spite of considerably increased provisions for depreciation and taxation. Dividend, raised from 15 to 17.5 per cent, is still well covered.

ANNOUNCEMENT

A Comprehensive Annotated Bibliography on the Economic History of India (1500 A.D. to 1947 A.D.)

The Gokhale Institute of Politics and Economics, Poona, has undertaken the preparation of a comprehensive annotated bibliography on the above subject, with the financial assistance from the Indian Council of Social Science Research. The bibliography will cover all source material available in English language in printed and typescript form, as well as research work done in the various branches in Indian economic history covering the period 1500 A.D. to 1947 A.D. Historical statistics will receive special consideration.

At present, exhaustive check-lists of various types of works, such as books, periodical articles, theses, parliamentary papers, serials, committee reports, etc., are under preparation. The work of preparing annotation cards is also proceeding simultaneously. Supply of copies of check-lists and annotation cards to interested research institutions is under consideration.

Suggestions and queries on the project are welcome and should be addressed to:

Dr. V. D. Divekar,
Bibliography Project,
Gokhale Institute of Politics and Economics,
Poona-4 (India).

Snakes and Ladders Again

Romesh Thapar

EVEN as the tired old dacoits of the notorious Chambal Valley are "surrendering" to non-violence, presumably to make way ("Indian-style"!) for the younger generation, the much feared and much loved Indira Gandhi is finding herself powerless before the united opposition of the entrenched Farm Lobby to a reduction in wheat procurement prices and land ceilings. Indeed, claiming that such matters should be settled at sowing time as against harvest time, the agitation spreads for higher prices and higher ceilings.

All the smiles in the world cannot hide the meaning of these revealing events in the Capital, although our MPs — that is, when they show up! — are obsessed with other issues. Sample: why did our Ambassador L K Jha bring McNamara's daughter on a tour to India!

Dominoes is a Western game, but, as any student of social history will tell you, it is the product of the genius of the ancient Indian who designed many elaborate *pachisi* boards for play. Indira Gandhi, however, confronted by the sweep and complexity of continental politics (which include a million lobbies!), appears to be playing her own game of dominoes, even though it is more in the nature of a snakes-and-ladders operation. She must surely know that some of the inflated Chief Ministers who had to be punctured just before the elections were more relevant than the creatures she installed and who now talk about procurement prices and land ceilings in much the same way as their predecessors. And she must be wondering down which ladder to throw them.

How demoralising the scene is: leaders prancing around with every kind of pretension, but lacking the capacity or inclination to break the lobbies and to move their states to a new plateau of action.

Indira Gandhi has only herself to blame. Repeatedly, as the people thrust more and more power into her hands in the hope that she means business, we are sought to be impressed by apparently co-ordinated exercises to topple and tipple. We are persuaded that things are happening, but we are where we were. The personalities change. The policies and perspective remain the same. And by this it is not meant that we should sing the songs that have made tedious parrots of so many Righties, Lefties and Quickies.

The ruling party has to realise that it can no longer function without a well-structured party organisation at all levels. In other words, the headquarters of the party cannot be a tumbledown bungalow manned by men who are holding on to pathetic little jobs and are only too anxious to move on should opportunity present itself. No one of any consequence works at the head quarters. No information of any consequence, archival or otherwise, can be gathered there. Any day, the birds will take over.

Flair for 'Operating'

What is the matter with the ruling party? It certainly has all the money and more to run a headquarter operation and an all-India organisation. There are some dedicated men within the party who have survived the massive inroads of opportunism and corruption. There are obviously many corrupt men with a flair for "operating". Political activity is a careful blending of both elements. Is the leadership fearful of becoming captive to a party machine? Yes, it's an old fear. It even inhibited the institution-builder, Jawaharlal Nehru.

As Indira Gandhi launches attacks on cliche attitudes to growth problems, she's got to make clear that party organisation is a missing link in the political-economic discussions now under way. Such organisation, properly motivated, remedies the obvious weaknesses of democratic functioning, the weaknesses which lead to the snakes-and-ladders obsession. The frightened whispering in the corridors of power in Delhi is of a gossipy kind because the essential meaning of party organisation is not grasped or is deliberately underplayed. We talk of new growth models, but fail to understand the implications *in practical terms* of what we talk about.

Irritation mounts. There is a desire to shake some of those who are involved in policy-making. Then passions dissolve. Vietnam, gallant little Vietnam, is battering the guts out of the Nixonian strategists. Maybe, what we are witnessing marks the end of America's darkest hour. Out of miserable defeat will come enlightenment. All else pales into insignificance as Asia turns its attention to the undaunted Vietnamese. Indeed, the conviction exists that they would even triumph over nuclear attack.

Against this background, we in India are naturally wallowing in our "unique" activities — dacoits surrendering to Jayaprakash Narayan and a naked Jain sitting in a committee among ministers and MPs in Parliament House. I suppose we shouldn't complain. Something unique will surely turn up to salvage our fortunes. Indira Gandhi is on the hunt for it, snakes and ladders *et al*...

April 17

FROM OUR CORRESPONDENTS

NEW DELHI

Quick End to Great Expectations

THE outcome of the conference of state Chief Ministers has come as a startling anti-climax after the great expectations raised by the state assembly elections and the changes in the government leadership at the state level. It had been suggested that with the commanding position that the central leadership now occupied and given the fact that so many of the state bosses had been cut to size in the assembly elections, the central government's policies in respect of the agricultural sector would be put through without too much difficulty. However, that is not how things have worked out. What was witnessed at the Chief Ministers' conference was a repetition of the pattern, established during the past several years, of the Chief Ministers taking a tough line on behalf of the farm lobby and the Union Food and Agriculture Minister submitting meekly to their dictates.

The issues before the Chief Ministers' conference were of great importance from the point of view of pushing ahead with the development process. The Central government has sought to give the impression, mainly on the strength of the impressive step-up in

Plan outlay provided for in the 1972-73 budget, that at last it was serious about putting the economy back on the growth curve. But this impression has been completely belied by the Centre's spineless performance at the Chief Ministers' conference and the way the Chief Ministers, particularly those of the three states of UP, Haryana and Punjab, were allowed to gain the upper hand, as if by design.

Budgetary Burden

The main item on the agenda of the conference was to consider the report of the Agricultural Prices Commission on the price policy for rabi foodgrains for the 1972-73 season. The Commission had made out an unassailable case for lowering the procurement price of wheat and made recommendations on certain related matters which would bring the price policy for wheat into conformity with the levels of production and productivity reached over the last five years. The recommended policy changes, specially the lowering of the procurement price, had been long overdue and had been suggested again and again by the APC in the past few years. But the changes could not be carried through in the face of strong resistance from the farmers' lobby represented by the Chief Ministers of the main wheat producing states. Wiser from past experience, the APC this time proposed only a marginal reduction in procurement prices of about Rs 4 per quintal in the case of the Mexican and indigenous (common white) varieties and Rs 5 to 8 in the case of the indigenous (red) varieties. Together with minor adjustments in issue prices to flour mills and some economy in costs of procurement, transport and storage, this was expected to absorb a part of the large and mounting losses of the wheat procurement and distribution system. At the prevailing levels of procurement and issue prices the estimated loss or subsidy is estimated to be about Rs 135 crores in 1972-73. This is a direct outgo from Central budgetary resources and leaves that much less financing development programmes or welfare schemes for the poorer sections of the people about which so much is heard these days.

The case for lower procurement prices had found support in the Finance Ministry's Economic Survey as well as in the Finance Minister's budget speech. The Finance Minister was probably better aware of the strength of the farmers' lobby and so he provided Rs 100 crores in the budget to cover the likely losses on the Food Corporation's operations. But even he had hoped to save at least Rs 35 crores of the Rs 135 crores through some adjustment in procurement and issue prices. He had also assumed that the FCI's draft on bank credit would be lower as a result of a larger offtake of foodgrains from the public distribution system which might result if at least a part of the benefits arising from the much-publicised wheat revolution were passed on to the consumer. The APC report made a pointed mention of the fact that bank advances against foodgrains exceeded Rs 400 crores in the last financial year and that, with every addition of a million tonnes to the buffer stock which is already above the planned level, an extra Rs 87 crores would get locked up, while the cost of carrying every such addition would be another Rs 8 crores. The success on the wheat production front, instead of becoming a factor for stimulating the economy and providing surpluses for development, has thus actually become a burden and resulted in a redistribution of income in favour of rich farmers.

Lack of Conviction

The way the Chief Ministers' conference was handled is an interesting and revealing story in itself. Once again it was the Political Affairs Committee of the Cabinet which came into the picture on the eve of the conference. The Chief Ministers of Punjab, UP and Haryana, the three main wheat-producing states which have a vested interest in high procurement prices, were invited to a meeting of the Political Affairs Committee. The newly constituted Economic Affairs Committee, which had been widely publicised as the new 'high command' for directing economic policy, was quietly forgotten even though the issues for discussion with the Chief Ministers were of vital economic significance. This step in effect settled the outcome of the Chief Ministers' conference in advance. The Political Affairs Committee evidently examined the entire question from the standpoint of the rural vote banks and within this framework the three Chief Ministers evidently had no trouble convincing the Committee that they could not afford to hurt the interests of the rural rich who had contributed so handsomely to the Congress party's recent electoral victory.

When next day the Chief Ministers' conference opened, the Food and Agriculture Minister made the usual opening speech. The speech, while it formally endorsed the APC report, lacked conviction and firmness. On the land ceilings issue, in contrast to the strong stand taken by the Prime Minister at the Chief Ministers' conference two years ago and the repeated calls for radical land reform heard more recently, Fakhruddin Ali Ahmed did not even pose the issue of lowering land ceilings. Instead, he obligingly diverted attention to consideration of the secondary problem of the exemptions allowed under the existing ceiling laws. After the Union Minister's inaugural address, the Chief Ministers of UP, Punjab and Haryana were invited to speak, one after the other. Their speeches set the tone for the conference. This was taken as a hint — it was probably intended to be so taken — that the Central leadership had reconciled itself to the rejection of the APC's recommendations once again. The result was that except for West Bengal, which took a forthright stand in favour of the APC's recommendations, and Mysore and Jammu and Kashmir, which expressed some dissatisfaction over the favours being demanded by and given to the wheat producing states in contrast to rice producing and rice consuming states, the other Chief Ministers simply fell in line with the idea of maintaining the *status quo* in respect of both procurement and issue prices. Once again the APC report had been scuttled.

Well-Organised Lobby

A notable feature of the conference was the preparatory work done by the farmers' lobby, proving that it has become not only a strong and articulate group but also a well organised one. This was evident from the discussions in Parliament preceding the conference and the demonstrations against the recommendations of the APC staged outside the conference hall. The line-up in this organised protest was also revealing. From Swatantra and Jan Sangh to the communists — all were together on this issue. With the growing economic strength of the kulak class in the villages, its political influence has increased correspondingly and, far from marking any change in this respect, the recent assembly elections have probably added to the political weight of the kulak. It has been suggested that the Prime Minister has allowed herself to be persuaded to agree to the scuttling of the APC's recommendations in return for acceptance by the states of more radical proposals for lowering ceilings on holdings and the introduction of an agricultural income-tax. This appears to be just wishful thinking. If the modest cut in procurement prices recommended by the APC could not be pushed through, it is unlikely that the Centre will be more successful with radical land reform or taxation of the rural rich.

At the Chief Ministers' conference, like at similar other occasions, figures of the cost of production in agriculture were bandied about freely. The APC had said in its report that "available data, though in need of enlargement in respect of its coverage, suggest that even after the moderate reduction [suggested by the commission], the procurement price of wheat will be comfortably above its cost of production. And this notwithstanding the imposts proposed in the Union budget for 1972-73". The APC did not go into details of the cost of production advisedly, because of the wide variations as between regions as well as on account of other conditions. But the observations it has made in its report are based on detailed studies. The farm management studies data as well as the cost data available with the Commission suggest that in no case would the maximum cost of production of wheat exceed Rs 50 to Rs 55 per quintal and that under favourable conditions it would be as low as Rs 38 per quintal. As against this, the procurement price is Rs 76 per quintal. The APC is convinced that the figure of Rs 80 per quintal claimed by the Punjab Chief Minister as the cost of production in Punjab has no basis whatsoever.

Relative Price Structure

The question of procurement prices for wheat and the manner in which the recommendations of the APC have been scuttled also raise larger issues of policy about relative prices of different agricultural products and their relationship with prices and costs in the economy as a whole. These issues have come to the surface as a result of the furore over the decline in cotton prices. The problem of prices of sugarcane, pulses and other agricultural commodities too demand attention. The APC has been submitting reports on price policy for different crops from time to time and if these reports are put together it is possible that some structure of relative prices may emerge. It is time, however, that the APC applied itself to this task and produced a policy-frame for a system of relative prices which will influence the pattern of agricultural production while bearing in mind the requirements of the non-agricultural sector of the economy, particularly industries based on agricultural raw materials. It may then become easier to build up support for the APC's recommendations in respect of prices of particular crops. It is understood that the APC intends to make such an attempt in its annual report which it will submit later this year.

Here it may be worth mentioning the demand for setting up a special cell in the Food and Agriculture Ministry made at the Chief Ministers' conference and readily accepted by the Food and Agriculture Minister. The suggestion is an old one and had been earlier abandoned by the government after some consideration. The setting up of a cell of the kind proposed is really directed against the Agricultural Prices Commission to which some of the Chief Ministers are not very favourably disposed. If the task of working out the cost of production is to be taken out of the hands of the APC, the Commission's position cannot but be undermined and the body would be made even more ineffective than it is. The idea, which the Food and Agriculture Minister thoughtlessly accepted at the Chief Ministers' conference, has subsequently been dropped and the APC will continue to make the necessary cost studies. But the episode does underline the casual way in which Union Ministers, at least some of them, function.

Poor, Poorer, Poorest

Nachiketa

EVEN as the delegates and dignitaries employ their well-rehearsed rhetoric at Santiago at the Third UNCTAD, political events have cast deep shadows over this international gathering which seeks to evolve solutions to the problem of stimulating trade and development of the developing countries. The US administration is fully taken up with the war in Vietnam and the presidential election. The member-countries of the EEC, as well as intending members of the group, are preoccupied with their own problems. The entry of China has also created an element of uncertainty within the group of developing countries about the role in intends, and is likely, to play. The Soviet group is acutely conscious of the presence of China but is not yet sure what stand it should adopt. in any case, the all-too-easy role of the champion of the developing countries against the developed Western countries has been played out for the Soviet Union. The Second UNCTAD at New Delhi had to extend its scheduled timetable of two months by a whole week because of difficulties in drawing up the final communique. It should, therefore, be no surprise if the current deliberations at Santiago also overrun their scheduled period of six weeks.

Trade Preferences

Even the critics of the UNCTAD will concede that the Generalised System of Preferences (GSP) evolved at the New Delhi meeting is a hopeful development for the poor countries. Though the GSP is not as general as it should have been, it offers different degrees of tariff preferences to exports of manufactures from the developing countries in the markets of developed countries, depending upon the type of preferential scheme they have adopted. Two of the important developed countries, *viz*, Canada, and the USA, have not introduced their version of the GSP while the UK introduced it only a few months ago. It is to be seen whether the developing countries will succeed in extracting commitments from the USA and Canada about the dates from which their GSPs would become operative. At present each of the developed countries has its own list of manufactures not eligible for preferences. Textiles are outstanding among the excluded items as the developed countries want to protect their inefficient industries on the ground of employment. The GSP also does not offer adequate incentives for the development of processing industries in the developing countries which can generate additional income and employment by processing their raw materials at present exported to the developed countries. Even after all developed countries start operating their versions of the GSP, the extra trade that would accrue to developing countries would not be more than $ 300 million a year by the middle of this decade. This is certainly a rather small gain after all the fuss made about the GSP. But in spite of the fact that the gain from the GSP is so limited, the developing countries' emphasis at Santiago is likely to be on international monetary issues instead of on trying to raise the level of preferences and to extend them to more commodities. This will be decidedly unfortunate.

Commodity problems are another subject which are unlikely to get adequate emphasis from the developing countries

at Santiago. Most developing countries rely heavily on exports of one or two primary products that are subject to considerable prices fluctuations. Some of these products, like tea, are also subjected to high levels of customs and/or internal taxes resulting in lower export earning to their exporters. The situation is somewhat different in respect of such commodities as sugar, wheat, rice, vegetable oils, tobacco and cotton. Domestic production of these commodities in the developed countries is heavily protected through import quotas as well as price support policies. It is estimated that all the developed countries including Japan, spend an estimated $ 21-24 billion in payment of direct subsidies or in sustaining managed prices above free market levels. This is far in excess of the official aid flowing from these countries to the developing countries. The developing countries ought to be pressing their case for at least some entry into these protected markets. According to one estimate, the developing countries would stand to gain $ 10 billion of export earnings by 1980 if all the protective devices were removed. It should not be impossible for the developed countries to make a phased reduction of the present levels of production of many of these items as employment opportunities grow in other lines of production. And in the case of those West European countries which are experiencing labour shortage such a scheme could be introduced without causing much economic disruption.

SDRs and Aid

With the recent international monetary crisis still fresh in their minds, most of the developing countries are expected to demand a larger share in the decision-making on international monetary matters which so far have been the preserve of a few developed countries. Some of the developing countries have considerable foreign exchange reserves. India and Brazil, for instance, have larger reserves than Sweden, which is a member of the Group of Ten. The developing countries are also asking for a link between developmental aid and the SDRs. Some of them have pleaded that all the SDRs should be handed over to the developing countries which would eventually returned them to the developed countries through payment for larger imports for developmental purposes. Robert McNamara has already asked the developed countries to agree to link, directly or indirectly, the financing of development to future issues of SDRs. Karl Schiller, the West German economics and finance minister, is agreeable to the proposition that SDRs should be given in larger quantities to the developing countries. One may expect that the developing countries might succeed in getting a larger share in the future issues of SDRs but they are unlikely to get all the fresh SDRs as a development 'gift'. It is also unlikely that they would be able to wrest a significant voice in the framing of international monetary policy. The developed countries would point out that the developing countries require more of long-term development aid and not greater short-term liquidity which is the concern of monetary policy.

On the issue of foreign aid the prospects appear to be rather disappointing. The whole of the American aid programme is in a state of suspended animation. Even at its current level, US aid at 0.3 per cent of the US GNP falls far below the 1 per cent target agreed to by the developed countries. Meanwhile, the European countries have made it clear that they are in no position to fill the aid gap if the US withdraws from the field. The UNCTAD Secretariat's attempt to single out the least developed countries on some criteria of doubtful validity has perhaps already caused some damage to the interests of the developing countries by introducing divisions within the so-called Group of 77. The UNCTAD Secretariat has identified 25 'least developed' countries with a total population of 150 million. The developing countries should perhaps counter the move by fighting for greater aid to the 'least developed' countries but insisting that this should not be at the cost of larger aid to the other developing countries. Such an approach will help to preserve the unity of the Group of 77, while at the same time putting the foreign aid question in the proper perspective.

NORTH

Triumph of the Wheat Belt

IN the well-founded belief that it is difficult for any Punjab Chief Minister to survive for long if the farmer does not secure a good price for wheat, Zail Singh, with the full co-operation of Haryana Chief Minister Bansi Lal, did considerable backstage canvassing before the Chief Ministers' Conference began its session. On the crucial procurement price issue, Punjab, Haryana and UP won the battle, the Centre buckling under the pressures subtly mounted at various levels. The Chief Ministers of this region have returned home with the satisfaction that they have safeguarded the interests of the dominant landowning community — their political masters — against what once seemed heavy odds. The fate of the consumers in the wheat belt seems to be no one's concern. Sound logic, economic arguments and budgetary considerations have all been sacrificed at the altar of political expediency.

The rejection by the Agricultural Prices Commission of the plea that lower procurement prices for wheat would prove a disincentive to the grower has special relevance to Punjab. Wheat, the golden grain, continues to be the Punjabi farmer's best revenue-earning crop. But it would have remained a paying crop even had the price structure been modified as proposed by the APC. According to an official survey, the margin of profit is large enough to absorb some lowering of prices. The average net income per acre for wheat at the National Demonstration Farms laid out in Punjab has been worked out at Rs 845. For cotton the return is stated to be Rs 766. For hybrid maize the return has been estimated to be the lowest, just Rs 119 per acre. The profit margin for wheat being thus far larger, the farmers are unlikely to switch over to other crops. Even granting that the profit at demonstration farms is generally higher than that on average farms, the argument still holds good. Besides, with a considerable area in Punjab assured of regular irrigation through canals and tube-wells and given the ready adoption by the farmer of modern technology, the income from wheat cultivation is unlikely to fall. On the other hand, if, as hinted by the APC, there is some diversion of land from wheat to pulses, in view of the high prices of pulses in north India, this would be all for the good and the farmer as well as the consumer would gain.

Loopholes Galore

On the land ceilings issue the Punjab Ministry staged a *volte face* within a few days of assuming power. The initial fervour has all but disappeared. Virtually over-riding its own resolution of March 21, the Assembly Congress Party on April 5 passed a resolution favouring retention of the present ceiling of 30 acres (which itself has rarely been enforced — so many are the exemptions and loopholes). Before the Chief Ministers' conference commenced, Congress MPs and other spokesmen of the party denounced the Punjab plea against lowering the ceiling. Some even talked of removing from office Ministers who were opposed to adoption of the ceiling norms suggested by the Central Land Reforms Commission. But the CM's endorsement of the Central guidelines on land ceiling exemptions on April 14 does not amount to effective enforcement. Punjab's special problems are to be further discussed "at high levels". The state has not yet enforced even the existing ceilings. In any case, the net effect would be only a slight improvement in the land distribution pattern with a somewhat larger area of land becoming available as surplus after the withdrawal of exemptions.

Landlords in Punjab and Haryana are not therefore very worried about the moves for lowering ceilings. The sting has been taken out of the weapon. Besides, a major loophole has been found in the formula prescribed by the Central Land Reforms Committee which is bound to be exploited by landowners, especially in Punjab. The family ceiling is to be fixed at 10 to 18 acres of land "irrigated from government sources and capable of growing at least two crops". This would exempt all lands irrigated by private tube-wells of which there are almost a hundred thousand in the region, according to the latest figures. Practically every medium-size holding has a tube-well which, like the tractor, has become almost a status symbol. Even canal-irrigated lands are dotted with private tube-wells whereas Government tube-wells number only 865. The prospect of any radical land reform is thus severely limited even if the norms enunciated by the Centre are strictly enforced. The landowners who constitute a majority of both Congress and Akali legislators know this well. This also means that the traditional structure of political power will in turn remain unchanged.

Meanwhile the State Assemblies of Punjab, Haryana and Himachal Pradesh have deferred legislation on land reforms in order to gain more time. As a result, the landlords will now have opportunities for further manoeuvres to evade the ceiling. The Punjab Assembly is scheduled to discuss the revised ceilings on May 9, and the HP Assembly "during the next session". But significantly the three states have already passed resolutions authorising Parliament to enact laws to impose a ceiling on urban immovable property. Evidently, there is no end to dilatory and diversionary tactics.

BIHAR

Gimmick That Boomeranged

N K Singh

THE 'Bihari Bachao' convention in Patna, on February 21, was nothing but a communal mela, organised with an eye on the elections to indict the Congress for its 'silence' over the reprisals against the Bihari Muslims in Bangladesh. In colluding to organise the convention which finally boomeranged on them, the Sangh, Syndicate, Socialists, and their newly-found partners, the CPM, exhibited their political ineptness and their opportunism in formulating issues. In their bid to please both the communal elements in the minority community and the general electorate at the same time, they lost the sympathy of both, and earned further towards their own rout in the Assembly elections. The convention — organised as a vote-catching device just a fortnight before the poll — shocked people so much that a move, designed to alienate the Muslim voters from the Congress, in fact alienated populace from the parties in question.

The convention was organised by some extremist Muslim leaders led by Gulam Sarwar, editor of a local Urdu daily, *Samgam*. Since 1967, Sarwar, known for his support of emotional and communal issues and his fiery oratory, has been notorious in the Muslim politics of Bihar. He was arrested under the Defence of India Rules during the recent Indo-Pak war for his communal writings. As soon as he was released after the cease-fire, Sarwar devoted himself to 'the cause' of the Bihari Muslims in Bangladesh.

Although Sarwar had convened the February 21 meeting, ironically the real force behind the gimmick was the Socialist Party, which entered the picture much before the other political parties — *viz*, the Organisation Congress, the Jan Sangh, and the Marxist Communist Party — entered to exploit it electoral potential. The SP had in fact initiated the idea of the communal mela; and Sarwar and SP were merely hoping to serve their separate ends by it. Pranab Chatterjee, a prominent leader of the erstwhile Praja Socialist Party, was noted as the 'man-behind-the-curtain' at a press conference held on the eve of the convention. Although he sat tight-lipped during the press-meet, there was little doubt of his support when Sarwar said that large numbers of 'Bihar Muslims' had been killed in Bangladesh and if Delhi was unable to ensure their safety, they must be repatriated.

The convention was preceded by a procession on the afternoon of February 21, in which a militant band of 100 or so Muslim boys shouted slogans like "Mujibur Rahman murdabad", "Urdu Bahini Zindabad", and "Bring Back Bihari Muslims to India".

With "Bihari Muslims being slaughtered in Bangladesh" forming the central theme of the convention, a resolution demanding of the Government of India that it protect their "lives, honour and property" and/or repatriate them, was passed at the conference, which was attended, among others, by leaders of the SP, the Congress(O), the CPM, and last but not least, the Jan Sangh. The resolution said: "The Biharis in general and the Bihari Muslims in particular are deeply distressed to hear the harrowing tales of miseries perpetrated on the non-Bengali population in Bangladesh .... It is genuinely felt that attempts are being made for annihilation of the entire non-Bengali population of Bangladesh."

The conference evoked adverse reactions in the country. It was ill-timed: the national pride and euphoria following the war were strong and Bangladesh still the brave new country. The Jan Sangh and the Congress(O), realising the mis-step, has tended to modify their stand on the issue, but the damage was done. Congress(O) leader, Morarji Desai shrewdly but weakly stated: "The Bihari Muslims are free to come back to India but I am totally opposed to their repatriation as such".

But perhaps the most embarrassed of all was the Jan Sangh which had to make a great leap from one extreme point to another. Earlier, the party organ, *Organiser*, had front-paged in its issue of February 12 a special article: 'GOI's Love of Bihari Muslims'.



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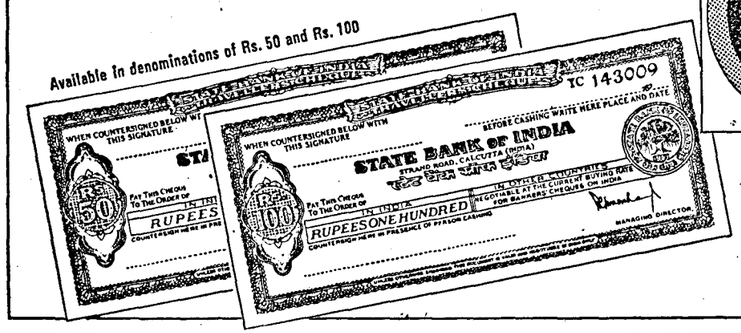
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This was hardly 10 days before the notorious Patna convention. Pouring venom on the Union Government, *Organiser's* Special Correspondent had said in the intro: "Believe it or not, it is not the Bhutto Government alone that is raising a hue and cry about the fate of Pakistani collaborators known as Bihari Muslims in Bangladesh. For, even the Indira Government is advising the Mujib Government to accord generous treatment to these pro-Pakistani elements who have still great potential for trouble in that new State."

Remembering the background and *raison d'etre* of his party, the Organising Secretary of the Bharatiya Jan Sangh said: "There should be no repatriation of non-Bengali Muslims of Bangladesh to India but individual cases of persons who might be wanting to come back to India could be considered on merit."

Later, Thakur Prasad, Vice-President of the Bihar JS, who had represented the party in the 'Bihari Bachao' meet, was asked to issue a clarification on the party's stand. Thakur Prasad, who had earlier demanded before the convention that the GOI ought to take up the question of Bihari Muslims with Sheikh Mujib and arrange for their repatriation, denied direct involvement in the 'Bihari Bachao' convention. In a strained statement issued five days after the meeting he said that he had merely participated in "a meeting held on February 21 where leaders of different political parties were invited to speak regarding protection to be given to Bihari Muslims in Bangladesh". Of course, all he wanted was that individual cases be considered on merit!

Little wonder that the convention only further diminished the credibility of the opposition parties.

SINGAPORE

Casting Bread on Malacca Waters

Harish Chandola

THE Soviet Union must feel very dissatisfied with its latest diplomatic effort in the Far East and in South-East Asia, last month, to seek support for the Moscow-sponsored collective security system for Asia and for getting the Malacca Straits accepted as international waters free for all traffic, including the passage of naval ships. Perhaps not satisfied with the initiative of its diplomats stationed in South-East Asian countries in obtaining support of the governments in this regime for these proposals, Moscow last month sent a special envoy, L I Mendelvitch, on a whirlwind tour of the three littoral countries (Indonesia, Singapore and Malaysia) of the Malacca Straits. But even Mendelvitch received absolutely no support from the leaders of these three countries for the Soviet proposal for evolving a collective security system for Asia, which was first made by Brezhnev in 1969.

According to reliable sources in these countries, Mendelvitch also did not receive any assurance that the Straits of Malacca would be considered as international waters. The leaders of Indonesia and Malaysia reiterated their position that the Malacca Straits belonged to their countries. They, however, assured him that the right of innocent passage through them would be available to merchant ships of all nations, except to oil tankers of 200,000 tons and over, because of navigational difficulties through the narrow and shallow parts of the Straits. It was said that if the large tankers struck submerged rocks or touched the bottom in shallow spots they would leak oil, resulting in pollution and killing of marine life, which deprive the fishermen of the two countries of their catch and their livelihood. But as far as naval traffic was concerned, the roving Soviet envoy was told that it would be controlled by the two states, because it endangered not only their security but also that of the entire region. Malaysian leaders told the Soviet emissary that peace could be maintained in the region only by supporting the Malaysian proposal of accepting South-East Asia as a neutral zone free of interference from the super powers and not by promoting new security or defence arrangements.

Hectic Soviet Activity

In 1969 the Soviet Union had been very active in seeking the reaction of Asian countries to its idea of evolving a collective security system for Asia. But because of lack of positive response to it, the Soviet Union seemed to have either dropped the proposal or placed it in cold storage. The question being asked in this region now is: Why did the Soviet Union suddenly drag the proposal out again last month and initiate an alarming degree of diplomatic activity in placing it before the same Asian nations which had shown their indifference to it in 1969?

In the first week of March, the Soviet ambassadors in Japan and Indonesia sought meetings with the heads of the Foreign Ministries of these countries to tell them that Moscow was still interested in organising an Asian security system and that it considered the Malacca Straits as international waters. As a result, the Japanese Prime Minister made a statement in parliament showing only a polite interest in the first proposal. But on the second point Japan fully supported the Soviet Union. The Malacca Straits are Japan's lifeline at the moment, because the country imports its main source of energy, oil, from the Middle East through the Straits. If the Malacca Straits come under the control of the littoral states and they manage to close them to super tankers taking oil to Japan forcing the tankers to go through the Straits of Lombok and Macassar, the oil shipments will take a week longer to reach Japan, and the price of importing oil will go up by about a million dollars per super tanker.

In the third week of March, the Soviet Union sent a special envoy to Indonesia to explain the Soviet view on these points. But the special envoy was told very clearly that Indonesia and Malaysia firmly stood by their decision to regard the Malacca Straits as their waters. The Soviet diplomatic offensive in this region came on the heels of Nixon's visit to China, which caused uncertainty among America's Asian allies. They were wondering what policies they should adopt, now that they might not have the US military presence to back them. It was precisely at this juncture that the Soviet Union launched its diplomatic offensive in this region. The Soviet timing for the proposal was probably aimed at relieving these US allies of their distress. If one super power was thinking of withdrawing, the other super power would replace it to see that peace and the *status quo* were maintained in the area (which really means providing support to the present regimes) through another collective security system.

But before the Soviet Union could start exploiting the situation in this region following Nixon's visit to China, US Under Secretary of State, Marshal Green visited these countries and assured their leaders that US would continue to abide by its commitments to them and would not desert them. He told

them that by going to China, the US President was only opening an option and that he really did not mean to give up US commitments, including defence arrangements. And no sooner did the Asian allies feel reassured, they began ignoring the Soviet alternative to join the Moscow-sponsored collective security system.

US Most Affected

The Soviet attempts to place its security proposal before the Asian nations again, at what it thought was the right time, is understandable. But what is less understandable is its vehemence in opposing the Indonesian-Malaysian agreement to regard the Malacca Straits as their waters. If Indonesia and Malaysia do exercise control over the Straits, and they appear determined to do so (Indonesian naval ships are already in the Straits and it has been announced by the two countries that they would want notice from all intending to sail their naval ships through the Straits), the Soviet Union will not be the only country affected. Theoretically, the US should be the one most affected, because of its recent decision to extend the area of responsibility of its Seventh Fleet from the Pacific to the Indian Ocean. At the moment the Soviet naval traffic through the Malacca Straits is small compared with the number of British and US naval ships that pass through it. Even if the Malacca Straits are closed to all naval ships, it would not matter much to the Soviet Union, because easy passage through other straits would be available to its warships to enter the Indian Ocean.

In fact political elements in this region had earlier hoped that the Soviet Union might welcome the Indonesian-Malaysian move to assert control over these waters. This hope was based on the thinking that the move challenged the conventions laid down by former colonial powers to control the seas with their powerful navies. It was also under those circumstances that the former colonial powers with large naval forces had imposed a three-mile limit on territorial waters. Beyond the three miles, the waters were considered international waters, a euphemism for the seas controlled by the big maritime powers.

It is only now that small countries are protesting against the gross injustice of imposing a three-mile territorial waters limit on them. Indonesia and Malaysia had, therefore, hoped — erroneously, it now seems — that their move in trying to control the waters in their immediate neighbourhood would be welcomed by the Soviet Union as it was aimed at breaking the unjust conventions imposed by the colonial powers.

It was in November last that Indonesia and Malaysia proclaimed the Malacca Straits as part of their territorial waters and stated that the safety of navigation through them was their responsibility. Two years earlier the two countries had signed agreements delimiting their territorial waters and continental shelves in that area.

Japan, because of its great economic interest, had earlier tried to establish itself as an equal partner with the three littoral states (Indonesia, Singapore and Malaysia) in exercising control over the Malacca Straits. It had proposed separate treaties with all the three to undertake the task of carrying out a proper hydrographic survey of the Straits and dredging its shallow parts to make them safe for the passage of large vessels. But the Japanese effort was frustrated by Indonesia, which opposed Japan signing separate treaties with the three states. After consultations with Indonesia, the Malaysian leaders also declined to sign such a treaty. The Malacca Straits issue will now come up for discussion before the proposed UN Conference on Law of the Sea and it will be interesting to see the position the big powers take on this matter.

China's Mongolian Frontier

Gene Gregory

IN a move apparently calculated to strengthen its northern defences, Peking has quietly made important changes in one of China's major administrative units, the Inner Mongolian Autonomous Region (IMAR), a recent issue of *China Reconstructs* reveals. These changes involve the transfer of a large section of the region's western most territory to Kansu Province and to the Ninghsia Hui Autonomous Region, both of which now have long stretches of common border with the pro-Soviet Mongolian People's Republic. Large parts of the north-eastern area of IMAR were detached in August 1969. As a result of these reshuffles, the region has lost four of its original seven districts and approximately half its territory.

Territorial dismemberment of the region has involved the transfer of a large part of its population, including native Mongolian inhabitants, to the jurisdiction of other administrative units in what would appear to be a major shift in Peking's policies toward 'national minorities'. While native Mongolians, most of whom still live a nomadic existence, have long held the status of a 'national minority', they have been outnumbered 8 to 1 by Chinese in their own territory. Since 1949, Chinese migration to Inner Mongolia has been particularly extensive, resulting in a sharp rise in the overall population of the region. Official Chinese statistics report a population of 7.3 million in 1953, 9.2 million at the end of 1957, and 13 million in 1967. The population of native Mongolians residing in Inner Mongolia itself is believed to be between 1.5 and 2 million.

With the recent divisions of IMAR territory, a significant part of this native Mongolian population has been split up between Manchuria in the East and Kansu and the Ninghsia Hui Autonomous Region in the West. This fragmentation forestalls the development of a sense of national identity among the Mongolian minority, an identity the Soviet Union could be expected to exploit through its close inter-connections with the Mongolian People's Republic.

The transfer of three eastern districts of IMAR to Manchuria in 1969 was clearly a direct result of the Sino-Soviet border conflict of that year. The move was recommended by the fact that there were better railroad and highway connections with other regions of Manchuria than with the central part of the Inner Mongolian Region. As a result of the transfer, the three districts have become part of the extensive Shenyang Military Region, encompassing the three Manchurian provinces of Heilukiang, Kirin and Liaoning. Some observers believe the move also reflected the personal power of the man in charge of the Shenyang military establishment, Chen Hsi-lien, who was elevated to the Party's Politburo in April 1969.

After the most recent transfer of the western sector of Inner Mongolia to Kansu province and the Ninghsia Autonomous Region, it automatically becomes a part of the Lanchow Military Region to which those two administrative units belong. As a result, IMAR has ceased to exist as a major independent military district, with the remainder of the region now under the control of the Peking Military Region. The responsibility for the defence of the Sino-Mongolian border is now shouldered by three powerful military regions, with their centres a considerable distance from the Mongolian frontier.

But there are compelling indications that the dismemberment of IMAR could also have been provoked, at least in part, by the factional struggle that continued to rage within the region well after the Cultural Revolution. At the time of its creation, in November 1967, the Inner Mongolian Revolutionary Committee was chaired by a military commander, Teng Hai-ching, who led army units into the region in February of that year. Consolidation of his power was, however, hindered by factional elements which in mid-1968 resorted to armed resistance. The People's Liberation Army's repression of 'leftist' groups later led to attacks on Teng, who nonetheless still managed to command Peking's full confidence. In April 1969 he was elected to the Party's Central Committee. But Teng's power was short-lived. His enthusiasm in disbanding the Inner Mongolian Red Guards earned him enemies within the party leadership; his expulsion from the party followed on the heels of the influx of additional military units into the area as a result of the Sino-Soviet border conflict.

Once again the latest dismemberment of Inner Mongolia has coincided with the emergence of a new regional strongman in the party committee. The first secretary of the committee, Yu Tai-chung, also from the ranks of the military and formerly known as a 'responsible person' in the Peking military region, is also believed to be in charge of the regional administrative organs. This centralisation of military, administrative and party authority in the hands of one man suggests the degree of concern in Peking for the security of the region.

THE FOURTH ESTATE

Usually Timid, Occasionally Tenacious

Nireekshak

CORRUPTION in high places, when exposed, is excellent material for any newspaper in a country where a free press exists. But the press in this country, though free, follows a cautious policy on such delicate matters. The fear of attracting a libel or defamation suit apart, great regard for established institutions and public figures and self-imposed notions of sobriety and respectability are cited as reasons for the restraint.

There have been occasions, in the past, when this restraint temporarily loosened and corruption in high places was exposed. But even then our press never ventured to extend the gamut of its reports and comments beyond what was stated on the privileged floors of parliament and the state legislatures, proceedings and reports of tribunals and court verdicts. Krishna Menon's involvement in the famous 'Jeep Scandal', T T Krishnamachari's role in the well known 'Mundra Episode', high tribunals holding ex-chief ministers Partap Singh Kairon and Bakshi Ghulam Mohammed guilty of corrupt practices, and the findings of the Iyer and Khanna Commissions confirming corruption allegations against top political leaders of Bihar and Orissa, are some such examples.

What in professional jargon is called 'investigative reporting' is totally discouraged by our newspapers as far as corruption in high places is concerned. It is too dangerous, full of hazards and very risky, they say. Even when our newspapers scent some big scandal, they tend to wait till the matter blows up in a legislature. It is considered safer to report the libellous and defamatory statements made on the floor of parliament or a state assembly than to get the matter investigated by competent press reporters. Though never legally tested, it is an erroneous belief that accurate reporting in the press of the proceedings of privileged legislative chambers, is also protected and privileged. By convention, yes. By law, no. But somehow the belief continues that one can safely print what goes on on the floor of the privileged legislatures.

A case in point is the recent 'cinema construction scandal' in Bombay. It was not that the local press was caught unawares when the Socialist MLA, Mrinal Gore, busted it in the Maharashtra assembly. The press had known for some months that new cinema theatres were springing up all over the city defying traffic and other considerations and that some powerful men, including some ministers, were behind this cinema racket. In fact, there was 'hush-hush' talk all over the town about it. But the newspapers were too scared to report it. They waited till an opposition member of the state legislature raised the issue on the floor of the house. Next day the local press published all the allegations made about the scandal in the legislature. *Free Press Journal's* was the best report — detailed, accurate and well-displayed.

In fact, one notices that *Free Press Journal's* local coverage has improved considerably in the last few weeks. The capabilities of its reporting staff are being fully exploited now. For good display and for featuring local news stories on the front page, one must compliment its news desk. The story, "King's Ransom for Queen's Barrack", on the front page of the April 18 issue may lead to the exposure of another scandal. According to it a plot of 3,300 square metres in the Backbay Reclamation area was sold by the state government through public tenders, for a sum of over Rs four crores at the rate of Rs 12,829 per square metre. The successful bidder was J M Properties. Another bidder, who had quoted Rs 12,000 per square metre and thus lost the bid, was K T Mirchandani of Ultra Construction Company. What Mirchandani told *Free Press Journal's* reporter is interesting. He alleged "that 21 such plots had been privately given to the parties without tender... at a concessional rate of Rs 4,000 per square metre which is approximately one-third of the ruling market price." How could the state government do this, sell land without tenders and at prices so much below the market price? A story worth following up. But will *Free Press Journal* or some other newspaper take the risk of annoying someone high up in the state government?

The Shoe Pinches

The newsprint policy for 1972-73 announced last week has imposed more restrictions on the big newspapers. The flexibility so far allowed to increase the number of pages at the expense of circulation has been curtailed. The editorial reactions of these newspapers have understandably been sharp. *Hindustan Times*, whose newsprint quota was 9,208 tonnes in 1971-72, sees "serious implications" following from the new policy which, it says, has threatened the finances and quality of "a small group of national papers". According to it, if the cut in newsprint is to conserve foreign exchange then it should be uniform and affect small, medium

and big newspapers alike. But since more "liberal provisions than ever before have been made for the grant of imported newsprint to smaller, medium and certain other papers not merely to increase their circulation but to bring their page levels up to 10 pages", *Hindustan Times* suspects, "a deliberate policy to place a limitation on larger papers merely because they are large, quality of service being treated as of no consequence". *Statesman, Times of India, Hindu* and *Indian Express* have the same grouse against the government and view the new newsprint policy as a threat to freedom of the press. *Statesman*: "A newspaper does not belong to the category of a cake of soap. It is a service which is becoming increasingly costly to maintain at any level of effectiveness but which is essential if the free expression of opinion is to survive".

The small newspapers seem to be happy at the prospect that they are getting some attention, though not many have written editorials saying so. *Patriot*, however, has come out with some interesting statistics. According to it, the 40-odd newspapers affected by the government order consumed 95,000 tonnes out of the total of 225,000 tonnes of newsprint made available in 1971-72. The remaining 130,000 tonnes went to 2,500 newspapers and periodicals. Any cut in the quota of 2,500 small and medium size newspapers, according to *Patriot*, would not have yielded a saving of more than 1,000 tonnes, implying that the only way to effect a bigger saving was to cut quotas of the 40-odd bigger newspapers. *Patriot* has also revealed that consumption of newsprint by big newspapers has increased by between 50 and 90 per cent during the last five or six years:

(Consumption in tonnes)

Times of India	12,825 (1964-65)	21,970 (1970-71)
Hindustan Times	6,331 (1966-67)	9,208 (1971-72)
Statesman	4,643 (1965-66)	6,831 (1971-72)
Indian Express	14,166 (1964-65)	26,552 (1970-71)

Perhaps uncharitable has been *Patriot*'s comment that the "monopoly newspapers" are "virtually advertisement sheets illustrated with news". However, the implications of the government's action are being studied by journalists' bodies like the Indian Federation of Working Journalists (IFWJ) and the National Union of Journalists (NUJ). Already suggestions have been made by big newspaper managements that if the government does not retrace its step early enough, they may have to resort to retrenchment of staff and cancellation of news agency contracts. The stringers on retainer and linage basis have already been affected in some newspapers. *Hindustan Times* and *Times of India* have already shrunk to ten pages and announced suspension of many of their regular editorial features. Others are likely to follow suit soon. It is in this context that the national executive of the NUJ met in Delhi last week and expressed "grave concern" at the government's "unilateral and arbitrary action" which would disrupt the economy of the newspaper establishments, including news agencies, resulting in a downward reclassification of newspapers and news agencies and large-scale retrenchment. The NUJ has demanded that the government should immediately scrap the present newsprint policy and take steps to relate the pages published to the price charged, to ensure fair competition and healthy economic development of the newspaper industry. The IFWJ is yet to come out with its view on the subject.

No One Loves Nixon

The escalation of the war in Vietnam was a major editorial subject during the week. In *Indian Express* it attracted front page editorials by the Editor-in-Chief, Frank Moraes, whose comments, like "Hanoi is beginning to shake Washington" and "America is already on the way to being ignominiously chased out of Vietnam" go to show that even pro-West editorial writers are now disillusioned with the juvenile policies of Nixon. According to *Hindustan Times*, "Prolonged hostilities at the present intensified level could reverse the process and even dim Mr Nixon's China halo". Jan Sangh's *Motherland* also had an interesting comment to make. "Replacing human fighters with robots is President Nixon's response to the situation created by the American people's clamour for bringing the boys home from Vietnam. He is planning an escalation of the war while appeasing the American democracy. This is a move as diabolical in its cleverness as in its destructiveness".

Never before has there been such intense debate on the rural vested interests as is being waged in newspapers these days. They are being referred to, in Stalin's terminology, as kulaks. An interesting report by Mohan Ram on this new farmers' lobby in the ruling Congress party appears in *Mail* of Madras. According to Mohan Ram, the kulaks are a factor to be reckoned with. Even Indira Gandhi is conscious of their growing strength. More so because "not only the CPI, even the Soviet ideologues, are enchanted by the role of the new kulaks who have contributed to the spectacular breakthrough in India's food production to give the country the strength to stand up to United States pressures under PL 480 food aid". Indira Gandhi's family newspaper, *National Herald*, has written a hard-hitting editorial on the rise of the new kulaks and has pleaded that the rural neo-rich should not be pampered: "The bulk of the people are poor, and their interest should not be sacrificed in order to keep rich farmers rich. Parliamentarians like Mahavir Tyagi and some Chief Ministers are keen to defend the interests of the affluent peasantry, but the Government and the Congress Party cannot afford to become prisoners of the rural vested interests." C S Pandit in *Sunday Standard* also indicates the growing strength of the kulak lobby: "The way it organised itself on the eve of the Chief Ministers' conference to scuttle the recommendations of the Agricultural Prices Commission has given rise to fears that similar resistance may soon develop to the programme of land reforms and reduction of ceilings on land holdings".

Factions, cliques and pressure groups are gradually developing in the ruling Awami League in Bangladesh. Some interesting reports have appeared in *Hindu* which indicate that Nazrul Islam is emerging as No 2 to Mujib. The position of former premier Tajuddin Ahmed, known for his pro-Soviet leanings, has considerably weakened in recent weeks while Khondakar Mushtaq Ahmed is becoming the darling of Western diplomats in Dacca. Foreign Minister Abdus Samad Azad, a former communist, is also pro-Soviet but a political lightweight, according to *Hindu*'s Dacca correspondent.

Rivalries inside Bangladesh are also reflected abroad. "In Singapore", according to *National Herald*'s South-East Asia correspondent, Harish Chandola, "a University of Singapore lecturer who is a Bangladesh citizen has initiated a bitter and public quarrel with members of his own community that he is the Bangladesh representative in the island republic". With the Indian High Commission's backing, this university lecturer has been throwing lavish cocktail parties much to the annoyance of other Bangladesh citizens, Chandola adds.

Growth in a Finite World

R S Ganapathy

The Limits to Growth: A Report for the Club of Rome's Project on the Predicament of Mankind by Donella H Meadows, Dennis L Meadows, Jorgen Randers and William W Behrens; Universe Books, New York, 1972; pp 205.

THIS book is the result of a collaborative effort of what is now known as the club of Rome, an international association of outstanding people in various walks of life. Its purposes are to foster understanding of the varied but interdependent components — economic, political, natural and social — that make up the global system in which we all live; to bring that new understanding to the attention of policy makers and the public; and in this way to promote new policy initiatives and action.

Early in 1968, the club undertook a project to study the predicament of mankind — the complex of problems troubling men of all nations. Out of this project grew the study of the world, for the first time, as a total system rather than as individual technical, economic, social and political elements. The world, for the first time, was being looked at as a large complex dynamic system consisting of sub-systems interdependent and interacting in the input-conversion — output-feed-back framework. This book is the outcome of Phase I of the project. In this phase, the expert team examined the five basic factors that determine and therefore ultimately limit growth on this planet — population, agricultural production, natural resources, industrial production and pollution. The complex (through conceptually simple) mathematical model of several hundred variable quantifies the relationship among these factors. This dynamic model can be easily simulated in a computer to test out and predict the effects of alternative strategies of growth. Jay Forrester's pioneering studies and research in System Dynamics were the foundations on which this global model was built.

This World Model has two advantages over the mental, intuitive models we have been using heretofore. These are (i) the precise written expression of relationships which are open to objective scrutiny and criticism and (ii) the model's predictive ability. The authors describe in the book the building of the model, the assumptions behind it, its usefulness in predicting the future of the world under alternative conditions.

Most of us think of growth as a linear process. In reality, however, most of the variables in the world system are growing exponentially. It is this exponential nature of the growth process, the authors argue, which is the most dangerous. Exponential increase is deceptive because it generates immense numbers very quickly. Exponential growth has another characteristic: it approaches a fixed limit very suddenly.

Dynamic modelling theory indicates that any exponentially growing quantity is involved in positive or negative feedback loops. Population, for example, increases because of fertility rate and decreases because of mortality rate. Or, industrial capital increases by additional investment and decreases by depreciation. These two feedbacks behave very much like a thermostat. The authors examine the nature of population and GNP growth rates over the past several years in several countries of the world and find them to be exponential. The projection of current rates of growth into the future reveals that economic growth as it is occurring today is inexorably widening the absolute gap between the rich and poor nations of the world. This, of course, is based on the assumption that fertility, mortality, capital investment rate and capital depreciation rates do not change. In reality they might change by specific interventions, designed or unintentional. But in postulating any different outcome from the extrapolated values, one must specify which of the factors is likely to change by how much and when.

The authors examine the economic and population growth potential of the world in terms of its resources. These potential resources are: land, raw materials, fuels, forests, oceans and the ecological systems of the plants which absorb and recycle important chemical substances. The social resources are: peace and social stability, education and employment and steady technological progress. While the physical resources can be quantified in a reasonably accurate manner, the social resources cannot be. The model does the former and assumes that the best possible social conditions will prevail.

In examining the food requirements of the world, we find that the exponential growth of arable land in the past few centuries indicates that we would face a desperate shortage of arable land before the year 2000. For each doubling of agricultural productivity, there is a gain of about 30 years. Other inputs for agriculture — fresh water, fertiliser, implements, etc — would be in short supply before the middle of the 21st century under the most optimistic conditions. Land and water are renewable resources but other resources required for agriculture are non-renewable.

An analysis of the usage of non-renewable resources of fuels and metals over the past several years reveals that these are dwindling very fast and their usage rate is increasing because of industrial advancement. Even though these resources cannot be destroyed, they are converted on usage into forms not easily usable or recoverable. These resources are also very unevenly distributed and used among the nations of the world. The Table indicates the future potential for these resources. The picture as presented in the Table emerges after the model takes into account the many interrelationships among such factors as varying grades of ore, production costs, new mining technology, the elasticity of consumer demand and the substitution of other resources. Also, even under the most optimistic conditions about undiscovered reserves, technological advances, substitution or recycling, the great majority of the currently important non-renewable resources will be prohibitively costly 100 years from now, given the exponential increase of demand for resources. In the context of uneven distribution of resources and their usage all over the world, this problem would get aggravated in the foreseeable future.

Another important factor considered by the model is the observed exponential increase of pollution measured so far in the natural environment. Enough research evidence is not available indicating the ecosystem's upper limits of air, land and aquatic pollution and their impact on human health. We do know, however, that the natural delays in ecological processes increase the probability of underestimating the control measures necessary and therefore of inadvertently reaching the upper limits of pollution absorption capacity of the earth. Moreover, the pollutants

are globally distributed, their harmful effects appearing at long distances from their points of generation and it is not always easy to establish the causal links. The ecosystem's recycling capacity is limited and in selected areas of high industrial activity, this limit has already been reached. The effects of pollution on human health, climate and marine life in the United States, for example, have been well publicised.

The model tests in an elaborate way the relationship among the factors mentioned above. For example, if the use of DDT is progressively reduced from 1970 to reach zero level by year 2000, the DDT in fish will continue to increase for more than 10 years. And its level in fish will not come back to 1970 DDT levels till 1995. Similar system simulation studies to test environmental policies show that any pollution control system based on instituting controls only when some harm is already detected, will probably guarantee that the problem will get much worse before it gets better.

Doomsday Prophesy?

The model estimates that if the 7 billion people of the year 2000 have a GNP per capita as high as that of present day Americans, the total pollution load on the environment would be at least 10 times the present value. The US Council on Environmental Quality has called for an expenditure of 105 billion dollars between now and 1975 to partially clean up the American environment. Any country can postpone the payment of such costs to increase the present growth rate of its capital plant or production of more food, but only at the expense of future environmental degradation which may be reversible only at a very high cost.

The fine art of model building has been used very well by the MIT team. The team's objectives were modest — to understand the broad behaviour modes (tendencies of the variables in the system to change over time) of the population-capital system. The construction of quantitative relationships among highly aggregated variables in the world system is not an easy task. The team has done an admirable job so that meaningful results could be obtained by simulation. By calculating the simultaneous relationships of all these variables over time, the sensitivity of the global system to the various policies that are currently pursued or are being proposed to enhance or change the behaviour of the system, was tested. While precise or detailed estimates of specific variables like food production or distribution in the year 2015 cannot be made from the model, it is possible to gain a fairly good understanding of causes of growth in human society, the limits to growth and the behaviour of our socio-economic systems when the limits are reached. For this purpose, the model utilises the most basic relationships among people, food, investment, depreciation, resources, output, pollution — relationships that are the same the world over, the same in any part of human society or in society as a whole.

Table: Non-renewable Natural Resources

Resources	Static Index(1)	Projected Rate of Growth (per cent per annum)	Exponential Index (2)	Exponential Index, Using 5 Times Known Reserves (3)
Aluminium	100	6.4	31	55
Coal	2,300	4.1	111	150
Copper	36	4.6	21	48
Iron	240	1.8	93	173
Natural Gas	38	4.7	22	49
Petroleum	31	3.9	20	50

(1) *Static Index*: The number of years known global reserves will last at current global consumption rate.
(2) *Exponential Index*: The number of years known global reserves will last with consumption growing exponentially at the projected annual average rate of growth.
(3) *Exponential Index using 5 times known reserves*: The number of years 5 times the known global reserves will last with consumption growing exponentially at the projected annual average of growth.
Source: US Bureau of Mines: "Mineral Facts and Problems", 1970.

The world model computer run predicts, if present trends continue, continuous industrial growth followed by resources depletion, decline of food production per capita and rise of population. These result in the collapse of the world system before the year 2100, resulting in widespread deaths due to decreased foods, high pollution and reduction of industrial output.

Four simultaneous technological policies are introduced in the model in an attempt to avoid the growth and collapse behaviour of the previous runs. In this run, resources are fully exploited and 75 per cent of those used are recyled. Pollution generation is reduced to one-fourth of its 1970 level. Land yields are doubled and effective methods of birth control are made available to the world population. The result is a temporary achievement of constant population with a world average income per capita that reaches nearly the present US level. Finally, though industrial growth is halted and the death rate rises as resources are depleted, pollution accumulates and food production declines. The growth of the world system is halted before the end of the year 2100 and the basic behaviour mode of growth and collapse is not altered under the most optimistic conditions of technological growth which have prolonged the period of population and industrial growth but have not removed the ultimate limits to that growth.

These predictions, however, are based on a critical assumption. The social variables — income distribution, attitudes about family size, choice among goods, services and food — are assumed to continue to follow the same pattern they have followed throughout the world in recent history. No attempt has been made to model the social changes that would take place. Though this assumption is certainly not realistic, any such social change involves political decision-making and a time-delay of several decades.

The model also does not take into account the social side-effects of introducing new technology. The impact of automation, the social implications of the Green Revolution and the like are too well known to be recounted here. While technology can change rapidly, political and social institutions change very slowly. Furthermore, they almost never change in anticipation of a social need but only in response to one.

That there are limits to growth in this finite world has been accepted by everyone. Yet one observes that a whole culture has evolved around the principle of fighting against the limits rather than learning to live with them. This culture has been reinforced by the apparent immensity of the earth and its resources and by the relative smallness of man and his activities. The obliteration of whales over the last few decades demonstrates, for one small system, the ultimate result of the attempt to grow forever in a limited environment. We have not yet learned to live within a limited environment in the anticipation that technology somehow will allow growth to continue still longer. If we do not learn now, while we can, that conservation rather than unlimited growth is desirable then, the alternative is to wait until the price of technology becomes more than society can pay, or until the side-effects of technology suppress growth or until problems arise that have no technical solutions.

This brings us to the concept of global equilibrium. The study searches and finds a series of world system models which are (a) sustainable without sudden and uncontrollable collapse and (b) capable of satisfying the basic material requirements of its people. The model was simulated under the following conditions:

(i) Industrial output and population are held at a constant level from 1975 onwards (births=deaths and industrial capital investment=capital depreciation).

(ii) Technological policies like resource recycling, pollution control devices, increased lifetime of all forms of capital and methods to restore eroded and infertile soil are introduced.

(iii) Some value changes like increased emphasis on food and services rather than on industrial production are introduced.

(iv) Industrial output per capita is three times the world average in 1970.

In the computer run the world system attains an equilibrium by year 2000. Even though resources are depleted, there is enough time by which technology and industry can adjust to changes in resource availability.

If the unrealistic assumption of complete check on population and capital investment by 1975 is relaxed and another assumption that population and capital are regulated within the natural delays of the system, the equilibrium level of population is higher and the level of industrial production per capita is lower than the earlier computer run model. If these policies are instituted in 2000 rather than 1975, the equilibrium stage is no longer sustainable. Population and industrial capital reach levels high enough to create food and resource shortages before the year 2100.

An equilibrium, defined in this way, does not mean stagnation. The alternative mixes of population and capital in a broad sense and individual alternatives in the population-capital system in specific cases are still very large in number. The social system of values, choices and institutions provide an even greater number of alternatives. It is possible to create a society with a much higher standard of living for all its people if we learn the implications of the results of the model. Presently we are taking no action to redefine our goals or pursue consistent alternatives. Taking no action to solve the anticipated problems is equivalent to taking strong action. A decision to do nothing is a decision to increase the risk of collapse.

Is it realistic to conceive of a global strategy to achieve the stable equilibrium in the context of income inequality, unequal distribution of resources, national barriers, international power and military struggles? The effort calls for a fundamental change in our values and attitudes which might take a lot of time to achieve. A sudden change in strategy will generate social tensions of immense magnitude which might be difficult to control. But the sooner we are aware of the writing on the wall, the better and more would be the choices available to us. It is becoming increasingly evident that there is a clear need for planned effort to achieve social innovation to match technical change, for radical reforms of institutions and political processes at all levels.

A section of the Western intelligentsia has interpreted the findings of the study as warranting a freezing of the *status quo* of economic development of the world's nations. This is clearly neo-colonialism and imperialism at their worst. A comparable exploitative attitude was evident in the posture many Western nations adopted on the nuclear weapons non-proliferation treaty issue towards many developing nations. The achievement of a harmonious state of global economic social and ecological equilibrium must be a joint venture based on joint conviction with benefits for all. And this is precisely the situation which is most difficult to achieve.

Planning Organisation at the State Level

B P R Vithal

In this paper the actual practice in, or experience of, different states has not been discussed. The issues involved in determining the planning organisation at the state level and below have been discussed in a purely conceptual framework based on a critical analysis of the recommendations of the Administrative Reforms Commission (ARC).

I

Planning Board vis-a-vis State Government

THE ARC in its Interim Report, submitted in April 1967, made the following recommendation on the setting up of State Planning Boards:

> Planning Boards should be constituted in each state for formulating plans and for evaluating performance. They should each have five members of whom one may be a part-time member. One of the full-time members will be the chairman of the Board. None of the members should be a minister. The provisions relating to the composition and appointment of the members of the Planning Commission will apply *mutatis mutandis* to the State Planning Boards.

Neither the Interim Report of the Commission nor the Interim Report of the Study Team on the Machinery for Planning gave in any detail the rationale for the recommendation quoted above. In the final Report of the ARC on the Machinery for Planning, while the functions of the State Planning Boards have been spelt out in greater detail, nothing further has been stated about the constitution of the State Planning Board or its relations with the state government. The final report of the Study Team, however, deals in detail with the planning machinery at the state level.

The first aspect to be considered is the relationship between the State Planning Board and the state government. The ARC had recommended that none of the members of the State Planning Board should be a minister. The Commission had also simultaneously recommended that the Prime Min-

ister should not be the chairman of the Planning Commission and that Union ministers should not be members of that Commission. The government of India, however, did not accept this recommendation and the Prime Minister continues to be the chairman of the Planning Commission, the Union Planning Minister is the deputy chairman, while the Union Finance Minister is a member.

The Study Team report mentions the "imperative need of having a permanent and non-political body which would undertake the responsibility of preparing long-, medium- and short-term development plans for the state. Such a body should be able to maintain a certain degree of continuity in the process of development irrespective of political changes in the state and co-ordinate development programmes of different regions and districts." It goes on to add that "in our view, State Planning Boards are necessary for the purpose of ensuring the availability of an independent, flexible and continuing planning agency in the state whose advice would be of an expert character and would, therefore, carry greater weight than that given by a departmental agency. With the possibility of changes in the party in power and the existence of different parties in power at the Centre and in the states and, within a state, in different districts, an independent expert planning body at the state level would be in a better position to give independent and expert advice when plan problems are being discussed between the Centre and the state or between the state and various districts than would be possible for a planning department of the state."

Thus, the need to have a body that would be politically independent of the government and the need to maintain "a degree of continuity . . . irrespective of political changes" seem to have impelled the Team to suggest an expert and independent State Planning Board. However, it is interesting that while considering the status of the Planning Commission at the national level, the ARC itself in its Interim Report had taken the view that "in a party system of democracy, each party has its own socio-economic policies", and when such a party is returned to power and forms the government, the government has to work out "its policies through its various agencies. The Planning Commission is one such agency." According to the ARC Report, one of the two main functions of any government is to promote economic development and "if the responsibility for formulating plans for economic development is exclusively handed over to an outside authority, the executive will look like a bird with a clipped wing."

Obviously, the same considerations would apply at the state level. If the Planning Board has to adjust to the policies of the governments that come to power from time to time, the very rationale of its existence is lost. If, on the other hand, it has the power to enforce the conformity of some kind of a perspective plan already drawn up by it, then we would be placing a non-democratic body in authority over the democratically elected government and would thus be putting constraints on the functioning of the new party in power.

There are also certain other distinct disadvantages — besides the political ones mentioned above — in having an independent full-time Planning Board which should be recognised. Even if such a body is only advisory, the moment it is a separate entity, certain planning functions, particularly with regard to the Five-Year Plans, the Annual Plans, and the discussions between the state and the Centre, would all have to remain with a department of the government. There is then the danger that, on the one hand, the activity of the Board would be divorced from the realities of the situation and, on the other, the actual plan schemes would continue to be dealt with in the present fashion without the benefit of the expertise built up in the Planning Board. Also, this would necessitate a parallel Economic Division being set up within the government — apart from whatever similar organisation might have been built up in the Board, for advice on certain economic matters which the state governments are hereafter likely to need more and more.

There is, moreover, an assumption in the recommendation that this form of organisation is necessary for expertise to be built up at the state level — as has been done in the Planning Commission at the national level. No logical justification is given to show why an *independent* body is needed for expertise to be built up. No doubt, the states have not built up such expertise, though this has been done in the Centre. But there is no evidence that at the Centre the expertise grew because of the kind of the composition of the Planning Commission, which itself cannot in any case be said to have been 'independent' till recently since many Union ministers were *ex-officio* members of it. The real reason why expertise had not been built up at the state level was that, in the federal division of work, the area of planning left to the states was such that not much expertise was required under the first three plans. The need for it, however, arose in the Third Plan period, and it can be seen that it is during this time that some efforts to build up the necessary machinery commenced in all the states — particularly in the preparation of the Fourth Plan. The work then suffered a setback again, when the Fourth Plan prospects became uncertain. If, in the process of planning, more and more initiative is given to the states in the preparation of plans, the required expertise is bound to be built up. Since initiative would have to include resource generation and availability also, since without it any initiative would be illusory.

II

Board vs Secretariat Department Organisation

However, there is another sense in which independence and continuity have been envisaged in the report of the Study Team, and this is the independence needed by a planning body from the constraints of normal bureaucratic procedures and the vicissitudes of departmental functioning. This argument of the report is very valid and pertinent.

Another reason given is the inability of a normal departmental set-up "to attract experts from outside the government". The planning organisation will also require freedom to function with a degree of flexibility that may not be possible for a normal department. According to the Study Team report, a Planning Board "will have more flexibility in its operations and be able to develop close and active collaboration with various agencies and individuals whose talent and experience it could draw upon for the functions that it has to perform".

It has to be recognised that some fundamental economic work has to be done hereafter at the state level also. Some kind of perspective planning based on economic analysis and projections, and a more reliable inventory of resources, would be necessary if the medium-term plans are to have any rationale or coherence.

This will require a type of expertise not available at present in the governmental organisation at the state level. Economists at a sufficiently high level would be required for work of this nature. The question, therefore, is whether a governmental organisation would be able to attract expertise of this type and even if it did, whether its method

of functioning would permit effective performance. In a number of matters, work of this nature would also require collaboration with academic and research institutions which an ordinary government department may not be able to do effectively either.

One view has been that, in order to give the organisation that deals with long term planning the maximum degree of flexibility and the capacity to attract talent from anywhere, government may encourage the setting up of an institute dealing with problems of economic development. Such an institute would be either an independent organisation or an institute attached to a university, but in either case will not be a governmental organisation. It will then be given the task of preparing perspective plans and undertaking long-range studies.

There is considerable merit in this proposal, provided there is at least one distinguished and dynamic person who would be willing to undertake the setting up of such an institute. In such a case, the entire work relating to perspective planning and long-term economic projections and analyses could be given to the institute, and the state planning organisation would then deal with only medium-term plans and sectoral plans. Evaluation studies could also be given to such an institute, the state confining itself to periodic plan reviews.

However, even if a separate institute does take up work of a more long-range and theoretical nature, such as perspective planning, there will still be need to build up some economic expertise within the government itself, since on more and more issues both within the state and in Centre-state relations, advice of an economic nature would be required. There might, therefore, be some duplication of expertise and work, but it is likely to be much less than if there were an independent Planning Board.

The real question then is, whether the freedom and flexibility in functioning that an expert body would require to be effective can be achieved only by making the Board at the top full-time and independent of the government. According to the ARC, only one of the five members is to be a part-time member. Whether the members should be full-time or part-time, should be really related to the availability and utilisation of talent rather than to the nature and structure of the organisation or its relation to the government. However, while independence of the Board from government will automatically involve the freedom of its administrative organisation from normal governmental machinery, it does not follow that such freedom for the planning organisation cannot be achieved without the Planning Board being independent of the state government at the level of the Board. If talent and expertise can be attracted and a form of organisation can be worked out that will be flexible and dynamic enough to allow such experts to make their best contribution, the actual composition of the Board at the top will not be a crucial issue. Even a full-time, separate Board can be strangled by bureaucratic procedures as can be seen by the experience of several autonomous public bodies.

III

Internal Organisation of the Planning Board

According to the ARC, the Board secretariat should normally have four units: one dealing with Agriculture and Irrigation, the second with Power, Industry and Transport, the third with Social Services, and the fourth with Evaluation. The Divisions, therefore, are essentially subject-matter divisions and no mention is made of perspective planning, economic projections, etc. The Study Team report is more explicit about the assumption underlying this recommendation when it says that "the scope of state planning agencies is not as comprehensive as that of the national agency. . . . The 'state plans . . . confine themselves mainly to three major areas of development, *viz*, agriculture, economic infrastructure, and social services. . . . We assume that the scope of the state plan would continue to be the same."

While, in practice, this has been true in the past, it is no longer possible to take such a limited or narrow view of the planning function at the state level. The states now must necessarily take a more comprehensive view of the economy of the state and of its problems of development. Even in the context of a Centre-state dialogue for a larger share in the overall financial resources, the attempt has been to place the case of each state in the larger perspective, considering its level of development and the need to bring it up to some desired level within a reasonable period of time.

There is also another major disadvantage in the type of organisation recommended by the ARC. If the State Planning Board is constituted such that its members are experts in specific fields — such as agriculture and industries — and if the Planning Board has strong Divisions for these subjects, the effect may be that the initiative of the departments will get curbed. The kind of person who would be qualified to be selected as a Member of the Planning Board at the state level, is very often likely to have been a former Head of Department. The tendency would then be for him, with the assistance of the organisation of the Planning Board, to usurp the initiative that should rightly belong to the department.

It is, however, undeniable that there is need to strengthen sectoral planning at the state level, particularly in the sectors mentioned by the ARC. The real issue here is whether this strengthening of sectoral planning should take place at the departmental level or at the level of the State Planning Board. Both the ARC and the Study Team have made recommendations for strengthening the Planning Cells in the Development Departments. In fact, they visualise the sectoral divisions of the Planning Board as instruments for strengthening the Planning organisation within the Department itself. But, in practice, the effect of this is likely to be quite the opposite. Sectoral planning can be strengthened only by strengthening the planning organisation within the departments and not allowing the Planning Board to duplicate this effort. This is a lesson that has been learnt in the Planning Commission also.

On balance, therefore, the advantage would seem to lie in strengthening the planning organisation within a department so far as sectoral planning is concerned, and to organise the State Planning Board itself, not on a subject-matter basis, but on the basis of planning functions. One such possible organisation would be to have the following Divisions in the Planning Board:

1 Perspective Planning Division — Economic Projections — Resource Surveys.
2 Economic Division — Economic Analyses — State Income — Economic Policies.
3 Medium-Term Planning Division — Annual Plans — Regional Plans — District Plans.
4 Statistical Reporting and Analysis Division.
5 Evaluation, Review and Training Division.

It is important at the state level that the planning organisation be ultimately linked up with the Finance Department since the operative form which the plan takes is the budget. One way of effecting this is to give the secretary of the Planning Board an *ex-officio* status in the Finance Department. The Division

dealing with mid-term planning, where the annual plans are dealt with, could be treated as a secretariat Division, so that the annual plans prepared by this Division of the Planning Board get automatically incorporated in the budget without any further processing in the Finance Department.

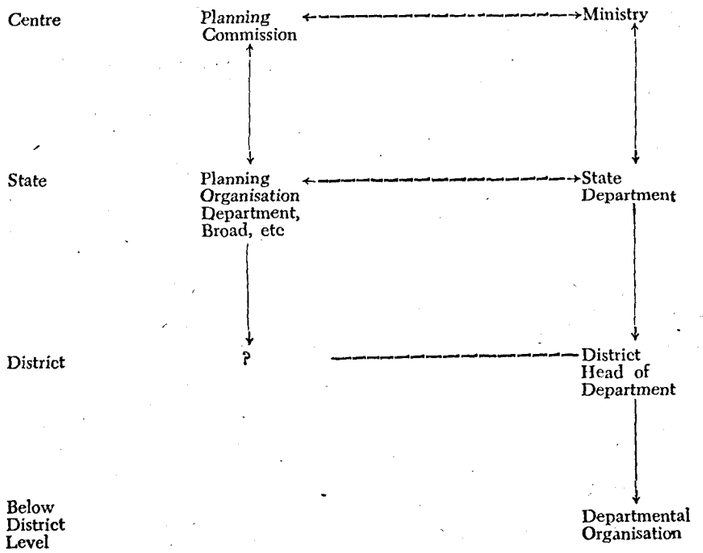
The Departments that would require immediate strengthening in their Planning organisation would be Agriculture, Industries, Education, Irrigation and Power. So far, the setting up of planning cells in these departments has been taken to mean that one of the departmental officers is designated officer-in-charge of planning. This is a totally unsatisfactory arrangement. What is required is the induction of some planning specialists who, supplemented by departmental specialists, would constitute the planning cell in the department. For instance, in Agriculture, an agricultural economist, a statistician and a departmental officer, such as an agronomist, should constitute the planning cell. In Industries, an industrial economist would be required, and in Education, a person with experience of educational planning and a statistician. In Irrigation and Power, an expert in cost-benefit analysis, PERT techniques, etc, would be required, who would be able to fix priorities within the sector on the basis of rates of return, cost-benefit ratios, etc, and would also be able to scientifically review the progress not only in the execution of projects but in the utilisation of their benefits.

With the planning cell being located in the department, and the Planning Board itself being organised on a planning function basis, rather than on subject-matter basis, some experts in the important sectors could be taken as part-time members of the Planning Board without fear of the departmental initiative being sapped.

The issues discussed above can be summarised as shown in Diagram B. In the process of planning, two parallel lines of communication can be visualised between the Central and state levels — one being the line of communication between the Planning Commission and the planning organisation at the state level, and the other between the Central ministries and the corresponding Departments of the State Government dealing with the activity concerned, as indicated in Diagram A.

There are interlinkages between these two parallel lines both at the Central and at the state levels. However, the two parallel and vertical lines of communication are stronger than the horizontal interlinkages between them. There is always a certain similarity, if not identity, of approach between the Planning Commission and the state planning departments in regard to the pressures exerted on them by the departmental claims for allocations, while there is a corresponding fraternal feeling and a certain amount of connivance between the Central ministries and the state government departments in these matters. The planning organisations have to wage a constant struggle to prevent the more energetic or politically influential departments from overshooting their sectoral allocations, while the departments themselves carry on a constant guerilla activity to upset the sectoral allocations.

DIAGRAM A



Note: Broken lines indicate weak communication.

In most states, there would hereafter have to be a regional level in between the state and the district, either because of physical and economic realities or because of political compulsions. Plans would have to be formulated at this regional level very often with a view to removing imbalances between different regions within the state. This would, however, be an activity that would be located within the planning organisation at the state level itself and it is for this reason that regional plans have been specifically mentioned in the functions of the Mid-term Planning Division given above. The planning organisation at the field level will, therefore, really start from the district.

IV
Organisation at District Level and Below

The vertical lines described above continue to the district, block and even village levels in the case of the various departmental organisations, because the departmental hierarchy extends to these levels. However, in the planning at the district level, there is as yet no clarity as to which organisation would discharge the co-ordinating and planning function. The nature of the planning organisation at the field level is closely interlinked with the nature of the planning process itself and, as such, certain basic decisions on the process itself will have to be taken before the planning organisation can be designed properly. However, whatever the process or the organisation, it is inevitable that panchayati raj institutions will have a crucial role to play in planning at the different local levels. These institutions would, therefore, have to be equipped for discharging these functions. This will not in most cases require additional personnel, but the existing personnel will require training in planning techniques.

At this level, greater emphasis would have to be laid on what may be called spatial planning. There has been a tendency, in the past, either to look at district planning purely from the point of view of 'needs', when the fashionable phrase used to be the 'felt needs of the people', or, to duplicate the entire

planning process at this level and look upon the local unit almost as if it were in itself an independent unit. Neither of these exercises has yielded any worthwhile results in practice. The more important exercise at this level would be a proper appreciation of the physical resources available, particularly the pattern of land utilisation in relation to plans for agricultural development and of spatial planning so far as the development of infrastructural facilities and local industries is concerned.

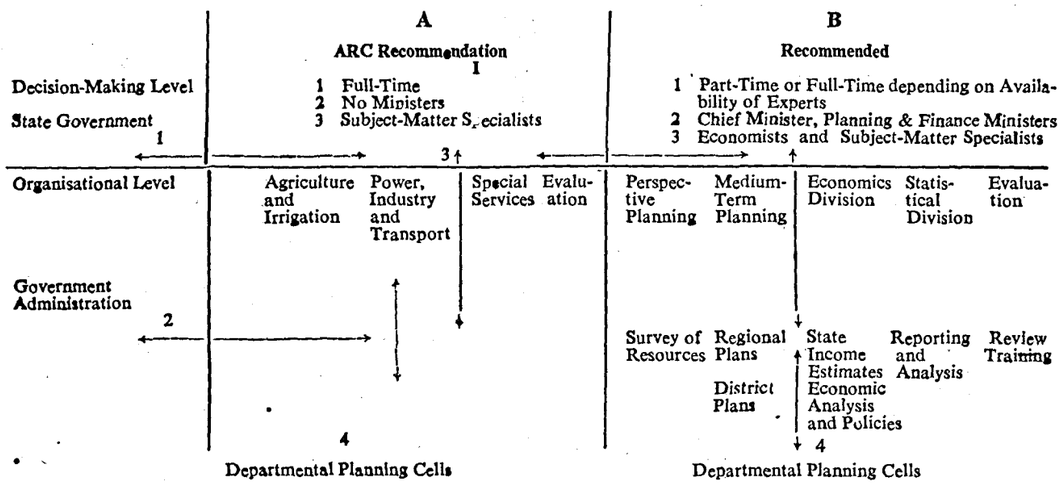
At each local level, the inputs — whether financial or otherwise — available from higher levels and from the state plan may have to be taken more or less as given. Even so, there is need for the entire position with regard to the flow of funds to these bodies to be reviewed in order to facilitate better planning at these levels. At present, resources flow to these bodies from too many different sources, with too many conditions attached. The procedures of devolution of funds would, therefore, have to be reviewed so that these bodies would be in a position to know what resources are available to them; moreover, they would have to have discretion to use these resources in accordance with local priorities. The experience so far cannot be said to be encouraging on the mobilisation of local resources by these bodies. Wherever necessary, they should be given the necessary powers to raise local resources, and thereafter whatever resources are to be devolved to them should be linked in some manner to their own performance in this regard. Since this might place the less developed areas in a disadvantageous position, despite the best of efforts by them, some kind of equalisation arrangement would have to be worked out.

The Prime Minister has recently pointed out that foreign aid is increasingly filling the gap in domestic savings. When one looks at the village community, one has a feeling that the intervention of the state plays a similar role with regard to the local effort. Instead of external resources being a fulfilment at the margin of the local effort, the position gets reversed. This has often led to a loss of initiative and lack of local effort.

It is the fashion nowadays to talk of 'time-bound' programmes. What we require in some of these cases is what may be called 'space-bound' programmes. A space-bound programme would be a programme for a given area, for which other constraints may be prescribed externally, but the time schedule would be stipulated only locally. One of the results of our present approach to planning has been to impose an extraneous time-scale which has not always been relevant to local conditions, and this has sometimes distorted the very purpose of the local programmes. For instance, in works programmes taken up in rural areas there is really no reason why the programmes should in all cases fit into any time schedule of the state or the national plan when it is a purely local programme. Its schedule has to be formulated in accordance with the availability of local labour so that work is provided in periods when they are unemployed in that particular area. By imposing a different time schedule, we very often force the work to be given to a contractor who hopefully can complete it within the time schedule by importing professional labour from outside. If a small connecting road link has to be built from a village to the nearest road, if some drains have to be constructed inside the village, if a tank has to be desilted, there is no reason why these should conform to time schedules prescribed by an outside agency. It is really for the village to plan in how many seasons of unemployment they would take up and complete these works, and in what order. It is these kinds of planning techniques that have to be devised now.

Local planning of the type described above will require considerable strengthening of midde and lower level techni-

DIAGRAM B



Notes: 1 and 2 Independence above the line will automatically entail independence below but an independent organisation below the line can be ensured without necessarily adopting pattern 'A' above the line.

3 Any permutations and combinations of the three factors above the line between A and B can be achieved while still having a choice between alternatives 'A' and 'B' below the line.

4 Whatever the organisation above the line, alternative 'A' below the line will sap the initiative of departmental planning below.

cal staff, so that the planning even at the village level can have an adequate technical bias. And it can be tied to a programme for providing employment to the educated unemployed. Teams of engineering graduates or diploma holders, agricultural graduates, etc, can be constituted for carrying on resource surveys at the village and block levels, on the basis of which local plans can be formulated. Some pilot projects of this type have already been taken up, but the process requires to be extended.

This will require not merely a reorientation of our approach to planning, but in a more fundamental sense it will require a reorientation of the educational system at different levels to meet the requirements of those levels. This will not only help to make education of more immediate use to the community, but will avoid regional disparities in employment. A certain amount of migration will undoubtedly be there and different local units cannot be self-contained or be water-tight compartments. But it is not always necessary that migration should occur right at the most unskilled level. If education is related more immediately to the local tasks of development and if planning at every level assumes as one of its objectives the full utilisation of the locally available manpower, it should be possible to link up to a large extent the products of at least the lower and middle levels of education with the requirements of the developmental programmes of local areas. Such a relationship should also encourage more dynamic approaches to matters such as syllabi formulation, etc, so that the content of the syllabus is not necessarily uniform over a large area but takes into account the environment, the circumstances, and the requirements of the local community in which the education is organised.

V

Conclusion

At the state level:

(1) Any attempt at making the planning organisation independent of the political executive in the name of continuity of the process is likely to prove either illusory of ineffective.

(2) However, the organisation would have to be so designed that it is freed from normal bureaucratic inhibitions and limitations and is capable of flexibility and innovation in its functions and can attract the necessary expertise.

(3) No *a priori* decision can be taken as to whether the Board should have full-time or part-time members. The guiding consideration should be the availability of persons with requisite ability and stature.

(4) The internal organisation of the planning body should be based on planning functions and should not be on a subject-matter basis.

(5) The machinery for sectoral planning should be strengthened in the departments concerned.

At the district level and below:

(1) The nature of the planning organisation at the field level is closely interlinked with the nature of the planning process itself.

(2) Certain policy and procedural changes would be required if the planning organisation at the district level is to function effectively, chiefly in regard to the devolution of finances to the local bodies.

(3) The planning organisation at the district level will necessarily have to be linked to the panchayati raj institutions.

(4) The emphasis in district planning would have to be on spatial planning.

(5) A large-scale training programme would be required for equipping field staff for the planning function.

Working Capital Finance: Criteria of Appraisal

V V Bhatt

Banks, while providing short-term finance, concentrate their attention on adequacy of security and repayment capacity. Once these two criteria are met, banks do not generally carry out any detailed appraisal of the working of the concerns.

Apart from the fact that it leads quite often to double financing, this practice has several other drawbacks. There is no attempt to examine the productive efficiency of an enterprise nor is there any attempt to scrutinise the allocation of available funds by the enterprise for a variety of purposes. As a result, banks play no role in promoting industrial efficiency or rational allocation of resources.

This paper seeks to present, in broad outline, a method of appraising working capital finance applications of large manufacturing concerns. Similar methods need to be devised for other sectors such as agriculture, trade, etc.

THERE is no principle involved in the practice of commercial banks specialising in the provision of credit only for financing working capital requirements; in principle, there should be no objection to their providing term finance also. In India, commercial banks were induced to provide term finance to some extent and it was for that purpose that the Refinance Corporation of India was set up in 1961. The functions of the RCI have since been devolved on the Industrial Development Bank of India. Thus banks have been granting term finance also, and they seem to have done this to a significant extent in 1968-69. Since then, the practice has been to restrict the banks to providing term finance on their own within Rs 25 lakhs for a project, though exceptions are made of cases where they participate in the provision of such finance with the term-lending institutions.

The idea behind this current practice is sound and relates to specialisation of functions. Since the term-lending institutions have developed the necessary expertise to appraise a project, and the banks have not, it is proper that the former should act as lead banks for the purpose of provision of term finance. The banks are expected to develop expertise in the field of working capital finance.

So far, the banks, while providing short-term finance, concentrate their attention on the adequacy of the security and on the repayment capacity of the concerns that seek working capital finance. Once these two criteria are met, the banks do not generally carry out any detailed appraisal of the working of the concerns. Apart from the fact that their current practice quite often leads to double financing, this practice has several other drawbacks. There is no attempt to examine the productive efficiency of an enterprise nor is there any attempt to scrutinise the allocation of available funds by the concern for a variety of purposes. These drawbacks are serious, in that, the banks play no role in promoting industrial efficiency or rational allocation of resources. The very purpose of the nationalisation of banks would be defeated, if these two significant considerations are not taken into account, while appraising applications for working capital finance.

This paper seeks to present, in broad outline, a method for appraising working capital finance applications of by and large manufacturing concerns. Similar methods need to be devised also for the other sectors such as agriculture, trade, etc.

Inventory to Gross Value of Output

The initial step is to find out what precisely are the inventory requirements of a firm — the peak requirement as well as the average requirement during a year. The inventory requirement has to be judged in relation to the value of output and the nature of the industry. On an average, the inventory to gross value of output ratio should not exceed 30 per cent; if it does, it is essential to find out whether there are any special characteristics of this firm that lead to this result or whether it is due to improper inventory management.

Even if the inventory requirement is appropriate, there is no reason why the banks should finance this requirement fully (of course, taking into account the margin requirement, etc). Quite often, a firm gets trade credit and it also gives such credit. Both sets of credit need to be taken into account. The 'drawing power' of the concern has to be measured as: inventory requirement *minus* trade credit to be obtained *plus* trade credit to be given. If the margin requirement is 25 per cent, the drawing power of a concern would be 75 per cent of sum of the items mentioned.

In a number of cases it is found that, bank credit actually extended exceeds this drawing power and inventory requirement is actually financed 100 per cent by resort to bank credit — in spite of margin requirements. This may be due to the fact that at the time of sanctioning limits, the banks do not take into account all the elements that go to determine the drawing power of the units.

Performance Indicators

(per cent)

	Current Year	Previous Four Years 1st Year	2nd Year	3rd Year	4th Year
I *Net Sales*/Value of Production*					
(a) Exports/Net sales					
(b) Exports/Value of output (excluding excise)					
(c) Increase/decrease in net sales over previous year (per cent)					
II *Profitability/Yield Ratios*					
(a) Gross profit/Net sales					
(b) Gross profit/Value of output					
(c) Gross profit/Gross net worth					
(d) Net profit/Net worth					
(e) Gross profit + Interest on term loans/Gross net worth + Term borrowings					
(f) Gross profit + Net interest payment†/Gross net worth + Net borrowings*†					
(g) Gross profit + All net interest/Total capital employed (Gross fixed assets + Inventories)					
(h) Rate of dividend (Equity					
(Preference					
(i) Rate of equity shares (Highest					
(Lowest					
III *Debt Ratio*					
(a) Total debt/Net worth					
(b) Term borrowings/Gross net worth					
(c) All borrowings + Accounts payable/Gross net worth + Accounts receivable					
(d) Net fixed assets/Net worth + Term borrowings					
(e) Gross fixed assets/Gross net worth + Term borrowings					
(f) Sundry debt/Sundry credit					
IV *Financial Investment Ratio*					
(a) Loans and advances (other than current assets) + Investments/Gross net worth					
(b) Loans and advances/Gross net worth					
(c) Investments/Gross net worth					
(d) Cash and bank balances/Gross net worth					
V *Working Capital Ratio*					
(a) Current assets/Current liabilities					
(b) Bank borrowings/Inventories					
(c) Inventories/Net sales					
(d) Inventories/Value of production					
(e) Sundry debtors/Net sales					
(f) Sundry debtors + Outstanding bills discounted shown as contingent liabilities/Net sales					
(g) Loans from banks/Inventories + Sundry debtors — Sundry creditors					
VI *Cost Statistics*					
(a) Cost of production/Value of sales (excluding exise)					
(b) Cost of production/Value of output (excluding excise)					

(Continued)

Profit Allocation and Financial Investment

Even after determining the drawing power of a concern, the bank must not give credit to the full extent of the drawing power. It will have to be ensured that the firm's own resources are inadequate for the purpose. One source of funds to the firm is its gross profits (after taxes). If the profit-distribution policy is not appropriate, the firm may not be ploughing back enough gross profits into business. It is therefore necessary to know how gross profits are allocated. Further, even if adequate gross profits are ploughed back, the firm may be investing them in financial instruments like long-term loans or advances to, or shares and securities of, other concerns. If such financial investment is in subsidiary firms or in firms promoted by it, it needs to be examined whether such investment was necessary and whether it implies misuse of funds. Quite a number of firms act more like financial intermediaries than like production agents, and it has to be examined whether this type of financial investment is required for promoting other viable capital projects. In any case, such financial investment should bear some reasonable relationship to the gross net worth (including depreciation) of the firm — say, about 20 per cent, unless there are other sound reasons for greater financial investment.

Even if a bank feels satisfied about the profit-allocation and the financial investments, it may be that it is unable to finance a part of its working capital requirements through its own resources because of an inadequate rate of gross return. In that case, the bank should go into the question of the productive efficiency, sales, management and related aspects of the working of the firm, and should suggest to it appropriate measures to improve efficiency. Its assistance then should be conditional upon the concrete measures that a firm may take to improve its efficiency of operations. The gross rate of return should generally exceed 20 per cent per year; gross return is defined as a ratio of gross profits plus interest to total capital employed.

Generally, bank credit should not exceed 50 per cent of the inventory requirement. If this ratio exceeds 50 per cent, it is essential to investigate whether there are sound reasons for a higher ratio.

Current and Capital Ratios

To ensure that bank finance is not used for other than legitimate purposes, it is useful to give attention to some other indicators also. For example, normally, the gross fixed assets of a firm should be more than covered by gross net worth and term loans. On the other hand, current assets and current liabilities should match. If these two conditions are not satisfied, there would be a *prima facie* presumption that bank finance is being used for purposes other than those which are envisaged. Of course, even if these two conditions are met, cases could arise where the surplus funds of a concern are invested in financial instruments; this aspect has to be checked in any case.

For appraising applications for working capital finance from these points of view, it would be useful to collect and process the information about the firm's operations in the form given in the Table. Once such information is collected and processed on various enterprises, it would be possible to fix norms for the various ratios. For example, in a given industry field, the bank will have such information about a number of firms; with such information, it should not be difficult to derive efficiency norms. Further, this information would also be useful in forecasting trends in investment, output, exports, imports and prices. If such information collected and processed by all the banks is consolidated at one place — say, the National Institute of Bank Management — analytic studies based on the data could be undertaken for a variety of purposes.

Initially, at any rate, each bank can publish this information with it in an appropriate form in its Bulletin, and each bank can separately make projections relating to investment, output, etc. These studies should be the responsibility of the research section in a bank, and they should be undertaken in such a way as to be vitally related to the bank's policies.*

* In this connection see V V Bhatt, 'Planning and Development Departments for Nationalised Banks' *Economic and Political Weekly*, December 5, 1970. For appraisal criteria for capital projects, see V V Bhatt, 'Criteria for the Evaluation for Capital Projects', *Economic and Political Weekly*, Special Number, July 1971.

Performance Indicators (concluded)

(c) Cost of sales/Net sales
(d) Raw material costs/Value of output (excluding excise)
(e) Wages/Value of output
(f) Salaries/Value of output
(g) Interest cost/Value of output
(h) Other manufacturing costs/Value of output
(i) Selling, general and administration expenses/Value of output
(j) Selling, general and administration expenses/Net sales
(k) Depreciation/Value of output
(l) Current costs/Value of production (d to k)

VII *Profit Allocation Ratios*

(a) Depreciation/Gross profits
(b) Development rebate reserves/Gross profits
(c) Tax provision/Gross profits
(d) Dividends/Gross profits
(e) Retained profits/Gross profits
(f) Funds retained in business (a+b+e)/Gross profits

VIII *Capital Structure Ratios*

(a) Gross fixed assets/Inventories
(b) Imported plant and equipment/Total plant and equipment
(c) Imported inventory/Total inventory
(d) Gross fixed assets/Value of output
(e) Inventories/Value of output
(f) Total capital (gross fixed assets and inventories)/ Value of output
(g) Total capital/Value added

IX (a) *Ratio of Capital Employed*
Number of workers
(i) Wage earners
(ii) Salary earners
(iii) Wage and salary earners
(b)
(i) Wage Bill
(ii) Salary Bill
(iii) Total

X *Prices of Two Principal Products*

(a) Domestic prices
(b) Export (f o b) prices
(c) Import (c i f) prices
(d) Domestic prices in major producing countries

* i e, exclusive of excise duty.
† Interest paid on borrowings (loans and deposits) minus interest received on lendings/deposits.
*† All borrowings minus loans and advances to associate companies, other companies and others.

New Pattern in Peru

Advancing the Mode of Exploitation

Lajpat Rai

The military junta which took over power in Peru in 1968 has taken a number of dramatic measures including the nationalisation of the US-owned International Petroleum Company and the promulgation of the Agrarian Reform Law. Fidel Castro has gone to the extent of saying about the Peruvian regime: "It matters little that those who started the revolution are a group of army leaders, many of them trained in the United States. If this revolution defends the interests of the people of Peru, if it continues to be anti-imperialist, then it shall have our unqualified support."

These are among the factors which have caused a good deal of confusion as to the nature of the regime. In fact, the 'revolutionary' measures carried out by the junta are tending to develop a new mode of operation within the imperialist system and creating an economic structure that will be dependent in a new way. Such dependency will doubtless be less offensive to the nationalist sensibilities of the intermediate sectors of Peruvian society, but will, at the same time, promote a more complex and entrenched form of exploitation.

THERE has been a great deal of confusion about the nature of the new regime under General Juan Alvares Velasco which came to power in Peru as a result of a military *golpe* on October 3, 1968. Some see Peru as a new Cuba. Others describe the regime as 'populist', 'Nasserite' or even 'Bismarckian'. Still others dub it as 'pro-oligarchy', 'pro-imperialist', etc. This confusion has arisen not only from some of the public utterances of the leaders of the military *junta* and the position that Castro has taken *vis-a-vis* the new regime, but also from different estimations of the 'revolutionary' measures adopted by the new rulers since their assumption of power, notably the Agrarian Reform Law and the nationalisation of the International Petroleum Company (IPC), a subsidiary of Standard Oil of New Jersey. The spokesmen of the regime, from the proponents of 'humanist capitalism' to the easily identifiable conservative groups within the government, proclaim that the reforms now under way presuppose that capitalism will be replaced by "something else", but explicitly reject socialism as an alternative. The leader of the *junta*, General Velasco, has described his regime as 'revolutionary' but which will be "bereft of both the inhumanity of capitalism and the inhumanity of socialism". Recently addressing a large gathering in the San Marcus University — the oldest university in Latin America — he told its students and professors that "we are revolutionaries, but not Marxists, decidedly not Marxists". ("No Somos Marxistas decidivamente".)

A certain amount of confusion about the regime was engendered by Castro's public blessing of the "new leadership in Peru" on July 10, 1969 when he declared that the Peruvian revolution was the extension of the Cuban revolution. In the same speech he said: "It matters little that those who have started this revolution are a group of army leaders, many of them trained in the United States. If this revolution defends the interests of the people of Peru, if it continues to be anti-imperialist, then it shall have our unqualified support." It was noted by Latin American revolutionary circles that in extending his unqualified support to the military *junta* in Peru, Castro had failed even to mention the political prisoners and the Peruvian guerilla leaders (including the well known pro-Castro leader Hector Bejar) languishing in Peruvian jails.

The public utterances of the Peruvian leaders and Castro's attitude to the regime, about which we shall have more to say later, cannot, however, be a reasonable guide to the understanding of the nature and the character of the present military regime in Peru. For that we have to examine its major policies and that too in the new setting which has been described by some Latin American Marxists as the "redefinition of the relations of imperialist domination in Latin America". This "redefinition" is broadly speaking a movement away from what has been called "traditional imperialism" in Latin America with the United States as the hegemonic power operating in the economic field largely through 'enclaves', i e, enterprises totally controlled by imperiaist capital. The shift has been perceived in the following new trends:

(1) Increasing US penetration in the urban-industrial sector at the cost of the traditional agro-extractive sectors. (2) A relative decline in US hegemony and a concomitant rise in the weight of other imperialist powers especially West Germany and Japan. (3) A tendency for old forms of financial domination to be replaced by new monopolistic conglomerates and by supranational nuclei within the imperialist bourgeoisie. (4) Financial and technical aid being given to some of the Latin American countries within the imperialist orbit by some socialist countries. (5) The emergence of nationalist, anti-imperialist and socialist revolutionary movements (as opposed to the reformist, traditional communist ones) in many areas of the continent under the forceful impetus of the Cuban revolution and the struggle in Vietnam.

The shifting of the axis of imperialist domination from the agro-extractive to the urban-industrial sector led to a whole series of economic, political and social changes. The power of the old oligarchy declined, but did not disappear, and new groups appeared in the middle reaches of society — petty bourgeoisie and white-collar workers asserting their demands and competing for political power. Simultaneously, the urban proletariat expanded and became more politically conscious. Revolutionary peasant movements emerged in the countryside along with guerilla bands which represented the highest level of political-revolutionary consciousness of the exploited people as a whole. But the exploited classes still did not have the awareness, the organisation or political ability to find their way out of the crisis of political hegemony which had acquired a new dimension and had been accentuated since the Cuban revolution. Another attenuating factor was the decline of 'populism' which had dominated the Latin American scene to a considerable degree with the rise of such parties as Accion Democrita in Venezuela, APRA in Peru, MNR in Bolivia and the Christian Democrats in Chile. These parties rent with deep ideological crises were split repeatedly and consequently weakened both in organisation and political influence. Alongside, the reformist, traditional communist parties experienced similar difficulties which were further aggravated in their case by the international split in the socialist camp. The popular masses began to abandon these political parties and the well-trodden political paths advocated by them, though yet groping for new paths suited to their new political demands. This state of affairs was soon to engender new forms of politico-revolutionary organisation, new forms of mobilisation and a greater capability for applying pressure and fighting for power.

And finally, the crisis also spread to the traditional agents of legitimisation of the existing socio-economic order, most notably to the Catholic Church and the universities, sections of which became the most outstanding proponents of revolutionary change. Thus at the ideological as well as the political level, class relations and relations of conflict and domination acquired a new complexity and entered a new phase. These general tendencies were embodied in concrete situations and forms which varied from country to country according to the peculiarities of each of them. They affected Peru in its own way resulting in the emergence of a new power relationship, both within the classes in the Peruvian polity as well as this polity's relation to imperialist domination.

II

What were the major economic and political trends in Peru before the military coup of 1968? Since the 1950s imperialist domination of Peru had become broader, more diversified and more deeply rooted. Before 1950, the imperialist control, particularly of the United States, was exercised almost exclusively through its hold on agro-extractive resources. This meant exploitation of agricultural resources with particular reference to products for export, followed by petroleum and mining. Urban-industrial activity did not yet interest finance investors. In the mid-fifties interest in mining suddenly increased and imperialist capital also began to flow into industrial production. As a consequence Peru's economy began to undergo a process of rapid change and diversification. Between 1950 and 1958 the composition of the country's GNP was substantially altered with manufacturing replacing agriculture and cattle-raising in first place and growing at twice the rate of the latter. (See an outstanding study of Peru's economy since 1950 by Anibal Quijano, "Situation and Tendencies in the Peruvian Society", *Pensamento Critico*, May 1968, Havana. Available in Spanish only.)

By the beginning of the 1960s both the agro-extractive sector and the urban-industrial sector were in the grip of foreign exploitative capital, with emphasis on the latter sector. Since the whole development was dependent on foreign capital, it exemplifies a combination of old and new patterns of imperialist control, that is, the appearance of new imperialist interests within a new framework of relations with the native bourgeoisie, over and above those already existing between foreign capital and the agricultural and cattle-raising native bourgeoisie and the *latifundists*. The era of imperialist domination based only and exclusively on the alliance between the native landlord-commercial bourgeoisie and the imperialists came to a close, and a new element, the urban-industrial 'national' bourgeoisie came into the picture. A new model of imperialist exploitation began to emerge whose requirement in relation to the narrowness of the internal industrial market implied the necessity for agrarian reform and for greater participation by bourgeoisie groups (national as well as imperialist) associated with the urban-industrial and mining sectors. This obviously required a redefinition of the country's economic policy as well as a new pattern in the control of state power. The new model of economic exploitation had to have its counterpart in a new model of political relations both intra-class and with imperialism. The military *coup* of 1968 provided such a model and a redefinition of relations within a new type of power structure in Peru.

This new political model emerged out of two sets of conditions. The first set included: the relative weakening of US hegemony in the international capitalist order, the unsavoury reputation of US interventionist policy, increasing internal difficulties caused by loss of faith on the part of American youth, the development of a militant black movement and the American protest movement against the war in Vietnam, the possible conflict or lack of agreement within the US bourgeoisie itself with regard to necessary changes that must be made with the dominated countries. The other set of conditions in operation were: the strengthening of Peru's urban bourgeoisie in close relationship with the army, the irresistible nationalism pervading all sections of Peruvian society (including the Indian sections) during the 1960s, the radicalisation of the army including a section of the officer class and the growth of armed guerilla movements in the countryside under Castroite inspiration, etc. *Within this model a policy has developed which is moving Peru towards a new mode of operation within the imperialist system and is building an economic structure that will be dependent in a new way. Such dependency will doubtless be less offensive to the national sensibilities of the intermediate sectors of society and shall do away with enclaves and shall be more complex and organic.*

The above formulation is confirmed if we examine some of the policies of the military *junta* in the context of the class relations of Peruvian society. But before doing so, it would be helpful to briefly examine the conditions and the processes which catapulted the new economic-political model into being in Peru and which, if it succeeds in Peru, might become a prototype for other Latin American countries (where more or less similar conditions prevail) within the framework of the redefinition of relations of imperialist domination.

Anyone making a study in depth of the measures the military *junta* has put into effect will reach the conclusion that while it is trying to eliminate imperialist control of the production of agricultural exports as well as the 'enclaves' in mining and petroleum, it is at the same time tending to strengthen the role of foreign capital in mining as well as in the urban-industrial sector of the Peruvian economy. Therefore, though it might appear that the military *junta* has initiated a process for the final liquidation of the 'traditional imperialism', the reality cannot be escaped that it is also enhancing the possibilities for a new model (both economic and political) of exploitation.

The agrarian reforms initiated by the promulgation of the law of June 24, 1969 was the most important measure undertaken by the *junta*. It aimed at the total elimination of foreign capital, particularly that of the United States, from the agricultural exports sector. Agrarian reform is an issue of great public concern all over Latin America since the dominating foreign interests in agricultural land hurt the national susceptibilities of the people in a more obvious fashion. Imperialist control in this sector affected principally the production of sugarcane and its derivatives, and to a lesser degree, cotton and rice, all of which were concentrated in the coastal areas because of favourable climate and availability of sea transport. The government also took over the vast agricultural-cattle-raising estates of the Cerro de Pasco Company in the central region, an act which had been approved by the previous Belaunde administration, though it had never been carried out.

The other foreign agricultural interests acquired were the complexes in the Departments of Lambayque and La Libertad as well as in Lima. This was described by Velasco as the "beginning of the real social and economic revolution in Peru".

The agrarian reform measure is no doubt far-reaching and has been carried out with great vigour. But when we come to examine it in relation to imperialism, we are confronted with its limitations. The law, in addition to limited cash payments, provides for payment in bonds to be amortised over a period of twenty years, upto a limit of 270,000 soles or approximately $ 7,000. Above this limit, bonds are to be exchanged for shares of stock in industrial enterprises belonging to the State. Another provision regarding 'expropriation and compensation' stipulates that any landholder whose property is expropriated has the right to cash in his bonds at the Industrial Bank at 100 per cent of their face value, providing that he invests an equal sum in cash in a new industrial plant. The net effect of these important provisions is to convert the agrarian capitalists into industrial ones. More significantly, the law makes no distinction between the native capitalists and the foreign capitalists and thus allows the large imperialist enterprises to shift their capital into industrial activity. As a result, the possibility of imperialist enterprises controlling industrial production increases, though their control over the agricultural sector is eliminated. Thus in place of the traditional axis of imperialist domination, the law strengthens the new axis of domination through urban-industrial production. Besides, the law makes a careful distinction between the control of agricultural resources and the control of industrial plants. For instance, the sugarcane plantations of Grace and Co were expropriated along with the Company's industrial installations, but the latter were promptly returned to the Company despite the fact that they are basically used for processing the agricultural products of the expropriated plantation.

Another important measure which hit the world press headlines and caused angry demonstrations in Peru against American imperialism was the taking over of the petroleum deposits and installations belonging to the IPC by the military *junta*, leading to US threats to invoke the Pelly Amendment and later the Hickenlooper Amendment. The IPC was undoubtedly the major petroleum monopoly in Peru and its presence was a constant object of criticism both by the anti-oligarchy opposition as well as by some of the important groups of the native bourgeoisie. It was considered a "national shame", an outrage to national sovereignty and described as the "award of the British Crown". For more than half a century the IPC was a subject that caused some of the most heated debates in the country. Its expropriation, therefore, eliminated a situation that had become more and more intolerable both for the Company as well as for successive Peruvian governments. The taking over of IPC, therefore, constituted a policy that satisfied the nationalist feelings of the people *vis-a-vis* imperialism and overnight gave a 'revolutionary' colouring to the government headed by the military *junta*. But the problem, however, is more complex than the mere nationalisation of an important foreign enterprise.

The *junta* strongly insisted that this act was totally exceptional and in no way represented a general policy of expropriation of foreign capital. The measure applied only to IPC, a symbol of foreign domination, and did not form part of a general policy. And in fact other oil companies under the control of imperialist capital were not only left untouched, but were permitted to increase their investments and extend their concessions. There are at present seven oil companies in Peru extracting and refining petroleum products, the smallest of them with the participation of native capital. Thus, although the expropriation of IPC liquidated the major American monopoly in Peruvian oil and made PETRO PERU (the state's managing body for the nationalised IPC) the principal oil producer in the country, it has not brought about a fully national petroleum policy. On the contrary, not only have there been no further expropriations, but private US investment in oil in the short period since the *coup*, has become practically equal to that before the expropriation of IPC. In this connection, one must not forgot how the US government reacted to the expropriation of IPC. After its initial protests, threats of invoking the Hickenlooper Amendment and cutting of the sugar export quota, the US government quietly accepted the expropriation of IPC and hastened to normalise relations with the *junta*. Its policy towards the military regime initially was a flexible combination of cautious diplomacy and hesitant financial blockade. Neither the Pelly Amendment, nor the Hickenlooper Amendment was ever applied. On the contrary, the US Under Secretary for Latin American Affairs stated in the Senate that the Hickenlooper Amendment was inapplicable and meaningless, although the same gentleman had threatened the *junta* a month before with "dire consequences".

The redefinition of relations of imperialist domination is also reflected in the new industrial policy enunciated in the Basic Industrial Law and the Industrial Community Law by the *junta*, popularly known as the 'Velasco Doctrine'. Industrial growth in Peru was rapid during the 1950s and 1960s, although it fell within the limits of the import-substitution and processing industries. This growth was largely induced by foreign investment and led to com-

plete corporate, financial and technological control by imperialist interests in this sector of the economy. According to official figures, more than 80 per cent of industrial investment in Peru is foreign, mainly American. It is obvious, therefore, that any regime opting for independent development must take measures to eradicate imperialist control in this area, particularly when urban-industrial activity is becoming the real new axis of imperialist domination in most countries of Latin America.

The 'Velasco Doctrine' defined its four basic policy principles as follows: (1) The main riches and the natural resources of Peru shall belong to the State. (2) Economic development shall accord with national interests. (3) Foreign investments shall also accord with the overall interests of the national economy. (4) All these measures shall be directed to consolidating the country's independence and improving people's living conditions. The Basic Industrial Law and various statements by government authorities, however, point out that the new orientation is intended to stimulate private investment (including foreign investment) in industry, while the State shall retain direct control and management of 'basic industries', such as steel, chemicals and petrochemicals, etc. While the plans that have been announced outline relatively ambitious goals for the State sector, public assurances have also been given that the private investments will be given "incentives and guarantees". Thus Peruvian industrial production will be divided into two sectors, 'basic industry' controlled and managed by the State and manufacturing controlled by private companies. Since the latter are in the hands of imperialism, this division may basically amount to creating the same situation as in countries like Argentina, Brazil and Mexico, that is to say, an arrangement whereby international and supranational monopolies control manufacturing and the State controls basic industries'; where extractive production and the so-called basic industries controlled by the State serve in practice as the infrastructure of raw materials and services for the development of industry, which remains in the hands of imperialism, with all the advantages accruing to the latter.

Dependence on imperialism is, thus, not going to be eradicated. But it must undergo substantial modification; it must be less offensive to national sensibilities. And the terms of this modification are subject to negotiation. The Peruvian State has become the principal figure in such negotiations. Despite all the rhetoric about 'revolutionalism', this negotiated dependence on imperialism will remain the chief characteristic of the Peruvian State structure unless a new and genuine revolutionary process brings this situation to an end.

III

The traditional communist parties of Latin America could not at any stage understand the complex process underway on the continent, in which imperialism was trying to redefine its relations of exploitation in a new context, taking into account the new irresistible forces emerging on the scene. The Peruvian communists are no exception to this. Their understanding does not go beyond the old petrified formula of the 'Three Class United Front' against imperialism and oligarchy. The Oil Defence Front and the National Liberation that they hastily hitched up came to the nothing as they were based on (if at all they were based on anything) forces that had petered out in the current political process and on a political understanding that had no relevance to the realities of the situation. They had, therefore, no choice but to accept the military takeover after some initial hesitation and welcome it as "anti-imperialist and anti-oligarchy" without presenting any analysis of the new forces that had come to occupy the seats of power in the new situation. That the *junta* had given diplomatic recognition to the Soviet Union, nationalised oil and adopted an Agrarian Reform Law was enough for them to declare the regime "revolutionary" and "semi-socialist", which was likely to become "fully socialist" under "people's pressure" organised by now the legal Communist Party of Peru with a functioning office located in a fashionable street of Lima.

Another and a more significant factor which added to the confusion and militated against a proper assessment of the new regime in Peru was the unqualified support given to it by Fidel Castro in his speech on July 10, 1969. Castro had already redefined his relations with the Soviet leaders, the one-time 'revisionists' who aided the Latin American dictators against the heroic guerillas. In 1969, he had embarked on an ideological honeymoon with them, repudiating, though implicitly, many of his former hard-line positions. He had accepted the Russian model of economic development for Cuba, had agreed to attend the World Communist Parties Conference in Moscow and even the Peace Assembly in Budapest. Conveniently forgetting his past declarations, he had supported the Russian intervention in Czechoslovakia and had kept silent over the massacre of students in neighbouring Mexico and finally, and most importantly, had dropped all references in his speeches to the fighting Latin American guerillas and had stopped criticising the Soviet leadership. His *entente* with the Soviet leaders was thus complete, but not yet with Latin America's Moscow-lining communist parties and their leaders whom he had publically labelled as "political charlatans", "spurious vanguards", "eagles without feathers", "election-mongers" and "prattlers", etc.

Castro's bestowal of blessings on the Peruvian military *junta* was the beginning of his *entente* with the Latin American communists. His July 10, 1969 speech was welcomed by Moscow as well as by the Latin American old guard, for they had realised that by recognising the 'revolutionary' character of the Peruvian regime, Castro had implicitly gone back on his stance at the time of the OLAS (Organisation of Latin American Solidarity) meeting. He had now tacitly admitted that revolution in Latin America did not depend on prior destruction of the old military machine and that this very machine could play a revolutionary role under certain conditions. The Latin American communist parties had long ago spoken of this possibility; it was for this reason, and not because they were afraid of starting guerilla struggles as claimed previously by Castro, that they had advocated a peaceful solution to the Latin American crisis. The same analysis had led the Soviet Union to render economic aid to Latin American governments irrespective of their political colour or other attitude to Cuba. This had, in the past, been bitterly resented by Castro. Castro was now proved 'wrong' both in criticising the Soviet leadership and the Latin American communist parties. The Cuban model of the Latin American revolution built so assiduously in the Tricontinental and OLAS conferences was thus demolished. This model was based on the fundamental idea of the destruction of the old military machine (*a la* Cuba) by protracted guerilla warfare organised initially by a revolutionary force based in the countryside.

The Latin American revolutionaries who had hailed OLAS as the new "Revolutionary International" for Latin America could not help noticing a contradiction between what Castro and Che had said before 1967 and the recent hymns and praises lavished on the Soviet Union by Castro in his successive speeches. They wondered whether Fidel's support for the Peruvian 'Revolution' did not fly in the face of the OLAS and Tricontinental revolutions and whether it was not time for Castro to make it clear precisely how his new alliance (political as well as ideological) with the Russian leadership was influencing his views on the Latin American revolution. Suddenly Castro cooled down towards the guerilla movements which had received his unqualified material and moral support in the past. Earlier he had confessed, he "could not make a speech without speaking about our heroic guerillas". But by 1969, the guerillas had practically disappeared from his speeches and from the Cuban press. The weekly international edition of *Granma*, published in four major world languages, which used to be full of news of guerilla activity now carried almost nothing except pictures and reports about sugar, the reception to visiting Soviet ships and the leaders of the socialist (pro-Moscow) world, including for the first time since 1959, the visits of Latin American communists — the former "political charlatans".

Later in 1969, Castro fell out with his old protege, the famous Venezuelan guerilla leader Douglas Bravo, for whose sake he had publicly denounced the leadership of the Venezuelan Communist Party, heaped the worst abuse on them in his memorable March 13, 1967 speech in Havana. The differences between Castro and Bravo came out in public when the latter wrote an article — highly critical of the Cuban leaders — in Jean-Paul Sartre's (a former staunch supporter of Castro) journal, *Les Tempes*. Bravo accused Castro of betraying the guerilla movements in Latin America in general and Venezuela in particular. According to him, Castro stopped aiding the Latin American revolutionary struggles the moment the Cubans decided to rally round the Russian leadership and, on the latter's advice, decided to concentrate on their own economic problems. He alleged that the Cuban leaders had made contacts with the Communist Party of Venezuela through the old-guard Cuban communist Raphel Carlos Rodriguez and had given assurances of full Cuban support in the future. The Cubans had also made the excuse that Castro had made his attack on the Venezuelan Party leadership in haste and anger. Bravo also alleged that the Cuban leadership had firmly decided to put the OLAS resolutions in cold storage.

Whatever may the element of truth in these assertions of a former favourite of Castro, the fact remains that revolutionaries throughout Latin America share Bravo's misgivings, which have increased since Castro's support to the Peruvian 'revolution' and later to the "revolution via elections" in Chile. But they also realise that the course of the Latin American revolution cannot be determined by Castro's attitude to it.

The Peruvian case indicates that imperialism still has manoeuvrability; it still has options, which can be closed only by a revolutionary movement led by genuine revolutionary vanguards, like the one which arose in Cuba in 1959. The failure of the 'foco theory', the death of Che Guevara in Bolivia, the sectarian battles within the remaining 'focos' (Venezuela, Guatemala, Colombia) as well as the total dependence on Russian economic-military support, has led to Cuba's temporary retrenchment from revolutionary leadership. At the moment, Cuba's all-out support to the Russian leadership (which was a *volte face*) makes the degree of ideological independence at the top highly suspect. But the Tricontinental and the OLAS conferences set in motion a new spirit which can only die at the top but not at the base of the world revolutionary movement.

The Peruvian military regime is guided by an ideology of limited nationalism within the imperialist order. It is guided by an ideology of class reconciliation to be brought about by integrating the interests of the workers with those of capitalist enterprise. There is no nationalist anti-imperialist bourgeoisie in Latin America. What does exist is a nationalist bourgeoisie which, in the absence of strong pressures from the exploited classes, or a fight for power, is not likely to evolve a line of conduct capable of effectively eliminating imperialist domination. This fact points to the necessarily limited and transitory situation in Peru. But the Peruvian situation also has within it the danger of the consolidation of the major tendencies towards a new structure of domination by, and dependence on, imperialism. If this happens, it will be a grave set-back to the Latin American revolution.

Housing Problem of a Growing Metropolis

Mahesh Bhatt

A concomitant to the rapid urbanisation of Ahmedabad city has been continuous growth of its slum areas. Much of this environment is hostile to human life at its most basic physiological level.

Despite the very acute housing shortage and the increasing scale of slums in urban Gujarat generally, the outlay on housing in the state as a percentage of total outlay has been reduced in the Fourth Plan compared to under the Third Plan. The percentage is also much below the comparable provisions in the all-India plans.

This article examines the major factors retarding housing activities in Ahmedabad and suggests measures that might help alleviate housing conditions in the city.

ONE of the most important problems attendant to urbanisation concerns housing and slums. Housing ranks next to food in human life. For most families the sort of home they live in affects their happiness far more intimately than does almost anything else in their physical environment. Moreover, housing accommodation plays an important part in maintaining the health and efficiency of the community. Investment in housing is therefore productive investment in human capital. Similarly, housing investment is an integral part of industrial development because house-building absorbs some of the major industrial products such as cement, steel, glass, sanitaryware etc, and it has a considerable employment potential.

The importance of housing in a country like India, which is facing a sharp population growth and a rapid pace of urbanisation resulting in slums and sky-rocketing rents in urban areas, is quite obvious.

According to the Housing Census[1] in Gujarat, in which house lists have been prepared from August to October, 1960, altogether 54.37 lakh houses have been listed in Gujarat; of these, 73 per cent are in the rural areas and 27 per cent in the urban areas. Excluding 6 lakh vacant houses, there are in all 48.33 lakh occupied houses. All these houses are not surely residential ones. Broadly, 38.71 lakh of the 48.33 lakh houses (80 per cent) are classified as residential houses (dwellings) and the rest as non-residential (non-dwelling). Of the 1,000 census households surveyed in the state, 601 occupy single-room tene-

TABLE : TOTAL LAND VALUE PER SQUARE YARD: AVERAGE VALUE OF THE LAND AND PERCENTAGE OF INCREASE IN LAND VALUE BY YEARS

Year	Total Number of Societies	Total Land Value Per Sq Yard (in Rs)	Average Land Value Per Sq Yard (in Rs)	Percentage of Increase in Average Value as Compared with 1941-50	Percentage of Increase in Average Value as Compared with 1960	Percentage of Increase in Average Value as Compared with 1961
1941-50	7	38 56	5.51	—	—	—
1951-55	21	127.24	6 06	9.98	—	—
1956-59	128	1277.06	9.98	81.12	—	—
1960	97	1477.13	14 92	170 78	—	—
1961	42	546.96	13.45	144.10	9 85	—
1962	55	875.10	15.91	188.95	6.64	18 29
1963	30	497.35	16.58	200.91	11.13	23.27
1964	29	669.98	23.10	319.24	54 83	54.82
1965	18	548.53	30.47	452.99	104.22	126.54

ments, 274 two-room, 70 three-room (or more) tenements. "This means that as many as 88 per cent of population live in overcrowded and substandard dwellings."[2]

The National Planning Committee and the Bhore Committee (Report on Health, Survey and Development) have prescribed 100 sq ft per person as the minimum accommodation required per adult and 60 sq ft per child. As compared with this minimum, on the basis of Housing Census in Gujarat, the per person floor space available would be hardly 20 to 25 sq ft since the average number of persons per room is 3.27 and per household 5.30, and the number of households occupying a single room are more than 60 per cent of the total population of the state. Thus the floor space now available to an individual would be much less than what a convict in a jail is prescribed in the Jail Manual,[3] *viz*, 40 sq ft.

Housing shortage in Ahmedabad city is acute. Even in 1958, 64 per cent of the city's population lived in one room or less than one-room households. The situation seems to have become worse since then, as revealed by the Housing Census of 1960. Out of 1,000 households surveyed in Ahmedabad City, 65.3 per cent lived in one room only.

A concomitant of the rapid urbanisation of Ahmedabad City has been the continuous growth of the slum areas. In 1960-61, some 18,652 households lived in areas regarded as slums. Today approximately 60,000 huts stand within the municipal limits. Out of 1,140 chawls, 327 chawls still do not have drainage, and in almost all the chawls, water supply and latrines are highly inadequate. It may be shocking to know that roughly 20 per cent of the population of Ahmedabad live without basic facilities like latrines and water. On the basis of a preliminary study of the slums in Ahmedabad city, carried out by this author, it can be said that the rate of disease, chronic illness, and infant mortality, remain high in these areas. Drainage in the slum areas is open, and choked drains present sickening sights and offensive odours. Much of the environment is hostile to human life at its most elementary physiological level. In fact, Ahmedabad city can be divided into two cities — the eastern side which has been neglected environmentally and is overcrowded, and the western side which is ostentatiously wasteful and extravagant in services, house-lots, roads, etc. The western side looks like a garden suburbia, the eastern side like a terribly overcrowded, structurally decayed ghetto.

Despite this acute shortage of housing and the increasing scale of slums in urban Gujarat, the outlay on housing which was in the Third Plan of the state 3.74 per cent of total outlay has been reduced to 2.38 per cent in the Fourth Plan. This percentage is also much below the provisions for housing made in all-India Plans. All-India figures are, 12 per cent of total outlay in the Third Plan, and 7.4 per cent of total outlay in the Fourth Plan. In terms of the gross state income (1964-65) the state outlay on housing in the Third Plan (at current prices) was 0.6 per cent and in the Fourth Plan it is expected to be approximately 1.2 per cent.

FACTORS RETARDING GROWTH

The housing situation in this growing metropolis is going to become much worse in the future — unless immediate measures are taken to alleviate the housing shortage. It is estimated that the Ahmedabad Metropolitan Area will have a population of anywhere between 60 to 70 lakhs, of which the Ahmedabad urban area will have 50 lakhs by the year 2000. In size, Ahmedabad in next 30 years will be the size of Bombay today. An additional population of 35 lakhs by year 2000 means 10 lakh new dwelling units.[4]

In the context of the acute and growing shortage of housing accommodation, it is important to examine the chief factors retarding the growth of housing activities. The high costs of the two principal components of housing, *viz*, land and construction, are perhaps the chief factors retarding or discouraging housing construction.

The Table provides information on the rise in land-values in Ahmedabad city. Although the data cover land-values paid by the co-operative housing societies, they undoubtedly reflect the general trends in land-values. The average land-value, which was Rs 5.51 per sq yard during 1941-50, increased to Rs 30.47 per sq yard in 1965, indicating a 453 per cent increase. If we take 1960 as the base year, then land-value in the last five years may be seen to have increased by 104.22 per cent. Compared with 1961, the rise in the index of land-value was 126.54 per cent. The annual average rate of increase in the land-value, in and around Ahmedabad city during 1960 to 1965, was 17.1 per cent. This tremendous increase in the land-value is the direct consequence of the increased demand for sites for housing and the scarcity of suitable land for the purpose in the area. The increase in demand for land is again the consequence of the increased population of the city which includes the inflow from outside, and perhaps of the increased income of the urban sector.

From a detailed study of the land-values in Ahmedabad, one finds that that the Ricardian theory of rent fits quite well the case of urban land-values.[5] If we consider the productivity of urban land, in the sense of the convenience of nearness to the centre of the city (marketing area), the rent (or land-value) will be highest in the centre of the city and lower at the periphery. As a city grows, more remote and hence inferior land must be utilised and the difference in the desirability of the two grades produces the economic rent of the location of the first grade but not of the second. Practically all land within a city earns some economic rent.[5] In the case of Ahmedabad city also we find almost a very similar trend. The value in the centre of the city, the main marketing area, is highest and as we move away from the centre there is a gradual decline in land-values. A city may gradually develop several centres for marketing, employment, and other facilities, and the land-values near all such sub-centres of the metropolitan city may be relatively higher than in any area away from such sub-centres. The price of land per sq yard in a marketing centre like Manekchowk, Delhi Chakala, and sub-centres like Town Hall or the marketing area in Maninagar, etc, is much higher than the price of land anywhere outside the city.

The above analysis of the trend in land-values only reflects the fundamental disequilibrium between the supply of land for construction of houses and the demand for such land. The price mechanism of land has its own useful effects. A rise in the price of building land, like a rise in the price of anything else, stimulates economy in its use and encourages the extension of supply. Because of the high land-value, many co-operative housing societies are going for joint-tenement type of construction instead of having independent bungalows. Further, economy in the use of land has recently stimulated construction of blocks of flats in the city. The expanding area of the Ahmedabad Metropolitan Area, gradually submerging many small villages, is itself an indication of how the price mechanism stimulates increased supply of land. Of course, this does not imply that the solution to the problem of high land-values and land speculation should be left to market forces.

Besides land cost, another important component in housing costs is the cost of construction. The cost of construction per sq yard in 1960, was Rs 170.27; this has increased to Rs 240.85 in 1965, indicating a 43 per cent increase. This increase in the cost of construction is much higher than the increase in the cost of construction in Delhi. Also, during the same period, the cost of construction in Delhi increased by 25 per cent.[6] One of the important factors contributing to the increase in cost of building materials in Ahmedabad is the various taxes imposed on building materials.

Building materials are subjected to the following taxes: (1) excise duty; (2) state sales tax; (3) central sales tax; (4) octroi duty. It is estimated that taxes as a percentage of cost of building materials is highest in Ahmedabad city. For example, taxes as a percentage of the cost of materials were 13.22 per cent in Ahmedabad, as compared with 11.41 per cent in Delhi, 8.43 in Hyderabad, 7.84 per cent in Madras, and 8.95 per cent in Patna. The incidence of taxes as a percentage of the total construction costs in Ahmedabad is 9.63, which is again the highest as compared with Delhi, Hyderabad, Madras and Patna.

Having examined the housing conditions and the chief factors retarding the housing activities, we propose to discuss some general measures which might help to alleviate the housing shortage in the city.

(1) One of the chief factors discouraging housing construction, as mentioned earlier, is the high land cost in and around the city. One immediate action which would have a bearing on land-values is the abolition of the Green Belt covering the total area of about 13,000 acres. It is known that the Green Belt was declared as an *ad hoc* measure, pending the passing of the Town and Country Planning Act prepared by the Gujarat Government. One does not know what happened to this Act, but the measure which was undertaken in anticipation of it persists and artificially restricts the supply of land for residential purpose, thereby contributing to the increase in land-values in Ahmedabad city.

(2) Further, to curb land speculation, large-scale acquisition of land becomes necessary.[7] Side by side with such public acquisition, it is necessary to impose a ceiling on urban land-holdings. No individual should be allowed, within and around the metropolitan area, to acquire land beyond a prescribed ceiling. Any plot beyond 400-600 sq yards is held largely for speculative purposes. Obviously, this results in an artificial restriction of supply of suitable land resulting in high land-value.

(3) The vast areas of land traversed by railway track in many residential areas could be utilised more productively for residential purposes, if the railway track is removed from these areas. The sale of the acquired land would make substantial resources available for construction of a new railway track. This would not only increase the supply of land for residential houses but would also remove the annoying obstruction to traffic in these areas.

(4) Rent-control in Ahmedabad city needs to be reconsidered. We believe that the Rent Control Act is an obstacle to building activities and restricts the supply of accommodation available in the market. It is difficult to justify rent control on economic grounds, particularly when there is no effort to 'ration' the accommodation. Rent control without rationing, results in 'hoarding' of house space in that it leads families to occupy larger accommodation than they would normally demand. This type of hoarding of accommodation is prevalent in Ahmedabad city as well as in many other parts of the country. Secondly, the existing Rent Control Act prevents many owner-occupiers and tenant occupiers from sparing the accommodation for renting, so that we find many vacant, unutilised, or underutilised accommodation in the city. However, if complete rent de-control is ruled out, there should at least be a public rationing of houses. It is true that such measures would create several administrative problems and may prove an expensive task. Hence, as an alternative, an exise tax on consumption (or occupancy) of housing is worth considering.[8] This will be a tax on the occupier. An occupier having rooms in excess of the family members may be taxed at a graduated rate linked with the number of excess rooms. Of course, such a tax would create many administrative problems — such as the problem of defining a room or family member etc, but solution to such problems is not impossible. Such tax measures would increase the accommodation available for rent and simultaneously reduce the demand. It would induce families or single woman (or man) with larger accommodation to reduce demand and would encourage them to take in room-mates or move to smaller quarters.

This, indeed, is not a comprehensive list of the measures needed for solving the housing problem. The search for a rational solution to the problems created by a growing metropolis should be the task of the Urban Studies Centre which could pool the necessary talent in the field of economics, sociology, country and town planning and administration.

NOTES

1 Census of India, 1961, Volume V, Gujarat, Part IV, 'A Report on Housing and Establishment'.
2 *Ibid*, pp 328-329.
3 *Ibid*, p 335.
4 R L Setya: talk delivered to the Gujarat University Teachers' Association.
5 R M Hard: "Principles of City Land Values", New York, 1963. "If we investigate the reasons why site rent increases toward the centre of city, we find it is the labour saving, the greater convenience and the reduction of the loss of time in connection with the pursuit of business"; Von Thunen.
6 S N Narang: 'Dynamics of Cost of Construction over Time of Presisidential Buildings in India'; Paper submitted to symposium on "Role of Housing in National Economy", New Delhi, March 1969.
7 We learn that the state government has reserved 800 acres of land for the Gujarat Housing Board and 400 acres for the Ahmedabad Municipal Corporation for purpose of housing activities.

Dena Bank

Bombay

Balance-Sheet as at 31st December, 1971

1970	CAPITAL AND LIABILITIES			*1971*	
Rs		Rs.	P.	Rs.	P.
	1. **CAPITAL :**				
1,25,00,000	Paid-up Capital (wholly owned by the Central Government)			1,25,00,000.00	
1,87,63,669	*2.* **RESERVE FUND AND OTHER RESERVES :**			2,02,63,669.00	
	3. **DEPOSITS AND OTHER ACCOUNTS :**				
73,31,66,858	Fixed Deposits	87,17,55,299.96			
50,94,44,315	Savings Bank Deposits	62,96,51,352.04			
30,72,42,168	Current Accounts, Contingency Accounts, etc	35,16,65,230.34			
154,98,53,341				185,30,71,882.34	
	4. **BORROWINGS FROM OTHER BANKING COMPANIES AGENTS, ETC**				
12,08,09,600	i) In India	3,16,52,175.74			
Nil	ii) Outside India	Nil			
12,08,09,600				3,16,52,175.74	
	Particulars :				
	A. Secured :				
Nil	i) By part of Investments as per contra	19,25,000.00			
10,60,00,000	ii) By part of Bills discounted as per contra	1,65,00,000.00			
1,48,09,600	iii) Under the Refinance Scheme of Industrial Development Bank of India by part of Advances as per contra	1,32,27,175.74			
Nil	**B. Unsecured :**	Nil			
1,99,33,792	*5.* **BILLS PAYABLE :**			2,64,58,196.90	
	6. **BILLS FOR COLLECTION BEING BILLS RECEIVABLE AS PER CONTRA :**				
12,71,02,866	i) Payable in India	12,00,48,715.43			
1,81,50,051	ii) Payable outside India	2,26,45,321.51			
14,52,52,917				14,26,94,036.94	
186,71,13,319	C/F			208,66,39,961.01	

Dena Bank

Bombay

Balance-Sheet as at 31st December, 1971

1970	PROPERTY AND ASSETS			*1971*	
Rs.		Rs.	P.	Rs.	P.
	1. **CASH :**				
13,71,37,903	In Hand and with Reserve Bank of India, State Bank of India and Notified Banks (including Foreign Currency Notes)			15,24,32,607.01	
	2. **BALANCES WITH OTHER BANKS :**				
9,95,447	i) a) In India on Current Accounts	7,32,480.92			
—	b) In India on Deposit Accounts	50,00,000.00			
16,40,025	ii) Outside India on Current Accounts	16,43,768.03			
26,35,472				73,76,248.95	
15,00,000	*3.* **MONEY AT CALL AND SHORT NOTICE :**			5,00,000.00	
	4. **INVESTMENTS :** (At or Below Market Value)				
48,92,76,232	i) Securities of the Central and State Governments and Other Trustee Securities (Face Value Rs. 58,66,71,100/-)	57,99,20,607.83			
	ii) **Shares :**				
18,39,940	a) Fully paid Preference Shares	11,28,648.00			
61,72,523	b) Fully paid Ordinary Shares	48,77,502.43			
Nil	c) Partly paid Preference Shares	Nil			
21,22,155	d) Partly paid Ordinary Shares	34,15,904.80			
87,84,748	iii) **Debentures or Bonds :**	1,65,69,317.50			
Nil	iv) **Other Investments :**	Nil			
Nil	v) **Gold :**	Nil			
50,81,95,598				60,59,11,980.56	
	5. **ADVANCES :** (Other than bad and doubtful debts for which provision has been made to the satisfaction of the Auditors)				
	I) Loans, Cash Credits, Overdrafts, etc.,				
	i) In India (includes an amount of Rs. 1,32,27,175.74 relating to medium term advances in respect of which finance has been obtained from the Industrial Development Bank of India as per contra				
78,60,26,901		94,18,59,302.63			
Nil	ii) Outside India	Nil			
78,60,26,901					
	II) Bills discounted and purchased (excluding Treasury Bills of the Central and State Governments)				
	i) Payable in India of which Bills of the face value of Rs. 1,65,00,000.00 are held by the Reserve Bank of India as securities against Borrowing arrangements				
29,72,47,352		24,70,18,209.62			
2,41,11,037	ii) Payable Outside India	2,88,58,126.67			
32,13,58,389		27,58,76,336.29			
110,73,85,290				121,77,35,638.92	
	Particulars of Advances				
	i) Debts considered good in respect of which the Banking Company is fully secured				
92,87,90,433		101,30,41,855.51			
	ii) Debts considered good for which the Banking Company holds no other security than the debtor's personal security				
4,93,16,838		4,70,45,890.94			
	iii) Debts considered good secured by the personal liabilities of one or more parties in addition to the personal security of debtors				
12,92,78,019		15,76,47,892.47			
Nil	iv) Debts considered doubtful or bad not provided for	Nil			
110,73,85,290		121,77,35,638.92			
6,36,288	v) Debts due by Directors or Officers of the Banking Company or any of them either severally or jointly with any other persons	22,86,414.24			
Nil	vi) Debts due by the Companies or Firms in which the Directors of the Banking Company are interested as Directors, Partners or Managing Agents, or in the case of private companies as members	Nil			
7,32,817	vii) Maximum total amount of advances including temporary advances made at any time during the year to Directors or Managers or Officers of the Banking Company or any of them either severally or jointly with any other persons	23,67,553.18			
Nil	viii) Maximum total amount of advances including temporary advances granted during the year to the companies or firms in which the Directors of the Banking Company are interested as Directors, Partners or Managing Agents or in the case of private companies as members	Nil			
7,41,316	ix) Due from Banking Companies	Nil			
175,68,54,263	C/F			198,39,56,475.44	

Dena Bank, Bombay

Balance-Sheet as at 31st December 1971

1970	CAPITAL AND LIABILITIES		*1971*
Rs.		Rs. P.	Rs. P.
186,71,13,319	B/F		208,66,39,961.01
6,07,74,135	*7.* **OTHER LIABILITIES :**		7,24,53,328.83
	8. **ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS**		
13,06,46,221	**as per contra**		18,82,20,229.98
	9. **PROFIT AND LOSS :**		
50,99,141	Profit for the year as per Profit and Loss Account	65,13,775.15	
10,20,000	*Less* : Transferred to Reserve Fund	15,00,000 00	
40,79,141		50,13,775.15	
24,59,000	*Less* : Provision for Bonus to Staff	30,00,000 00	
16,20,141	Balance being the amount to be transferred to Government in terms of Section 10(7) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970		20,13,775.15
	10. **CONTINGENT LIABILITIES :**		
12,82,384	i) Claims against the Banking Company not acknowledged as debts	10,68,331.57	
19,84,180	ii) On partly paid Shares of Joint Stock Companies	32,77,930.00	
20,33,64,780	iii) On Letters of Guarantee on behalf of constituents	22,08,90,145.50	
2,27,85,669	iv) On account of outstanding Forward Exchange Contracts	1,67,78,562.99	
Nil	v) On Bills of Exchange Rediscounted	43,08,523.70	

Note : Provision to the full extent for future gratuities to Staff has not been made, the liability for which has not been ascertained.

206,01,53,816	TOTAL	234,93,27,294 97

Dena Bank, Bombay

Balance-Sheet as at 31st December, 1971

1970	PROPERTY AND ASSETS		*1971*
Rs.		Rs. P.	Rs. P.
175,68,54,263	B/F		198,39,56,475.44
	6. **BILLS RECEIVABLE BEING BILLS FOR COLLECTION as per contra**		
12,71,02,866	i) Payable in India	12,00,48,715.43	
1,81,50,051	ii) Payable outside India	2,26,45,321.51	
14,52,52,917			14,26,94,036.94
	7. **CONSTITUENTS' LIABILITIES FOR ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS as per contra**		
13,06,46,221			18,82,20,229.98
	8. **PREMISES:** Less Depreciation		
80,67,813	At cost as per last Balance Sheet	83,86,085.82	
3,18,273	Additions during the year	8,13,146.50	
83,86,086		91,99,232.32	
22,00,000	*Less :* Depreciation to date	24,25,000.00	
61,86,086			67,74,232 32
	9. **FURNITURE AND FIXTURES:** Less Depreciation		
1,60,26,930	At cost as per last Balance Sheet	1,91,86,219.12	
32,85,880	Additions during the year	57,71,598.55	
1,93,12,810		2,49,57,817.67	
1,26,592	*Less* : Deductions during the year	1,24,760.09	
1,91,86,218		2,48,33,057.58	
76,42,727	*Less* : Depreciation to date	95,73,560.68	
1,15,43,491			1,52,59,496.90
	10. **OTHER ASSETS INCLUDING SILVER**		
14,55,379	a) Advance payment of tax	27,55,379.00	
63,82,965	b) Interest accured on Investments	72,91,788.34	
6,292	c) Small Silver Bars	5,293.16	
7,58,941	d) Stamps and Stationery	14,67,150.56	
10,67,261	e) Sundry Deposits, etc	9,03,212.33	
96,70,838			1,24,22,823.39
Nil	*11.* **NON-BANKING ASSETS ACQUIRED IN SATISFACTION OF CLAIMS**		Nil

206,01,53,816	TOTAL	234,93,27,294 97

Dena Bank, Bombay

Profit and Loss Account for the Year Ended 31st December, 1971

1970 Rs.	EXPENDITURE	1971 Rs. P.	1970 Rs.	INCOME	1971 Rs. P.
				(Less Provision made during the year for bad and doubtful debts and other usual or necessary provisions).	
5,50,35,356	1. Interest paid on Deposits, Borrowings, etc.	6,33,73,261.10	10,55,28,073	1. Interest and Discount	12,82,35,782.65
4,19,86,158	2. Salaries, Allowances and Provident Fund, etc.	5,30,20,169.88	1,02,29,324	2. Commission, Exchange and Brokerage	1,11,92,424.67
5,550	3. Directors' and Local Committee Members' Fees and Allowances	10,700.00	1,94,887	3. Rents	1,97,668.13
51,90,928	4. Rent, Taxes, Insurance, Lighting, etc.	65,89,960.58		4. Net Profit on Sale of Investments, Gold and Silver, Land, Premises and other Assets (not credited to Reserves or any particular Fund or Account)	
59,385	5. Law Charges	30,903.95			
16,05,989	6. Postage, Telegrams and Stamps	19,62,165.06			
1,50,300	7. Auditors' Fees	1,69,100.00	Nil		Nil
17,34,903	8. Depreciation on and Repairs to Banking Company's Property	23,65,458.55		5. Net Profit on Revaluation of Investments, Gold and Silver, Land, Premises and other Assets (not credited to Reserves or any particular Fund or Account)	
40,13,130	9. Stationery, Printing, Advertisements, etc.	42,89,420.85			
Nil	10. Loss from sale of or dealing with Non-Banking Assets	Nil	Nil		Nil
41,33,648	11. Other Expenditure	47,27,081.20		6. Income from Non-Banking Assets and Profits from sale of or dealing with such Assets	
50,99,141	12. Balance of Profit	65,13,775.15	Nil		Nil
			30,62,204	7. Other Receipts	34,26,120.87
11,90,14,488	TOTAL	14,30,51,996.32	11,90,14,488	TOTAL	14,30,51,996.32

Notes: 1. Total Expenditure on Public Relations and Publicity for the year ended 31st December 1971 is Rs. 8,56,566.44 as compared to Rs. 8,20,995.80 in 1970.

2. Particulars of remuneration to the Custodian: (i) Salaries Rs. 29,040.00 (Rs. 51,666.66); (ii) Allowances Rs. 9,480.00 (Rs. 1,583.33); (iii) Bank's contribution to Provident Fund Rs. 2,952.00 (Rs. 2,637.03); (iv) Monetary value of other benefits or perquisites Rs. 5,160.00 (Rs. 9,518.99). Total Rs. 46,632.00 (Rs. 65,406.01) (Figures in brackets are for the year 1970).

R. A. GULMOHAMAD *Custodian*

M. P. CHITALE
KRISHNA RAJ
SOORYAKANT PARIKH
V. V. DIVATIA
S. M. KELKAR
Directors

DINESH M. PARIKH
Assistant General Manager
& Chief Accountant
12th April, 1972.

Report of the Auditors

TO THE PRESIDENT OF INDIA:

1. We have audited the foregoing Balance Sheet of DENA BANK as of 31st December, 1971 and also the foregoing Profit and Loss Account of the Bank for the year ended on that date, in which are incorporated the Returns from 71 Branches audited by us (26 Branches as on 30-6-1971 and 45 Branches as on 31-12-1971), 143 Branches audited by other auditors, and the unaudited returns in respect of 236 Branches not visited by us, for the exclusion of which Branches from audit, concurrence of the Reserve Bank of India was obtained.

2. The Balance Sheet and Profit and Loss Account have been drawn up in forms 'A' and 'B' respectively of the Third Schedule of the Banking Regulation Act, 1949. Accordingly, they disclose such matters as were required to be disclosed in the case of banking companies prior to nationalisation by virtue of the provisions of the said Act as read with, the related provisions of the Companies Act, 1956. Subject to the limitations of such disclosure and on the basis of the audit indicated in the first paragraph, we report that:

(a) In our opinion and to the best of our information and the explanations given to us and as shown by the books of the Bank:
   (i) the Balance Sheet read with the notes thereon is a full and fair Balance Sheet containing the necessary particulars and it is properly drawn up so as to exhibit a true and fair view of the affairs of the Bank as at 31st December 1971;
   (ii) the Profit and Loss Account read with the notes thereon shows a true balance of profit for the period covered by the Account.

(b) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and have found them to be satisfactory;

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

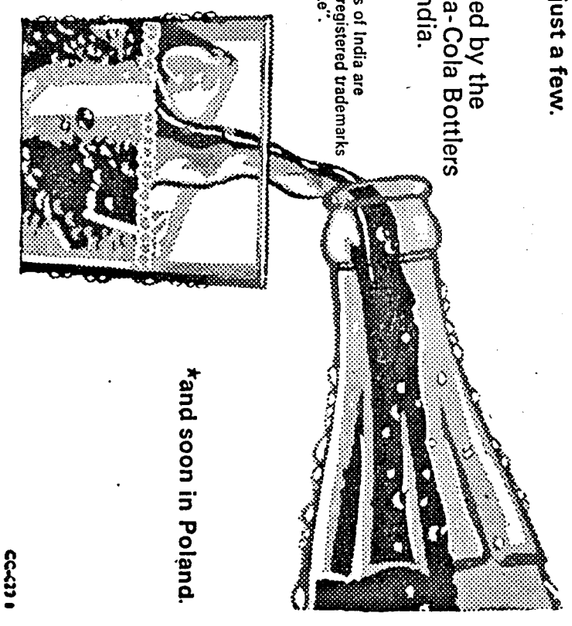
(d) The Returns received from the officers and branches of the Bank have been found adequate for the purposes of our audit.

KULKARNI & KHANOLKAR,
G. D. APTE & CO.
Chartered Accountants

Bombay, 12th April, 1972.

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*and soon in Poland.

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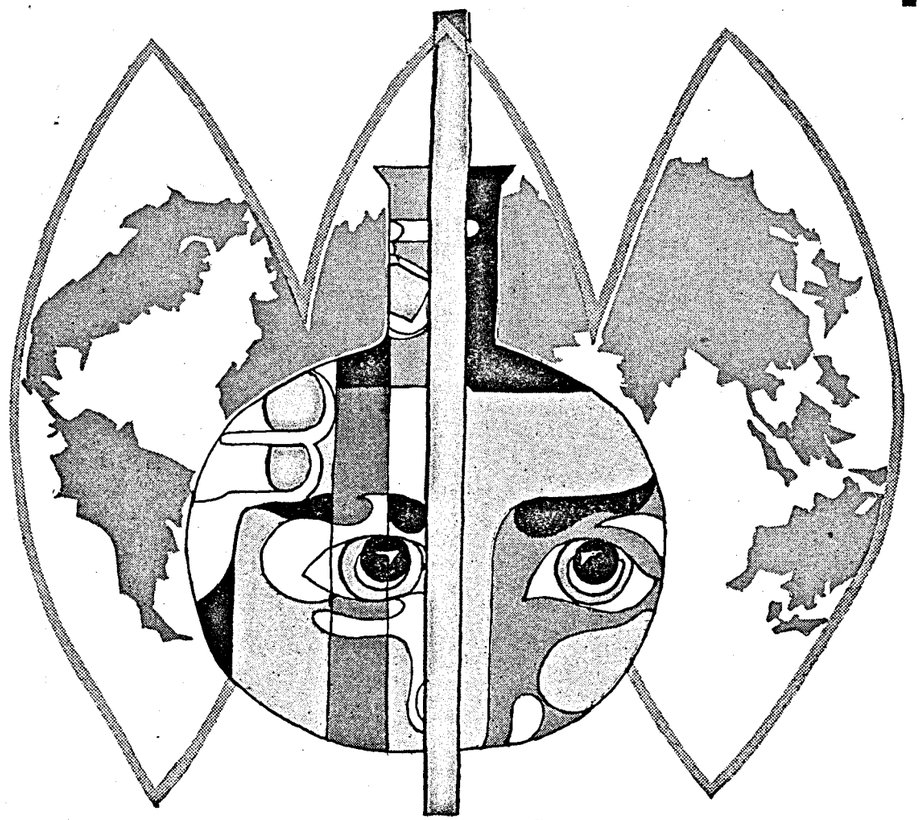
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ECONOMIC AND POLITICAL WEEKLY

April 22, 1972

April 22, 1972 Regd No MH—1393

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ECONOMIC AND POLITICAL WEEKLY

A Sameeksha Trust Publication Rs 1.25 Vol VII No 18 April 29, 197

8 MAY 1972 INDUSTRIES DEPARTMENT

EMPLOYMENT AND INCOME IN RURAL INDIA

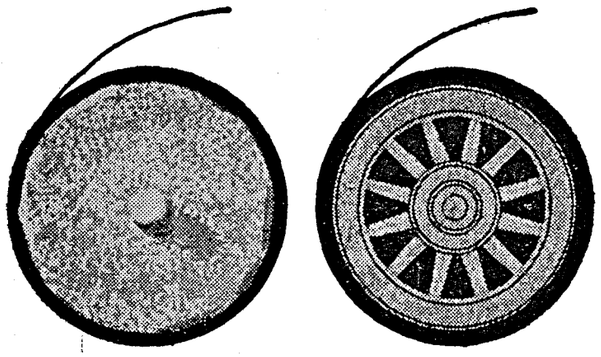
PRIMARY EDUCATION: PARTICIPATION AND WASTAGE

DEBT RELIEF FOR PUBLIC SECTOR

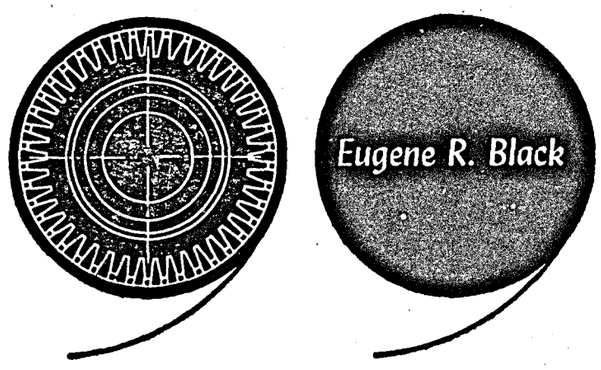
MORTALITY AND LONGEVITY

POLITICAL RECONSTRUCTION OF BANGLADESH –

MUSINGS BEFORE MURREE



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!"



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BOMBAY CALCUTTA DELHI MADRAS

ECONOMIC AND POLITICAL WEEKLY

Founder-Editor: Sachin Chaudhuri

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Skylark 284 Frere Road Bombay

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

At What Cost?

AS usual the Engineering Export Promotion Council (EEPC) has pitched high its export target for engineering goods for 1972-73. At Rs 200 crores, it is fully 50 per cent higher than the level of exports achieved in 1971-72. That engineering exports last year fell short of the target by nearly 25 per cent appears to have left no impact at all on the Council. At the beginning of 1971-72, the EEPC had fixed a target of Rs 165 crores; later this was raised to Rs 175 crores — and this, when exports in the first half of the year had been (at Rs 64 crores) only slightly more than one-third the revised target. Commenting on the EEPC's flighty optimism, it was pointed out in these columns over four months ago that "even on optimistic expectations, engineering exports are unlikely to exceed Rs 140 crores" (December 18, 1971, p 2496). The chairman of the EEPC now claims that exports in 1971-72 would be Rs 135 crores, though on the basis of the trend upto February 1972 they appear unlikely to exceed even Rs 130 crores. For the less than satisfactory performance last year the chairman of the EEPC has his pat explanations: the steel shortage and the stalemate in trade negotiations with the UAR.

Imports of iron and steel amounted to Rs 86 crores in 1968-69 and Rs 81 crores in 1969-70; but in 1970-71 they spurted to Rs 147 crores and rose further to Rs 113 crores in the first half of 1971-72. The increased imports were accompanied, last year in particular, by a considerable reduction in exports of iron and steel. In this context of increased domestic availability of steel, it is difficult to take the EEPC's complaints of steel shortage seriously. As for exports to the UAR, the EEPC was well aware of the uncertainties surrounding Indo-UAR trade relations when last year it scaled its export target upward by Rs 10 crores. The EEPC might at least try to be more convincing when it makes excuses for shortfalls in exports.

The EEPC's anxiety to pitch the export target high at the beginning of each year is perhaps explained by the fact that it uses the target to bargain with the government for larger supplies of steel and for more export incentives. And the government, it appears, readily falls for this tactic. Thus the chairman has disclosed that the government has agreed to meet the steel requirements of engineering exports in full and, further, that imported steel would be made available to exporters at JPC prices. It may be recalled that, a few months ago, the EEPC was pressing the government to pay the difference between the indigenous price of steel fixed by the JPC and the international prices. As the Ministry of Finance was opposed to this new type of export subsidy (which might have amounted to some Rs 12 crores), the Foreign Trade Ministry appears to have solved the problem by shifting the burden of the subsidy to Hindustan Steel, which would now make the necessary supplies of imported steel at JPC prices or the ruling HSL prices when JPC prices are not available. The EEPC chairman has estimated the steel requirements of the export target of Rs 200 crores at 8.11 lakh tonnes, out of which 3.31 lakh tonnes are expected to be available indigenously. HSL would have to pay a subsidy on imported steel in respect of all those categories the landed cost of which is higher than the JPC price.

The EEPC's estimate of steel requirements appears to be definitely on the high side. According to a published study by a senior functionary of the EEPC itself, steel (including pig iron) requirements of an export target of Rs 500 crores would be about 12.2 lakh tonnes. Going by this estimate, steel required for an export figure of Rs 200 crores ought not to exceed 5 lakh tonnes. The EEPC chairman's figure of steel requirements appears even less justified in the context of the government's policy of not encouraging high steel-intensive exports. In a situation where free market prices of steel items are higher than the JPC prices, engineering exporters cannot be unaware of the opportunities for profit from disposing of steel in excess of their requirements in the open market.

The EEPC chairman's estimate of import requirements in value terms — Rs 91 crores for the export target of Rs 200 crores — also appears to be inflated. In 1969-70, import replenishment licences of Rs 26 crores were granted to registered exporters against engineering exports of Rs 97 crores. On this basis, one might place the import requirements of Rs 200 crores of engineering exports at about Rs 54 crores. If anything, this figure is likely to be an overestimate, since the levels of import replenishment are known to be generally in excess of the actual import content of the exported commodities.

Thus the EEPC chairman's estimates of the requirements of the quantity of steel as well as the value of imported inputs appear to be considerably higher than what might be justified on any count. If the cash subsidy, the supply of steel at lower prices and at much above the required levels with

opportunities for selling the excess at a premium, and the liberal allocation of foreign exchange in the form of replenishment licences, are all taken into account, the effective export subsidy on engineering goods might well turn out to be in the range of 60-80 per cent — which gives an exchange rate of Rs 11-13 to the dollar.

Foreign Policy

Rare Consensus

M R writes:

THIS year's Lok Sabha foreign affairs debate (April 24-26) revealed an unusual consensus on policy objectives, indicating the emergence of a bi-partisan foreign policy. This was the first comprehensive foreign affairs debate since the signing of the Indo-Soviet Treaty, the emergence of an independent Bangladesh, Nixon's Peking visit and the escalation of the Vietnam War. And it was a far cry from the days when the right and the non-communist left united to snipe at non-alignment and the same old tired arguments were met by equally tired rebuttals by the communists while the ruling party patted itself on the back with the claim that neither the right nor the left had a *credible alternative policy framework* to replace non-alignment. The pattern was repeated year after year even after the cold war declined and India's non-alignment began losing its credibility with the convergence of super power interests regarding India.

Indeed, this year's debate had its kinks. The Swatantra party would not give up its pet theme — recognition of Israel. The Jan Sangh had its misgivings about the Soviet plan for collective security in Asia. There were minor grouses about India's failure to give full diplomatic recognition to the German Democratic Republic. But overall, there was no basic disagreement among the opposition parties and there was a monotonous identity of views on foreign policy issues. The Soviet Union is not a discredited super power in the eyes of the Indian public and even the extreme right had no objection to the growing Soviet presence in the subcontinent. The United States is a discredited super power and even the extreme right lacked the courage to defend it. In the bargain, the government had its way with its foreign policy.

Throughout the debate, there was little realisation that India's foreign policy has lost much of its dynamism and lacks, what one member called, the posture of involvement. India could rush military aid to Ceylon to crush the youth insurgency last year. It could emerge in the role of a liberator in Bangladesh. But it got cold feet over Vietnam. The Foreign Minister has blandly maintained that the government does not favour: a) a summit meet on Vietnam, b) an International Control Commission (ICC) meet, c) a resolution in Parliament denouncing the US escalation of the War, or d) Indian withdrawal from the ICC in protest against the US role.

There was also little effort on the part of the opposition to seek vital clarifications on Indira Gandhi's Asian peace plan. Earlier this month, the conference in New Delhi of India's Asian envoys discussed it and the envoys went back with instructions to pursue the plan. New Delhi has since maintained that Indira Gandhi's plan, mooted in the course of her South-East Asian tour predates the Brezhnev plan for Asian collective security (first proposed in 1969). Only the Jan Sangh seems to apprehend that the Soviet leadership, unable to sell its own plan, is using India to sell it with an Indian label. What lends substance to the Jan Sangh's fears is the peculiar circumstance that neither of these plans have been spelt out in any detail. The Ministry of External Affairs maintains that Indira Gandhi's plan has met with a good response though it will not disclose the names of the responsive countries and maintains that no big power had opposed it. At the same time the Ministry maintains it has little knowledge of the Brezhnev plan. The Brezhnev plan was revived after three full years and after Nixon's Peking visit. While reviving it Brezhnev also chose to assert that the Soviet Union was also an Asian power. Indira Gandhi's plan was revived a few weeks after Brezhnev's return to his old plan. Before that, early in February, Swaran Singh, however inadvertently, had welcomed the Brezhnev plan (in an interview with Tass) but was more circumspect in his support for it in subsequent statements. The Government of India may not know much about the Brezhnev plan but it certainly knows its own plan which has not been spelt out yet, though its envoys are supposed to be pursuing it with the governments to which they are accredited.

If anything, the debate demonstrated that the pro-Soviet euphoria will take a long time to wear off and the government will continue to have a comfortable policy cushion in foreign affairs. The demands for recognition of the Provisional Revolutionary Government of South Vietnam, for full diplomatic recognition of the German Democratic Republic and for trade with Cuba will be repeated almost ritualistically even by members of the ruling party. But the government will have a free hand in foreign policy matters because a combination of diverse factors has contrived to create a consensus for the first time since the early days of Nehru when non-alignment had not yet come under attack from the social democrats and the right had not yet emerged in strength in Indian politics. India is now close to one super power and has tenuous relations with the other, and is least enthusiastic about normalisation of relations with China. Last year's External Affairs Ministry Annual Report dismissed the United States in just three paragraphs but this year's devotes four-and-a-half pages of sentimental writing based on the hope that the two countries could be friends again. As for China, the report is rather patronising: the reference to Kashmir's self-determination (in the Chou-Nixon communique) amounts to interference in India's internal affairs and cannot be tolerated and yet "we do not wish to provoke China unnecessarily and we are willing to normalise relations with her on a basis of equality, mutual respect and non-interference in internal affairs." Beyond this self-righteous statement there is no tangible change in attitude. Barring Dinesh Singh of the Congress, no speaker in the debate — not even from the CPI(M) — was keen on a dialogue with China to end the *impasse*. In short, the debate amounted to a virtual endorsement of the government's stand and whatever little disagreement there was, was about petty details.

Land Ceiling

The Irrigation Swindle

ONE would not imagine that irrigated agricultural land and land which is dry or not irrigated are particularly difficult terms to define or understand. Yet it is a fact that in the ceiling laws now in force in most of the states, dry land is defined to *include* land which is irrigated (however abundantly) from tube-wells, tanks and all other sources except those constructed or maintained by the state governments. We owe a debt of gratitude to the Union Minister for Agriculture for bringing this — what should have been, but wasn't, a widely known — fact to public attention. Charged with having interfered with the definition of irrigated land contained in the

report of the Central Committee on Land Reforms, which reported last year, the Minister pointed out that the construction put on the matter by his Ministry was completely in keeping with that already used in existing ceiling legislation.

The distinction between land irrigated from government sources and that irrigated from private sources is, of course, perfectly ridiculous; it is even more ridiculous to treat the latter as *dry* land and to extend to it the liberal ceiling provisions applicable to genuinely dry land. The ownership of the source of irrigation is becoming less and less significant since the so-called privately-owned sources are increasingly being constructed with finance provided by government or co-operative financial institutions or commercial banks at concessional rates. As for the effectiveness of irrigation, many of the government constructed and maintained canal systems were set up by and large to provide protective irrigation and are distinctly inferior to privately owned sources of irrigation from the point of view of predictability and controllability of water supply which are crucial to modern, scientific agriculture.

According to the Planning Commission's data, in the first three years of the Fourth Plan, minor irrigation is expected to cover 4.26 mn additional hectares and major and medium irrigation projects only 1.56 mn hectares. True, minor irrigation is a rag-bag which covers a variety of schemes costing less than Rs 25 lakhs each, but there are good reasons to believe that the spurt in minor irrigation in the last few years has been the result mainly of investment in private tube-wells and energisation of wells. Thus in the three-year period, 1966-69, a total of 175,000 private tube-wells were bored. This figure compares with the total of 80,000 such tube-wells existing at the end of the Third Plan. Subsequently another 190,000 tube-wells were estimated to have been dug 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 tube-wells 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 copiously available, making the sinking of tube-wells by agriculturists a very attractive proposition. Thus from being largely a publicly-owned and provided service, irrigation has rapidly become a privately-owned facility.

And yet as far as the laws on land ceiling are concerned all this investment in irrigation has simply not taken place and the lands covered by them remain dry and arid. It has been pointed out that if privately irrigated lands are subjected to the lower ceiling applicable to irrigated lands then there would be no incentive for new investment in irrigation since a holding without any irrigation facility at the time of enforcement of the ceiling legislation (and therefore subject to the higher ceiling applicable to dry lands) would become subject to the lower ceiling applicable to irrigated lands the moment the owner invests in some means of private irrigation. The argument is valid but there is a perfectly simple way of getting round the problem. This is to classify land, for purposes of ceiling on holdings, not according to whether they are actually irrigated or not, but according to whether or not they are capable of being irrigated. Thus lands which are already irrigated, whether from government or private sources, lands which receive adequate rainfall and lands which can be irrigated by construction of some private irrigation source, such as tube-wells, must all be classified as irrigated land and subjected to the lower ceiling now proposed to be applied, quite ridiculously, only to land irrigated from government sources. The incentive argument can then be turned against those opposed to enlargement of the scope of the term 'irrigated'. It can be quite plausibly argued that once the owner of unirrigated but irrigable land is left with a smaller holding as per the ceiling applicable to irrigated lands, he would have a strong incentive to invest in the construction of irrigation facilities and increase yields so as to maintain his total output and income. And with co-operatives and commercial banks now vying with each other to provide finances for digging wells and installing pumpsets and given such institutions as the Rural Electrification Corporation, a farmer who seeks to invest in irrigation facilities of his own should have no difficulty in finding the money.

Of course, all this presupposes that the state governments, who are to be responsible for enacting the proposed new laws on land ceilings and for enforcing them, are serious about the whole business. But are they?

Industry

On Standing Still

THE Annual Report of the Ministry of Industrial Development for 1971-72 deals essentially with three matters: industrial production, performance of public sector units under the Ministry's control and licensing decisions. In all these respects, it brings out unwittingly the dismal performance of the Ministry.

On the facts of industrial production the Report hardly adds anything to what is already known. The rate of growth of industrial production has steadily declined — from 7.1 per cent in 1969 to 4.8 per cent in 1970 to 2.2 per cent in the first nine months of 1971. The Ministry is wisely silent about the performance of small industry or about the index being unrepresentative of the present industrial structure. Significantly, despite the talk of slortage of steel being responsible for the poor industrial performance, in fact it was industries like leather and fur products (—15.2 per cent), transport equipment (—11.9 per cent) and cotton textiles (—7.9 per cent) which mainly accounted for the shortfall in industrial production. On the other hand, electrical machinery (+13.4 per cent) and metal products (+10.3 per cent) showed substantial increase in production over the previous year.

This is also obvious from the detailed production data given in the Report. In items like cement mill machinery and railway wagons, production was lower in 1971 than in the earlier year. In many other industries — structurals, steel forgings, cast iron spun pipes, steel pipes, refractories, etc — while there was a rise in production, there remained considerable unutilised capacity.

The Ministry of Industrial Development apparently has the largest complement of inefficiently-managed public sector units. Instrumentation Ltd (Kota) presents the best picture for 1971, followed by Hindustan Machine Tools which showed a more than 50 per cent rise in output in the last three quarters of 1971. In a country where small industry accounts for 7 per cent of national income, the National Small Industries Corporation reported delivery of machinery worth only Rs 7.90 crores in the first 10 months of 1971. National Instruments and Opthalmic Glass had a production in 1970-71 which was 65 per cent of its 1964-65 output. Bharat Heavy Electricals every year sets a target, revises it downwards and then reports under-fulfilment (8 per cent in 1970-71) in relation to the *revised* target. This window-dressing also extends to its accounts where it reports "Rs 15 million expenditure on social overheads in excess of receipts" — whatever that means. Heavy Electricals (Bhopal) had an output of Rs 26.76 crores in 1970-71 against Rs 27.25 crores two years back.

Hindustan Cables operated far below capacity. Hindustan Photo Films mercifully gives the least amount of information — *presumably to save the Ministry* and the readers of the Report from heartbreak. The Cement Corporation has two cement factories working and two under planning; Hindustan Paper Corporation too has projects at the planning stage.

As regards licensing, the Ministry reports issue of 626 industrial licences and 1,015 letters of intent in 1971 against 363 licences and 438 letters in 1970. Foreign collaborations approved increased from 183 in 1970 to 245 in 1971. Capital goods approvals increased from Rs 84.54 crores in 1970-71 (April-February) to Rs 105.44 crores in the corresponding period of 1971-72. While the Report pays lip-service to backward areas, it does not give data on how many industrial or capital goods licences were issued in these areas.

In its presentation the Report is a slip-shod document. No attempt to reconcile data on capacity and production seems to have been made. This is also the case regarding the public sector units under the Ministry, though it claims to have within it a cell for public sector units. Data on production in 1971 is not given for most units; Hindustan Photo Films does not give data on capacity or carried-forward losses. To cap it all, the Department of Internal Trade under the Ministry gives its own data on production of some items (bicycles, cotton textiles, soap, paper, GLS lamps) output figures for which are already given earlier in the Report. The Report is silent on the implications of the Supreme Court judgment on automobile prices or on the Ministry's contradictory statements on foreign collaboration policy. Apparently our bureaucracy is not even bureaucratic enough to present data in a systematic manner.

Banking Statistics

A Tale of Many Committees

A Correspondent writes:

THERE is to be no end apparently to the number of committees to look into some aspect or the other of the working of commercial banks. The latest to be appointed is the working group on banking statistics which has been charged with suggesting measures to simplify and speed up the Uniform Balance Book (UBB) and other associated returns. The once-widely-publicised UBB system was conceived of by an earlier working group, in August 1968, as an integrated system of reporting bank advances information about which was till then being collected through different surveys. But though the system was introduced in December 1968 and commercial banks have been filing the required data with the Reserve Bank, the public has yet to see in print any of the information thus collected. Interestingly enough, the set of tables on banking statistics which the Reserve Bank supplied to the recent conference of economic journalists called by it were based on either the statutory returns (as under section 42(2) of the RBI Act) or on old forms or on the special forms designed to obtain information on bank lending to the so-called priority sectors.

The Reserve Bank's press note on the appointment of the new working group now refers to "the factors that have inhibited expeditious and accurate reporting" under the UBB proforma. But what has the Reserve Bank been doing these last three years? In any case, why was it necessary to appoint a Working Group to identify the factors holding up the UBB system? Couldn't this have been done quite easily by the Reserve Bank itself? Indeed, the appointment of the working group is all the more incomprehensible, coming as it does close on the heels of the release of the Banking Commission's report. The Commission has given considerable thought to the question of banking statistics. It has brought out, *inter alia*, how different departments of the Reserve Bank continue to obtain, because of lack of co-ordination, a "plethora of returns" from the commercial banks on bank advances which the UBB was expected to cover in a comprehensive manner (pp 324-5). The Commission has also discussed at length the problems connected with UBB. These problems are by no means all restricted to "factors which inhibit expeditious and accurate reporting" by branches of the commercial banks, as the Reserve Bank's press note seeks to suggest. There have been problems galore at the Reserve Bank end — connected with tabulation of the data and lack of co-ordination in using them. After examining all these problems, the Banking Commission has recommended specific measures to overcome them.

To reduce the workload on bank branches and to avoid duplication of labour, the Commission has redesigned the UBB format so as to make it a fanfold of the balance book. It has pointed out how repetition of fixed information every month can be avoided through a system of reference numbers (p 326) and suggested that, given the stress on purpose-wise analysis of bank advances, the accounting systems of banks themselves should be changed to maintenance of ledgers according to purpose rather than type of account (*viz, cash credit, overdraft, etc*).

The recommendations are equally comprehensive with regard to the problems at the Reserve Bank end. It is pointed out that it is unnecessary to tabulate every piece of information every month. While data could be tabulated on a census basis twice a year (for March and September), loans and advances of Rs 10,000 and over could be tabulated for two more quarters (June and December). Only advances above Rs 1 lakh need be tabulated every month. According to data published by the Reserve Bank, as at end-March 1967 (incidentally, the latest period for which information is available) loans of Rs 1 lakh and over accounted for just 2.8 per cent of the total number of loan accounts but covered about 84 per cent of the total amount of loans and advances (see RBI *Bulletin*, December 1968, p 1507). Loans above Rs 10,000 accounted for just 19 per cent of loan accounts but covered over 96 per cent of the loan amount. The proportions may have changed somewhat since then because of the changes in the pattern of bank lending, but the point remains valid that the work of tabulation can be enormously reduced without in any way vitiating the results if a judicious sampling method is adopted. The collection of data on small loans and priority sectors should also be a part of the UBB and the Commission has particularly emphasised that within the Reserve Bank all departments should rely on data tabulated from the UBB system. It has also indicated that data required for watching the movement of advances against sensitive commodities covered by selective credit controls can be obtained by tabulating the returns of just 800 to 900 commercial bank branches (out of over 12,000), which would cover about 80 per cent of the total advances against each of the major commodities (pp 526-7 and 546).

Even in respect of statutory returns, the Banking Commission has drawn pointed attention to the non-comparability of data collected through different returns because of differences in the definitions of some items of assets and liabilities under the various Acts (p 320). This suggestion for standardisation of definitions was in fact made as early as in 1967 by another committee on banking statistics (see RBI *Bulletin*, May 1967) and the recommendation was reaffirmed by the earlier working group on banking statistics in 1968. Of course, such standardisation would need legislative changes, but banking laws have been amended several times during the last few years and it is just that no one has thought in terms of incorporating these changes. Now the Banking Commission has again suggested that the detailed format of returns which the Banking Regulation Act, the RBI Act, and the Deposit Insurance Corporation Act have prescribed should be scrapped and the Reserve Bank should be given the powers to prescribe the format, except perhaps in regard to banks' balance-sheets and profit and loss accounts.

Did the Reserve Bank care to examine these recommendations of the Banking Commission before deciding that it was necessary to appoint yet another working group?

In this context it is pertinent to point out that despite the "plethora of returns" — the Banking Commission has listed as many as 42 of them — which different Reserve Bank departments obtain from the commercial banks, most of the data thus collected are far outdated by the time they are released to the public. Barring its weekly returns and the data in respect of branch expansion and priority sector advances obtained under the government's direction, there is hardly any worthwhile, analytically useful banking data for the past two or three years available in RBI publications. For instance, size-wise distribution of advances is available only for March 1967. Interest rate-wise distribution of deposits and advances are available upto April 1968. Such useful information as that on the ownership of commercial bank deposits has been so far published only upto March 1968 and that on debits to deposit accounts are as old as 1966. Some of these data are also published in the "Statistical Tables Relating to Banks in India" but this publication comes out with a lag of over three years.

Upto the period ending June 1969 the Reserve Bank used to publish a separate report called "Trend and Progress of Banking in India" which was submitted to the Central government under Section 36 (2) of the Banking Regulation Act, 1949. From the year 1969-70 this report was merged with the Bank's Annual Report prepared under Section 53(2) of the RBI Act, 1934. The two reports should have been kept separate for many reasons. Apart from being covered by separate Acts of Parliament, their purposes were entirely different. In merging the two the many useful items of banking statistics which used to be given in the "Trend and Progress of Banking" have had to be cut out altogether. By merging the two reports, the Reserve Bank has also lost an opportunity of widening the scope of its report on banking, for the Annual Report has to be completed statutorily before the end of August every year. This is, perhaps, the reason why much useful information has to be left out of the combined report. Besides, the report on banking also used to contain all important circulars issued by the Reserve Bank to banks. These are now published in the "Report on Currency and Finance" where they quite obviously have no place. The Reserve Bank should seriously consider reviving the report on "Trend and Progress of Banking in India".

Education

Of Spoils and Bureaucracy

A Correspondent writes:

THE success of the agitation for a separate agricultural university for the Marathwada region of Maharashtra was assured even as it was started. It may be more than a coincidence that S B Chavan, who heads the state agriculture department which oversees agricultural universities in the state, has his political base in the region. Moreover, just three years ago, the state government gave in to a violent agitation in Vidarbha, conceding a separate agricultural university that was to cater to both Vidarbha and Marathwada. The Vidarbha agitation had been sparked off because the location of the first agricultural university at Rahuri in Ahmednagar district was interpreted in Vidarbha as just another instance of the general indifference of the authorites to the needs of Vidarbha itself. Having given in to Vidarbha's regional agitation, it was not easy for the state government to stand firm this time. From all accounts, it did not even try. What is more, Chief Minister Naik has already agreed in principle to locating the fourth agricultural university of the state in Konkan — forestalling an agitation there. Maharashtra will thus have the distinction of being the only state in the country with four agricultural universities: no other state has more than one.

Of course, there is nothing inherently wrong in having four agricultural universities as against one. The basic purpose of an agricultural university is to concentrate on the special agricultural problems of a region, to conduct research on them, and then to help the local farmers by taking the results of the research to them and improving their farming techniques through widespread extension programmes. So, if a state comprises a number of agricultural regions with quite distinct problems, it makes sense to start several such universities to cater to specific regional needs. But it was clear from the outset that neither the agitating students nor the government in Maharashtra were inspired by such calculations.

Even if one makes the unlikely assumption that the state government can provide adequately for each of these four universities (each estimated to need Rs 13 crores for the capital block alone), in the absence of any clear conception of the role the universities must play in finding solutions to the agricultural problems in the state, the new universities will soon be reduced to churning out so many agriculture graduates every year. In fact, after several years of existence the two agricultural universities in the state have done little to attack the most important problem confronting the vast majority of the poor peasantry in the state, *viz*, the problem of dry-land farming.

The irrelevancies in which the issue of agricultural universities has got enmeshed are seen in the fact that one of the immediate reasons for the eruption of the Marathwada students' agitation was the allegedly unfair treatment they received from their Vidarbha colleagues at the annual sports. The other grievance stemmed from the loss of employment opportunities: even peons on the Parbhani (Marathwada) campus are from the Vidarbha region. With a university of their own, such 'injustices' may not occur, but whether there will follow any beneficial impact on agriculture in Marathwada is doubtful.

Universities, generally, seem to be facing trials in Maharashtra of late. In most places, it is the vice-chancellor who is at the centre of the controversy. Even though the past centres of turmoil — Rahuri, Kolhapur and Bombay — have been quiet recently, things have reached such a pitch in Poona that the government, through the chancellor, was obliged to appoint a commission of inquiry into the affairs of the university.

Among other things, there are allegations of gross misuse of power by the vice-chancellor. Some of the vice-chancellor's own colleagues on the executive council have made the accusations. Yet the government has requested the vice-chancellor to continue in the post pending the inquiry — although, according to press reports, he did offer to resign. While the government's concern about not prejudging the issue is admirable, it compares strangely with the treatment it meted out to a former director of education — who was suspended from service for

several years, pending an inquiry into mistakes in a school text-book for which he was only formally responsible. He was exonerated later.

In a flourish of wanting to do something about the deteriorating conditions in the universities in the state, the government has decided to legislate a uniform act for all the universities, and it recently constituted a committee to study and report on its proposed bill.

Quite apart from the fact that a uniform act may not be appropriate to treat the diverse problems of universities in the state — since a university in a city like Bombay would have quite different problems from those of an essentially rural university such as Shivaji at Kolhapur —, the proposed bill makes the thoughtless assumption that the present state of affairs in the universities is the result of organisational weaknesses which could be corrected by having the right bureaucratic structure. The very composition of the committee, six of whose nine members are present or former registrars, underscores this misconception that the problems of higher education are simply problems of administration.

No organisational innovations *per se* can overcome the basic maladies of our universities. The total irrelevance of the various curricula for the needs of the students and of the community, the lack of basic amenities such as classrooms, libraries and laboratories in the colleges, and the tyranny by 'senior' mediocrities, are among the ills that beset our educational institutions. But these are not facts independent of the larger system in which the educational institutions operate. And there is little doubt that a uniform act for the universities will leave their problems untouched.

Money Supply

More on Bank Credit to Government

THE note on money supply last week (pp 819-20) omitted explicit reference to commercial banks' credit to the Central government while discussing net bank credit to the Central government in 1971-72. Reserve Bank data reveal that investment in government securities by all scheduled banks (including scheduled co-operative banks) increased by Rs 294 crores in 1971-72. Similar investment by non-scheduled banks is generally around Rs 10 crores, giving a total of a little over Rs 300 crores. Of these, banks' investment in state government securities may be estimated at around Rs 100 crores (on the basis of the state governments' net borrowing through dated securities during the year). The balance of Rs 200 crores may thus be taken as banks' investment in Central government securities.

On the other hand, the revised estimates for 1971-72 show that the Central government's permanent debt rose by Rs 394 crores during the year. If the commercial banks took up about Rs 200 crores of this, the Reserve Bank could not have absorbed more than a maximum of Rs 200 crores or a little less (except in the most unlikely event of net disinvestment by non-banking institutions such as LIC, the provident funds, etc). By contrast, the Reserve Bank's assets and liabilities data place this figure at Rs 470 crores, or Rs 270 crores higher. How are these Rs 270 crores to be accounted for? This, as was pointed out in our note last week, is a mystery for which the published data provide no explanation.

The likelihood that this inflation in the figure of the increase in Reserve Bank's holdings of Central government securities is the result of some accounting adjustment is suggested by the fact that the non-monetary liabilities of the Reserve Bank increased by the startling figure of Rs 377 crores in 1971-72 (as against Rs 80 crores in 1970-71). Indeed it would seem that actual net bank credit to the government sector in 1971-72 was lower than the figure of Rs 1,185 crores released by the Reserve Bank by even more than Rs 150 crores which was the approximate figure we had mentioned last week.

Sugar

Uncharacteristic Behaviour

SUGAR decontrol was introduced in the midst of the 1970-71 season and was continued for the current season. Industry had managed to push up prices by clever manoeuvres even before the 14-day war in December last. Subsequently, fearing total control, industry voluntarily agreed to partial decontrol which became effective from January. Even though the consumer was assured a handsome quota at Rs 2 per kg, prices shot up and there were protests all round. Predictably, industry blamed the state governments' distribution machinery. What it did not tell the public was that it had refused to deliver sugar at the levy price to the states before January. The situation was somewhat better in Maharashtra because the state government here was able to persuade the co-operative sugar factories to supply sugar.

The situation did ease later, though the improvement was hindered by the raising of the tariff value of sugar in January, February and March. And in March the market was flooded with rumours that the excise duty was likely to be increased from 30 to 40 per cent and that the tariff value was also likely to be raised further. Not surprisingly, sugar prices touched a new high of Rs 3.05 per kg.

The Budget, when it came, left sugar untouched. But the prices continued to rule high till the middle of this month. The government must share the responsibility for this; the monthly quotas have not only been reduced but they are announced much in advance. In the last few days, however, prices have registered a fall of about Rs 25 per bag and are now ruling around Rs 280. Demand for sugar is specially high in April-May because of the summer and the marriage season and every season there is a demand for larger releases by traders. But this time traders have kept mum. The releases for April-May total only 650,000 tonnes compared to 875,000 tonnes released for April-May 1971.

Industry too has behaved uncharacteristically this time. It has reduced ex-mill prices from Rs 300 to Rs 274 — and this in spite of the cut in the sugar ration from 2 kgs to 1 kg per month in the cities and from 1 kg to 500 gms elsewhere. The threat of reintroduction of control and indications that area under sugarcane has gone up so that production of sugar in 1972-73 might well cross 4 million tonnes have evidently acted as a check on industry and trade. Though April is about to end, neither government nor the sugar industry has cared to release statistics of output and stocks for March. Periodic reports appear of closure of mills, but figures of mills working at the end of each month this season and in the previous season are not available.

To keep prices in check, at the end of every month government should acquire the unsold quota at the levy price for distribution. As the gap between the market price and the levy price widens, sugar meant for distribution in rural areas is diverted to the free market. As a minister in the then Mysore government told the state legislative council in 1969, the allotment of sugar for one of the villages in the state had been sold in the black market regularly for six years and a school appropriately called "sugar school" had been set up!

New Frames of Action

Romesh Thapar

THE Establishment — and, these days, the term includes the bulk of the academic world — has been titillating itself over the speech of the Prime Minister to FICCI (Federation of Indian Chambers of Commerce and Industry) which included sentences lifted from an article by the Pakistani economist, Haq, a former adviser to Ayub Khan and now an obedient servant of the World Bank.

The charge of "plagiarisation" had been levelled against the speech-writers, and the speculation began around the possible heads which were likely to fall. This activity is very much a part of the "in-sect" community which rules. No one had bargained for the Prime Minister's public defence of what she herself had done, for we have come to believe that the truth is never uttered at the summit of power.

New Content, Old Frame

And now we are waxing eloquent about the horrendous business of borrowing ideas from Pakistani economists. There is little point in defending the PM. She has the right to pick up ideas from here and there, and nothing is going to change her mind. Had the criticism been more intelligent and focused on the fact that a great deal of work has been done in India on the ideas economist Haq is peddling, then we would have realised that somewhere during the long haul of the five-year plans we forgot the people for whom we were planning.

A mass line, for that is what the PM has been trying to project, has been tackled at various levels in India. The fact that no really tangible blue-print emerges as an answer to the pressing problems of poverty is due largely to the repeated attempts to change the *content* of planning without drastically altering the *frame* of planning. We continue to do this, and get ourselves into more and more knots which we cannot untangle without using a hatchet.

Let me take one example to show what happens when well-intentioned politicians and bureaucrats attempt to make their contribution to the *Gharibi Hatao* campaign.

Mass housing is a major slogan. Repeatedly, from Planning Commission to housing corporations, the attempt is to confront the problem of 550 millions in terms of scarce steel, cement and bricks. The challenge is so enormous that an exercise on housing the masses breaks down even as it is launched.

Clearly, until mud or stabilised earth or some easily available local material is seen as the raw material for housing, there can be no realistic approach to the problem. In other words, the villages and jhuggies of India, interlocked by the migration of rural populations to urban centres, have to be transformed immediately into well-designed, comfortable mud *casbahs* which take care of basic needs, with courtyards and gardens, and with public facilities based on good drainage and an assured water supply.

All this *is* immediately possible, but the rigid politician or bureaucrat finds it difficult to adjust to an approach of this kind. He does not see the extraordinary possibilities of helping our people rise out of their present-day hovels until such time as steel, cement and bricks are adequate to house them more permanently. He must be compelled to see or else even the slogan of *Gharibi Hatao* will not be implementable.

The Same Story

What continues to astonish is the obsession at governmental level with vague, high-sounding phrases taken from all and sundry, Pakistanis, Yankees, deshi bhais, babas and the like. It is time we called a halt to this verbal diarrhoea and got down to some fundamental thinking. We certainly have the funds. After all, we will have the pleasure of spending over Rs 200 crores on imitative scientific and technological research this year, a figure, believe it or not, that is likely to be more than doubled within the next two years. This activity, as we all know, is more in the nature of a crash employment programme for our near useless graduates. But what's the harm in giving the "research" some useful direction. Or are we being naive?

Wherever you turn, it's the same story. The fantastic state of anarchy in Indian Airlines! We talk tough, but toughness alone is not going to solve the problem. There must be a perspective, a new frame of action, for reorganising what does not work. In a vast country like India, why do we cling to the concept of a single airline. Why not several public sector airlines, regionally based but competing along certain key routes, compelled to work efficiently to win bonuses. More planes are needed. So what? It would be cheaper in the long run. And you don't need computers to prove it.

The same goes for the dragooned banks, the forcibly united steel plants, the fertiliser and chemical complexes, the scattered machine tool establishments and what have you. Why should they be mechanically regimented by the moronic men in the ministries? Why can't they exercise independent initiative and enterprise in management and productivity? And why should there not be special and rigorous disciplines for employment in the public sector, considering the many hidden benefits built into the system? These questions had better be answered soon or else the people will see planning policies as a stranglehold — and move to break them.

Yes, we are still waiting for that tryst with destiny — in new frames of action.

April 24

LETTER TO EDITOR

Moonshine on Employment

IT was clearly unwise — though logically consistent — on my part to write on Project Evaluation in my letter commenting on what you now call a minor point arising out of your editorial "Moonshine on Employment". This is perhaps a slight shift in your stand as you originally described the point as 'simple if basic' and in my book basic points are not minor.

Be that as it may, the substantive point should not be lost. Your editorial found that 'jobs' was a less relevant or less meaningful measure of employment potential than 'man-days'. I tried to argue that neither of the two 'measures' are particularly helpful and that the whole issue of employment potential is rather more complex than one would imagine. It is of course simple to say that investment providing one job for six months has more employment potential than that which provides one job for one month; but is the problem equally obvious if the comparison is between one job for six months against five jobs for one month?

Sudhir Mulji

New Delhi

Need We Stand Economic Theory on Its Head?

Phiroze B Medhora

IN his article entitled "Let Us Stand Economic Theory on Its Head" (*Insight*, January 1972), Mahbub ul Haq has called for rethinking on the accepted theory of economic development. According to him, the accepted theory stands for maximising the rate of growth (of income or production) leaving the benefits of growth to percolate through to all classes of the population. Mahbub ul Haq argues that such a system creates its own vested interests which prevent the percolation of the benefits to all classes of the population. He also argues that given the specificity of factors, factors devoted to the production of (or transformed into) high-income consumption goods, cannot be used to produce mass-consumption goods and do not lead to the economic welfare of the poorer classes.

On this hypothesis, Mahbub ul Haq argues for a direct attack on the problem of development. He suggests that if unemployment is the problem, jobs must be created; and since the objective of development is to increase the consumption levels of the poorest classes, then consumption goods needed by these classes must be produced. Thus, not production, but consumption needs form the basis of development plans.

The question arises: is this — either production or consumption — all that there is to the development process? If consumption goods are produced on a mass scale, will it solve the development problem? It is apparent that Mahbub ul Haq has not thought through the problems he tackles or the solutions he offers; and, despite his protestations, he still works within the accepted social and theoretic framework.

It can be argued that it is better to let 100 persons own 1 acre of land each than let 1 person own all 100 acres, even if under the latter ownership structure, 100 acres yield higher production — and even if 99 per cent of the production can be (taxed and) distributed as (wages or) dole equally to the remaining 99 persons. This is on a non-economic (but, therefore, not less valid) hypothesis that wage-labour is less satisfying than self-employment, and certainly that wage-employment and self-employment are better than dole-receiving.

Yet this is only (and even then, not wholly) true of agriculture. In industry, self-employment is possible only to a small extent. Two possibilities, therefore, exist in industry: either the production unit becomes individual (for example, spinning with the *charkha*) when little surplus value, above the basic needs of the producer, is produced, or mass production is resorted to. In the latter case, irrespective of the ownership of means of production, a hierarchical organisation structure has to be built up. The problem of differentiation in reward then has to be dealt with.

If this is the case with agricultural and industrial incomes, it is even more so in the tertiary sector where the scope for earning of unequal — and speculative — income is much larger. It is, therefore, futile to say that a production pattern, based purely on consumption requirements, will necessarily be more egalitarian. Demand for goods is a function not of the production pattern but of income distribution.

Significantly, India offers two examples, one positive and one negative, of this truth. The ban on imports of luxury consumption goods has hardly led to reduced demand for such goods. Such goods have continued to come into the country (an obliging and self-seeking bureaucracy allows golf balls to be brought in, in addition to the exemptions for personal imports of luxury items). Moreover, given the demand pattern set by income distribution and the institutional system, local production of such goods (refrigerators, air-conditioners) has become profitable. It is not specificity of production factors, but the income pattern, which brings about the production of luxury, rather than need-based, goods.

This is also evident from a second phenomenon in India. In an attempt to match production to need-based requirements, the government of India has required that a proportion of textile output should be of standard ('controlled') cloth. Producers have found it more economic to pay the penalty and *not* produce standard cloth, and concentrate their resources on producing non-standard cloth. What is important to note is that the producers have not found enough demand for standard cloth to induce them to meet it by expanding total capacity.

The example of India shows that it is not the production pattern, but the distribution of income, which determines the demand for goods. Given high inequality of incomes, controls on the production pattern fail to limit conspicuous consumption: incomes not spent on imported luxury goods get spent on domestic luxury consumption, and a vast system pandering to such needs — ranging from textile advertisements to home decoration to luxury restaurants — has been built up.

The objective of economic growth is to maximise economic welfare. In an aggregative system, such welfare consists in providing the minimum consumption needs of all the people. This can be done not only by providing a certain level of income to all people but by the State providing for social consumption (education and health facilities, school meals); it is only the latter course which enables the production pattern to be insulated from the income pattern.

The trouble is that most people forget the simple economic truth that one cannot have one's cake and eat it too. When confronted with the dilemma *between maximising income and maximising* employment do not we all try to seek the best of both worlds — and, in the process, achieve neither?

In India we have still not faced up to the dilemma: should we produce jari sarees because they provide employment for handloom weavers or should we stop their production because they cater to the consumption of the very rich? Perhaps, the bureaucrat's conscience feels easier when he allows import of steel for refrigerators and cars than when he allows imports of refrigerators and cars (except as personal baggage). And was it not a Reserve Bank Committee which cited the Government's anti-usury legislation to justify charging high rates of interest to small farmers and other neglected sectors? So also trade union practices are used today by the highly paid to increase income differentials in the society. All these reflect a social ethic which talks in terms of incentives for millionaires and discipline for workers.

Economics has always grown by the heresy of economists, and it is necesary that accepted dogma is always challenged. Mahbub ul Haq has raised important issues, not for economic theorists, but for economic policy-makers. It is not necessary to stand economic theory on its head: it would be sufficient if we stood it on its legs and looked at it straight.

To Accumulate Goodwill

Hansavivek

NATIONAL RAYON CORPORATION increased production of all the main items during 1971. Its sales were also higher — except of textile yarn which were affected towards the year-end owing to the emergency. Total net turnover rose by 6 per cent to Rs 21.84 crores, but gross profit fell by over 15 per cent to Rs 4.83 crores. Contraction of margins is attributed to rise in costs, particularly on account of employees' remuneration and benefits which required as much as Rs 5.18 crores against Rs 3.31 crores in the previous year. Not only were employees paid one month's wages and salaries in commemoration of the silver jubilee, but an additional Rs 1.30 crores were provided for payment in terms of settlement with the labour and staff over the question of their demands dating back to March 1969. A few years ago, there had been serious labour trouble at NRC leading to violence. The new management, which stepped in by making various promises to shareholders, has evidently sought to win over the employees by offering them liberal terms. In spite of reduced earnings, an extra 8 per cent is being paid to the shareholders by way of jubilee bonus, making a total of 40 per cent which is in fact short earned.

Kasturbhai Lalbhai, who had been a director right from the company's inception and chairman for nearly 20 years, resigned from the board; so did Krishnaraj M D Thackersey, who had been a director for about 16 years. Maharawal Jaideepsingh of Baria, who had been elected director at the last annual meeting, resigned in February. Sanat P Mehta, a tax consultant, was co-opted as a director at the instance of the financial institutions. P V Raghavendra Rao, a retired I C S, ex-Defence Secretary of the Government of India, and a nominee of ICICI, was co-opted as a special director. C G Mahant has been taken back as General Manager (Administration) from September 23, 1971. R Rajagopalan, a financial management consultant, who was commissioned to go into the set-up of financial administration, has submitted his report. Kirloskar Consultants has been appointed to go into the question of providing a well-knit organisational set-up for the company with a view to 'facing new challenges and achieving better results'. The selling agency of Chemicals and Machinery for sale of chemicals in the Bombay area was terminated in July 1971. Some shareholders served notice on the company to take steps to recover the amount alleged to have been lost in past years due to the negligence of the persons then in management. The Board has written to the then managing agents, *viz*, Chinai and Company, and is awaiting their comments. Most of the ICICI loans to the company have been guaranteed by Bank of Baroda on the basis of counter-guarantee given by Chinai and Company. After termination of the managing agency from January 1, 1970, Chinai and Company asked to be relieved of this responsibility and until then requested to be paid a commission at one per cent per annum of the loans outstanding. The Board is taking steps to give alternative counter-guarantees to bankers and, in the mean time, has agreed to pay commission from January 1970.

Last year, the company paid over Rs 13 lakhs towards the first instalment of knowhow and other fees to Chemtex Fibers and over Rs one lakh to Chemtex Engineering of India in terms of agreements for collaboration in the nylon yarn project. The application to ICICI for a loan of the foreign exchange needed to import plant and equipment is, however, still being considered. The pulp project, proposed to be set up in Himachal Pradesh, has been abandoned, as it was found that soft wood to be made available in that state permitted only a much smaller capacity of plant which would increase the unit cost of the product. Two other factors influenced the Board's decision, *viz*, that two other pulp-manufacturing plants would soon be in operation in India, and that the company needed its finances for projects already in hand.

CAMPHOR AND ALLIED PRODUCTS expects to complete shortly the terpene chemical project at Bareilly for a majority of the items, on receipt of the imported equipments. Work on collection of data and pilot plant trials on terpene resins and paramenthane hydroperoxide are in progress. The plant should be in operation by the third quarter of next year. The commissioning of the Baroda Research Centre, scheduled for the end of June, is likely to be delayed by three months. During the 11th year to December last, CAP raised production of camphor from 636 to 790 tonnes. Output and sale of new chemicals also increased. Turnover expanded by 17 per cent to Rs 295 lakhs and, in line, gross profit advanced from Rs 68 lakhs to Rs 80 lakhs. With the net profit over 50 per cent better than last year's, cover for the dividend, stepped up 3 points to 15 per cent, increased from 2.85 times to 3.11 times.

AMAR DYE-CHEM experienced a sharp setback during 1971 owing to an "unprecedented crisis in the textile mills and stringent monetary conditions", which forced it to reduce prices of many products. While net sales were 10 per cent down at Rs 7.68 crores, gross profit slumped by 37 per cent to Rs 1.43 crores. Net profit was halved at Rs 42 lakhs, and the dividend reduced by 2 points to 12 per cent was covered less than 1.6 times against over three times last year. The equipment for doubling capacity of the beta naphthol plant to 2,000 tonnes has been installed and the expanded capacity is to operate soon. Pilot plant trials of most of the important items of vat dyes have been completed and those of intermediates would be over by the second half of this year. The building work will start after the monsoon. Government has modified the terms of the technical collaboration for the rubber chemicals project, proposing a "far greater amount of export obligation" than proposed by the company. Further steps would be taken only after the views of the prospective collaborators are known in this matter. Capacity of the plant of the subsidiary, KCA, has been expanded.

GUEST KEEN WILLIAMS' latest results confirm and consolidate the company's 1970 achievement and its recovery from the 1967-68 setback. While the company's working in 1970 was affected by a two-month lock-out at the Andul Road works and by persistent shortages of raw materials and essential stores, improved labour relations and better availability of supplies en-

abled the company to achieve new output records in many of its product lines. Price levels previously secured were generally maintained for the full year and in some cases raised to cover increased costs, particularly of raw materials. These factors combined to give GKW a sales increase of 25 per cent to Rs 53.11 crores, accompanied by a profit increase of near 23 per cent to Rs 10.52 crores. With the tax liability taking away a much bigger chunk, however, the gap at the 'net' level is narrowed. The cover for the dividend, uplifted 4 points to 20 per cent, is still 2.39 times (2.63 times). The directors point out that, although in some product lines there is scope for further volume increase within licensed capacity and available markets, on certain major lines either capacity is now fully utilised or the market shows signs of levelling off. "It is therefore unlikely that the rate of turnover increase of the last two years can be maintained", they add. Exports of GKW's products, at Rs 56 lakhs, fell below the target as well as below the 1970 level of Rs 77 lakhs. The company's application for issue of a free scrip, on a one-for-two basis, is pending with government. Also pending is its application for purchase of 1,77,800 equity shares of Rs 10 each in Sankey Wheels at Rs 6.88 per share from Commonwealth Development Finance Company of the UK.

RATHI ALLOYS AND STEEL has an industrial licence for setting up a plant for manufacture of mild steel, high carbon steel and alloy steel billets with an installed capacity of 40,000 tonnes per annum. Two 10-tonne electric arc furnaces have been commissioned. The company is making a public issue 2.70 lakh equity shares of Rs 10 each, and 10,000 9.5 per cent redeemable cumulative preference shares of Rs 100 each, to raise part of the finance required for the expansion estimated to cost about Rs 1.74 crores. The public issue of Rs 37 lakhs apart, promoters have subscribed Rs 15 lakhs to the share capital. Of the balance requirement of finance, nearly Rs 21 lakhs will be met from internal resources and Rs 101 lakhs by way of loans from IFCI, ICICI and IDBI. The entire public issue is fully underwritten by financial institutions and stock-brokers. The cogging mill has already arrived at site, and import licence for the continuous casting plant to be imported from Switzerland has been cleared. With the installation of this plant, molten steel will be directly transformed into billets, thereby eliminating the intermediate stage of ingot casting and reducing the cost of production. An order for an oxygen plant has been placed with Indian Oxygen who will install and commission the plant by the end of 1972. The first furnace of RAS commenced production in September 1971, and sales upto March amounted to Rs 80 lakhs. The second furnace was commissioned recently. Total sales in the first year of production are expected to be around Rs 150 lakhs. The management expects sales for the year to June 1973 to be in the vicinity of Rs 350 lakhs and to rise gradually to Rs 600 lakhs in 1975-76. Pre-tax profits for these years should go up, from Rs 55 lakhs to Rs 155 lakhs. A maiden dividend of not less than 10 per cent on equity is indicated for 1972-73, and at enhanced rates in the future years. The subscribers to the present issue of capital will participate in the dividend from the first year of their investment.

The Week's Companies (Rs in Lakhs)

	National Rayon		Camphor and Allied		Amar Dye-Chem		GKW	
	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 1-1-72	Last Year 1-1-71
Paid-up capital	495	495	70	70	165	165	632	632
Reserves	757	640	107	83	196	173	1525	1288
Borrowings	467	368	95	97	287	185	619	641
of which Term borrowings	314	300	70	70	37	41	610	632
Gross fixed assets	3016	2894	259	230	741	648	2513	2461
Net fixed assets	1992	1855	198	178	271	259	1346	1381
Investments	30	30	—	—	33	—	38	36
Current liabilities	552	247	62	67	235	294	1423	1185
Current assets	916	779	134	137	580	559	2816	2329
Stocks	698	581	67	60	270	261	1426	1134
Book debts	173	117	60	57	297	287	847	706
Net sales	2184	2061	295	252	768	853	5311	4259
Other income	14	14	2	3	19	12	76	88
Raw material costs	545	498	114	92	343	383	2426	2015
Wages	518	331	30	23	94	84	760	634
Interest	27	35	11	10	26	17	40	50
Gross profit(+)/loss(—)	483	570	80	68	143	226	1052	857
Depreciation provision	137	128	10	8	69	65	115	122
Tax provision	200	260	37	39	32	78	629	466
Net profit(+)/loss(—)	146	182	33	21	42	83	308	269
Development rebate provision	14	13	4	—	13	20	5	3
Transfer to reserves	—6	57	19	13	10	41	176	165
Dividend								
Amount	P 10	P 10	P 1	P 1	P 2	P 2		
Rate (per cent)	E 128	E 102	E 9	E 7	E 17	E 20	126	101
	P 5.50	P 5.50	P 9.23	P 9.23	P 8.57	P 8.57	20	16
	E 40	E 32	E 15	E 12	E 14	E 14		
Cover (times)	0.90	1.56	3.11	2.85	1.59	3.05	2.39	2.63
Ratios (per cent)								
Gross profit/sales	22.11	27.65	27.12	27.00	18.62	26.49	19.81	20.12
Net profit/capital employed	8.49	12.11	12.13	8.40	6.48	15.87	11.09	10.50
Inventories/sales	31.96	28.19	22.71	23.81	35.16	30.60	26.85	26.62
Wages/sales	23.72	16.06	10.17	9.12	12.24	9.85	14.31	14.88

NEW DELHI

Debt Relief for Public Sector

THE suggestion in the budget for 1972-73 that there will be an improvement in the contribution of public sector enterprises to Plan resources is to a degree fictitious. Much of the improvement is to come about through an accounting trick rather than as a result of any real improvement in the performance or profitability of these enterprises. The device is simply to increase the proportion of these enterprises' equity compared to their borrowings from the government.

The managements of public sector undertakings, specially those making losses, have been complaining for long that they have been saddled with large loans on which they are required to pay interest charges. This was said in particular about expenditure incurred on townships and treated as part of the capital cost of the projects. The proposal put forward was that such expenditure should be treated separately and accounted for as normal revenue expenditure of the government. Even the upkeep of the townships, it was suggested, should be treated in the same manner. Alternatively, the responsibility for upkeep should be shifted to state governments on par with normal municipal maintenance of towns.

The proposal as put forward has not been accepted, but its substance has been conceded. Precious little has been done about the conversion into equity of loans advanced by public financial institutions to private sector companies, despite all the public debate on the subject. But oddly enough the device has been used to deal with the problem posed by the public sector enterprises. It has been decided to finance the township costs of public sector undertaking wholly by way of equity. This has resulted in the conversion into equity of sizeable proportions of loans granted in the past to these undertakings. Since the undertakings in question do not make profits, in effect it means that the loans have been made interest free and to that extent the balance-sheets of these undertakings may be expected to look better than in the past.

The scope of the decision to convert past loans into equity does not appear to be confined to township costs only. It is now suggested that in future equity will play a larger role in the financing of the bigger public sector projects now under construction or those proposed to be taken up. Thus Bokaro Steel's authorised capital has been increased by Rs 100 crores — from Rs 500 crores to Rs 600 crores — and this has been fully subscribed to. This resulted in an increase of Rs 100 crores in the provision for the project in the revised estimates for 1971-72.

In the case of Heavy Engineering Corporation, Ranchi, out of a total of Rs 145.75 crores granted as loan till March 1971, Rs 59 crores have been converted into equity. The whole of the Rs 59 crores does not represent expenditure on township; the major part of it represents regular expenditure on the project proper. Similar accommodation in the form of equity, though on a smaller scale, has been given to Hindustan Steel. The central government's share in the equity capital of Mysore Iron and Steel Works has been increased to 40 per cent, necessitating conversion of Rs 11.23 crores of past loans into equity. The total conversion of loans into equity during the last year adds upto Rs 212 crores. All of this amount certainly does not pertain to township costs. It represents simply a decision to widen the equity base of public sector undertakings.

According to the estimates for 1972-73, the contribution of public enterprises under the central government to Plan resources will be Rs 138 crores as against Rs 70 crores in 1970-71 and Rs 111 crores in 1971-72. In the annual plan for the current year this is attributed to increased production and improved operational efficiency of many of the enterprises. This explanation is clearly misleading since it does not take into account the large scale debt relief granted to these undertakings last year. The loss of interest income to the public exchequer on this account would appear to wipe out most of the increase in the surplus that is expected; indeed the net accretion to Plan resources may eventually turn out to be negative. Even the nominal increase expected in the contribution to Plan resources would appear to be doubtful, considering the actual performance of the larger among the public sector undertakings such as HSL, HEC and FCI. The fact that steel producers — HSL as well as TISCO — have jointly pressed for an increase of as much as Rs 100 per tonne in steel prices to cover rise in costs and the production and cost trends in the case of FCI provide little room for hope that they will yield larger returns in the current year.

The provision for loans and advances to industrial and commercial undertakings in the 1972-73 budget shows an increase of about Rs 83 crores over that in the last budget. The total of Rs 385 crores provided for the purpose includes Rs 325 crores for financing fixed capital and Rs 48 crores for meeting working capital requirements. What is likely is that there might be shortfalls in the utilisation of the provision for fixed capital while working capital requirements are likely to go up. The revised estimates for 1971-72 show that a provision of Rs 40.38 crores in plan expenditure on Bokaro, FCI, ONGC and HMT remained unspent. But the non-plan provision under this head was exceeded by Rs 59 crores to make up for shortfalls in internal resources — that is, to make up for the larger than anticipated current losses of several of the undertakings, among them HSL (which accounted for Rs 17 crores), Neyveli Lignite Corporation (Rs 8.36 crores) and Heavy Electricals (Rs 7.22 crores). The grand total of dividends or profits received by the government from its commercial and industrial undertakings (other than those run departmentally) amounted to Rs 11.76 crores in 1970-71 and is expected to be Rs 14.42 crores in the last year and Rs 16.07 crores in the current year. The cental government's investment in these undertakings, which amounted to Rs 2,253 crores in 1970-71, is estimated to go up to Rs 2,930 crores at the end of the current year.

Pointing to the large shortfall in the contributions from public undertakings assumed for Plan resources, the Mid-Term Appraisal of the Fourth Plan had spoken of the urgent need for taking effective steps to improve operational efficiency and utilisation of capacity. Instead what the government has done is to make accounting concessions which will achieve some window-dressing of the accounts of these companies. This is hardly to prod public sector managements towards greater efficiency, but might actually make for greater complacency.

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Short-term political considerations continue to weigh heavily on the thinking on economic policy in the govern-

ment. As a result, official pronouncements either take the form of vague generalisations or emphasise wholly desirable long-term objectives while skirting the immediate steps to be taken which would eventually lead to the achievement of these objectives. This approach has for quite some time marked the management of the economy; now it is beginning to manifest itself also in the government's thinking on the country's external economic relations and issues relating to economic aid.

It is very much in this manner that the Planning Commissions's document "Towards an Approach to the Fifth Plan" considers the question of foreign aid and the objective of self-reliance. The objective set in the Fourth Plan which was to reduce, by the end of the Plan, net aid to half the level at the beginning of the Plan. In the present document, after stating the objective, the emphasis shifts to what is termed "international economic policy". It is pointed out that net aid which was Rs 701 crores (Rs 472 crores excluding food aid) in 1965-66 had come down to Rs 328 crores in 1971-72 (Rs 202 crores excluding food aid). This declining trend in net aid appears to be at the basis of the Planning Commission's confidence about being able to do without net aid by the end of the Fifth Plan. All this, it needs to be pointed out, is in marked contrast to the conclusions of the Mid-Term Appraisal of the Fourth Plan which had suggested that the Plan would actually need larger foreign aid than had been postulated at the time of its formulation.

After mentioning the prospect of reducing net aid to zero by the end of the Fifth Plan, the Planning Commission goes on to add that self-reliance should not mean merely reduction in the inflow of foreign aid. Instead, it should mean primarily that the Indian economy's dependence on aid would cease to be such as to make it vulnerable to suspension or reduction of aid flows. Second, the emphasis should be on phasing out aid from countries and institutions whose aid is of the "hard type", either because the financial terms of aid are onerous or because the political framework within which aid is provided is unacceptable . The elimination of net aid can be, therefore, consistent with the elimination of gross aid on a "selective basis" and with "a spectrum of relationships with various types of lenders". Thus, in respect of the international institutions, we may decide, as a matter of policy, to stop borrowing on hard terms from the World Bank and continue to abstain from taking loans from the Asian Development Bank but borrow from IDA on soft terms. As for bilateral aid, it is suggested, we may continue to accept aid from countries such as Canada and the UK; on the other hand, we may adopt a policy of early phasing out of bilateral aid from the US, even though the financial terms of US aid are soft. We may also phase out bilateral aid from such countries as Italy, France and Japan and even some East European countries because their financial terms are relatively hard.

The *Planning Commission*, however, admits that while the balance of payments projections need to take into account only the net inflow of resources by way of aid, in actual practice it is gross aid which is negotiated or given up. For, lenders are not obliged to provide gross aid equal to repayments due. In fact, in certain cases where net aid is at present negative, the Planning Commission's approach will even imply our seeking larger gross aid. However, to the extent debt rescheduling is available, the requirements of gross aid can be reduced. It is therefore suggested that we should emphasise debt relief more and more as the preferred form of aid.

ENVIRONMENTAL PLANNING

What a Committee Can't Do

ON April 12, the Prime Minister inaugurated the first meeting of the newly formed National Committee on Environmental Planning. The Committee consists of 14 experts from various fields — science, technology, economics, and management. Of the 14 experts, nine are government officials who head various Central government departments. The composition of the Committee might, therefore, prove a major drawback in the formulation of policies, since the officers may be inclined — being already committed to their own departments — to guard their departmental interests to the full and thwart any incursions on their premises'.

But that is not all. The terms of reference of the Committee are wide-ranging even as the Committee's role is advisory. These include: identifying and investigating the problems of preserving or improving the human environment in the context of population growth and its distribution and economic development; reviewing policies and programmes which have a significant bearing on the quality of the environment and advising government, public authorities and industry on the environmental repercussions of their acts; reviewing existing legislation, regulation, and administrative machinery for environmental management; proposing cost-effective solutions for environmental problems; ensuring that environmental policies and measures are coordinated with economic policies and measures and the results of environmental investigations and research are fully utilised in the wider framework of planning for economic and social development; promoting research in environmental problems and establishing facilities for such research wherever necessary; promoting and strengthening environmental education at various levels in the educational system; promoting and enlarging public awareness of environmental problems through conferences, seminars, symposia or any other means; and co-operating with UN and other international agencies in environmental programmes of global concern, etc. These are enormous responsibilities — far beyond the possible capability of any high-powered committee.

For, a major portion of the environmental problems in India today — whether urban or rural — are such as emanate from the fundamental problem of poverty, not from lack of 'environmental' planning. In the rural areas these comprise lack of drinking water, non-optimal utilisation of arable land and non-conservation of natural resources. In the urban areas they comprise grossly inadequate sewage disposal and sanitation, inadequate water supply and water treatment, urban crowding and 'bustees'. Where will the Committee start, and how will it define its priorities? To be effective in an impoverished environment of such dimensions, it will have to be define its goals and tasks in more limited ways. Its prospects will depend on how, in the existing circumstances, it sets its priorities and scope of action: does it plan to formulate a strategy for reorganising services such as water supply, water treatment, sewage disposal, sanitation, etc, or does it spend large resources on managing industrial and radioactive wastes, planning rapid urban transportation and superfine highways, as do similar bodies in the affluent world? The Committee will be judged by its performance and its ability to deliver specific, though limited, goods — than by its capability to produce voluminous professional reports.

Untoppled Statues

THE DMK's penchant for statues has by now become a well-worn joke. But that has not caused any change in the party's governing style. Statues have a permanent visual impact. In a more immediate sense, they also provide occasion, at unveiling ceremonies, for a reiteration of the ruling party's commitment to Tamil culture, often against heavy odds.

Take, for instance, the case of the statue of Rajaraja Chola. The Tamil Nadu government wanted it located inside the temple built by the emperor in Tanjore. The Centre, under whose archaeological supervision the temple falls, refused to allow this on aesthetic grounds. The state government, with complete faith in its own cinematic standard of taste, protested — but in vain. Finally, the statue was installed outside the gateway of the temple area, and was duly unveiled by the Chief Minister on the Tamil New Year's Day. Speeches on the occasion were of course marked by indignation at the failure of the Centre to appreciate local sentiments. Karunanidhi himself did not dwell on this theme; but to even out honours, he announced that a statue of the Pandya king who had inspired the Madurai Meenakshi temple was scheduled for installation — inside that temple. For this is a case in which the Centre has no say. The Madurai temple being centuries younger than the Tanjore one, seemingly requires no protection from Delhi.

Part of a Wider Programme

Karunanidhi also used the Chola platform to digress on the fascinating subject of statues. He denied the allegation that setting up statues constituted the sole preoccupation of his government — it was only a part of a wider programme. For did not he and his ministers declare open other things — hospitals, schools and the like? And was the record of previous governments entirely statue-free? To drive this point home, the Chief Minister actually came out with a census of statues in Madras city. Only 12 of these statues, he reported, owed their existence to his government, while the balance of 33 were installed during earlier regimes. What he failed to note was that 12 out of 45 makes an excellent score, particularly since it has been achieved in the short span of five years. More than half the non-DMK statues in Madras date back to the British days, starting from the governorship of Sir Thomas Munro. The truer anti-climax, however, came just two days after the Tanjore event, when Karunanidhi unveiled yet another statue — this time of Anna at Madurai.

Despite such diversions, an air of listlessness hangs over Tamil Nadu — an outcome of the onset of boiling summer and the various non-developments that have quite taken the fizzle out of political speculation. Not so many weeks ago, the mood was different. Rumours were thick that a rapprochement between Kamaraj and Indira was all but accomplished. And then, of course, 'toppling' would naturally have to follow. It was only a question of choosing the precise manner and time. The singular majority of the ruling party in the legislature and its structural strength were ignored in a simple, personalised analysis: certainly, 'she' was not going to allow this government to go on for long, and had 'she' not found 'her' Achilles' heel? So strongly did this mood take hold that in some of his more routine public appearances in Madras, Karunanidhi was met, not with the sort of ovation that an idol of the masses would expect, but with greetings of a distinctly valedictory flavour.

Such a state of affairs could naturally not be allowed to continue. Then followed some special 'functions', arranged to shower felicitations and praise on the Chief Minister for his many achievements, including his no longer new doctorate. These have not been entirely without interest. A certain well known non-political figure, reportedly aspiring for a high academic post, was prominent at many of these gatherings. And, on one occasion, he literally sang the praises of the Chief Minister — in chaste Tamil verse.

All the same, Karunanidhi's position is by no means overly comfortable. Rumours of his exit could never have reached the proportions they did without help from inside his party, where more than one dissenting element is reportedly gaining strength. The autonomy issue is the only means immediately available to Karunanidhi to ward off threats to his leadership from inside. But if it is overplayed, there is the danger of threats from outside. Just how real these external threats are is difficult to gauge on account of the Prime Minister's cool and continued silence about developments in Tamil Nadu. But it is a safe bet that she will not stand too much autonomy talk.

Own Form of Brinkmanship

So Karunanidhi has perforce to devise his own form of brinkmanship, launching an autonomy crusade to sustain the loyalty of his colleagues, without allowing it to assume the complexion of sedition in the eyes of the Prime Minister. This is not going to be easy. Already, the Chief Minister seems to have been disturbed by the Bangladesh analogy and the martial metaphors employed by the more fiery orators in the eloquent DMK ranks. His reaction was simple: an outright denial that such things were at all said! In his own statements, he is always careful to work in the wider theme of Indian unity in some manner, however indirect. For instance, unveiling the Chola statue at Tanjore, he likened the 'sanctity' of the occasion to that of the Independence and Republic Days. His references to 'autonomy' are invariably ambiguous. His press, while mounting a tirade against C Subramaniam and Mohan Kumaramangalam, is always respectful, even deferential, in its references to 'Indira Amayar'.

But how long can such a stance be maintained? Not a very relevant question, since in politics the 'long run' has no place. Karunanidhi can safeguard his immediate future only through this ambivalent advocacy of patriotic autonomy. It suits Indira Gandhi to allow him to play at this game. For in this way she can be sure that she has the Tamil Nadu situation in check — again, for the immediate future.

WEST BENGAL

New Crusades

WHILE the mopping up operations in the crusade against the Left in West Bengal are going full steam ahead, nemesis is slowly but steadily overtaking the crusaders. Before the first month of the new Congress Ministry was out, internecine clashes among Congress youth brigades in the district town of Krishnagar had developed into a large-scale bloodbath, necessitating the clamping down of an 18-hour curfew on the town.

Even a considerably toned down report in a pro-Congress newspaper throws a flood of light on the tensions and tussles within the rejuvenated Congress, which had led to the outburst of violence. Wrote *Hindustan Standard*:

"An 18-hour curfew ending at 6 A M on Tuesday [April 18] was clamped down on Krishnagar on Monday noon as violence continued to rock the town.

"On Monday, two young men — Gouri Dutta and Dipak Mazumdar — stated to be members of the 'disbanded' Yuba Congress were stabbed. This was said to be a sequel to the Sunday's incident in which Mantu Das was killed and six others received gun-shot wounds. The seven reportedly belonged to a rival group of the Congress.

"The Food Minister, Mr Kashi Kanta Moitra, and the Minister of State for Relief, Mr Anand Mohan Biswas, both local MLAs, have rushed to the spot to help bring the situation under control.

"Reports received at the State Government headquarters indicated that the two warring groups were supporters of the two Ministers."

Congress Power Struggle

As the newspaper report indicates, the tragic incidents were a sequel to the power struggle between two rival factions of the local Youth Congress, owing allegiance to two ministers of the Ray cabinet hailing from the district. One of the factions, enjoying the patronage of the state leadership of the organisation, had the existing district unit dominated by its rivals dissolved. This led to the eruption of violence in the next round.

Krishnagar is not an isolated case of group rivalry in the Youth wing of the Congress. Leaderships of a number of Youth Congress and Chhatra Parishad units, including units in Calcutta, have been either totally dissolved or partly reconstituted. A spokesman of the Youth Congress State leadership justified these organisational measures on the ground that "some leaders of the parent Congress body had been successful in 'breeding factionalism' in the youth wing of the party" and that sections of the present youth Congress leaderships "were meddling in the affairs of the parent [Congress] body in the districts". In other words, group rivalries in the youth wings have become fused with and are being utilised for power struggles in the state Congress.

The central fact of intense intra-party manoeuvrings for control over the state Congress and the Ministry has become so transparent that a friendly journalist on a Calcutta newspaper has been constrained to remark:

> "Too many people are talking at cross-purposes and creating an impression that the party lacks a central direction, that there is no command on the state level acceptable to all. A party whose constituents are pulling in contrary directions cannot expect to act firm and public avowal of such differences helps its opponents only. Such controversies are bound to impair the administration in the long run and prove once again that stability alone cannot make for purposeful governance."

Qualified Amnesty?

Against this background of rising factional tensions within the ruling party, the presence of armed squads and the danger of their deployment in internal power struggles have been causing grave concern to the party and government leaders. Press briefings, often contradictory, by different spokesmen not only reveal the conflicting pulls within the party but also shed interesting light on the Congress's trek back to power in this state. For instance, while the General Secretary of the State Youth Congress has publicly assured that his organisation "would see to it that persons who would surrender arms, except for those wanted by the police, were not harassed by the Government", a top leader of the Chhatra Parishad who also happens to be a minister in the Home Department has repudiated the suggestion of a qualified amnesty. He has stated that as these possessors of illegal arms could not be regarded as freedom fighters there should be no question of *surrender* of arms by them; arms had to be *retrieved* from them. Both the Youth Congress and Chhatra Parishad leaders have, however, confirmed that "the police hesitated to take action against them as they took part in different types of agitation as members of the Congress, carrying flags of the party". Indeed, the Home Minister said that the police had supplied him with a list of 400 such undesirable persons in the city of Calcutta alone, most of them with criminal charges against them, operating from within the ruling party. He said that he had passed instructions for their expulsion from the organisation and arrest by the police. Some Congress factions believe that these measures are directed against them.

Besides the strictly internal problems of the Congress arising from the presence of hostile armed elements within its organisational periphery, the high-handed and violent actions of the youth wings affecting the wider public have antagonised segments of society which are either indifferent to or appreciative of the Congress party's Left-baiting activities. Actions like the continuous gheraos in the Calcutta University, beating of the Chief Medical Officer and attendants of a suburban hospital, forcible occupation of Sealdah Railway station's traffic control cabin to hold up the movement of trains, etc, etc, have drawn guarded criticisms from the establishment newspapers which have maintained a studied silence about the year-long violence against CPI(M).

Even the Congress's partner in the ruling alliance, CPI, is getting somewhat uneasy. It is reported that there were expressions of alarm voiced by a section of the party's trade union cadres, recently assembled in a conclave, over the growingly aggressive attitude of their Congress allies in the trade union field.

DACCA

The Greed of the Few and the Misery of the Many

WHEN the Sheikh first returned to Dacca, there was clearly a power vacuum. The thin crust of Calcutta-returned Awami Leaguers depended, in the first instance, upon the Indian military administraion for whatever civil effectiveness it might have. The old administrative machine was either in ruins or so hopelessly identified with the *ancien regime* as to be useless.

However, in a brief four months, all that has changed. Whole ranks of new men are emerging, by merit, vehemence or sheer force. Some have moved in to take over businesses and property abandoned by West Pakistani owners, either directly or as administrators of nationalised enterprises. Others have absorbed land or shops belonging to luckless refugees or to anyone who can be accused of being a 'Bihari'. Yet others, higher up the new social order, have become army officers, admirals, ambassadors. One thing the regime is not short on are epaulettes. And then there are all the leading positions in the civil service, the police, the State corporations, the post office, and so on. In no time at all, the ingenious Awami League had managed to run up a passable ruling class, a bit frayed at the edges perhaps but set fair to being as credible as most.

Yet a pork barrel is a tricky way to create ruling classes. It makes for great jealousies and rivalries among the favoured few, something the very leading figures of the regime might not dislike. But also it emphasises the gap between those who get the rewards and those who do not. In Bangladesh there has been precious little with which to reward a whole mass of young people who did actually do some fighting and have relinquished neither their arms nor their unreasonable idealism.

For Mujibur Rahman, tolerating a certain measure of corruption (with occasional well publicised purges) is perhaps the only means available of keeping some friends in most unpromising circumstances. But keeping a few friends again only spotlights those who are not friends. For the non-friends he needs some Leftishness, rhetorical, flamboyant and—in his own inimitable style—redolent with warmth and generosity. And for those tempted not to be friends, the stick.

He promises workers' participation (that hoary stand-by of politicians in a fix). And tries to suggest banning strikes and gheraos, proposes a wage freeze and curbs to fringe benefits. He proclaims his passionate commitment to democracy, and tries to enforce a rule in his tame Constituent Assembly that no Awami Leaguer may advance publicly a proposal unless sanctioned beforehand by the secret party meeting; and if a member criticises the party in the Assembly, he is liable to expulsion from the party; if expelled, he should automatically lose his Assembly seat.

Mujib wants his party dogs tame. Yet despite the cosseting with rewards, th dogs still snap and snarl most churlishly. It is rumoured that Mujib has already had to threaten to dissolve the Assembly — a rather Samson-like gesture—as a curb on the impatience of his followers.

Treading on Thin Ice

Yet Mujib also must tread with great care. The ice is thin. The irritability of his followers is not unrelated to the enormous expectations at large, the hunger and unemployment spead through the country. Things *are* looking better—factories are operating at 50-60 per cent of capacity, the spring crop may not be reduced as much as feared, Indian grants and commodity supplies are beginning to ease bottlenecks. But still much of the distribution network remains in ruins, and much of the factory output merely piles up in the warehouses for want of transport and market. The smuggling of grain out of the country and hoarding exacerbate matters, and have helped to produce a very rapid rise in the price of essential commodities.

Strikes and demonstrations around the country show where the scarcities are biting. They also show that people are no longer willing to accept warm promises in lieu of bread. One result of the events of the past year has been a much heightened political awareness. Nobody could accuse the Bengali middle class of docility even before, but now their willingness to react is much increased, and connects directly with the activism of other classes. More to the point, some of the most active, energetic and idealistic of the young people retain their guns.

Fragmented Opposition

Mujib flounders between the greed of some of his followers and the misery of much of his people. He has no alternative base of power at the moment. His armed forces are too subverted by the ideals of the liberation struggle to turn their guns on a popular opposition. His police are too few. Perhaps the Sheikh waits anxiously for the return of those Bengalis who worked in West Pakistan for the military. They could provide a reliable and orthodox 'steel frame' for the new order.

In the meantime, there has to be a show of willingness to accede to popular demands. The ceiling on land holdings perhaps comes in this category. No family may own more than 100 bighas of land, the same limit, incidentally, that was included in the Muslim League Abolition of Zamindari Act of 1950. But the Sheikh said nothing on the most notorious abuse, share cropping. Indeed, some people argue that the measure will have no effect whatsoever on many areas. The landlords of the Awami League may rejoice to know that Allah has not deserted them in their hour of need.

One important factor on the side of the Sheikh is the confusion and fragmentation of the opposition. Mujib may be a Kerensky for some, but fortunately for him, there are no Bolsheviks waiting in the wings. The Left has learnt only a few lessons in the past year, and some have learnt nothing. Most of the revolutionary Left remains nailed to the cross of rural guerilla warfare, the other side of which is orthodox Parliamentary politics. Few are trying with any urgency to organise the angry workers of the cities. Yet in a year's time, Mujib's regime could be much stronger, much more firmly founded in the districts, no longer a teetering Weimar Republic.

The stronger the Sheikh becomes, the more likely it will be that—as one Dacca newspaper alleges—he will use the section of the Mujib Bahini he has retained in arms to liquidate the Left. No doubt, at the same time, he will nationalise something or other, recognise North Korea, denounce the Vietnam war, and ask the pro-Moscow Communists to join his Cabinet. The recipe—the lathi and Left wing gestures—has cooked a good few geese in Ceylon, West Pakistan and India; so it might still be serviceable in Bangladesh.

Musings before Murree

(Contributed)

THERE has been a great deal of euphoric writing both in the Indian press and, more understandably, in the foreign press about the need for India to open a meaningful dialogue with Bhutto on the ground, among other things, that Bhutto represents the best bet towards stability in Pakistan and that stability in Pakistan means stability in Indo-Pakistan relations and, therefore, stability in the subcontinent. Even granted that Bhutto, unlike the leopard, has changed his spots and that India is no longer his thousand-year *bete noire* and that Bhutto, for his own reasons, wishes to change course from a policy of confrontation to a policy of negotiated peace, how valid are the assumptions that such a negotiated peace will make for stability in Pakistan or, even more, that stability in Pakistan is necessarily good for India?

Will a negotiated peace make for Bhutto's continuance in power? The pressure on Bhutto to seek a settlement with India, we know, comes from his imperative need to work out some arrangement whereby the prisoners of war are repatriated to Pakistan — there presumably to be regrouped into the four divisions that they represented before the surrender in Dacca last December. Clearly, the repatriation of the POWs cannot be a unilateral act despite

Bhutto's appeal to Indian generosity. It has to be part of a wider package settlement including items like Pakistan's acceptance of Bangladesh, the possible conversion of the Kashmir cease-fire line into an international frontier (with suitable adjustments) and a concrete indication of Pakistan's desire to live in peace with us. The past record of dealing with Pakistan is not encouraging. Our post-Tashkent experience is not happy. Then too, as now, Pakistan had an *idee fixé, viz,* vacation by Indian troops of the areas they occupied in Pakistan and once that was achieved, Pakistan went back on virtually every single aspect of the Tashkent accord. And the chief wrecker of Tashkent is today's President of Pakistan. Bhutto cannot expect us to be the victims of a second confidence trick.

Bhutto's behaviour indeed reflects his schizophrenia. He needs a settlement with India to get his prisoners back and stay in power. He also is a prisoner of his own past and cannot accept an overall settlement with India without appearing to sell out to India. Hence his contrary postures of seeking co-operation with India on the one hand and offering to build the Pakistan army into the "finest fighting machine in Asia" on the other. To fight whom else but India?

This offer to the army and the overhauling of the entire military top brass is part of the tenuous relationship between Bhutto and the armed forces. Each depends on the other for its rehabilitation and support.

Alternatives to Bhutto

What indeed are the alternatives to Bhutto? The military? Why should we imagine that the people of Pakistan who have been so thoroughly disillusioned by the performance of their erstwhile army rulers would welcome a change, back from Bhutto to military rule if he were to fail to deliver the goods — in this case the prisoners? Even assuming the army did sweep back into power in Pakistan through *force majeure,* would the army be able to have any credibility with the people unlike the previous occasions when the army was either replacing a civilian government known to be corrupt or appeared as a saviour following widespread political and economic discontent? And this time the army would be seen as killing the renewed experiment of civilian rule.

Let us ponder and see what would happen if Bhutto were, in fact, to be toppled by the army. For some time, to be sure, the army would rule with an iron hand but would be sowing the seeds of further dissension within what is left of Pakistan. What of the other political parties? Bhutto's party is clearly in a majority but this is, it must be remembered, a localised majority. Even as his party has the overwhelming support of Punjab and Sind, it is weak in the Frontier and Baluchistan and the NAP-JUI stand in the same relationship to the PPP as the PPP did to the Awami League in the December 1970 elections. If Bhutto worked in the spring of 1971 to exercise a veto over any constitutional settlement with Mujib on the ground of being the spokesman for West Pakistan, so too could Wali Khan claim the veto in relation to Bhutto's party, especially as his party is not a mere opposition party but a regional majority party. The only guarantee for stability in Pakistan is thus a democracy federal set-up wherein not merely are the people free to decide their future and the pattern of their governance but equally the constituent units of the country feel they have a stake in that future. Even as in the former Pakistan the people of the erstwhile East Pakistan felt themselves to be second-class citizens and resented deeply the hegemony of the West Pakistanis, so too in the rump that is Pakistan the people of the Frontier and Baluchistan would not like being treated as second-class citizens and, with a tradition of rebellion and a trigger-happiness which the East Bengalis did not have, the point of conflagration would come much sooner. Let us remember that the Pakhtoonistan movement has a much longer history than that of an independent Bangladesh and Afghanistan has long felt a deep sympathy towards the aspirations of the Pathans and the Baluchis. If Pakistan chooses not to be a federal democratic republic but a unitary authoritarian state, the warning is clear. The continuance of Bhutto with army support as now or army rule, in turn, may have the facade of stability but would be the surest recipe for mounting instability.

Of Advantage to India

Another way of looking at this problem for an Indian is why we should imagine that an unstable Pakistan is necessarily to the detriment of India? An unstable Pakistan, constantly at odds with itself, might have enough on its own hands not to seek external adventure. One can perceive that this argument can be controverted on the ground that precisely because of such domestic discord an external enemy might be a unifying bond. This failed to be the case last December and is unlikely to be so again, especially as the Pathans and the Baluchis, unlike the Punjabis, do not have, either for Afghanistan or for India, any deep resentment. Memories are proverbially short but it would do us well to remember that the Frontier Province and Baluchistan and, to some extent, Sind were, by and large, part of the larger nationalist movement in pre-independence India. The Frontier, in particular, was an old Congress stronghold which has its corollary in India even today of a sentiment of friendship not unmixed with a feeling of guilt (at letting them down in 1947) towards the Frontier. Badshah Khan is still a revered name in this country and the tradition, at least in the Frontier, is not anti-Indian. The responsible manner in which Wali Khan has spoken of what he regards should be Pakistan's relations with India bespeaks the absence of a pathological hatred of this country so typical of Bhutto and his supporters in the Punjab.

Again, why should we consider that a united Pakistan is necessarily good for India? What would be the consequence of, say, the rise of a separatist movement in the Pakhtoon areas? While it might suit the American and Chinese book and, to some extent, Kiplingesque Britain, to get alarmed at the prospect of an autonomous or independent Pakhtoonistan falling within the Russian sphere of influence and even providing perhaps warm water facilities to the Soviet Union (shades of Czarist ambitions of the nineteenth century!), is there any reason why an India, bound by a Treaty of Friendship with the Soviet Union and whose interests in this region happen to converge with those of the Soviets, should be so alarmed? The fear of Russian expansionism in this region sometimes voiced in the drawing rooms of Bombay and the corridors of New Delhi is a conditioned reflex dating to our earlier British past. It is certainly not what a realistic geo-political appraisal of India's own self-interest demands. A more cynical view may well be that while a united Pakistan would be a stooge of Sino-US global interests, a Pakistan split into separate states would at least allow the Soviet Union some foothold in this area which would not be detrimental to Indian interests.

The argument up to this point is that stability in the subcontinent, while certainly being a worthwhile objective, is not conditional on the preservation of either Bhutto's position or even the preservation of the unity of what is left of

Pakistan. In fact, a break-up of that unity might serve India's interests better for then it will have to reckon with a few small states to its west now that its eastern flank has been secured by the emergence of an independent and friendly Bangladesh. The spectacle of an independent Sind or Pakhtoonistan need not worry us unduly. They may well be more friendly towards India. Sentiment apart, they, along with a still hostile Punjab, will be no more than peripheral states in terms of power equations in the subcontinent.

India a Sea Power

Nor, indeed, as earlier mentioned, should the possibility of some of those states being friendly to the Soviet Union worry us. The Indian Ocean area, despite our protestations that it should be a zone for peace, whatever that may mean, is not going to be left alone by the big powers. We have hitherto adopted a passive approach with regard to Indian Ocean security problems. There is no state, amongst the littoral states around the Indian Ocean, to whom the freedom of the waterways in that ocean and its availability for mercantile and naval navigation is more important than the country after which the ocean itself is named. We are truly dependent on the Indian Ocean in a sense in which no other country is and this calls for a more active and meaningful policy towards our own role in the ocean and proper measures to play our proper part. India has tended, thanks again to the British who used India as a base for their imperialist activity in Asia and as a reservoir for a land army, to think in continental terms and consider herself a land power. Sea power has never really entered our calculations despite the warning uttered by such students of geopolitics as Pannikar. The British could afford to develop India as a land power because the Royal Navy protected their maritime interests. We have inherited — regrettably — the British emphasis on looking at India as a land power ignoring that our land frontiers are not much longer than our sea shores, that we are a peninsular power, that a threat to our security can come as much from across the water as from across the mountains.

We have come to think this way, as India's history is replete with land invasions from the north-west and even independent India's wars have been land wars — in the north-west in 1947 and 1965, i e, Kashmir, the Punjab plains and the Sind deserts and in the north-east in 1962. Naturally enough we have tended to lay emphasis on the role of the army and in our defence forces the army is preponderant in its importance. With the events of December 1971 behind us, how relevant or valid is our assumption that our security problems are tied to our defences on land? How secure are our defences on the sea? The spectacular success which our navy has registered last December should not be allowed to be a flash in the pan. It shows the potential of naval power and calls for a build-up of our naval strength if we are indeed to play the role expected of us in the Indian Ocean and protect our vital sea lanes. It calls, indeed, for a rethinking on our defence strategy and placing much greater emphasis on sea power. In fact, one can only regret that the navy has remained silent too long in pleading its case.

The development of sea power not so much at the expense of our land forces but to supplement them alongside a strengthening of our air defences cannot be delayed much further. India has a positive role to play both on the basis of geography and history in this region. The problem of its relations with Pakistan and other neighbours cannot indeed be divorced from the problem of its near-great power status and the end of an era where, as the sick man of Asia, it was being pushed around by the super powers. Economic self-reliance against the background of a continental economy is a step towards India's natural assumption of this role. Our population is large enough to warrant our being given importance in world affairs. The events of last year should have put paid to the arrant, if not arrogant, nonsense of the US policy-makers to 'equate' (whatever that may mean) an India of 550 million with a Pakistan (as it then was) of 120 million. Whether the US likes it or not, whether the Chinese like it or not, we are a threshold power in the super power league, even without exercising a positive nuclear option. It is up to us to act our size if we are to fulfil our natural destiny.

SAIGON

Putting Paid to Vietnamisation

Harish Chandola

AFTER gaining control of the northernmost part of South Vietnam to a depth of ten miles from the Demilitarised Zone (DMZ), when the Viet Cong or the People's Liberation Armed Forces (PLAF) halted their offensive, Saigon thought they had bitten more than they could chew. But Saigon was proved wrong because on April 23 the PLAF resumed their offensive with 20 tanks on Saigon Government positions around Dong Ha, and they are still fighting to gain further ground. When this renewed offensive came, the Saigon forces were making no attempts to recover their lost positions. With the help of reinforcements from Saigon reserves, they were merely trying to hold on to the positions to which they had been pushed southwards.

While the front in the north is again coming alive, Saigon itself is being threatened by PLAF units advancing towards it from north and northwest, supported by artillery and tank units. In this area the PLAF units are only 40 to 50 miles away from Saigon. Two giant military bases, the US-controlled base of Long Binh and the air and army base of Bien Hoa, lie between this advancing force and the capital of South Vietnam. In spite of the presence of these two massive bases, Saigon feels seriously threatened. Thousands of paratroopers from Central Highlands and Rangers from near the DMZ are being withdrawn and brought back to Saigon to reinforce its defences. But if the war comes to the bases at Long Binh and Bien Hoa, which are almost on the outskirts of Saigon, one can say that it has come to Saigon itself, because then it is most likely that the Viet Cong guerilla units already inside this city will start attacking military positions within the capital itself.

Serious Threat

There is another serious threat building up in the Central Highlands, in Kontum province, just next to the area where the borders of South Vietnam, Laos and Cambodia meet. To prevent the PLAF from marching from this point eastwards to the central coast of South Vietnam, through the provinces of Kontum and Binh Dinh, thus cutting South Vietnam into two, the Saigon Government had last month set up eight

artillery fire-bases on a dominating ridge near the tri-junction. Three of these fire bases have fallen to PLAF assaults (two fell on April 22), exposing two big Saigon army base camps at Tan Canh and Dak To to shelling and attacks. On the central coast itself, the PLAF had captured Hoai An, a district headquarters, on April 19.

Before one proceeds further with the actual military situation, one would like to discuss the change in the balance of forces in South Vietnam which has become evident in this month of April as a result of the large-scale offensive of the PLAF. The Saigon Government had, with US help, raised a large army, one of the largest in the world, with 1.2 million regular soldiers, and nearly a million of provincial and village defence forces. This was in accordance with the "Vietnamisation of the war" policy of President Nixon, which aimed at making the Saigon Government militarily well-equipped and strong enough to defend itself.

In the northern part of South Vietnam, just below the DMZ, the US had built for the Saigon troops heavily fortified strongholds on high peaks and along the communication lines. There were many artillery sites, storage complexes and supply bases and airfields. It was believed that those blockhouses, underground bunkers and strongholds, with maximum US air cover would be invincible and that in them the Saigon army would be able to hold out against any PLAF attacks. It was indeed true that no guerilla force could ever overcome those well dug-in military fortifications and complexes. Only large units of the PLAF equipped with large artillery pieces could destroy those fortifications by shelling them. Tanks were necessary to make an assault on those positions.

Big Punches

In the past, the largest attack that the PLAF could mount at a time was in battalion strength. A battalion-strength attack on such complexes was of no avail. There was therefore much discussion within the South Vietnam Liberation Front in the past few years on building larger PLAF units, capable of assaulting those positions. The Liberation Front had said that in an armed fight the strength of the regular forces was the most concentrated and highest expression of the military strength of each belligerent party. Only with "big punches" of the regular forces could a party launch major annihilating battles and bring about a clear change in the balance of forces on the battlefield. The PLAF therefore started building big military units.

The big unit operations and large-scale co-ordinated actions between various arms and services of the PLAF began with the assault on the Saigon Government strongholds south and north of Highway 9 (leading into Loas from South Vietnam) and along Highway 1 (running along the entire coast of Vietnam) in Quang Tri and Thua Thien provinces on March 30. The attacks began with artillery barrages. In the fighting from March 30 to April 3, the PLAF wiped out or captured 6,500 Saigon troops, wrecked 13 positions, shot down or destroyed 45 aircraft and captured or destroyed 100 tanks and armoured cars. The Saigon troops in this region had consisted of its 3rd Infantry Division, two Marine Brigades, 147th and 258th, and 11th and 20th Armoured Columns, with a number of artillery pieces of 105mm to 175mm calibres. There were also 70 "civil guard" companies. This entire force was decimated. Commenting on the results of the battles waged by the PLAF big units, the South Vietnam Liberation Front said: "The backbone of the 'Vietnamisation of the war' has been broken in its important vertebrae. The Saigon army is unable to stand on its own."

Earlier, it has been mentioned that the Saigon Government had raised an enormous army. In 1970 and even in 1971, while the US troops fought the PLAF inside South Vietnam, this large Saigon force was used for offensives into Cambodia and Loas against the popular forces there. But in 1971 there was the large-scale withdrawal of US forces from Vietnam. As the US soldiers left, the Saigon force had to take over the fight against the PLAF inside South Vietnam itself, and its offensive role was curtailed greatly. For the last six months this large Saigon force got so bogged down in fighting against the PLAF that it was utterly unable to undertake any offensive operation. It is at this juncture that the present large-scale offensive of the PLAF has come. The Saigon force is now on the defensive and the PLAF is on the offensive. This demonstrates the change in the balance of military power inside South Vietnam. This change takes place at a time when the protective umbrella of the US troops is no longer available to the Saigon force.

What are the aims of the PLAF offensive? An indication of them was given recently, at the highest political forum in Vietnam, at the 20th plenum of the Central Committee of the Vietnam Workers' Party. At the plenum it was said: "The urgent task of the Vietnamese party, army and people at the present stage is to persevere in and step up the war of resistance to US aggression *till complete victory*, to mobilise all forces and march forward, to unite and co-ordinate closely with the brotherly Lao and Khmer armies and peoples to fight the 'Vietnamisation of the war' policy and the 'Nixon doctrine' in Indo-China." It was said at that plenum, held at a secret place, that while the US was forced to continue withdrawing its troops, the Saigon force continued to take losses. The Phnom Penh troops were in a disastrous situation and the mercenary army of Laos had taken deadly blows. Neither the increase of strength of these armies nor the intensive air support could help the US to level off the balance of forces in Indo-China. It was also said that the more the people of Vietnam, Laos and Cambodia fight, the stronger they become, whereas the more the US and its "henchmen" fight, the weaker they become and the greater will be their defeat.

Forces Scattered

The Saigon troops are not only fighting at three major fronts (below the DMZ, in Central Highlands and near Saigon itself), they have also to cope with liberation forces everywhere, all over the country. The mobile forces of Saigon are now scattered in many fronts to assume different tasks. The Saigon army has been weakened in numbers and quality. The number of draftees cannot fill the gap created by casualties and deserters. Its morale is low.

Compared to this, how do the PLAF find themselves? They say that they are now winning one victory after another. That they now hold the initiative in choosing where and when to strike. They have more favourable opportunities now because of the deep changes in the battlefields. Over 400,000 US troops have been forced to withdraw, and the US now has "only defeated mercenary armies" at its disposal in Vietnam, Cambodia and Laos. The only 'trump card' left to Nixon is the US Air Force and Navy. But this trump card itself has fallen into disrepute following the failure of the biggest war escalation against North Vietnam and the local war in South Vietnam. The US had launched a full-scale war of destruction against the north in the past, when it had more than half a million expeditionary troops in South Vietnam. In that the US had suffered defeats. Today with most US troops gone from Vietnam, how can the same kind of air war or war of destruction succeed?

The regular units of the Saigon forces are being beaten black and blue. All its general reserves, such as paratroops, marines and rangers, have been hastily thrown into the fight in the beginning of this month. What is more, divisions whose mission is to support "pacification" operations, like the 21st in Ca Mau and the 2nd in Quang Nam and Quang Ngai, have now been rushed into the battle as reinforcements. Saigon is also forced to mass its artillery and armour in Quang Tri and Thua Thien provinces (in the north), in the High Plateaux and in the Central Highlands, while deploying an important part of its air force in the air war against North Vietnam.

As a result its rear defence — the rural areas — is left unguarded and has markedly weakened. The support forces for "pacification" operations and the administration in hamlets, villages and districts, though still impressive in strength, are in doldrums. Many of Saigon's "popular defence forces" have rallied to the Viet Cong side or have revolted. The Saigon government is certainly not in the best situation to fight a large-scale and prolonged war.

THE FOURTH ESTATE

Era of Trade Unionism

Nireekshak

CAN an editor ask his assistant editor to read press proofs? According to a *Times of India* assistant editor, 'no', The Bombay Union of Journalists not only supports his contention but is also helping him with legal advice to fight the editor on this point. The assistant editor has based his case on the Working Journalists Act and the recommendations of the Wage Board (for Working Journalists), which have grouped journalists into various categories and designated them according to the function they perform. Topmost in the newspaper hierarchy is the editor. At the bottom comes the proof reader. In between come assistant editors, news editors, special correspondents, sub-editors, reporters, etc. How can an editor assign to his assistant editor a function which is that the lowest functionary in the hierarchy is the point in dispute between the *Times of India* editor and his assistant editor. The outcome is likely to be watched with interest in the profession.

Regimentation and Rigidity

The dispute does, however, highlight the fact that the Working Journalists Act, as it stands today, and the recommendation of the Wage Board, grouping journalists into various categories, have done little to improve professional efficiency and raise standards. Instead, both have brought about a certain amount of unhealthy regimentation and rigidity in the profession — reflected, in this instance, in the assistant editor's defiance of the editor. After all an assistant editor, even according to the Wage Board definition, "is a person who regularly assists the editor in the discharge of his duties. . .". Surely, such assistance can imply reading proofs of editorials or important articles which the editor may not like to leave to the professional proof reader.

There is also another reason for regimentation in the profession. The editor, instead of being a nucleus of all activities in a newspaper, has preferred to shut himself up in his cabin from where he occassionally issues directions. There have been many instances in big newspapers when the editor has failed to recognise members of his editorial staff. This aloofness has not only deprived the editor of his rightful position of leadership in the profession but has also considerably reduced his moral authority over his colleagues. As a result teamwork — so essential in a newspaper — has suffered a setback. This takes one back to the times when newspapers were not so technically advanced; journalists were not so well-paid and the Working Journalists Act was not there. But what newspapers did have then were men of integrity, loyalty and dedication. The editor then was not merely a name in the printline but a live institution who moved and inspired his colleagues to earn their affection. Now is the era of trade unionism.

This brings us to the Indian Federation of Working Journalists which, till recently, was the only trade union of newspapermen in the country. In the wake of the 'new politics' and the 'new economics' the IFWJ has become a darling of the establishment. Its demand for diffusion of newspaper ownership drew an immediate response from the powers-that-be in New Delhi. Now, one of its most powerful constituent unit, the Bombay Union of Journalists, has come out with a follow-up step. At its recent annual general meeting, the BUJ is reported to have passed a resolution demanding the setting up of editorial councils in every newspaper to guide the newspaper's policy. That this move got overwhelming support, indicates the shape of things to come.

Newsprint Squabble

The Union Government's newsprint policy continues to be a subject of discussion in the profession. The mouthpiece of big business newspapers, the Indian and Eastern Newspaper Society, hinted last week at the possibility of "unpleasant measures like a freeze or even a cut in salaries [of journalists] and a ban on fresh recruitment [in newspapers]" as a result of the new restrictions imposed by the government. These were exactly the fears of the National Union of Journalists and the Indian Federation of Working Journalists. While the former had expressed them in its criticism of the new newsprint policy, the latter had done so hailing the government's decision. However, both the rival unions have demanded the introduction of the price-page schedule without delay. Meanwhile comes the news that a big newspaper has issued about 1,000 retrenchment notices to temporary staff and stringers in small towns. The Prime Minister's assurance in this regard at the Press Association's lunch and Nandini Satpathy's utterances in Parliament last week seem to have had no effect on the proprietors of big newspapers. This battle of wits between the government and newspaper proprietors will be watched with great concern by journalists. Indira Gandhi's newspaper, *National Herald*, has as expected endorsed the newsprint policy and pontificated: "The government have, to ensure fairness, appointed a well-composed fact finding committee which is to report within six months, and the major English dailies have only to wait for the committee's report to learn something more of their own economics. It is but proper that the government should

not reverse policy, with no change in the foreign exchange situation, till the real facts are established."

Patriot of New Delhi has again come out with some interesting statistics about big business newspapers — this time about the percentage of advertisements in them. "A study of some newspapers for a five-week period, from 13 February to 18 March this year, shows that the *Statesman* devoted 62.5 per cent of its space to advertisements, the *Times of India* 54 per cent, and the *Hindustan Times* 53 per cent."

What's in a Name?

A controversy raging in Calcutta newspapers is about the renaming of West Bengal. There have been editorials, articles and letters to the editor galore on the subject. The most favoured proposal, according to an article by Buddhadeva Bose in *Hindustan Standard*, is Pashchim Banga. Some other suggestions are 'Bangapradesh' and 'Bangabhumi'. All this indicates that the state is fast returning to normalcy to be able to indulge in such pastimes.

The performance of the new Congress ministry in the one month that it has been in office has by and large satisfied the Calcutta English daily press that stability has come to stay in the state. The pro-Congress *Amrita Bazar Patrika* has hailed the government's work and commented: "The improvement in the investment climate, the returning confidence of industrialists and businessmen, will naturally be attributed to a marked improvement in law and order situation. The electorate have given a massive verdict in favour of peace and stability."

The ceiling on urban property proposed by Madhya Pradesh, Rajasthan and Punjab has come in for sharp attack by *Hindustan Times* of Delhi and *Pioneer* of Lucknow. Both have raised some interesting points. For example, different states have proposed different ceilings and what happens when an individual happens to have property in different states. Even if a uniform ceiling is imposed throughout the country, great will be the problems of evaluation. According to *Hindustan Times*: "Opportunities of corruption will multiply with the inevitable discretion that will have to go with the administration of legislation of this kind . . . The new law will breed ingenious modes of evasion and benami transactions that will consume much administrative time and energy." Ceiling on urban property at this stage is not practicable, says *Hindustan Times* and adds: "At all events, it would seem that a ceiling on urban property has become a pseudo-radical badge that the government is reluctant to throw away despite the weighty arguments against it on practical grounds." *Pioneer* sees haphazard thinking behind the whole policy which is "sought to be confused by the smokescreen of the term 'socialism' ".

Subversion by Condoms

An RSS-backed All-India Anti-Family Planning Conference in Delhi was extensively covered by the Jan Sangh English daily, *Motherland*, and commented upon favourably in an editorial. According to *Motherland*, the government of India "has no right to spend sixty crore rupees a year of tax-payer's money on making men impotent and women infertile". There are subtler reasons for the paper's opposition, however. According to the editorial, ". . . . it has been observed that some communities are its [family planning's] victims more than some others. For example, the Muslim and Christian religious leaders have consistently rejected family planning. In effect, therefore, this means four wives for some and family planning for some others. This is by no means an imaginery fear. Ever since the first census was held in 1861, the Muslim and Christian percentages have been rising and the Hindu percentage has been falling. At this rate it can be statistically established that in another century or two Hindustan would cease to have a Hindu majority. Such a disturbance of population percentages can have the most disturbing socio-political consequences."



Primary Education: Participation and Wastage

A R Kamat

Primary Education in Rural India: Participation and Wastage by Agricultural Economics Research Centre, University of Delhi; published by Tata McGraw-Hill, 1971; pp 86.

A DIRECTIVE Principle in the Indian Constitution enjoins the State to provide free and compulsory education for all children below the age of 14 within a period of ten years. Yet even 20 years after the adoption of the Constitution the country is nowhere near the realisation of this objective. By and large India still remains one of the most illiterate nations in the world. This raises a number of important questions about facts, their interpretation, the underlying causes and measures to overcome them such as: what is the extent of participation in elementary education? how does one match the figures available from different sources? what is the size of wastage in primary schools? what are the institutional and non-institutional factors responsible for the large number of drop-outs, particularly in the rural areas? These problems are sought to be investigated in the study under review carried out, as a UNICEF project, by a team of economists from Delhi University.

The statistics of participation are available from two sources: figures of enrolment in elementary schools collected from school records and published by the Ministry of Education in their annual reports, and those from the decennial census tables giving the number of full-time students in the below-14 age-group as reported by the households. Since the reference date is almost the same for both for the year 1960-61, *viz*, March of that year, the two figures should be expected to match; but in fact they differ very widely. While the total enrolment for India in classes I to VIII (which should roughly correspond to the age-group 6-14) given by the Ministry is 41.69 million, the number of full-time students upto age 14 given in the Census tables is only 34.60 million, a difference of 7.09 million. When one considers the total enrolment of all students irrespective of age as reported by the Ministry and the Census the figures are 47.97 and 41.38 million respectively, leaving again a difference of 6.59 million. Thus the data on participation from the two sources differ by a wide margin, and this is true for all the states. Matching the enrolment figures in primary schools (classes I to V) and the adjusted Census figures for the below-11 age-group in the different states, one finds the same wide difference between the Ministry and the Census figures. Studying these differences along with the increase in enrolment during the five-year period 1955 to 1960 the authors conclude that the inflated figures of the Ministry are a result of more-or-less deliberate over-reporting on the part of lower elementary (primary) schools, particularly in those areas where primary education expanded rapidly.

Now, it is well known to research workers in education that there is always considerable 'over-reporting' at the primary level, and particularly in the first standard because the reported number is not that of regularly attending pupils but that of the formal enrolment, the bulk of which takes place at the beginning of the school year, the enrolled pupils continuing to be on the school register whether they are 'live' students or not. Many of them drop out during the year but their names remain on the rolls until the end of the school year when the final accounting is done at the time of the annual examination for promotion. This difference between those on the register and the 'live' pupils amongst them is much greater in areas which are newly exposed to primary education and the motive is not always to attract the financial resources of the Central and state governments as the authors suggest. It is largely a procedural bias which the educational administration has not cared to remove. A contributory factor for the wide difference between the Ministry and the Census figures is that while the Census gives full-time students below 14, the Ministry figures are for the classes I to VIII which are expected to, but in fact can never exactly, coincide with the 6 to 14 age-group. There are many more students above 14 in these classes, while those in this age-group attending classes higher than VIII are likely to be relatively few. The Second Year Book on Education published by the NCERT gives this margin as 5.66 per cent for the year 1960-61, that is of the order of 2.3 million. (At the primary level the difference is greater, of the order of 14 per cent.)

The Census educational figures, although not affected by the 'enrolment' bias mentioned above, often suffer from other inaccuracies.[1] From the above-mentioned figures one finds that there are 6.78 million full-time students above 14 according to the Census and 6.28 million students enrolled in classes and institutions other than I to VIII. So now the gap is in the reverse direction. The authors appear to have also misinterpreted the Ministry data in parts; for instance it will be grossly incorrect to treat the 1.50 million pupils listed under Social (Adult) Education, and included in 47.97 million, as full-time students. The situation becomes much worse if we take into account the pupils in Social (Adult) Education classes; the reverse gap now widens to 2.00 million in the Census figure of 6.78 million! Will the authors call this the under-reporting bias of the Ministry in secondary schools and institutions of higher education? This difference is too wide to be bridged by the number of students below 14 who attend classes IX and above. One cannot therefore be too sure that the smoothing for age which the Census analysts do for overall age-distribution is also done for cross-classificatory data by occupation, in which case the gap is perhaps partly explainable by the clustering at age 15. We have gone into these tiresome details to show that research workers treading an area foreign to their disciplines have an obligation to familiarise themselves with the new area and to give careful thought to the ramifications of the problem before running to tempting but hasty conclusions.

Since primary education is the basis of all literacy the appalling wastage at this level of education in India is a subject for much concern among both educationists and others. Less than 40 per cent of the pupils joining primary schools reach class IV, a stage which is generally believed essential to induce lasting literacy. The authors have devoted the rest of their effort to isolating the important causal factors for this wastage and arrive at a set of conclusions with a view to suggesting remedial measures. Before we review this part of the study, however, it may not be out of place to consider the relationship between primary education and literacy on which there appears to be a lot of confused thinking in many

quarters, including among the present authors.

First, the general belief that reaching class IV of the primary school is a must for acquiring lasting literacy is devoid of factual basis. Such an assertion is often based, as the authors have done, on the investigations by Gadgil and Dandekar[2] — perhaps the only systematic attempt of its kind — which, if carefully scanned, reveal that while almost everybody (97 per cent) who reached class IV acquired literacy (ability to read a simple passage and to write a few dictated lines), the same was the case with 88 per cent and 67 per cent of those who left school from class III and class II, respectively. The extent of literacy amongst all those who left primary schools from class II upwards was observed to be 86 per cent. Thus lasting literacy was found to be induced among many of those who left school from class II upwards. Secondly, these investigations were carried out more than 25 years ago and it is therefore necessary to conduct fresh systematic inquiries into lapse into illiteracy in different parts of India to assess the present situation. During this period many more influences helpful to retention of literacy have begun to operate, e g, the spread of newspapers, radio, films and literature for new-literates, etc.

Much confusion is also in evidence about the concept of functional literacy. For instance the authors of the present report state that it is "usually defined in terms of a very low probability of lapsing back into illiteracy at a later stage" (p 24). Those conversant with educational developments, however, define functional literacy as literacy which helps a person in his function in society, that is, in his occupation. The concept was introduced to distinguish it from formal literacy — mere ability to read and write, which may be described as 'literary' literacy. The underlying idea is to reorientate the courses and teaching methods, particularly in adult-education classes, to create a stronger motivation among the learners. However, not much effort has yet been made to reorientate our primary education towards this end which still remains mostly formal and not functional. We hope to elaborate these ideas in a separate essay at a later date. But this brief discussion should suffice to demonstrate that the retention index (ratio of enrolment in class IV to enrolment in class I) which the authors as well as many other education researchers have inevitably to fall back on because of the limitations of data, apart from its other obvious shortcomings such as not following the same cohort, can be looked upon only as a convenient simple index, and not as a measure, of literacy induced in primary schools.

In order to identify the main causal factors responsible for wastage it is convenient to divide the possible factors, as the authors have done, into two broad categories: factors external to the educational system, such as those arising from the socio-economic structure of society and the level of socio-economic development of the various regions; and factors internal to the system such as educational expenditure, facilities provided in schools, timing of the school year, etc. Moreover, the analysis can be attempted at the macro level of the states, regions, etc, or at the micro level of field studies. So far as the external factors are concerned many educational researchers have all along observed that retention and participation, which are both indexes of the progress of primary education, are found to be low in precisely those regions which are socio-economically backward. Some micro level inquiries[3] have also shown that they are related to low income, low caste, low parental occupation and low educational status of the family, which often go together in our society both in urban and rural areas. They have also tried to explore the relevant factors internal to the system including the size of school, facilities provided in the school, pupil-teacher ratio, proportion of trained teachers, per-pupil expenditure, or the teachers' salary which forms the overwhelming part of expenditure at the primary level. So far as the present investigations are concerned they point out to the low rural income at the macro level, and poverty and low caste at the micro level among the external factors, and to the proportion of trained teachers at the macro level and school timings at the micro level among the internal factors. Educational research workers have been aware of them for the last thirty years, but of course fresh confirmation is always welcome.

Viewing the study as a whole, however, one comes to the reluctant conclusion that it has not contributed substantially to understanding and analysis of the problems concerning participation and wastage in primary education, beyond a few already known generalities. One also fails to understand, in the context of the UNICEF support, why the field study should have been so inadequate when with a little more forethought and effort it could have been a lot more fruitful. What is sad to see is that even the quantitative methods used by the investigators should suffer from common avoidable faults. The misinterpretation and mishandling in matching the data from the two sources has been already referred to above. In calculating rank correlation (p 16) between percentage deviation of the Ministry figures of enrolment from the Census figures and the percentage growth of lower elementary (primary) education the analysts have omitted the states of Gujarat and Maharashtra without assigning any reason. Was it because they found them inconvenient or because they could not manage tied ranks? On page 5 in Table 1.2 the figures are a jumble; while the total gives all-India figures covering both rural and urban areas the figures against the states are those for rural areas. This sort of numerical work is bound to make a discerning reader doubtful about the accuracy of percentages given elsewhere in the study where original figures are not quoted. Finally, the reviewer was amused to read the involved argument on pp 58-62 together with the fact that the investigators are combining two sets of widely differing figures for enrolment at the primary level. (This little book thus provides some neat illustrations of common faults in statistical reasoning which may prove useful for class-room teaching.) As though to compensate for the inadequate understanding of the problem, meagre field data and weak quantitative analysis, the study is loaded with unnecessary phraseology from economics which tends to confuse rather than clarify the educational issues and needless spinning of involved argument about hypothetical issues for which quantitative data are non-existent. The reviewer cannot help wondering why a competent team of workers from one of our outstanding research schools could not make a better job of it when all that it needed was a little more patience and understanding, a little more systematic field work and a little more care in quantitative analysis.

Notes

1 See, e g, A R Kamat, "Progress of Education in Rural Maharashtra", Gokhale Institute Studies No 56, Bombay: Asia, 1968.

2 D R Gadgil and V M Dandekar, "Primary Education in Satara District", Gokhale Institute Studies No 32, Poona: Gokhale Institute, 1955.

3 See, e g, R C Sharma and C L Sapra, "Wastage and Stagnation in Primary and Middle Schools in India", New Delhi: National Council of Educational Research and Training, 1969.

Indian Agriculture: Before and After

N S Jodha

Growth and Instability in Indian Agriculture by S R Sen; Firma K L Mukhopadhyay, Calcutta, 1971; pp 128; Rs 15.

THE book under review, a collection of S R Sen's addresses to various national and international gatherings, derives its title from his often quoted address at the Annual Conference of the Indian Society of Agricultural Statistics in 1967. Since the addresses were meant for varied occasions and audiences, they do not deal with a single theme. Still most of them could be grouped into three broad categories.

(a) Those dealing with the problem of growth and fluctuations in Indian agriculture prior to the HYV era.

(b) Those dealing with development planning and the breakthrough in Indian agriculture and the initial as well as second generation problems of the 'green revolution'.

(c) Those dealing with demographic aspects of development planning.

The author analyses the agricultural (mainly foodgrain) production data for the last 5 to 6 decades arranged into the following four periods: (1) 1900-01 to 1923-24; (2) 1924-25 to 1947-48 for undivided India; (3) 1935-36 to 1950-51; and (4) 1951-52 to 1965-66 for the area covered by the Indian Union. After examining the trend in the growth rate of foodgrain production (as well as the index numbers of agricultural production), and the trends in trough points and peak points of production in each of the four periods, it has been stated that the first and the fourth periods were characterised by some growth (the rates being 0.3 per cent and 2.75 per cent per annum, respectively) and high fluctuations in the foodgrain production; the second and the third periods were characterised by decline in foodgrain production (the rates being 0.02 per cent and 0.68 per cent per annum, respectively) and relative stability as indicated by the declining trend of peak points as well as the rising trend of trough points and the convergence of the two. Finally, it is inferred that periods of growth are also the periods of wide fluctuations in Indian agriculture.

Whether in the wake of the "green revolution" (mostly in the agriculturally stable areas) high growth would also be accompanied by high fluctuation is yet to be seen. But if the contention of the Agricultural Prices Commission, that rain fed areas had substantially contributed to our recent foodgrain supplies, is valid, the above phenomenon may probably still hold true.

After looking at the state-wise extent and spread of areas with or without assured water supply and their relative susceptibility to droughts (details presented in an Appendix and a map) the author feels that "the rather thoughtless policy which has ignored, until recently, the importance of geographical specialisation and has encouraged extension of foodgrain production to all kinds of lands in all parts of the country has tended to add to our food difficulties" (p 14). Geographical specialisation on the basis of agriculturally relevant resource endowment and simultaneous reorientation of our agricultural policies (e g, with due emphasis on regional diversification) and irrigation policies (in terms of productivity or protection oriented irrigation) is suggested as a remedy to ensure growth with stability. The remedy may probably apply equally to the problem of growing imbalances in Indian agriculture which has been the subject of much debate recently.

The breakthrough in agriculture in recent years is attributed to "a happy convergence of several things around middle sixties" (p 41). The credit is evenly distributed among scientists (for establishing new varieties); policy makers (for price and input policies favourable to farmer); irrigation authorities (for production oriented irrigation policy); extension agencies (for converting themselves into a more competent vehicle); and the farmer (for discarding his old attitudes). The profitability of HYV is said to be so high that it has attracted businessmen too (p 45).

However, it is difficult to agree fully with Sen's many views about the green revolution. As several field studies show, in some areas it was the "miracle seed" which did most of the job despite the static approach of the extension and irrigation authorities. Similarly, businessmen have purchased lands even in the Rajasthan desert, where there is not even the mirage of a green revolution!

The author suggests several measures for tackling the second generation problems of the green revolution (and the overall problem of rural poverty). Some of these already grace our plan documents. Yet suggestions such as that to supplement 'commodity and technique based' research by 'area based' research to help backward areas deserves attention. As a general strategy for agricultural planning, the author suggests a three-tier system on the pattern of IADP, IAAP and the rest of the country (chapter 5).

The discussion of the demographic aspects — e g, the application of demographic data in development planning and research into the demographic elements of agricultural development — though general, puts the issues in perspective.

Finally, though the lectures included in the volume deal with varied themes and were meant for varied contexts, the author's stock ideas and views (e g, about rural poverty and its solutions, regional specialisation, area based research, etc) are found in most of the lectures. No doubt the ideas are well integrated with the themes of the concerned lectures, but to a reader going through all the lectures collected in one book, they seem repetitious. The last chapter on the Indian Development Prospect is (perhaps due to editorial oversight) a verbatim reproduction of the last section of the chapter immediately preceding it.

Books Received

Chopra, Pran: Before and After the Indo-Soviet Treaty; S Chand and Co, 1971; pp vii + 175; Rs 25.

Conquest, Robert: Where Marx Went Wrong; Pee Kay Publications, New Delhi, 1970; pp 126; Rs 5.

Dantwala, M L and C H Shah: Evaluation of Land Reforms — With Special Reference to the Western Region of India; Department of Economics, University of Bombay, 1971; pp v + 196; Rs 15.

Desai, M B: Tenancy Abolition and the Emerging Pattern in Gujarat; M S University of Baroda, 1971; pp x + 194; Rs 20.

Frankel, Francine R: India's Green Revolution — Economic Gains and Political Costs; Princeton University Press, 1971; pp vii + 232; Rs 50.

Goyal, Narendra (Ed): The City in Turmoil — Report of a National Seminar on Calcutta, 1971; Gandhi Peace Foundation, New Delhi, 1971; pp xii + 136; Rs 10.

Hiro, Dilip: Black British, White British; Eyre and Spottiswoode (Publishers), 1971; pp xii + 384; £ 3.95.

Indian Oxygen Limited: The Past Year in Retrospect — An Objective Account of Political and Economic Events in India in 1970-71; IOL, Calcutta, pp 106.

Ischboldin, Boris: History of the Russian Non-Marxian Social-Economic Thought; New Book Society of India, New Delhi, 1971; pp 328; Rs 30.

Jain, Sagar C: Indian Manager — His Social Origin and Career; Somaiya Publications, 1971; pp xiv + 263, Rs 30.

THIS IS ONLY AN ANNOUNCEMENT AND NOT A PROSPECTUS

RATHI ALLOYS & STEEL LIMITED

FOR STEEL

(Incorporated under the Companies Act, 1956) Registered Office : 28, Sadhna Colony, Opp. Malviya Nagar, New Delhi-17

ANNOUNCEMENT REGARDING THE ISSUE OF 2,70,000 EUITY SHARES OF Rs. 10/- EACH AND 10,000—9.5% REDEEMABLE CUMULATIVE PREFERENCE SHARES OF Rs. 100/- EACH TO THE PUBLIC

Persons interested in full details may obtain copies of Prospectus and Application Forms from the Company's Registered Office and Underwriters, Brokers and Bankers to the Issue mentioned below.

THE SUBSCRIPTION LIST WILL OPEN AT THE COMMENCEMENT OF BANKING HOURS ON WEDNESDAY 3RD MAY, 1972 AND CLOSE AT THE CLOSE OF BANKING HOURS ON SATURDAY 13TH MAY, 1972 OR EARLIER AT THE DISCRETION OF THE BOARD OF DIRECTORS OF THE COMPANY BUT NOT BEFORE THE CLOSE OF BANKING HOURS ON FRIDAY 5TH MAY, 1972.

ACTIVITIES OF THE COMPANY AND PROSPECTS

The Company was incorporated on May 20, 1970 as a Public Limited Company. The Company received certificate to commence business on May 26, 1970. The objects of the Company are fully set out in the Memorandum of Association of the Company, the main objects being to set up Electric Arc Steel Melting Furnace and Continuous Casting Plant for the manufacture of steel billets required by the steel re-rolling industry. The Company was granted an Industrial Licence for the manufacture of 40,000 tonnes per annum of mild steel, high carbon steel and alloy steel ingots/billets. The factory is located at Ghaziabad in U.P. The Company took up the implementation in two phases. In the first phase the Company installed one 10 tonne electric arc furnace which was commissioned on September 17, 1971. The implementation of second phase commenced in October 1971, and as a first step the second electric arc furnace of 10 tonne capacity was installed and commissioned on March 23, 1972. With the commissioning of second furnace, the estimated annual production of 40,000 tonnes will be achieved.

The Company now proposes to install a double strand continuous casting machine with a cogging mill as part of the second phase. The cogging mill plant has already arrived at site. The application of the Company for importing continuous casting plant has already been cleared by the Government of India and the Company has entered into an agreement for the supply of its plant with the reputed manufacturers, M/s. Con-Cast AG, Zurich, Switzerland who are the pioneers in the field of manufacturing continuous casting plants and are principal suppliers of these plants throughout the world.

In a short period of about 6 months ended March 31, 1972 the sales of the Company amounted to Rs. 81 lakhs. Since then the second furnace has also been commissioned which will double the production. With the present shortage of steel in the country, the Company is not expected to experience any problems in marketing its entire production. It is, therefore, estimated that profits before Depreciation and Development Rebate will amount to Rs. 30 lakhs for the year ended June 30, 1972 which is the first year of production. During the second year of production, that is year ended June 30, 1973, the Company would be able to work both the furnaces and cogging mill for 12 months and the sales during this period are expected to be in the vicinity of about Rs. 3.5 crores It can be reasonably expected that barring unforeseen circumstances, the Company would be in a position to declare 10% dividend on Equity Shares for the year commencing July 1, 1972 and will be able to maintain and enhance dividends in the future years.

BOARD OF DIRECTORS

1. **Shri Hari Kishan Rathi,** *Chairman*
   29 Sadhna Colony, Opp. Malviya Nagar, New Delhi-17.
   Industrialist
2. **Shri Hiralall Somany**
   13 Gurusaday Road, Calcutta-19.
   Industrialist
3. **Shri Bhagwati Prasad Khaitan**
   1-B, Old Post Office Street, Calcutta-1.
   Solicitor
4. **Shri Laxmi Niwas Jhunjhunwala**
   14/1B, Ezra Street,
   Calcutta-1.
   Industrialist
5. **Shri G. Yazdani**
   B-15, Rawatpur Colony, Kanpur
   Government Service
6. **Shri Bal Kishan Tandon**
   Administrator, Improvement Trust, Ghaziabad
   Government Service
7. **Shri Deepak Rathi**
   29 Sadhna Colony, Opp. Malviya Nagar, New Delhi-17.
8. **Shri P. C. Kashyap**
   95 Jorbagh, New Delhi
   Businessman
9. **Shri Rajesh Rathi**
   28 Sadhna Colony, Opp. Malviya Nagar
   New Delhi-17.
   Industrialist
10. **Shri Vijay Kumar Aggarwal**
    11 Link Road, Jangpura Extn., New Delhi
    Industrialist
11. **Shri Chand Ratan Rathi,** *Managing Director*
    28, Sadhna Colony, Opp. Malviya Nagar, New Delhi-17.
    Industrialist

SHARE CAPITAL

		Rs.
Authorised		
15,00,000	Equity Shares of Rs. 10/- each	1,50,00,000
50,000	Preference Shares of Rs. 100/- each	50,00,000
		2,00,00,000
Issued, subscribed and fully paid up		
2,70,000	Equity Shares of Rs. 10/- each fully paid up Rs. 27,00,000	
	Less : Calls in arrears Rs. 1,500	26,98,500
9,000	9.5% Redeemable Cumulative Preference Shares of Rs. 100/- each fully paid up	9,00,000
		35,98,500
Present Issue		
4,20,000	Equity Shares of Rs. 10/- each for cash at par	42,00,000
10,000	9.5% Redeemable Cumulative Preference Shares of Rs. 100/- each for cash at par	10,00,000
		52,00,000
Out of the Present Issue		
1,50,000	Equity Shares of Rs. 10/- each have been allotted for cash at par to Directors, their associates and employees	15,00,000
Now offered for Public Subscription for Cash at Par		
2,70,000	Equity Shares of Rs. 10/- each	27,00,000
10,000	9.5% Redeemable Cumulative Preference Shares of Rs. 100/- each	10,00,000
		37,00,000

TERMS OF PAYMENT

	Per Equity Share	Per Preference Share
On Application	Rs. 2.50	Rs. 25.00
On Allotment	Rs. 2.50	Rs. 25.00
Balance in two equal calls with an interval of not less than one month between the calls		

UNDERWRITERS

The entire issue offered for public subscription is fully underwritten as under :

	Amount Underwritten	
	Equity	Preference
	(Rs. in lacs)	
Industrial Development Bank of India, Bombay	9.00	5.00
Industrial Finance Corporation of India, New Delhi	2.50	2.50
The Industrial Credit & Investment Corp. of India Ltd., Bombay	2.50	2.50
U.P. State Industrial Corporation Ltd., Kanpur	5.00	—
Amrit Lal Bajaj & Co., New Delhi	2.00	—
Bharat Bhushan & Co., New Delhi	1.25	—
Vinod Kumar & Co., New Delhi	1.25	—
Lewis & Jones, Bombay	1.50	—
Champaklal Devidas, Bombay	1.00	—
Place, Siddons & Gough (P) Ltd., Calcutta	1.00	—
Total	27.00	10.00

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Lewis & Jones, Bank of Baroda Building, Apollo Street, Fort, Bombay-1.
Place, Siddons & Gough (P) Ltd., 6, Lyons Range, Calcutta-1.

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Chimanlal J. Dalal & Co., 107, Stock Exchange New Bldg., Dalal Street, Fort, Bombay-1.
Valji Bhimji, Old Stock Exchange Building, Dalal Street, Fort, Bombay-1
Harkisandass Lukhmidass, Stock Exchange Building, 5th Floor, Apollo Street, Fort, Bombay-1
Dhirajlal Maganlal Purshotamdass, Stock Exchange Building, Apollo Street, Fort, Bombay-1
Batlivala & Karani, Union Bank Building, Dalal Street, Fort, Bombay-1
Merwanjee Bomanjee Dalal, Allahabad Bank Building, Apollo Street, Fort, Bombay-1
Kavalchand T. Shah & Co., Union Bank Bldg., Dalal Street, Bombay-1

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Bharat Bhushan & Co., H-45, Connaught Place, New Delhi-1
P. Roy Company, 3/8, M.M. Road, Jn. Panchkuin Road, New Delhi-55
H. P. Mehta & Co., 302, Akash Deep, 3rd Floor, Barakhamba Road, New Delhi-1
Raja Ram Bhasin & Co., 'Jeewan Mansion', 3/4, Desh Bandhu Gupta Road, New Delhi-55
S. B. Malhotra & Co., 18, Stock Exchange Bldg., Asaf Ali Road, New Delhi-1
Behari Lal & Co., 15, Stock Exchange Bldg., Asaf Ali Road, New Delhi-1
R. K. Relan & Co., United India Life Building, 'F' Block, Connaught Place, New Delhi-1
Jalan & Co., Stock Exchange Bldg., Asaf Ali Road, New Delhi-1
B. K. Khullar & Co., 31, Stock Exchange Bldg., Asaf Ali Road, New Delhi-1.

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N. L. Roy & Co., 7, Lyons Range, Calcutta-1
Stewart & Co., 14, India Exchange Place, Calcutta-1
Chunilal T. Mehta, 8, Lyons Range, Calcutta-1

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AHMEDABAD

Chinubhai Chiman Lal Dalal, Mahurat Pole, Manek Chowk, Ahmedabad.

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United Commercial Bank, H-Block, Connaught Circus, New Delhi-1, Chandni Chowk, Delhi, and their main offices at Ahmedabad, Allahabad, Agra, Bangalore, Bombay, Calcutta, Hyderabad, Indore, Jaipur, Jullundur, Kanpur, Lucknow, Bareilly, and Varanasi

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1. United Commercial Bank, H-Block, Connaught Circus, New Delhi-1
2. The Oriental Bank of Commerce Limited, H-Block, Connaught Circus, New Delhi-1.

SOLICITORS

Khaitan & Co.,
Himalaya House, Kasturba Gandhi Road, New Delhi-1

AUDITORS

Agal & Co.,
29-A/1 Asaf Ali Road, New Delhi-1.

MANAGERS TO THE ISSUE

Management Consultation Division,
First National City Bank,
3, Parliament Street, New Delhi-1

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Applications may be made only by residents in India and must be for a minimum of fifty Equity Shares or multiples thereof and five Preference Shares or multiples thereof. Application Forms properly completed must be delivered before the close of the subscription list together with the full amount payable on the application to any of the Banks or at their branches at the places mentioned on the Application Forms.

Continued

Political Reconstruction of Bangladesh

Reflections on Building a New State in the Seventies

Rajni Kothari

This paper seeks to point out certain general lessons that we have learnt from the last 25 years of experience in regard to state and nation building in the "Third World".

There is, on the one hand, the modernisation model *which seeks to undermine the autonomy and power of the new states. There is, on the other hand, what may be called the* state-building model which *seeks to conceive of the tasks of modernisation, economic development and the rest as part of a general drive towards consolidating national autonomy and realising the values of democracy, social justice and secularism.*

Bangladesh has come to life when the alternative scenarios can be perceived in their fullness, when the ground for making critical choices has been cleared of a lot of confusion and misleading cliche, and when the real need is for a proper perspective and bold initiatives from the political elite rather than passing on the responsibility to foreign trained technocrats.

BEING neither a citizen of Bangladesh nor an "area specialist" on it, I approach this rather large subject with some trepidation and a clear understanding that these are the thoughts of an outsider. My only excuse in undertaking this analysis is that Bangladesh has come to life at a time when it can draw from a wide range of experience that has already been gathered and when the elements involved in building a viable state — or in undermining it — are no longer mysterious. The contemporary history of the growth and decline of states and nations has led to a considerable body of insights into the conditions that make or retard a polity, the problems it must face up to in the course of realising the values and goals it cherishes, and the fallacies and intellectual bowlers that it ought to avoid if it is to survive as a state, become a nation and prosper as a society. The insights can be used with considerable advantage by Bangladesh; the newest of the new states, as it begins to shape its unique destiny during the seventies and beyond. A majority of the "new states" came into being during the late forties and the fifties, most of them ran into difficulties during the sixties, and quite a large number of them are still in bad shape. Still others which secured their independence long back (e g, the countries in Latin America) or indeed never formally lost their independence (Thailand and Nepal and some countries in the Middle East) continue to face challenges to the integrity of their political systems, and have not been able to make life worth living for the majority of their peoples in the face of serious threats from both within and without. Other countries (e g, in Eastern Europe) which do not fit the rubric of "new states" but underwent major transformations after the War also continue to face similar problems. Bangladesh has to look critically at these various states, the pitfalls they fell into, and the reasons why so many of them are in such bad shape. It has to learn how to avoid these very pitfalls and chart a fresh course for itself. Coming to life in 1972 — after twenty-five years of twilight existence between formal independence and a colonial political status — Bangladesh has a chance to do better than most of these and, in turn, provide some lessons for its older predecessors.

I

The Dominant Model of Development

The fifties and the sixties when a large number of these new states were struggling to become viable political entities were also decades characterised by a dominant ideology of change which set forth a comprehensive design for development. The intellectual stimulation for such a design came from the United States, the hegemonical power of the post-War world, supported by a set of influences from Western Europe which had come under the benevolent influence of the Marshall Plan and had lost their capacity to pose meaningful alternatives, and endorsed by a differently conceptualised model from the Soviet Union but with almost similar consequences. The principal elements of this design set before the leaders and intellectuals of the "developing nations" were as follows:

(1) *New Economism*: The new states were poor. Therefore the principal problem facing them was in respect of their economic development. It was necessary, therefore, that these countries concentrated on problems of "internal" development, keeping down mass consumption, raising saving and investment in the "modern sector", pursuing aggregate rate of growth without immediate concern for distributive goals and maintaining and enforcing peace and stability for all this. Thus came about the new economism of the post-War world.

(2) *Modernisation*: The new states were "backward", "underdeveloped" and "traditional". In the absence of rapid "modernisation", economic development was not possible. Hence the need for first undertaking processes of modernisation and "social mobilisation" — urbanisation, education, physical mobility, adoption of modern means of communication and mass media, building a "rational" bureaucracy and a modern managerial class, and thus getting rid of the "shackles of tradition". In the absence of all this, democratic participation would lead to the influx of "parochial" elites who would undermine the "universalist" goals of modernisation.

(3) *Integration*: The new states were divided and lacked a common identity as a nation. Ibos and Yorubas, Hindus and Muslims, Chinese and Malays, Tamils and Sinhalese, caste and tribal divisions, northerners and southerners, majorities and minorities everywhere — all these had to be "integrated", taught to share a common "national identity", and be subjected to a strong "central authority" that was able to withstand internal pressures, contain centrifugal tendencies and legitimise the established order and its elite. The new states were also characterised by internal violence, prone to give in to chaos, lacking in the instruments of public order. It was therefore necessary to establish internal peace and stability. A strong state was one that ironed out internal differences. The necessity to acquire autonomy and integrity with respect to the external world was not part of this model.

(4) *Necessary Sequences and Prerequisites*: Implied in this whole design was a notion of stages of development, of meeting certain "prerequisites". The prerequisites were rather neatly conceived: economic development before political democracy, modernisation of the traditional society before extension of rights of participation to the common people, national integration before any exercise of local autonomy and self-government and internal consolidation and stability as a necessary precondition of external viability.

(5) *Aid and Alliance*: In order to carry out these various prerequisites — economic development, modernisation, national integration and political stability — it was necessary to have two things. One was resources for these poor countries if the "gap" between them and the rich countries was to be filled. The other was external peace and security. It is here that the role of the developed nations was to be found — provide economic "aid", guarantee peace in the respective regions, and protect the new and fragile states from the viruses of "communist aggrandisement" or "capitalist imperialism" as seen differently by the rivals in the cold war. All that the new states had to do was to accept the terms of the Truman doctrine and its later developments (or their Russian or Chinese counterparts) and preferably join one or other of the defensive alliances or pacts, or at least adopt a position of neutrality and equidistance between the two blocs. Those who were aligned had, of course, a better chance of external security and proportionally greater economic and military aid. Thus took place the doctrines of foreign aid, spheres of influence and ones of security — and the feeling among the new states that they were indeed getting the best of both worlds (in some cases, e g, in latterday Pakistan, the best of many worlds).

Such a design for development acquired considerable vogue throughout the fifties and the sixties. Though largely Western inspired, it was to a considerable extent also endorsed by influences emanating from both the socialist and the non-aligned blocs. The only alternative scenario that was advanced was by the votaries of world revolution and "liberation struggles" to hasten the cause of the world revolution. Unfortunately, however, the revolutionaries hitched their wagons too close to the "internationalism" of the vanguard powers which was no less corrosive of the autonomy and self-confidence of the new states than was the "universalism" of the Western intellectuals. What was common to both was a frantic developmentalism which ignored political realities of the post-War world and produced elites that were more closely aligned to metropolitan centres of the world than with their own peoples. They impeded the logical outcome of national independence movements and the end of the imperial era — namely the creation of self-reliant and viable states and nations as instruments for the realisation of freedom, democracy and social justice, for a vast majority of mankind.

Nehru's sane though hesitant voice against the pernicious political and economic doctrines of the cold war era and his effort to safeguard the autonomy of the new states through the doctrine of non-alignment perhaps saved his own country from falling prey to the full consequences of such a model (although even for India the real deliverance came only after the events of 1971) but on the whole the real parameters of state and nation building evaded the elites of the large majority of the new states. Instead, they got tied up in the peculiarly anaemic dispensation of the dominant model of development: authoritarianism at home, dependence abroad; "economic development" that produced a parasitic elite and high peaks of urban prosperity which created internal colonies and external bondage; doctrine of "modernisation" which reduced self-respect and condemned the native populations to a state of misery because they "lacked motivation"; a compulsive preoccupation with centrifugal tendencies at home so that externally the nations of the Third World continued to be dependent and hence amenable to the politics of "cold war" and "spheres of influence"; a widespread perception of nation-building as essentially an "internal" task while leaving the "external" dimension of nation building to the superpowers. The political consequence of such a model was that the world got neatly divided between "developed" and "developing" nations when the real division was that between dominant and dependent governments — the latter lacking the features of either statehood or nationhood. Government after government was turned against its own people backed by the catchy slogan of "consolidation of central authority" — central authority being perceived as something to be consolidated internally rather than externally. By the same token, extension of democratic rights was withheld from the people lest it may give rise to internal divisions and breakdown of central authority and its "legitimacy". Somehow, the crucial lessons of history, on the one hand that the best way to ensure political integration and legitimacy was by involving the people at large in the operative political structure, and on the other hand that the only way of building and consolidating political authority was through a demonstrated ability to meet external threats and challenges, were lost on the elites of the new states, thanks to their captivity by the model outlined above.

As this happened, the Third World became a breeding ground for the theorists of "identity crisis" and "revolution of rising expectations" and provided the basis for a growing militarisation of the world, large-scale economic exploitation and widening internal disparities as a price for getting a pat on the back as "models" of successful economic development (*a la* Papanek). The political concomitant of this was a continuing sport in which coups and counter-coups were watched with gusto by "concerned" world powers and world press. The anguish and self-denigration of the intellectuals of Latin America, Africa and South-East Asia at this spectacle followed logically from their systematic brainwashing by the dominant theory of development and their failure to recognise the political compulsions of the achievement of statehood and nationhood. The huge army of economic developmentalists, technocrats and international civil servants and do-gooders ensured that the design for dominance conceived by the Truman doctrine and everything that followed it remained impregnable.

II

Alternative Scenario

To be sure, there have been important countervailing factors at work. For one thing, the new states included large and potentially powerful countries like India and China which, despite their early ambivalence (as in the case of China) or mid-course compromises (as in the case of India), were ultimately bound to value their independence and autonomy in political functioning above everything else. Secondly, as against the hordes of politically and intellectually servile elites found in parts of the Third World, there have also been some outstanding men who have valued their own and their nations' self-respect above the immediate considerations of aid and trade, and who have shown a capacity for initiating independent and politically sensitive policies — Mao, Tito, Nehru, Nasser, Nyerere, Ho Chi Minh, Castro, Allende.

Thirdly, the political strategies of the new imperial powers ran into serious trouble when they sought to "overshoot", ignoring the powerful forces that had been let loose by the resurgent nationalism of the mid-twentieth century. The biggest debacle of all was, of course, the war in Vietnam — the symbol of defiance on behalf of struggling humanity against the supposedly invincible war machine of super powers. No less important has been the liberation struggle of Bangladesh and India's role in it, providing an even more decisive defeat to the divisive and manipulative designs of the strategists of regional balances. Less clear but no less significant for the emergence of self-reliant nationhood are some developments in the Middle East, parts of Latin America and the gathering momentum of forces in Black Africa.

Finally, there has taken place a continuing shift in the great power balance which has resulted in strengthening democratic and socialist forces in world politics. Starting (soon after the Second War) with a "bi-polar" power structure of the world which tilted heavily in favour of the military and industrially powerful United States, the development of the last twenty-five years have been a progressive swing towards, first, a more real balance between the West and the East and, still later, a tilting towards the East in which the "North-South" axis played a crucial role. In this the more flexible policies of the Soviet Union which, first under Khrushchev and then under his successors, understood the political potential of the poorer countries in the southern hemisphere far better than the heady rulers of the United States, turned out to be a positive factor in the growth of democratic nationalism and the emergence of centres of independent power — India, North Vietnam, Cuba, Egypt — despite the continued authoritarianism of the Soviet Union itself at home and within the East European region. But even in the latter region a number of independent centres emerged during this period which defied the hegemonical position of Moscow. The net result has been a world in which independent state building — along different models of political development — has become more and more possible.

We have examined the model followed by the elites of dependent countries —essentially a model of economic modernisation in the aggregate at the expense of both the political integrity of these states and the general welfare and democratic rights of their peoples. The model that has slowly emerged from the other end of the spectrum can be summarised as follows:

(1) A vigorous policy of national self-sufficiency in respect of basic economic requirements (even if this meant a relatively lower aggregate rate of growth in the short run). The chief instruments of this have been a comprehensive policy of import substitution and a greater reliance on trade rather than "aid" and on bilateral economic co-operation with a number of countries and institutionalised economic support for specific schemes rather than a generalised aid package as administered by the various Aid Clubs.

(2) A similar attempt at self-reliance in matters of national defence and security through the development of requisite armed forces, the growth of indigenous armaments production (or, in the case of small states, a definite allocation of foreign exchange for arms purchase in the open market) and the availability of local expertise in the fields of intelligence and strategic studies.

(3) A system of production and distribution of goods which prevents concentration of wealth and economic exploitation and hence of the growth of parasitic elites concentrated in urban areas. This will entail a number of steps chief among which are (a) land reforms, labour legislation and redistributive taxation; (b) accent on agriculture and rural and semi-rural employment as a means of livelihood in the early phase of economic development and policies aimed at containing an overgrowth of metropolitan areas; (c) adoption of an incomes policy involving minima as well as maxima (forgetting about "bridging the gap" with rich nations which is an irrelevant chimera); and (d) a design of infrastructural development which attends more to minimum conditions of civilised life for all — clean drinking water, a roof for every family, free medical facilities, cheap education, etc — rather than concentrating on conspicuous superstructures in metropolitan areas. All these steps are with a view to curb the growth of an elite that is disoriented from indigenous society and national purpose.

(4) The development of institutions of a participant democracy — periodic elections, local self-government, free growth of trade unions and peasant and youth associations and an unfettered press — as a necessary basis for political support and legitimacy, a mechanism for change of elites and availability of counter-elites, and a means for accountability of the authoritarian components of the polity, *viz*, the army, the bureaucracy and the ruling party or coalition. (The only alternative, it is now clear, is an authoritarian regime out of touch with social reality which stays on in power through either the backing of the military or external support or both.)

(5) Involvement of the youth of the country in productive processes and decision-making structures, absorbing the constructive aspects and containing the destructive aspects of the "revolt of the youth" which is likely to become a world-wide phenomenon in the years to come.

(6) The need to think of the problem of "ethnic pluralities" and their "integration" as part of the drive of achieving national autonomy and social transformation, and to avoid the pitfall of being overconcerned with "centrifugal tendencies" and the "parochialism" of this or that community, the principal task in the national integration being to disorient local minorities from external stimuli and to remove the suspicion of the majority community about the lack of patriotism of given minority community or communities.

(7) Attention to problems of size, territorial organisation of the country, local autonomy and a reconciliation of the economies of scale on the one hand and the politics of scale on the other — in short, a well thought out policy of decentralisation and of regional and local participation in national tasks.

(8) Consideration of a regional policy *externally* (especially necessary for small countries) as a complement to policies of national self-sufficiency in economic development and national defence, with a view to seeking both economic prosperity and political security, not through a clientistic relationship to an external power but on the basis of co-operation among neighbours who can think of their "interests" in terms of mutuality and common purpose and values.

III

Choice among Alternative Models

What I have tried to do in this paper is to point out certain general lessons that we have learnt from the last twenty-five years of experience in regard to state and nation building in the "Third World". There is, on the one hand, the *modernisation model* which seeks to undermine the autonomy and power of the new states. There is, on the other hand, what may be called the *state-building model* which seeks to conceive of the tasks of modernisation, economic development and the rest as part of a general drive towards consolidating national autonomy and realising the values of democracy, social justice and secularism. Bangladesh has come to life when the alternative scenarios can be perceived in their fullness, when the ground for making critical choices has been cleared of a lot of confusion and misleading cliche, and when the real need is for a proper perspective and bold initiatives from the political elite rather than passing on the responsibility to foreign trained technocrats.

It is not the task of an outsider to tell the citizens or policy-makers of Bangladesh what precise choices they should make; he is not only likely to be misunderstood but he is bound to be wrong when it comes to the details of statecraft. Bangladesh has many advantages over other countries in the "Third World". It is neither too small nor too large in size, fairly homogeneous in population and a country whose various groups have together fought a liberation struggle against one of the worst tyrannies in recent times. It is predominantly rural and lacks any great "megalopolis" with too large a middle class elite which is committed to imported models. It has a large potential of manpower and skill, abundance of hydraulic power, and a large number of small towns which can become the nerve centres of nation building. It fulfils the vision of a land of small farmers and decentralised industry where greater accent will be on realising minimum welfare for all instead of falling prey to the temptation of becoming a mighty industrial power and "bridging the gap" with post-industrial societies. It has as its neighbour a large friendly country which is willing to look upon it as an equal friend and partner in the preservation of peace and security in the region. It will have a large fund of goodwill all over the world which, as it comes out of its initial shock and wonder, is bound to look upon this new state with respect. Bangladesh has learnt its political lessons through bitter struggle and is bound to place the highest value on its independence and autonomy. Above all, it has a large and urgent agenda of tasks at home and an inspiring leadership at the helm which commands nation-wide support. It is fortunate in having such a leadership which has a faith in democracy and pride in belonging to *Sonar Bangla*.

If only Bangladesh can avoid the temptation of other new states in respect of its relationship with "great powers", at the same time not become oversensitive about its relationship with India and make the few critical choices in respect of domestic political and economic strategy — especially avoiding the pitfalls of the prevailing model of economic development — it appears likely to emerge as not only a viable state but perhaps also a norm-setter for others. The manner in which it has started off — with a ceiling on income, curbs on imports of all goods other than bare necessities, and adoption of Bengali, the language of the people, as the language of administration — provides ground for such optimism.

Employment and Income in Rural India

Pradhan H Prasad

The phenomena of low utilisation of labour, low earning, and inadequate consumption of the vast majority of the people in India have to be analysed in the context of the semi-feudal bondage in which a vast majority of the rural population live even today. It is the high concentration of land in the hands of a few, the uneconomic holdings of the small farmers, and the high proportion of landless labourers, that explain the low utilisation of land and labour — there being sufficient empirical evidence that large farmers use land less intensively than do the small farmers.

In the circumstances, land reforms — rather than the present intensive agricultural development programmes — are strongly indicated for improving land and labour utilisation in the country and freeing people from semi-feudal bondage.

Also necessary are widespread sources of supplementary income for the people. Labour-intensive techniques in non-basic goods production is a viable way of ensuring this.

This article argues that the existing manufacturing set-up will not be capable of generating the supplementary income or of diverting the population from agriculture to industry with a view to reducing semi-feudal exploitation. The employment base of the presently patterned manufacturing sector is too low to have any significant impact in the near future.

THE existing phenomena of low utilisation of labour, low earning, and inadequate consumption of the vast majority of the people in India[1] have been understood mainly in terms of dualism, in that, when the vast majority of self-employed persons are given an 'imputed value' in terms of the existing wage rate in the economy, it appears that the resources with which they are working earn a lower (even negative) rate of profit compared with that prevalent in the rest of the economy.[2] The questions that are then asked too often are: Why should such a condition (i e, where supply of labour is greater than the demand for it at the existing wage rate) continue to exist in the long run? Why does it not bring about increasing substitution of labour in place of land and capital wherever possible so as to bring about a higher rate of employment and investment? The explanations that have been advanced have been mainly in terms of capital shortage and wage cost-efficiency equilibrium theories.[3] The implicit assumption has been that the labourers are largely 'free from semi-feudal bondage' that has been the feature of present-day advanced economies in the period following feudalism. However, in a vast sector of our economy, this assumption has hardly any validity.

It is well known that the ascendency of British power in India brought about



a decline in the once flourishing handicraft and cottage industry in the country and also slowly eroded the economic self-containment of the villages. But the colonial exploitation, while adding to the misery and privation of Indians, revolutionised modes of transport and brought about limited industrialisation of the economy. This resulted in capitalist development which was very slow and also uneven.[4] In 1911, the percentage of cultivators and agricultural labourers in the male work force was 66.7, and in 1951 it was 66.5.[5] The percentage share of manufacturing, including household industry, in the male work force was 9.2 in 1911 and 10.0 in 1951.[6] The vast majority of the population in India continued to live in the rural sector. The percentage of rural population to the total population was 89.2 and 82.7 in 1901 and 1951, respectively.

Rural British India, as we know it, existed under a very strong survival of the feudal structure. Tillers of the soil comprised the most oppressed class of the British tenurial system. There existed a long stratification of landowners, tenants and sub-tenants with the actual tillers being mostly at the bottom. This high land rent moreover created a situation in which the large majority of rural households emerged as 'deficit households': invariably, their bare minimum consumption expenditures exceeded their incomes. With the passage of time, these rural households found themselves in the clutches of the rural rich from whom they took loans at exorbitant rates of interest, to whom they sold and mortgaged the land, and who often aided them in return for their becoming bonded persons. The process was responsible for increasing concentration of wealth and land in the hands of a few, emergence of a class of small farmers with uneconomic holdings, and increase in the proportion of the agricultural labourer class. Miserable agricultural wages, high indebtedness, and bondage of labour, etc, resulted in widespread poverty.

This must have aggravated the situation through low utilisation of land and labour: there is sufficient empirical evidence to support the thesis that large farmers use land less intensively than do the small farmers.[7] In the prevailing circumstances, households with positive savings invested them in giving consumption loans to the rural poor at exorbitant rates of interest and in purchasing land from them. Their savings thus financed the consumption of the rural poor, and meant that the net investment in the rural sector of the economy remained almost negligible. The attempt on the part of rural rich was, thus, mainly confined to increasing their hold on the masses by aiding the increasing number of rural poor (on account of increasing exploitation and alienation of land) towards becoming bonded people. The situation, therefore, was inimical to development.

Hardly anything happened in the post-Independence era to effect a directional change in the process. The rate of industrial development has not been high enough to reduce the proportion of population in agriculture. The percentage of cultivators and agricultural labourers in the male working force was still 67.40 in 1971.[8] The percentage of agricultural labourers in the male working force was 14.9 in 1911, 14.8 in 1951, and has increased to 21.0 by 1971.[9] About 7 per cent of male cultivators had agricultural labour as their secondary occupation in 1961.[10] Whereas, in 1951, among the self-supporting persons the percentage of cultivators of land wholely and mainly owned was 46.93, only about 5.01 per cent of them derived subsidiary income as cultivators of land wholely or mainly unowned and as cultivating labourers, and about 5.14 per cent of cultivators of land wholely or mainly unowned (whose percentage was 8.97) derived subsidiary income as cultivating labourers.[11] Cash borrowing (which hardly gives the complete picture of the magnitude of borrowing households on account of a significant degree of non-monetisation found in rural areas) was reported by 51.7 per cent of all rural households in 1951-52 and 48.8 per cent of them in 1961-62 — the most important purpose was reported to be 'Family Expenditure'.[12] The percentage of rural households reporting negative net savings was about 62.62, and their monthly per capita income was about Rs 12.64 in 1962-63.[13] Thus, the majority of those occupied in rural areas are bonded persons and hence, are not able to cover even the bare minimum of their household expenditures out of their earnings in the semi-feudal institutional set-up of rural India. The dominant concern among the rural rich (except perhaps in areas like Punjab, Haryana, Gujarat and Western UP, etc, where the semi-feudal institutional set-up has weakened) is one of enlarging their sphere of influence rather than maximising the rate of return in the capitalist sense of the term. Thus, one finds low net investment and also low utilisation of land and labour in the rural sector. Such is the nature of underemployment in the semi-feudal institutional set-up.

One is tempted at this stage of analysis to borrow Sau's results which are produced in the Table below.[14]

These reveal the strong survival of the semi-feudal structure arising from the uneven distribution of land (the Gini Concentration Ratio is quite high in all states, except Jammu and Kashmir, implying sharp inequality in the distribution of land). Thus the productivity increase is associated with increased intensity of exploitation, and hence with an increasing proportion of persons remaining below the poverty line. The exploited, it seems, are the weaker sections of the rural population, i e, the labourers and the farmers with inadequate land. The unevenness of land distribution, which often results in low utilisation of land and labour, also aggravates the phenomenon of poverty in rural India.

Land reforms to relieve the weaker sections of the population of the burden of debt (inclusive of debt redemption measures) — rather than the existing intensive agricultural developmental programme (which aims essentially at productivity increase by concentrating the distribution of inputs such as improved seeds, fertilisers, and various other aids and subsidies that have created conditions for the growth of 'intermediaries' of all sorts) — are strongly indicated for improving the utilisation of land and labour and for freeing persons from semi-feudal bondage.[15] Thus, the accompanying land augmenting measures and the need for widespread source of supplementary income for the weaker sections of the population are also indicated. It has been shown that adoption of labour-intensive techniques

TABLE: RANK CORRELATION CO-EFFICIENT

	Rural Labour Households as Percentage of All Rural Households (1963-64)	Gini Concentration Ratio of Rural Operational Holdings (1960-61)	Percentage of Rural Households with Less than One Acre of Operational Holding (1960-61)	Net Value of Agricultural Output Per Acre (All-India=100) (1960-61)
Percentage of rural population below the line of poverty (1961-62)	0.88	0.43	0.59	0.46

in non-basic goods' production, increases employment for the same quantity of inputs, leads to increase in costs, and hence, to increased price of the non-basics — without adversely affecting either the rate of profit or the rate of growth of capital.[16] Here there seems to be no conflict between short-run and long-run objectives of employment, unless the demand for the commodity is drastically reduced on account of its increased price. That, of course, may adversely affect output and employment.

There is therefore a case for enforcing the adoption of labour-intensive techniques for production of such non-basics which have a wide and dispersed market. There is always a case for promoting the production of the commodities which have potential markets scattered all over the country, which have widespread production potential in rural sector, and for which the bulk input happens to be labour. We can take a few illustrations to cover each of these types so as to analyse the impact of such a measure.

The textile industry offers a very good example in the Indian context. The product of this industry has a widely dispersed market and has no close substitute. It may be possible to enforce a regulation whereby the weaving of some popular variety of textile is reserved exclusively for the 'process of production not using power'. For example, the 'process of production using power' should be allowed to manufacture only mono-coloured textiles. Processes such as the printing of textiles and the weaving of multi-coloured textiles, would thus be exclusively reserved for the 'household and small producer sector not using power'. This would mean an increase in the relative prices of such textiles (in the absence of a subsidy). Even then, there is likely to be a sufficiently high demand for such varieties. It is even possible to visualise that in the initial phase the demand will be greater than the production. As the demand will be dispersed all over the country, there will be a sufficiently high rate of earning for 'household and small producer sector not using power' resulting in a big push for the expansion of the sector. Suitable policy measures associated with training programmes for weaving and hand-printing of textiles and marketing may result in the quick expansion of this sector all over the country. One can think of other kinds of such protection. In any case, the expansion of 'household and small producer sector not using power' will affect somewhat adversely the textile mill sector. The proportion of population employed in the 'process of production using power' may even decline but the proportion employed in textile production as a whole will increase very rapidly and the increase in employment and earning will be dispersed all over the country. The economic gains to the weaker sections of the population will be considerable. As mono-coloured textiles will be available for low wage and low income earners, these varieties will constitute the basic-good part of the wage-good mix. As subsidy will not be the kingpin of such policy measures, there is little possibility of emergence of 'intermediaries' and parasitic elements which has marked the past two decades of developmental planning.

Let us also take an illustration of a commodity for which the bulk input happens to be labour. An intensive network of trading activity on the part of the government, collecting poultry products from all over the rural areas and bringing them to the urban and other markets, will have an enormous impact on the supplementary earnings of the rural poor. Some initial help by way of advance payment for the poultry product, provision of birds, etc, may also help in the rapid and wide-spread development of this activity.

The oft-quoted 'land augmenting measure' comprises increasing the area under irrigation. Against the background of the analysis in this article, one can confidently say that most of its merit will be lost unless it is accompanied by an institutional set-up to ensure that land is evenly owned by tillers of the soil. There are, however, other land augmenting measures for the areas where the land is not being intensively used largely because of little knowledge about dry farming and similar farm practices. Government could help labourers and tillers to plough such lands jointly in seasons when they are not being used by the owners for cultivation purposes and may allow the net produce (after deducting the seed and other costs incurred by the government except the cost of services rendered by its employees) to be distributed among them. This would not, however, be a feasible proposition in the absence of an institutional set-up wherein land is evenly owned by all those who are tillers of the soil.

In conclusion, we may assert that the existing manufacturing set-up will hardly be capable of generating supplementary income or diverting the population from agriculture to industry with a view to reducing the semi-feudal exploitation. Even if one makes the most optimistic assumption (in view of the past trends and other historical evidence) about the expansion of employment in this sector by about 5 per cent per annum, the impact will hardly be significant. A little mathematical exercise will show that, even after a decade, the share of agriculture in male work force will be more than 66 per cent. The employment base of the manufacturing sector in India is in effect too low to have any significant impact in the near future.

NOTES

1 Minhas, B S, 'Rural Poverty, Land Redistribution and Development Strategy', *The Indian Economic Review*, April 1970; Notes from B S Minhas and from Pranab K Bardhan on "The Controversy around Rural Poverty and Minimum Level of Living', *Indian Economic Review*, April 1971; Dandekar, V M and Nilakantha Rath, 1971, "Poverty in India", Chapter 2; Prasad, Pradhan H, 'Some Policy Priorities', *Economic and Political Weekly*, Special Number, July 1971, p 1573.

2 Prasad, Pradhan H, 1970, "Growth with Full Employment", Chapter 2.

3 Prasad, Pradhan H, *op cit*, pp 11-32. See also Myrdal, Gunnar, 1968, "Asian Drama", Volume II, Chapter 21, Sections 14, 17 and 18.

4 Prasad, Pradhan H, 'Indian Masses and the Process of Development', *India Today*, January 1972.

5 We are using 'male work force' comparison over time because "the figures for males are generally regarded as more firm, being less susceptible to changes in concepts and procedures, and it is conventional to depend on them", Krishnamurthy, J, 'Working Force in 1971 Census', *Economic and Political Weekly*, January 15, 1972, p 117.

6 Census of India 1961, Paper 1 of 1967, p 27.

7 See for example Hanumantha Rao, C H, 'Alternative Explanations of the Inverse Relationship between Farm Size and Output Per Acre in India', *The Indian Economic Review*, October 1966.

8 Census of India 1961, paper 1 of 1971 — Supplement, p 62.

9 Census of India 1971, *op cit* p 62; Census of India 1961, Paper 1 of 1967, p 26.

10 Census of India 1961, Volume IV, Part I-A (ii), p 88.

11 Census of India 1951, Volume I, Part I-B-Appendices to the Census Report, p 229.

12 Reserve Bank of India, 1969, Report of the All India Rural Credit Review Committee

13 NCAER, (1965), All India Rural Household Survey, Volume II, pp 96 and 100, Tables 33 and 36.

14 Sau, Ranjit, 'On Rural Poverty', *Economic and Political Weekly*, December 25, 1971, p 2563.

15 See Prasad, Pradhan H, 'Some Policy Priorities', *Economic and Political Weekly*, Special Number, July 1971, for a brief outline of the policy package.

16 Prasad, Pradhan H, 'Growth and Employment', *Indian Economic Journal*, July-September 1967.

Mortality and Longevity in India, 1901-1961

Kumudini Dandekar

A long-term view of the Indian census life-tables during 1901-1961 indicates:

(a) The health status of the females has been deteriorating vis-a-vis the males.
(b) Mortality for age group 0-4 is less than what is observable elsewhere for the same longevity.
(c) Mortality of age group 0-4 is also relatively less subject to improvement.
(d) Impact of good or bad times in India was seen on the age group 10-29 years.
(e) The pattern of improvement during 1951-61 shakes the earlier pattern of mortality to conform slightly with what one sees elsewhere in the age group 10-29.

One can either accept the above or revise the life-tables on certain plausible hypotheses.

IN the census of 1971, the enumerated population fell short of the population-size expected by the experts. The experts forming a committee for population projections in 1964 had forecast a population of 560 million while the actual population count in 1971 is 547 million for India. The forecast was based on certain assumptions regarding birth and death rates and a decline in them. A smaller population than expected either suggests more decline in birth rate or less decline in death rate than the experts believed since population of India is a closed population. This, of course, on the assumption of the same level of enumeration in the censuses of 1961 and 1971. Skepticism regarding India's capacity to reduce its birth rate leads some quarters to be pessimistic; they believe in less-than-expected decline in death rate as the plausible explanation for the difference in the census count and expected population. The present article sketches the implications of such an explanation after a review of the mortality conditions in India during the twentieth century.

Assessment of mortality conditions in India is based exclusively on the population counted for various age years at the censuses. Thus for the country as a whole the number aged 40 years at a census are regarded as survivors of those aged 30 years at the previous census, conducted a decade ago. Such procedure determines the death rate for various age groups during a decade between the two censuses. Every census has a set of age-specific mortality rates given in a table called the census life-table. The total dependence on the census life-tables for mortality assessment in India is because

(a) Vital registration in India is not dependable.

(b) For any empirical observation regarding mortality, the size of the sample needed for a given level of precision in measurement is large and costly because of variability in conditions with wide range of varying cultures and physical conditions.

(c) There is faith in the near-completeness of enumeration at the census. This is due partly to the vastness of the whole census affair.

(d) Assumption of the same level of under- or over-enumeration at the two consecutive censuses leaves the census life-table comparatively undisturbed.

(e) There is no other go.

The census life-tables commanded faith more for the ingenuity they required for their construction rather than for their reliability. Though highly technical, the construction was based on nothing reliable. The completeness of enumeration was doubted. The uncertainty due to this was often alleviated by the assumption of the same level of underenumeration in the two consecutive censuses. The basis for this was more often ignorance than any sound reasoning. The reported ages have rarely been worthy of reliance. Epidemics and famines upto 1921 always shattered the basis of any respectable guesses. The differential coverage from census to census, if any, could rarely be assessed or corrected for. All these factors resulted in census life-tables with unknown precision. Their assessment needed a long-term as well as a short-term view. The short-term view was provided by the census actuary with his closeness to the census operations. As a technician, he always assured himself of the consistency of the life-tables with other demographic observations. However, a long-term view could hardly be had because of the stagnancy of mortality conditions at a level never observable in modern times for countries with reliable data. A time has perhaps come when a long-term review can be had with great advantage in construction of the life-table. More recently, i e, since 1951, a critical appraisal of the census data from a variety of approaches paved the way for a long-term assessment of mortality and longevity in India.

The census life-tables have a hundred-year history in this country. The decades upto 1921 were intermittently in the grip of famines and epidemics which affected mortality levels and hence the longevity of Indians. In 1881 or 1891 it was about 25 years of life. But in the intervening decades it deteriorated by about 3 or more years. The longevity or expectation of life for a man or woman born in India was as shown in Table A for the various census years.

The mortality conditions for the various census years before 1931 fluctuated erratically due to varying impact of the natural calamities on the two sexes and the various age-groups. The pictures of mortality conditions by the census actuaries constructing life-tables depended as stated before, on their impressions

TABLE A

Census Year	Male Longevity	Female Longevity
1881	23.7	25.6
1891	24.6	25.5
1901	23.6	24.0
1911	22.6	23.3
*1921	19.4	20.9
1931	26.9	26.6
°1941	32.1	31.4
1951	32.5 (33.5)**	31.7 (34.7)**
1961	41.9 (44.2)**	40.6 (45.7)**

° No census life-tables were constructed for these years. K Davis constructed them in his book 'Population of India and Pakistan'.
°° The bracketed figures are estimates by Coale and Hoover.

regarding the well-being of various age-groups in the preceding decade. This was because of the need to correct the age reporting in the censuses. Methods of correction changed from census to census. It is intended to record below the peculiarities of the mortality pattern depicted by the Indian life-tables.

[I] *Greater Longevity of Indian Females than Males before 1931 but Not Later*

The greater longevity of females upto 1921 observed in the above table may be the effect of construction of the life-table on the basis of greater longevity of females observed in other parts of the world for all times and regions. This is not observed for the censuses in India from 1931 on. We may consider two possible hypotheses. One is that the Indian female did have an advantage over the male before 1931. But the conditions deteriorated later in favour of males though they improved the longevity of both. Such a hypothesis upsets our impressions regarding the status of females *vis-a-vis* males.

The other hypothesis is that the earlier life-tables may have to be revised for the proper sex-differentials observed in later censuses on the basis of assumed differential underenumeration in the two sexes. In this revision one has to bear in mind that the sex-ratio for the various census years during the last 70 (or hundred) years shows deteriorating numbers of females compared to males. The trend is so consistent and regular that one believes in it. But its interaction with the two hypotheses stated above leaves one in a perplexing situation. An explanation can be looked for, into (a) differential underenumeration for the two sexes (b) different level of underenumeration from one census to the other. It may be possible to construct relative differences in levels of underenumeration in the censuses on certain plausible assumptions such as:

(a) The health conditions of women relative to men are at least not deteriorating in the successive years.

(b) The levels of enumeration improve with better communications. For the same mortality conditions, this will show better survival for the successive censuses, if communications have improved successively in the later censuses.

(c) The relative levels of enumeration of males and females have differed and these are mainly responsible for the sex-differentials observed in the longevity in the census life-table.

It is not proposed to apply the above criteria and come out with estimates of relative underenumeration in the censuses in the present article. The idea in mentioning the above possibilities is to bear in mind the factor of differential underenumeration, so important in the construction of life-table. When blocks of areas with their population are missed, this administrative inefficiency may affect the enumerations. But it is often for both the sexes. Differential enumeration in sexes is caused by different factors. The reasons behind such underenumeration are likely to be cultural. For instance, the desire to report or not, a male or female. These being deeply embedded in the fabric of the society cannot be easily brought to the surface. A critical appraisal of the kind stated above may help fathoming such factors. The difference in longevity of males and females is about +2 years in the earlier decades and —1 year in the later decades. It may seem small. But the expectation is that the sign also must change. In the present situation one has to decide on two years' difference in longevity of females for only 24 years' of males. This involves the questionability of more than 8 per cent female life. One can clearly see the importance of thrashing out the problem.

[II] *Gain in Longevity in the Successive Censuses*

There was no addition to longevity during the course of 50 years since 1872. If at all, there seemed deterioration of mortality conditions with erratic impact of famines and epidemics. One peculiarity of the census life-tables upto 1921 was that the impact of good or bad times in those days affected most the mortality in the age group 10 to 29 years or so. This will have to be borne in mind especially when one discusses the mortality pattern and change in it in the later censuses.

Compared to past better-year average longevities, there was an addition to them of about 3 years during the decade 1921-31. This was supposedly the first decade in the Indian region completely free of famines or epidemics in the present century. One took for granted this addition to longevity. But the addition of about 5 years during 1931-41 by the life-table (by K Davis) for 1941* cannot be easily explained after a review of life-tables in the successive decades. For instance, the performance in the decade 1941-51 seems unexpectedly dull when compared with 1931-41. This may be the result of judgments in constructing the life-tables for the two decades. One is therefore tempted to leave out either 1941 or 1951 life-table as "not in line with" other census life-tables. One may assume that about 6 years of life was added during 1931-51 and probably there is no disagreement on the point.

During 1951-1961, more than nine years' longevity was added to human life in India. Besides the census estimate of the life-table, other estimates such as those of Coale and Hoover were made not only for 1951 but for later years. Coale and Hoover estimates announced slightly higher longevities than those by the census for 1951 as well as 1961. Besides, they insisted on a higher longevity for females than for males as observed in the rest of the world, implying an underenumeration of females in the Indian censuses relative to males. The discrepancies between the census life-tables and those by Coale and Hoover (or any set of model life-tables such as those by the United Nations or Coale and Demeny) can be discussed by analysing the mortality pattern in India for various age groups. The need for such an analysis arises due to the need for higher precision in mortality measurement stated in the next paragraph.

From 1951 on, there is a special interest in the census life-tables. Besides the interest in the life-tables *per se*, the impact of death-decline on the population growth has to be distinguished from the impact of decline in birth rate. This enhances the desire to measure birth and death rates with precision. Unfortunately one has still to rely on census enumerations to get trustworthy figures for both. The error in one direction or the other throws people into pessimism or optimism and one has to wait for another decade and a census to revise one's impressions with confidence. 1971 census is a good example of the conflict in the pessimistic and optimistic attitudes and it puts to test the capabilities of modern demographers at precision of measurement.

[III] *Lower Mortality in Infancy in India than Elsewhere*

For any given level of longevity the death rate for the age group 0-4 years is smaller in Indian life-tables of all times upto 1961. A comparatively higher death rate for age 5-9 years does not make up for the higher mortality in age group 0-4 years observed in any other life-tables, such as those by Coale and Hoover, Coale and Demeny or the United Nations. The other peculiarity is the higher death rate in the Indian life-tables upto age 30 than elsewhere for the age period, 10-29 years for the same longevity levels. If the Indian situation is to be relied upon, what possibly could be an explanation?

One has to look into the cultural set-up of India for an explanation. One possibility seems to be the long duration of breast-feeding observed in India. With long duration of breast-feeding the Indian babies (male and female) are possibly less exposed to external hygiene and the hazards accompanying low levels of nutrition. Hence the age group 0-4 years may be more secure in India than elsewhere for the same level of longevity. On the other hand, the earlier half of adulthood of women may be more insecure in India for the same reason, i e, constant erosion of calcium through breast-feeding without any help from nutrition. As for adult males, their relatively higher death rate in earlier half of adulthood compared to that found elsewhere (for the same longevity) may be due to low levels of living and nutrition.

In case the above explanation for the observed pattern of mortality is not acceptable, the other alternative is to revise the Indian life-tables to conform to the pattern observed elsewhere. The only part of the life-tables which is not based on actual observations is the earliest age group 0-4 years. If it was to be brought in line with the death rates for later age years, the resulting Indian longevity will have to be revised and it will be reduced appreciably. This will upset the consistency of the life-tables with other demographic set-up of the census with its birth and death rates. The other possibility is to revise smoothing procedure for age group 10-29 years.

[IV] *Change in the Observed Pattern of Mortality during* 1951-61

A comparison of the three sets of life-tables (namely Indian Census life-tables, UN Model life-tables, Coale and Demeny life-tables) consistently brought out the peculiar features of Indian mortality discussed above. However, the census life-table for 1961 seemed to alter the earlier pattern. The age-group-specific mortality rates for the census life-tables were of course lower as usual for age group 0-4. But they were lower for the census also for the age groups upto 30 after which they rose higher. It seemed that the pattern of death rates for the age group 10-29 for India in 1961 was the same as that indicated by Coale and Hoover. But this was for a higher longevity with Coale and Hoover. Thus it is worthwhile comparing the improvements in mortality till 1951 and 1961 to bring out the change in the pattern. This is done below.

Indexes of improvement in mortality in 1951 and 1961 were constructed with 1911 and 1931 as bases. The use of 1911 as base was because the decade 1901-11 was comparatively free of famines and epidemics. The use of 1931 was suggested for the same reason besides its smooth age distribution based on different considerations. These are presented for males and females in

° The 1941 census had no life-table. Hence K Davis constructed it. It does not fit in properly with the life-tables constructed by the census actuaries. It is a typical example of how the construction of life-table is moulded by judgments.

TABLE 1: MORTALITY INDEX, 1911-1961, INDIA

Age Group	Males						Females					
	1911	1921	1931	1941	1951	1961	1911	1921	1931	1941	1951	1961
0- 4	100	109	89	79	67	50	100	102	86	77	74	52
5- 9	100	96	67	54	81*	34	100	85	60	50	92*	42
10-19	100	150	73	75*	83*	34	100	158	86	93*	70	36
20-29	100	127	78	65	62	33	100	132	107	81	59	38
30-39	100	113	88	62	64	47	100	119	109	77	80	71
40-49	100	105	94	59	71	66	100	127	108	76	80	76
50-59	100	101	97	72	88	80	100	104	100	77	83	80
60-69	100	98	97	75	101	88	100	92	93	74	92	81
70+	100	100	100	100	100	100	100	100	100	100	100	100

* Doubtful pattern of improvement in mortality.

TABLE 2: MORTALITY INDEX, 1931-1961, INDIA

Age Group	Males				Females			
	1931	1941	1951	1961	1931	1941	1951	1961
0- 4	100	89	75	56	100	90	86	66
5- 9	100	81	121*	50	100	82	153*	69
10-19	100	107*	114*	46	100	109*	81	42
20-29	100	83	80	43	100	76	56	36
30-39	100	71	73	54	100	70	74	65
40-49	100	67	75	70	100	70	74	70
50-59	100	71	90	82	100	77	83	80
60-69	100	77	104	90	100	80	99	87
70+	100	100	100	100	100	100	100	100

* Doubtful pattern of improvement in mortality.

TABLE 3: MORTALITY INDEX FOR CEYLON, 1900/02–1952

Age Group	Males			Females		
	1900-02	1945-47	1952	1900-02	1945-47	1952
	e_0^0=36.99	e_0^0=47.21	e_0^0=57.6	e_0^0=37.64	e_0^0=48.66	e_0^0=55.5
0 — 4	100	74	54	100	77	55
5 — 9	100	51	27	100	46	30
10 — 19	100	43	17	100	50	25
20 — 29	100	62	19	100	47	27
30 — 39	100	57	18	100	58	26
40 — 49	100	67	23	100	79	24
50 — 59	100	78	32	100	90	31
60 — 69	100	91	47	100	90	43
70 +	100	100	101	100	100	100

e_0^0=Longevity

Source: "The Demography of Ceylon" by N K Sarkar (1957). The figures from the book were adjusted for comparability with Indian indexes which were based on probabilities of death.

Tables 1 and 2. The Tables show that with 1911 as base year the mortality rate for age-group 0-4 years of males was only 67 per cent in 1951 and 50 per cent respectively upto 1951 and 1961. On the other hand for age group 5-19, the improvement was less than 20 per cent in 1951 but 66 per cent in 1961 as compared to 1911. Similar trend is observable for ages upto 39 for males and upto 29 for females.

With 1931 as base year one observes similar pattern of improvement in 1961 and 1951 as observed above except for the age groups 5-19 for males and 5-9 for females in 1951 when the conditions seemed to deteriorate. The similarity means an exceptional improvement in the age period 10-39 or so in 1961. An explanation for the deterioration of conditions for certain age-groups observed in 1951 has to be sought in the smoothing procedures or underenumerations. Correcting them in one direction or the other may have far-reaching effects. However, while using 1931 as the base, 1941 pattern of improvement does not seem inconsistent and one wonders whether one should accept the 1941 or 1951 pattern.

The effect of the above was that with a specific gain in overall longevity, the addition in longevity due to improvement in mortality of age group 0-4 though higher than in any other age group of similar size, was much smaller compared to additions observed elsewhere. For instance with 15 years added to Indian longevity during 1931-61, only 5 were added by improvement before age 5 and the rest spread over the whole age span. Could it be possible that the relative improvements in mortality in age group 0-4 were also put away because of its being protected with breast-feeding?

The implications of the pattern of improvement in mortality may be interpreted as under:

The Indian pattern of mortality from 1921-1951 perhaps reflects what improvement could occur in a poor, tropical, big country by cessation of epidemics with certain cheap preventive measures and perhaps a little improvement in hygiene. It also reflects the cessation of famines with improved communication facilities. But the mortality improvement in 1951-61 reflects the reactions of the country to modern medical facilities at low levels of living including preventive measures such as the use of DDT, BCG, or the use of curative drugs such as sulpha-drugs, etc. Living conditions in India may not have appreciably changed to effect improvement in the ever-handicapped early working age upto 30 years. But the control of malaria and similiar disabling diseases perhaps helped these ages. To have further improvement above age 30, perhaps a change in the living conditions is necessary. Further, the breast-feeding may protect babies in their infancy at very low levels of longevity. But the same may keep away improvements in it at slightly higher longevities.

The experience of no country in the world seems closer to India than that of Ceylon and still Ceylon had more than 62 years of longevity in 1963. However, it had about 47 years' longevity in 1947. Though the living conditions are different in the two countries, the cultural set-up is very much the same. For various reasons the reliability of vital data for that country is likely to be high. The pattern of improvement in mortality in Ceylon (Table 3) during 1901-1947 can be compared to India during 1911-1941, though India had a smaller longevity. There are two possible patterns of improvement in Indian mortality which may go with the Ceylonese pattern of 1945-47. One is the 1941 pattern and the other the 1951 pattern. One does not know which pattern to choose for India. In any case, both the Indian patterns need a correction and a bigger correction is needed for 1951 than for 1941. But with correction of the pattern, one may have a rough estimate of underenumeration at either of the two Indian censuses.

Analysing the pattern of mortality in India during 1901-1961, one can look at the 1971 census with a 'prepared' eye. The level of improvement in Ceylon of about 1950, is what the experts have assumed for 1971 India in their projections (in 1964). The longevity in 1951 census, if in doubt, was likely to be higher than observed by 1941 standards. In that case the gain observed in 1951-61 is not much and there is much room for improvement in 1961-71, even with the prevalent low levels of living in the country. The increase in medical facilities, the increased coverage in malaria control is expected to bring the backward states in line with the others and the impact of such measures is estimated to be effective in 1961-71 as much as in 1951-61. If not, the health-status in the various states is going to be divergent. This would be a blot on the avowed policy by Indian planners of even distribution of the basic and elementary fruits of planning.

One therefore eagerly awaits the 1971 census life-tables. It is hoped they are not biased by preconceptions regarding less or more longevity (than that estimated by experts committee) added to Indian life during 1961-71.

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India's Sugar Exports: Re-Assessment of Rationale

Goutam K Sarkar

India first undertook sugar exports in 1957. From the latter half of 1961, government has been sharing the rupee losses on account of sugar exports. Over the years 1961-62 to 1967-68, these subsidies for sugar export amounted to as much as 60 per cent of the foreign exchange earned thereby. And in certain years — 1962-63, 1965-66 and 1966-67 — thesubsidies either equalled or substantially exceeded the exchange earnings from sugar.

The fact is that we clearly do not have a comparative costs advantage in sugar. The cost structure of the industry is far too high to warrant export — without losses being incurred by the industry or without official subsidy. And the extent of reorganisation of cane and sugar production that would be required for Indian sugar to become significantly cheaper puts viable sugar exports beyond the pale of the practically possible. Moreover, the developed countries have in sugar-beet a perfect substitute for sugar-cane which they, therefore, try to protect. Sugar also has a low income elasticity in the affluent sugar-importing countries.

Although all these adverse factors exports of sugar continue to be susidised, reflecting our misplaced investment decisions flowing from the ill-conceived notion that exports have to be promoted at any price.

[The views expressed in this article are author's own.]

I

The Background of Exports

ALTHOUGH the requirements of economic development underline the need to earn foreign exchange, the view that all our exports have to be permanently promoted *at any price* is ill-conceived. India's subsidised sugar exports provide a rather striking example of export planning based on such a view.

When, in 1957, India made an encouraging entry into the world sugar market, exporting sugar to various countries especially in Asia and East Africa, international market prices of the commodity were higher than the cost-price of it in India so that the Indian sugar industry could export without incurring losses. But the buoyancy — which was in any case the result of the Suez crisis and the poor beet crop in Europe — was short-lived. In 1958, the world prices of sugar slumped to unremunerative levels. From 1958, then, up to the middle of 1961, the industry was fully bearing the losses on sugar exports under the Sugar Export Promotion Act of 1958. The Act empowered the government of India to fix export quotas from time to time, and to apportion them to the various factories. The price paid to producers depended on the realisation from the foreign market less the expenses incurred.

From the latter half of 1961 exports were pushed up considerably, with particular emphasis on raw sugar exports to the US and Canada. This step-up was supported by government-adopted schemes for sharing the export losses with the industry. The industry also pleaded its inability to meet its liabilities due to the implementation of the Wage Board Report. Since it was considered inadvisable to raise the consumer price of the commodity, the industry was allowed to supply sugar for export on a no-profit no-loss basis, which meant that it had to bear just a very small burden considering that exports were only a fraction of its national turnover on which the industry earned a profit. Thus the actual losses on exports — equalling the difference between the purchase prices and the f o b realisations (net of expenses) from overseas markets had to be borne by the government in the form of a subsidy.[1] Sugar for export was bought by the government from selected sugar factories on the basis of tenders, and the bulk of it went to the US, Japan Canada, and the UK. Exports to the US were subject to a statutory quota allowed under the United States Sugar Act, while those to the UK and Canada were governed by the Commonwealth Sugar Agreement.

In 1968 and 1969, when sugar exports were restricted to the preferential (negotiated price quota) markets of the US and the UK, the industry agreed to meet the entire losses. In 1970, the industry undertook to bear the losses only on the preferential exports of about one lakh tonnes. The State Trading Corporation decided to export about 50,000 tonnes at substantial losses under barter arrangements and the government agreed to subsidise an additional export of 80,000 tonnes. Tables 1 and 2 give the volume and value of exports of Indian sugar in recent years.

II

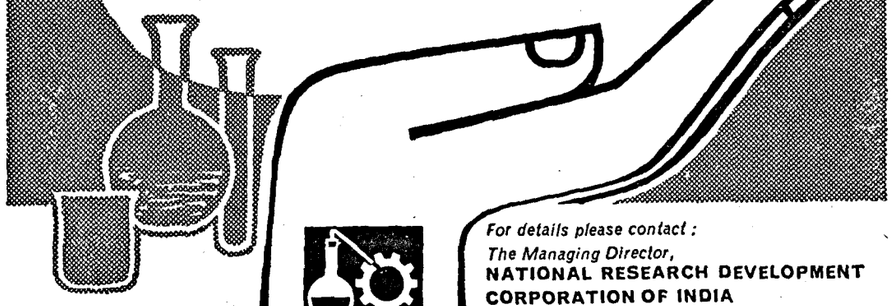
Extent of Subsidy

Losses on exports of sugar are quite a common feature among a number of major exporting countries; moreover, the difference between the domestic price the export price of Indian sugar does not compare very unfavourably with the corresponding difference in some of the other sugar-exporting countries. Export subsidies on primary commodities are not uncommon either, and are allowed under GATT. However, most of the leading sugar-exporting countries — e g, Cuba, Hawaii, Puerto Rico, Brazil, Mexico, Philippines, and Mauritius — arrange to ship the bulk of their sugar to the relatively steady preferential markets and channel a much smaller volume to the free markets. Their losses on export are thus relatively small compared with those of India which has to sell very large part of its sugar in free markets abroad, where the prices are much lower than in the preferential markets (Table 3).

The initiation of the International Sugar Agreement since January 1, 1969, has somewhat improved the world sugar situation, and the international prices of sugar have picked up compared with those obtaining in the pre-Agreement years. However, notwithstanding this short-run improvement in world prices, sugar exports from India have to be

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TABLE 1: INDIA'S SUGAR EXPORTS

(Tonnes)

Year	Total	UK	Canada	US	Total Preferential	Total Free Markets
1969-70	82,545	25,400	—	56,904	82,304	241
1968-69	99,152	25,401	—	73,424	98,825	327
1967-68	228,250	78,364	71,930	77,823	228,117	133
1966-67	354,371	78,909	39,295	54,531	172,735	181,636
1965-66	410,965	83,450	52,761	82,869	219,080	191,885
1964-65	282,171	37,793	10,160	98,777	146,730	135,441
1963-64	432,358	10,126	72,043	147,670	229,839	202,519
1962-63	417,873	19,725	129,305	82,984	232,014	185,859
1961-62	284,244	—	15,281	195,753	211,034	73,230
1960-61	58,008	*	—	—	—	58,008
1959	17,172	—	—	—	—	17,172
1958	38,120	—	—	—	—	38,120
1957	147,404	998	—	—	—	147,404

* Negligible.

Source: Computed from various issues of *Monthly Statistics of Foreign Trade in India.*

TABLE 2: VALUE OF SUGAR EXPORTS FROM INDIA TO VARIOUS MARKETS

(Rs lakhs)

Year	Total	UK	Canada	USA	Total Preferential	Total Free
1969-70	859.6	218.3	—	637.7	856.0	5.6
1968-69	1,012.7	218.7	—	789.4	1,008.1	4.6
1967-68	1,595.4	457.6	327.7	808.5	1,593.8	2.0
1966-67	1,380.6	206.6	131.7	432.8	771.1	609.5
1965-66	1,134.1	295.2	137.1	451.9	884.2	249.9
1964-65	1,892.7	176.8	33.5	638.0	848.3	1,044.4
1963-64	2,573.5	42.0	302.5	1034.3	1,378.8	1,194.7
1962-63	1,698.9	81.1	475.7	390.0	946.8	752.1
1961-62	1,449.3	—	54.3	1087.9	1,142.2	307.1
1960-61	248.2	*	—	—	—	248 2
1959	75.9	—	—	—	—	75.9
1958	172.3	—	—	—	—	172.3
1157	1,175.9	7.0	—	—	—	1,175.9

* Negligible.

Source: Computed from various issues of *Monthly Statistics of Foreign Trade in India.*

TABLE 3: SUGAR PRICES IN DIFFERENT MARKETS

(US cents per lb)

Year	Wholesale Prices (India)	Export Prices Caribbean Ports	Import Prices UK *	Import Prices U S **
1955	2.68	3.24	5.10	5.45
1956	2.98	3.48	5.28	5.59
1957	3.29	5.15	5.28	5.74
1958	4.65	3.50	5.47	5.77
1959	5.30	2.97	5.64	5.74
1960	4.50	3.14	5.55	5.80
1961	4.31	2.91	5.64	5.68
1962	5.27	2.98	5.72	5.82
1963	6.92	8.50	5.75	7.56
1964	8.32	5.87	5.75	6.27
1965	6.74	2.11	5.25	6.12
1966	5.25	1.86	5.44	6.37
1967	10.23	1.99	5.44	6.65
1968	11.69	1.98	5.44	6.90
1969	5.53	3.37	5.44	7.12
1970	—	4.09†	—	7.40†

* Contract price to Commonwealth sugar producers. ** Spot price, CIF, New York.
† December 1970.
Source: FAO, *Production Yearbook* 1970, p 547.

made at 'losses' since the cost-price of Indian sugar is much higher than the ruling world prices. Table 4 sets out the values of sugar exports from India and the amounts paid to industry as subsidy.

Over the years 1961-62 to 1967-68, these subsidies amounted to as much as 60 per cent of the foreign exchange earned from sugar exports. Even if the two years, 1968-69 and 1969-70, when no subsidies had to be paid are taken into account, subsidies paid over the decade aggregated 53 per cent of the exchange earned from sugar exports. And in a number of years, e g, 1962-63, 1965-66, and 1966-67, the subsidies either almost equalled or substantially exceeded the exchange-earnings from sugar.

III

Impediment to Viable Exports

The Sugar Enquiry Commission (1965) recorded a rather unqualified support for the subsidies on sugar exports, and recommended that the entire losses on sugar exports should be borne out of the excise duties on sugar. It even suggested a stepping up if necessary of the rate of excise duty for the purpose.[2] The Commission thus happily ignored the undesirable features of the the export subsidy scheme, which should have been used as a temporary expedient. The basic drawback of two-price export subsidy is that it disguises the true cost from the consumer and gives better terms to the generally more affluent foreign buyer. From Table 3 one can gauge the higher domestic prices of sugar in India compared with its export prices in recent years. The suitability of sugar, in particular, for such subsidy must be severely open to question. For, sugar is a commodity in which we clearly do not enjoy comparative costs advantage and of which the export potential is not promising at all.

In fact, sugarcane is unique among tropical crops, in that, a perfect substitute for it can be found in temperate countries: about half of the world's sugar is produced from sugar beet and a number of European countries export sugar. Thus sugar is a commodity which we have to produce in direct competition with developed countries, too, which have naturally sought to protect their domestic producers — though some of them have ensured some preferential price treatment to the exports of developing countries.

Furthermore, sugar has a generally low income-elasticity of demand in the wealthier sugar-importing countries, and this *inter alia* adversely affects its potential for long-run demand expansion. Thus the secular prospects of remunerative international trade in sugar are poor. And, owing to its residual nature, it is quite possible that prices on the 'free market' would remain below most

TABLE 4: VALUE OF, AND SUBSIDIES ON, INDIA'S SUGAR EXPORTS

(Rs lakhs)

Year	Export Value	Subsidy **
1961-62	1,449.3	550
1962-63	1,698.9	1,420
1963-64	2,573.5	350
1964-65	1,892.7	210
1965-66	1,134.1	1,750
1966-67	1,380.6	2,000
1967-68	1,595.4	746
1968-69	1,012.7	—
1969-70	859.6	—
1970-71	*	860

* Not available. ** Revised budget provisions; the preliminary budget provision for export subsidy on sugar in 1971-72 is Rs 1,000 lakhs.

Source: Computed from various issues of Budget Papers and Table 2.

countries' average production costs so long as surplus sugar from countries with protected sugar industries continues to be dumped.[3] Neither the International Sugar Agreement, nor the bilateral arrangements covering the other half of the world sugar trade, can ensure a better long-term equilibrium in the world sugar economy through a closer balance between world production and consumption.

The basic impediment in the way of exporting sugar from India lies in its high cost of production even as not enough sugar is produced for domestic demand. Along with wages price of cane is the most important component of production costs of sugar. Since a reduction in wages can be ruled out, lower cane prices become imperative. Here it is interesting to note that the support prices of sugarcane in India (exceeding 50 per cent of the total cost of production of sugar) are much higher than the prescribed minimum prices ensured to cane producers in the major sugar-exporting countries. Table 6, which contains data on the producer prices of sugarcane in India and in two other major sugar-exporting countries, partly illustrates this.

However, a reduction in cane prices in India can be ruled out too unless sweeping measures are adopted to step up productivity per unit area, and incomes of cane-growers are thereby safeguarded. Also, there is the need for substantial improvement in quality (percentage recovery per unit) of sugarcane. The main facets of such rationalisation would be intensive sugarcane research, modern, scientific methods of cultivation, water management, utilisation of fertilisers, and selection of improved varieties through efficient cross-breeding, comparable with those evolved for some foodgrains.

Secondly, a *significant* reduction in the cost of production of sugar would also entail a comprehensive improvement in the efficiency of the sugar factories, particularly through modernisation. Although some Indian sugar mills have made considerable progress in adopting superior manufacturing techniques, the milling performance of a large number of factories (which were set up in the period 1930 to 1936) with their worn-out machinery is quite unsatisfactory and leads to low rates of extraction. Lack of uniformity in the standard of the product also adversely affects its acceptance in some foreign markets.

Yet another reason for the high f o b costs of Indian sugar is costly transportation (mainly railway freight) and handling charges. To bring down the high costs involved in transporting sugar to the ports, it would be necessary to set up economic and large-scale sugar units, planned exclusively for export — comparable with those in other leading sugar-exporting countries — preferably situated near the ports in the more productive regions like Maharashtra and and the Southern states. It would also be necessary to develop special handling facilities and adequate storage facilities at the favourably located ports.

IV

No Economic Logic in Export

Financially, and otherwise, measures involving such a radical re-orientation of the cost-structure of the sugar industry is an uphill task. After all, even as it stands, the development of the industry has enjoyed a protected market, and sugar prices have ruled too high by international standards and in relation to the country's low *per capita* income. Since exports are not viable on their own, there is little logic in pursuing them, especially given the very low levels of *per capita* sugar intake in the country (Table 7).

There may be a case, meanwhile, for exploring practical ways of scrapping the uneconomic units. In a study by R K Singh[4] it was pointed out that, toward the beginning of this decade, Indian sugar cost about Rs 25 per maund (ex-factory) against the world price of about Rs 17. Another study[5] relating to the season 1964-65 revealed that the average export price of Indian sugar was around 8.5 cents per lb excluding taxes, which meant that India was in a very difficult position to compete in the world market without excessive subsidy: as seen from Table 3, the export prices of sugar at the Caribbean ports were 5.87 and 2.11 cents per lb in 1964 and 1965, respectively, and even the negotiated prices in the preferential markets were substantially lower. Nothing seems to have happened since then to reduce the price disparity. Rather, a prolonged 'spoon-feeding' may have had an uneconomic influence. One may easily venture the conclusion that the ex-factory prices of sugar now would continue to rule much higher than the world prices. For instance, in recent years, the minimum ex-factory price of sugar (D-29 variety) in India has been around Rs 140 per quintal — equivalent to about 8.5 cents per lb — whereas the export prices at the Caribbean ports have ranged between 2 and 4 cents per lb only.[6]

In the circumstances, a continued drain by way of export subsidies on the government's budget, and the plethora of administrative problems involved in the export scheme, for a commodity whose export standing and prospects are so poor is nothing but a reflection of our misplaced export investment decisions.

TABLE 5: YIELDS OF SUGARCANE IN INDIA AND OTHER COUNTRIES

(100 kg/ha)

Year	India	US	Australia	South Africa	Mauritius	Mexico	Puerto Rico	Argentina	World
1948-49 to 1952-53	322	781	598	585	597	513	679	339	423
1961-62 to 1965-66	439	897	733	630	790	594	750	496	491
1965-66	430	876	706	727	552	595	802	524	496
1966-67	403	895	752	586	723	585	705	494	509
1967-68	467	967	761	719	859	628	643	449	527
1968-69	492	933	813	645	704	625	594	513	525
1969-70	483	968	742	733	750	625	558	547	512

Source: FAO, *Production Yearbook*, 1970.

TABLE 6: PRODUCER PRICES OF SUGARCANE IN CERTAIN COUNTRIES

(US cents/kg)

Year	India	Mauritius	Mexico
1955	0.81	1.19	0.29
1956	0.81	1.31	0.30
1957	0.81	1.29	0.30
1958	0.81	1.18	0.37
1959	0.91	1.19	0.43
1960	0.91	1.04	0.43
1961	0.91	1.03	0.43
1962	0.91	0.72	0.42
1963	0.98	0.99	0.42
1964	1.13	0.74	0.42
1965	0.96	0.64	0.42
1966	0.84	0.70	0.42
1967	0.98	0.61	0.42
1968	0.98	0.60	0.42
1969	0.98	0.63	0.42

Source: FAO, *Production Yearbook*, 1970, p 546.

TABLE 7: PER CAPITA SUPPLIES OF REFINED SUGAR AVAILABLE FOR CONSUMPTION IN SELECTED COUNTRIES

(Gms per day)

Country	1968-69	1967-68
UK	132	135
USSR	—	103*
US	139**	133†
Australia	—	142
Mexico	—	109*
Japan	61**	57†
India	43†	

* 1964-66 ** 1968 † 1967.

Source: FAO, *The State of Food and Agriculture*, 1970.

NOTES

1 Government of India, *Report of the Sugar Enquiry Commission*, New Delhi, 1965, p 129.

2 *Ibid*, p 132.

3 David Jones, "The Commonwealth Sugar Agreement and the EEC" *Bulletin of the Oxford University*, Institute of Economics and Statistics, Volume 29, 1967, p 212.

4 R K Singh, "Prosperity through Export", Engineering Export Promotion Council, Calcutta, 1965, p 228.

5 Czarnikow — Rionda Company and Benigno Arguelles, Report: "Export Oriented Raw Sugar Industry: India", New York and Miami, undated, p 16.

6 Various editions of Government of India, "Agricultural Situation in India" and Table 3.
Haberler has made a meaningful distinction between *compensatory* export subsidies and *pure* export subsidies. The former are intended to safeguard producers from the competitive disadvantage caused by special domestic fiscal imposts on a commodity. The latter go further than to compensate for this disadvantage in that, they are intended to give definite advantages to exporters *vis-a-vis* their foreign competitors by lowering the export costs of the commodity below what they would be without the fiscal imposts (G P Verbit, "Trade Agreements for Developing Countries", Columbia University Press, 1969, pp 149-159). The subsidies on sugar exported from India can thus be considered as pure subsidies, and it is these rather than the compensatory subsidies which have generally caused complications in international trade.

Multi Service Agency

BANK of Baroda's Multi Service Agency Branch was inaugurated on April 25, 1972. The Multi Service Agency represents an attempt to bring credit within the reach of a vast multitude of social and economic groups. This agency will strive to make credit an instrument of social uplift and of economic welfare of the hitherto neglected sections of society by enabling them to earn reasonable income through self-employment.

As its very name indicates, the Multi Service Agency will provide small borrowers integrated financial assistance as well as a package of technical services such as procurement of raw materials, management of business and marketing of products. The Multi Service Agency is thus primarily a service agency, providing a range of services to a wide spectrum of small borrowers with a view to helping them organise and plan their business more profitably.

The needs of small borrowers and their problems vary considerably. Hence the blanket scheme of credit for all borrowers will not achieve the intended results. The Multi Service Agency will prepare separate schemes for various categories of small borrowers. Instead of waiting for small borrowers to come to the Bank's premises, the Multi Service Agency will go to their very doorsteps. Apart from giving financial and non-financial assistance, the Agency will help them approach various government authorities to solve their problems. Since certain sections of small borrowers to be served are not even literate, the officers of the Multi Service Agency will even help them fill up the application forms etc. The application forms have been simplified and printed in regional languages predominant in Bombay City where the activities of this Agency will be initially confined. Gradually as it gains experience, the services of the Agency will be extended to other important centres such as Delhi, Kanpur, Ahmedabad and districts where the Bank of Baroda has been assigned the 'lead bank' role.

The Multi Service Agency will provide finance at a concessional rate of 4 per cent (2 per cent below Bank rate) to certain 'approved' categories of small borrowers. Apart from the concessional rate of interest, easy repayment schedule will be worked out with due regard to the specific needs of various kinds of small borrowers.

As part of its future plans, the Multi Service Agency proposes to set up a guidance cell, to provide technical advice and consultancy services to small industrialists and other professionals on use of raw materials, registration procedures, and financial, technical and managerial problems.

Indian Aluminium Company Limited

Speech of the Chairman, Mr H V R Iengar

THE following is the speech of the Chairman, Mr H V R Iengar, at the Thirty-fourth Annual General Meeting of Indian Aluminium Company Limited, held on April 26, 1972:

I welcome you to the Thirty-fourth Annual General Meeting of the Company. For reasons of health I could not be with you last year and it therefore gives me particular pleasure to be here again.

Eventful Year

1971 was an eventful year for the country. Memory is still fresh of the vast influx of population from across our eastern border, of the subsequent events leading to a conflict with Pakistan, of our great military victory and of the birth of a new nation: Bangladesh.

While I rejoice at the happy ending of what had started as a sad story, I also wish to draw certain conclusions from the recent events. Perhaps, the most important factor in the success of our military effort was the direction and leadership provided by the Prime Minister and her government. And this I say without in any way discounting the exemplary heroism and the dedication to duty of our Armed Forces. Secondly, the events have shown the inherent capability and maturity of the Indian economy to meet unexpected crisis of vast dimensions.

There may be other conclusions to draw but this is not the occasion to discuss them at any length. Suffice it to say that we should take note of the factors that gave us strength at the time of the national emergency and examine if the same direction and discipline can be used in furthering the objectives of national development.

Commissioning of New Sheet Mill

Insofar as your Company is concerned, the highlight of 1971 was the commissioning of the new sheet mill at Taloja. The Hot and Cold mills were brought into operation in December, and further finishing facilities will be brought into use as they become available during the first half of 1972. Taloja is a very modern and technically sophisticated plant and should prove a most important addition to our facilities. Naturally, to make the best use of this installation, we are anxious to expand it as rapidly as may be practicable.

Semi-fabricated operational capacity is linked by Government to smelter capacity at about 50 per cent level. This calls for a balanced development of both fabricating and smelting capacity. Apart from this, there is the need to expand aluminium production to meet the growing demands of the Indian market. We are therefore actively planning further expansion at Belgaum which should add an additional 20,000 tonnes per annum of smelter capacity there and give us scope for adding 10,000 tonnes per annum of related semi-fabricated capacity.

Exceptionally Well

Our plants performed exceptionally well in 1971. While Belgaum achieved its planned production increase, it is very pleasing to record that our older plants at Muri, Hirakud, Alupuram and Belur broke previously established records of production. Unfortunately, we suffered a two months shut-down of our foil plant at Kalwa due to labour trouble.

Prices continue to be controlled at the levels fixed by Government in May 1971 and the Company has had to absorb further large increases in basic raw material costs. To show reasonably creditable results in spite of this has only been possible by considerable improvements in efficiency at all the plants. But the level of efficiency attained, which can fairly be described as equal to the best international standard, now leaves a very much narrower scope for any further improvement.

Bonus Issue

In my speech last year I had stated that an application had been made to the Controller of Capital Issues for permission to issue bonus shares in the ratio of one to two. I had hoped to announce to you at this meeting that this approval has been received, but at the time of writing this speech it is still awaited. The reason for the delay is that the matter of the bonus issue is linked with a reduction in Alcan's equity in this Company according to the current policy of Government. I am glad to tell you that Alcan have readily indicated to us their willingness to conform to our national policy in respect of gradual reduction of foreign equity participation in an Indian Company. They are, however, concerned that the reduction should not be done in a manner that would be incompatible with sound financing policies and/or the interest of the existing shareholders. These matters are under discussion with Government and your management is optimistic that a satisfactory solution will be found.

Three Budgets

During the past twelve months three budgets have been brought in, which have, or will have, an effect on your Company's results. With the removal of the aluminium industry from the category of a priority industry last year, the company's income tax rate went up from 50.6 per cent to 55 per cent. In the "mini budget" last December a surcharge of 2½ per cent on income tax was levied which was raised to 5 per cent in the recent budget; these have now increased the effective tax rate to 57.75 per cent. In addition, as you all know, the budget speech last year stated that Development Rebate would be withdrawn at the end of May 1974.

Not Averse

Whilst these measures will slow down investment, the budget proposes a substantial increase in Plan outlay. If an increase in monetary outlay is not to lead to higher prices, there must be an adequate growth in real resources to match the faster rate of Plan outlay. Unfortunately, the fiscal proposals do not appear to support a policy which calls for increased saving and investment.

Whilst the Finance Minister has expressed himself as not being averse to fiscal concessions, he has intimated that any new concessions are likely to be for labour intensive industries in the less developed parts of the country. While this is sound enough as a matter of general policy I hope it will not be rigidly observed, particularly in the matter of production of the basic raw materials of growth, which are generally in short supply even at the present levels of activity — for these are highly capital intensive and the direct employment they give to labour is minimal though substantial enough if account is taken of secondary and tertiary employment. Moreover being highly capital intensive, their location has necessarily to be more on the basis of availability of raw material, power supply and markets. We therefore hope that in the interests of increasing the production of scarce metals and in the light of the recent increases in taxation, the decision to do away with the relief that Development Rebate provided for new investment will be restudied. I will not take any more of your time in going into the details of the Company's operations during 1971. These are contained in the report of the Directors which has been with you for sometime.

Before I conclude I should like to give, on your behalf as well as my own, our thanks to the management and all the employees of the Company for the hard and intelligent work that they have done during the past year.

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

The Vijaya Bank Ltd.
Regd. Office: Light House Hill Road, Mangalore-3.
Admn. Office: Race Course Road, Bangalore-1.

Statement by the Chairman
Shri Mulki Sunder Ram Shetty

at the 40th Annual General Meeting of the Shareholders of the Bank held at Mangalore on April 28, 1972

Ladies and Gentlemen,

It is my privilege today to welcome you to the 40th Annual General Meeting of the Bank. Our performance in the period under review has been creditable as will be seen from the figures before you. I take it that you have already read the Balance Sheet and Profit and Loss Account for the year 1971.

The Economic Scene in 1971

In the year left behind, the political arena in the country was dominant, and replete with events, some of which led the country to the crest of history. Early in the year the setting up of a stable government at the centre, with a thumping majority for the ruling group in the general elections to Parliament was the big event in our political scene. Soon started the refugee problem by the influx of evacuees from East Pakistan culminating in a fourteen day war at the end of the year. While the war with Pakistan left some small dents in our economy it also built up an image for us in the world of nations, created greater confidence in us and a new spirit to meet the emerging challenges. It must also be said to the glory of the nation that all political parties stood solidly behind the government throughout this period of crisis.

There were natural calamities like floods and droughts in different states, including a devastating cyclone. The familiar features of inflation, rising costs, labour unrest and unemployment did however have their natural repercussions. The financial burden on our economy increased so heavily that additional taxation had to be resorted to by the government in the middle of the year. The dollar crisis and the consequent stir in the exchange market were dealt with by our government with an alert awareness of the international monetary situation. Exports were kept up and the foreign exchange reserve was satisfactory during the year. As the year progressed the economy showed distinct signs of slackening, with a pronounced slowdown in industrial production, but as a redeeming feature, the production of food grains was maintained.

It is against this background that we examine the performance of our Bank, a bank in the private sector working in close competition with the other larger banks spread all over the country.

The Banking System

The year 1971 was a fairly successful year of steady growth for all the banks. The average growth of deposits for all the banks in India together was 20.6 per cent as against 16.4 per cent in 1970. The number of branches increased to 12,985 from 11,184 in the last year. On an average 150 new bank offices per month were opened in 1971. The average population served by a branch of the bank declined to 42,000 in December 1971 from 52,000 in December 1970, and 65,000 in June 1969. The banks met their challenge of deposit mobilisation with added vigour to take the total deposits to Rs 6,856 crores at the end of the year 1971. The credit needs of the priority sectors continued to get support from all the banks. The total advances of all banks stood at Rs 4,966 crores at the end of the year. The credit expansion in the banking system was only 11.5 per cent in 1971 as against 23.1 per cent in 1970. Unlike in 1970, deposits did not lag behind credit in 1971. The average credit deposit ratio was as high as 77.4 per cent in 1971 but the bank borrowings from the Reserve Bank to meet credit needs were less than in the previous year.

The report of the Banking Commission set up in 1969 has already been presented to the Parliament. Further developments in the structure and organisation of banking in the country are awaited, depending on the extent of the government's acceptance of the Commission's recommendations.

Our Bank

The deposits of our Bank stood at Rs 43.64 crores on December 31, 1971. The increase in deposits was 58 per cent as against the average growth of 20.6 per cent of all the banks. For us three successive years have been record years. To keep up the momentum was a big challenge. To have kept it was a proud achievement.

It is no small pride for us to give you a flash back. Ten years ago in 1961 our deposits stood at only Rs 1.44 crores. In May 1962 your present Chairman took over as the Honorary Chairman of the Bank. Seven years later, in May 1969 when the Honorary Chairman was appointed as the full-time Chairman and Chief Executive of the Bank, the deposits were below Rs 15 crores. In a few months, by 1969 December, it was Rs 18.71 crores, an increase of 42 per cent over 1968. In 1970 it was Rs 27.52 crores, an increase of 47 per cent over 1969. In 1971 it was Rs 43.64 crores, an increase of over 58 per cent over 1970, probably the highest among banks in the country. I repeat, it was a record for us. Our advances increased by 47 per cent in 1971 and stood at Rs 25.84 crores with

the average credit deposit ratio in 1971 at 63.35 per cent. As you will see from the Balance Sheet, our working results were encouraging. Our gross earnings rose by nearly 53 per cent and our net profit by about 75 per cent to enable us to step up our rate of dividend this year to 12 per cent.

We have opened 15 branches in the year 1971, taking the total number of branches to 141 at the end of the year. 75 per cent of our branches are in the rural and semi-urban areas and 25 per cent in urban and metropolitan areas. Today, we have over 150 branches. Our target for the year is 200 branches. Against 21 branches in 1961, you can imagine the long way that we have travelled these 10 years.

Current Year

The potential for further deposit growth through branch expansion still exists. But banks have now to go slow and be more selective in their approach to branch expansion. Unless a village or a town is a really potential centre, the banks should not venture into such places. Wastage of man-power and other resources has to be eliminated. Nevertheless, the Reserve Bank of India has programmed the opening of 5,000 branches, in the next 3 years which should work out at about 140 branches a month. In the face of this proposed massive expansion, to what extent an individual bank in the private sector can grow in the years ahead is a matter of guess. But from the growth achieved in the last few years I am as optimistic as ever. Let us hope for the best. It was not a mere expansion for us in 1971 but more a consolidation of our position in centres where we had established earlier.

We obtained in the year under report a licence to deal in foreign Exchange. We have opened a Foreign Exchange Department in our Bank to deal in all foreign currencies. Your Chairman went abroad to establish contacts with some of the foreign banks in the month of October 1971. The Bank has now account and agency arrangements with many of the leading banks in other countries. The Bank is at present conducting foreign exchange operations from seven centres — Bangalore, Mangalore, Bombay, Madras, Cochin, Delhi and Hyderabad. More centres will be covered as and when it is deemed necessary.

Personnel

At the end of 1970 we had on our staff 1,462 persons of all categories. At the end of 1971 the strength was just 1,896, an increase of 30 per cent. Our staff deposit ratio stood at 52 per crore of deposits at the beginning of the year. It has declined to 43 per crore at the end of 1971. Our working ratio of salaries and allowances to gross earnings declined from 33½ per cent in 1970 to 29 per cent in 1971.

Our growth is fast and the need for training our staff is engaging our attention. In addition to training them in our own Training Institute, we send some of our officers to courses conducted by the Reserve Bank of India and other training establishments in the country. Our Chief Accountant was at the Administrative Staff College, Hyderabad, for a short course on financial administration. We had sent one of the officers in our agricultural advance cell for a course on Farm Credit Management conducted by the Indian Education Committee, New Delhi. The 23-day course included 18 days tour of Thailand, Philippines, Japan, South Korea and Hong Kong. We propose to depute one of our senior managers to attend the International Banking Summer School in the United States and another officer to Germany for training in foreign exchange. We have plans to train more of them both in and outside India. On the initiative taken by the Reserve Bank of India, a combined staff training college is soon to be set up at Coimbatore for the non-nationalised banks in South India. It will interest ou to know that your Chairman has been elected as the first Chairman of the governing body of the combined staff college.

In a developing institution, no single individual at any level is expected to shoulder the increasing demands for technical competence. What we have yet to do therefore is a further streamlining of our administration in keeping with current management thinking. The pattern of banking has changed. As I said a year or two ago, the old concepts in the management of men, money and material are being pushed out of vogue by the rising tide of social and scientific forces. What is demanded of banks is a high degree of resilience in set up, staff and structure to meet the changing concepts and conditions. The new trends and techniques call for enterprise and expertise at every level. We have to grow our own executive timber. We hope to start a department for management development to develop our own personnel to occupy managerial and executive posts. The purpose behind is to keep well trained men readily available to fill up posts. We must have the right men at the right time in the right place, individuals developed by us with a sense of pride in the organisation and a feeling of growing participation in the progress. We are a bank predominantly youthful in its staff structure with a good spicing of age and maturity at the superstructure. It is only natural for us to grow and grow we must.

Our Thanks

Now let me pay my tributes to our esteemed members of the Board of Directors. My colleagues on the Board gave me their unstinted cooperation. Very sincerely I thank all of them and also the members of the Local Adisory Committees for their unfailing support.

My thanks are due to the Secretary, other Executives, officers and the staff at the Administrative Office of the Bank for their devotion to duty throughout the year. The untiring efforts of group managers, branch managers, other officers and the staff have contributed greatly to our deposit growth. I am deeply appreciative of their dedicated efforts and enthusiasm. I do thank one and all of them.

I take this opportunity to express my gratitude to the Bank's customers and well-wishers for their valuable help, co-operation and understanding at all times.

To you, our shareholders, I am extremely grateful for the confidence reposed in me and my colleagues on the Board.

Thank you.

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

Dandakaranya

THE resettlement activity at the Dandakaranya Project — started soon after the Partition — made further progress during 1971. As on November 30, 1971, 15,410 families — 14,579 families in agriculture and 831 families in non-agricultural occupations — had been resettled by way of establishing 281 villages.

During the coming year, the main preoccupation of the Department of Rehabilitation would be the migrants who came to India prior to March 25, 1971, from erstwhile East Pakistan, besides repatriates from Burma and Ceylon and Tibetan refugees.

COMPANY MEETING

DUNLOP INDIA LIMITED

Chairman, Mr. R. G. S. Nairn's Review

The following is the address by the Chairman, Mr R G S Nairn, at the 46th Annual General Meeting held on April 21, 1972, at Calcutta.

I have pleasure in welcoming you to the 46th Annual General Meeting of the Company.

As the Directors' Report and Accounts for the year ended 31st December, 1971, have been in your hands for some time, I should like, with your permission, to take them as read.

The Year's Trading

Sales of Dunlop automotive tyres and tubes were higher than in 1970, mainly due to the implementation of the expansion at our Ambattur factory. However, the demand for our products continued to be in excess of manufacturing capacity. Your Company took special steps to ensure equitable distribution of tyres and tubes at the recommended retail prices, and maximised supplies for Defence, State Transport undertakings, and to border areas.

Sales of our industrial products also exceeded those of last year, but, here again, the demand, particularly for conveyor belting, could not be fully met due to limitations in capacity.

Industry Capacity

Production by the Automotive Tyre Industry increased substantially to 4.6 million tyres in 1971 as compared to 4.0 million in 1970, an increase of 14 per cent, but in the important product groups of truck, rear tractor and large earthmover tyres, demand exceeded availability. This was in spite of the implementation of expansions granted by Government to existing manufacturers, including your Company. The position was further aggravated when additional tyres had to be diverted towards the end of the year for Defence needs. During 1972-73 shortages will continue, particularly in the main truck tyre size 9.00-20.

In order to ensure sufficient availability of a vital product, which is essential for the economic development of the country, additional automotive tyre manufacturing capacity should be installed within the next two years. The available capacity of the existing manufacturers, including Letters of Intent, is 5.5 million automotive tyres whereas the total demand in 1973-74 is estimated to be 6.5 million. This gap cannot be filled by the various new tyre projects to whom Letters of Intent have been issued as they do not appear to have made significant progress.

In anticipation of the growing shortage, your Company submitted early last year applications to Government for a composite factory at Goa for the manufacture of automotive tyres and tubes, and industrial products. Government has recently rejected the automotive tyres and tubes application as a licence for a tyre factory at Goa has been given to another existing manufacturer. In view of the immediate need to create additional capacity and the national policy for conserving foreign exchange, we have submitted a new proposal to Government to increase capacity at our Ambattur factory by 200,000 tyres and tubes with the addition of balancing equipment only. It will be possible to implement this expansion within the short period of one year from receipt of the capital goods licence, thus enabling us to meet a part of the shortage in the immediate future. I hope that Government will consider our latest proposals favourably and speedily in order to minimise the need for imports at a substantial foreign exchange cost. The foreign exchange required to import 100,000 truck tyres is approximately Rs 3 crores.

I mentioned earlier that the demand for Dunlop industrial products could not be fully met. In the case of conveyor belting in particular, the market potential has increased well beyond the manufacturing capacity in the country and our capacity is booked for 42 months. Major consumers, mostly Public Sector projects, are therefore having to import their requirements and the position will become progressively worse until additional capacity is installed. Our application for the factory at Goa includes a composite scheme for the manufacture of steel cord and textile reinforced conveyor belting, which is still being considered by Government.

Defence Supplies

Your Company fully played its part in meeting the country's Defence requirements during the year and the output of products such as tyres for army vehicles, including tanks, and for Indian Air Force aircraft, was increased substantially.

Dunlop India is the only manufacturer in the country of aircraft tyres and military tank tyres. During 1971, we commenced production of a special purpose truck tyre for sand operations to meet Defence needs. Our future plans include a scheme for retreading aircraft tyres.

Following the declaration of the national emergency, the employees at the Company's factories worked on Sundays and holidays to maximise production for Defence needs. We had the honour of a visit by Lt-General J S Aurora, GOC-in-C, Eastern Command, to our Sahaganj factory on 21st December, when he expressed his appreciation to your Company and its employees for the important contribution which they had made to the war effort.

Exports

Our consistently good export performance was maintained and another new export record was set in 1971 in the face of severe international competition. Your Company exported to 71 countries earning a total of Rs 3.34 crores, an increase of almost 10 per cent over 1970. This was achieved through well planned export promotion, effective visits by Dunlop export executives to as many as 36 countries to expand existing markets and develop new ones, and the invaluable support from our UK Associates with their international distribution and service organisation. Dunlop India's exports in 1971 were 47 per cent of the total Tyre Industry exports.

A notable achievement of Dunlop India as an Export House was the development of overseas markets for a wide variety of goods made by indigenous small-scale manufacturers.

International trade today is complex, highly competitive and subject to sudden shifts and, in order to be successful in this field, comprehensive and

consistent Government policies are needed. *Unfortunately, this is not always so.* For example, duty drawback rates for automotive tyres and tubes were reduced drastically with very little prior notice in December *1971* with no increase in export cash assistance to compensate for the high raw material *prices in India. Consequently,* exports can now only be made at an even more substantial loss than previously. If we are to win and hold export markets on a long term basis, *it is* essential to have reasonable stability in the net cost of products for export.

Production

Higher production was achieved during 1971 despite production losses at the Sahaganj factory, mainly because of power cuts and high absenteeism, particularly in the first half of the year.

The expansion programme for 250,000 automotive tyres and tubes at Ambattur, for which an industrial licence was received in December, 1969, was completed by the end of the year. The Ambattur factory also started production of bicycle rims, for which a capital goods licence for 1.5 million pieces per annum was received in July, 1969.

An expert team was appointed to investigate the future development of our larger factory at Sahaganj, West Bengal. Plans are being *finalised to* ensure that Sahaganj continues to operate efficiently, and plant and equipment are *modernised* to cater to changing future market requirements.

The range of Metalastik rubber-to-metal bonded products at Sahaganj was enlarged during the year with the introduction of draft gear pads required for the centre buffer couplers of railway wagons.

Product Development

In keeping with the Company's policy to develop new and improved products of advanced *technical design,* a new rayon truck tyre, the Dunlop Highway 105, was introduced in the market after being tested over 80 million kilo*metres on all kinds of roads* throughout India. No other tyre developed in this country has ever been so extensively tested *before commercial introduction.* Your Company also developed and marketed the Dunlop Super Taxi tyre. This is the first tyre produced in India specially designed for the needs of the taxi operator. Another addition to our tyre range was the PG 6, which has been developed for use under very rough "off-the-road" conditions. User reaction to these tyres has been most favourable.

In pursuance of our policy to make the *country self-sufficient* in aircraft *tyres,* we have continued to develop new sizes. During 1971 we added to our range three new sizes for the Indian Air Force and tyres for the Boeing 737 aircraft. One of the most recent projects is the development of the main wheel *tyre for the* Boeing 747 Jumbo *jet.*

Research and Development

Research and development are of the highest importance in a technology-based industry like ours, and backed by the supply of *technology from our* UK Associates, your Company's technical development departments enable us to *introduce* new and better products, and *to improve* on our already excellent achievements in the field of import substitution and exports.

The know-how from our UK Associates is provided *under a Technical* Aid Agreement. At the end of 1969, this Agreement was terminated by Government who requested us to renegotiate a new Agreement. We have submitted our proposals for the new Agreement and Government approval *is awaited.*

It will interest you to know that Dunlop UK's expenditure on research and development exceeds the equivalent of Rs 15 crores per annum, and their recent union with Pirelli, Italy, permits Dunlop India, at no extra cost, to avail of the added benefits of re*search and development by Pirelli,* whose expenditure is also in the region of Rs 15 crores per annum. To remain competitive by international standards, research and development on this huge scale have become essential and, needless to say, a company of the size of *Dunlop India* cannot possibly afford expenditure of this magnitude. It is not only economical but essential for your Company to continue to purchase technical know-how to ensure that we do not fall behind international standards which, I would submit, is a matter of national interest. The advantages are not only in terms of product quality and performance, which are vital to maintain exports, but just as important to ensure that there is the most economic use of scarce raw materials.

However, your Company is keenly aware of the need to reduce reliance on external technical assistance, and, in fact, spent approximately Rs 30 lakhs on local development activities in 1971. The new proposed Technical Aid Agreement reduces the number of products for which technical assistance needs to be continued, thereby minimising foreign exchange outgoings.

The most important products now excluded are cycle tyres and tubes, for which we are establishing a Research and Development Centre at our Ambattur factory. This Centre will not only assume responsibility for exporting know-how to Dunlop Companies all over the world but will also enable us to sell know-how to other manufacturers overseas. Your Company will thus earn additional foreign exchange.

We continue to make every effort to maximise the use of indigenous raw materials and provide all possible assist*ance to local manufacturers* for the development of new indigenous sources of supply. As a result of these efforts, our imported raw materials have been reduced from 11.3 per cent of total requirements in 1966 to 6.2 per cent in 1971.

A similar effort has been made by *us in persuading the major* international equipment manufacturers to commence operations in India and in encouraging the development of indigenous tyre manufacturing equipment. For example, we have played a large part in persuading McNeill's of USA to manufacture *Bag-O-Matic tyre moulding* presses in India. Production is expected to commence in the next year or two and another major step will then have been *taken towards self-reliance.*

Costs

*The inflationary trend in prices of in*digenous raw materials continued during 1971. Apart from higher excise duties, price increases were *particularly high in the case of* synthetic rubber, cotton textiles, and steel. Prices of imported raw materials have also increased following the imposition of higher import duties in December 1971 and March 1972 and the realignment of exchange parities.

The cost of wages, salaries and dearness allowance has also increased considerably over the previous year.

To compensate for the direct cost increases incurred since November 1968, when automotive tyre selling prices were last increased, the Tyre Industry approached Government for an increase in automotive tyre prices early in 1971. *This request has now been referred* to the Bureau of Industrial Costs and Prices for investigation. In the mean*time, we are compelled to absorb these* and any further cost increases.

Taxation

The full impact of the reduced rates of development rebate was felt from 1971. The 1971 Budget introduced fur*ther increase in the incidence of* taxation, the most important being the withdrawal of relief on profits of a number of priority industries, of which your Company was one. *In December* 1971, a surcharge of 2½ per cent on corporation tax was levied as an emergency measure and this has been increased in the 1972 Budget to 5 per cent. These changes will result in a steep increase in the burden of your Company's taxation.

Furthermore, the announcement of the proposed total withdrawal of development rebates from May 1974 is likely to become a disincentive to indus*trial investment, particularly in the case* of capital intensive projects, unless relief in an alternative form is granted to offset the increase in the tax burden.

Profit and Loss Account and Balance Sheet

The main features of the financial results for 1971 have been covered in the Annual Report, but there are several points that I would like to make.

We have always maintained that an important yardstick in considering profits is the percentage of profit, before interest and tax charges, to sales. Since 1969, this ratio has been declining in spite of a steady increase in sales volume, and in 1971 the ratio was 7.4 per cent compared with 9.1 per cent in the previous year. The major reason for this is that selling prices for automotive tyres and tubes have not been increased since November, 1968, although prices of major raw materials, services and also employee costs have risen substantially during this period. The result of these cost increases is that whilst the Company's total income has increased in 1971 by approximately Rs 10 crores, profit before tax has reduced by approximately Rs 1 crore.

Although much has been achieved by way of cost economy, improved operating efficiency and reduced working capital tie-up, a fairly rapid growth in production volume and turnover is essential if selling prices are to be contained and a reasonable level of profits earned.

As you will see from the accounts, *profit before tax amounted to Rs 6.04* crores compared with Rs 7.01 crores in 1970. After providing for taxation and Development Rebate Reserve, the balance of profit amounted to Rs 3.17 crores. The taxation charge for 1971 is actually lower than it was in 1970, due to the commissioning of the new plant and buildings at the Ambattur factory. Preference Share dividends absorbed Rs 4.6 lakhs and your Directors pro*pose to maintain the Ordinary dividend* at Rs 2 per share absorbing Rs 2 crores, the same as for 1970, retaining the balance amounting to Rs 1,12,48,000 by transferring this to General Reserve.

Capital expenditure for the year was Rs 6.03 crores compared with Rs 3.20 crores in 1970. The expenditure during the year includes the implementation of the expansions at the Ambattur factory.

A reappraisal of the effective working life of your Company's fixed assets was carried out during the year. Based on this study, the rates of depreciation applicable to various categories of assets were revised on 1st January, 1971, with retrospective effect. The cumulative adjustment arising out of this revision amounted to Rs 65.95 lakhs and this amount has been transferred from depreciation account to Capital Reserves.

In order to finance the sterling requirements and also the balance of the rupee costs of the company's recent expansion, it was decided with your approval at the last Annual General meeting, to raise approximately Rs 2 crores by way of an issue of 15,00,000 Ordinary Shares at a premium of Rs 4 per Share to members in the ratio of three new Ordinary Shares for every 20 Ordinary Shares held. The proceeds of the proposed issue will be Rs 2.1 crores. The amount payable by Dunlop Holdings Limited, UK is approximately Rs 1.08 crores of which Rs 1.04 crores will be met by set off against the sterling loans made available by them. Government approval to this issue is awaited.

Personnel

It has always been your Company's firm belief that a properly trained and contented labour force is its biggest asset. We have therefore adopted progressive labour relations policies and continuously worked towards improving the conditions of service of all employees.

Consistent with this policy, it has been your Company's practice to negotiate long term agreements, which help to ensure uninterrupted production and industrial peace during the operational period of the agreements. In 1971, we concluded negotiations and signed a new four year agreement covering the personnel at the Head Office as well as the District and Sub-District Offices throughout the country.

Negotiations for a new agreement for the production operatives and staff at the Sahaganj factory are still continuing in an environment of industrial peace.

The agreement covering our employees at the Ambattur factory expired at the end of 1971 and negotiations for a new agreement were started. However, I am sorry to have to report that while negotiations were still continuing at tripartite level, the Union at the Ambattur factory, disregarding the advice of the Government Labour Department, took the law into their own hands thereby disrupting production and creating indiscipline. As a consequence of this, in the interests of security of personnel and plant, the Management was compelled to declare a lock-out until normal working conditions are assured. We are keeping the door open for negotiations and it is to be hoped that the appropriate climate for the resumption of full production will soon be restored.

Your Company's programmes for training and development of personnel at all levels continued to make good progress during 1971. A large number of employees attended Company courses as well as courses organised by outside professional bodies.

Future Prospects

I have already referred to your Company's plans for expansion and diversification of its manufacturing activities. However, a point that disturbs me is that we continue to be regarded as a dominant undertaking under the Monopolies and Restrictive Trade Practices Act. As you know, a company is deemed to be dominant in any product if its average production of that item over the last three years was one-third or more of the total industry production. Although your Company's share of the total automotive tyre industry output in the last three years has been somewhat in excess of one-third, this is so only because we have implemented licensed expansions quickly and because during this period, our factories have worked peacefully. In fact, your Company's share of total licensed capacity is only

25 per cent which reduces to 16 per cent if all Letters of Intent that are presently valid are included. Your Company, which has produced to full licensed capacity because it has taken energetic steps to implement its expansions quickly, would not be considered dominant if the future position rather than past production were taken into account.

I would like to cite a specific case, directly affecting your Company, where the Monopolies and Restrictive Trade Practices Act could operate against the national interest. Dunlop India is the sole producer in India of aircraft tyres and tubes. Consequently, under the Act, it could be said that your Company is monopolistic for these products. It would be unfortunate if this were the case as our pioneering efforts have resulted in self-sufficiency for these vital products for the country's military and civil aircraft.

I have every confidence that Government will increasingly take a more realistic view of issues such as "dominance" when considering expansion applications and will allow growth to companies such as Dunlop India, which are making significant contributions in vital sectors of the national economy, such as road transport, agriculture, industry, Defence and exports.

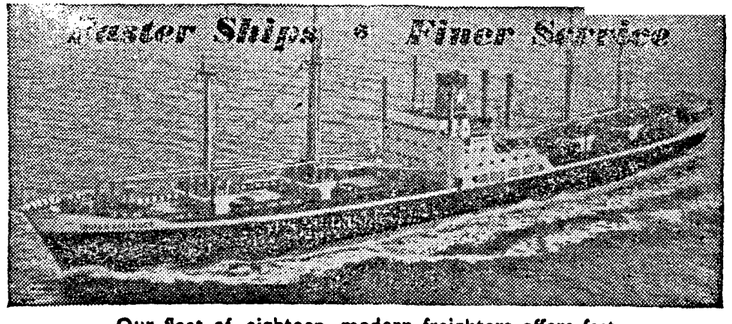
In conclusion, I should like to thank all our employees for the efforts they made during 1971 and particularly for the special endeavour during the national emergency.

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

Committee on Payment of Bills

THE Committee set up by the Reserve Bank to study the problem of payment of bills by large and medium industries to small enterprises and entrepreneurs in respect of supplies made to them and to work out a suitable arrangement so as to ensure speedy settlement of claims, has submitted its report. According to the Committee, the problem of delay in payment of bills of small industries by medium and large industries did exist for more than half the number of small-scale industrial units who supply their products to medium and large industries. The position of small enterprises in regard to receipt of proceeds of their sales to government departments/public sector undertakings was more or less identical with the pattern of their sales to medium and large industries.

The Committee's recommendations for minimising the delay in the receipts from sales of small-scale industries have emanated from the basic need (i) to strengthen the bargaining position of the small-scale units on the one hand and (ii) to inculcate a greater measure of financial discipline on, and to simplify the payment procedures of, the medium and large industries as well as government departments.



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1963 Rs. 3,40,311

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THE PLANNING HORIZON

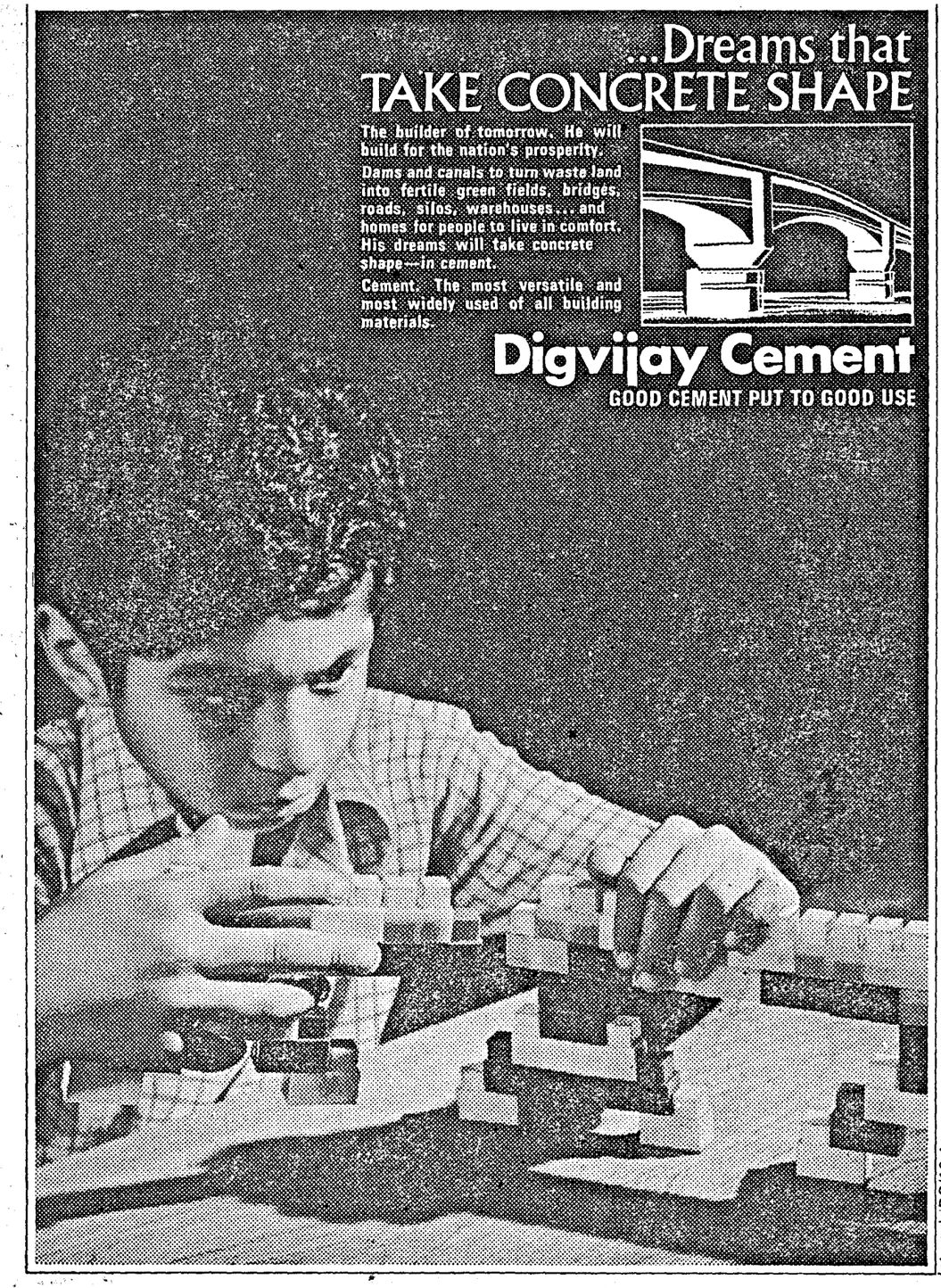
HAS THERE BEEN A DECLINE IN TENANCY?

CPI(M) BETWEEN MOSCOW AND PEKING

THE VIETNAM WAR

AND CEILING AND THE NEW FARM ENTREPRENEUR

EMPLOYMENT CREATION BY SPENDING



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ECONOMIC AND POLITICAL

WEEKLY

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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

Murree Worries

THE talks in Murree and D P Dhar's subsequent meeting with Bhutto have been accompanied by much fanfare on both sides of the border. Yet, despite all the publicity little is known as to the nuances and the subtleties of the discussions, as, for all purposes, the talks were a well-kept secret. And quite understandably.

Pakistan's President, though now in a much more comfortable position after his deft handling of the National Assembly and of the regionalist leaders of the National Awami Party and the Jamiat-ul-Ulema-e-Islam and due to the seeming political somnolence of the army, must still tread very carefully on any path which might suggest weakness in the face of the traditional enemy. India's Prime Minister does not need to be as wary of opinion at home as the Pakistan President, but all the same, any hint of concessions to or compromise with Pakistan, especially after what, within India, is generally considered to be a conclusive and morally well-deserved victory, would cause at least a semblance of a political downdraft for her. But the Government of India must needs be more chary of the opinion of the Government and people of Bangladesh than of any possible domestic uproar. For these reasons it is right and proper that such tight control has been maintained by both the Indian and the Pakistani governments over what went on at the talks. In fact, the strict adherence to a silent approach might be an indication that the two sides are serious about coming to some sort of understanding, if not agreement.

Of course, all the pitfalls remain, including the biggest one, which is whether the officers of the Pakistan army are agreeable to a settlement with India. The flare-up on the border in Kashmir might just be some local difficulty, but it is also remotely possible that a group of Pakistani officers want to increase tension at a time when there are distinct signs of relaxation in the Indo-Pak sphere and so queer the pitch for any understanding. The other issue which must occasion much fervour within the Pakistan army is the question of the return of the prisoners-of-war and the related question of which and how many of them will be detained for war crimes trials in Bangladesh.

From the purely Indian viewpoint this is the least important of the issues in Indo-Pak relations. What makes it assume great significance is the strong and very natural feeling of many in Bangladesh that those who ravaged their land and brethren should not be allowed to go scot-free. Thus, the least important of the issues (from a narrow Indian viewpoint) may prove to be a major roadblock stopping any further advance to the more substantial long-term issues, like a comprehensive border agreement including the recognition of the Kashmir cease-fire line as an international frontier, the fate of the pockets won (mostly by India) during the war, the cold storage of Kashmir as the focal friction point in Indo-Pak relations, the lessening of big power influence in the affairs of the subcontinent.

In fact, it is probably on the last point that two aspiring nationalists like Indira Gandhi and Bhutto are closest to each other in their way of thinking, though neither of them is likely to admit this openly as they would lose their room for manoeuvre in the international context. And in any case both countries are still too closely tied by economic-political-military strings to the big powers to be able to lessen the influence of these powers by joint agreement without making radical changes in the economic-political structure of their respective countries. But all the same, since a mutual but hidden empathy probably does exist on this point, it would be wise if the Indira-Bhutto talks scheduled for June were to begin on this sympathetic note. Perhaps, if this were to be the starting point of the discussions it would be easier for Pakistan to come to terms with Bangladesh, although it is a moot point whether Mujib has the same intuitive wariness of big power interference as Indira Gandhi and Bhutto probably do. Another point on which all three could very fruitfully exchange notes is on how to keep the forces of 'left adventurism' and 'right reaction' at bay while making their painless transitions to their variants of 'socialism'. But airing these issues can do no more than create a congenial mood in which to discuss the more meaty issues, i e, border alignments, Kashmir, prisoners-of-war-cum-trials.

Of course, in the final analysis, the crucial question of whether the next few years will be a period of confrontation or conciliation will depend on how any potential Indo-Pak agreement helps in cementing the power position — within their own countries — of the two leaders. And since Bhutto is much the more insecure of the two, he must be the one who is carefully calculating the likely domestic results of an understanding with India.

Nixon and Vietnam

The Power to Kill

THE American decision to walk out of the Paris talks on Vietnam on Thursday once again underlined that the only negotiated settlement that the United States is interested in is one substantially on its terms. The motions of returning to the talks, which the US itself had earlier broken off, and the elaborately planted rumours of secret contacts between its representatives and those of North Vietnam outside the formal talks were, it is now evident, all intended to prepare the ground for the next phase of America's war on Vietnam. They were also intended to quieten domestic opinion in the US by presenting the picture of a reasonable American president exploring every avenue for resuming the negotiations before being finally thwarted by the intransigence of an arrogant enemy. Yet in the open confrontations at Paris the arrogance was all seen on the US side. Most arrogant of all was the 8-point questionnaire addressed to the Vietnamese side by the chief US delegate which in effect, apart from demanding that the Vietnamese call off their present offensive, also required them to give up the gains of the last few weeks' fighting and, indeed, give an undertaking not to disturb the puppet regime in Saigon — all by way of simply establishing the sincerity of their intent to negotiate and in return for no commitment of any kind from the American side! To judge from the American terms one would have imagined that it was the Vietnamese who had suffered serious setbacks in the recent fighting and not the Americans and their lackeys.

For those who have looked beyond the verbiage churned out by successive American presidents — including, let it be specially emphasised, the late John Kennedy — have long realised that while US tactics in Vietnam may have changed, US objectives have not. These objectives remain, in essence, the creation and consolidation of a Korea-type situation keeping the two halves of the country apart, the crushing of the liberation movement in the South and the propping up of the puppet regime in Saigon. The decision to withdraw US ground forces has not made the slightest difference to these objectives, as the successive peace plans put out by the Americans have made amply clear.

The current Vietnamese offensive has, in the matter of a few weeks, established conclusively that (i) the troops of the puppet regime in Saigon, though beefed up by US assistance many times larger than anything that the Russians and the Chinese give to the other side, are completely incapable of standing up to the liberation forces; (ii) this situation is not substantially altered by massive US air and naval intervention in the fighting in the South; and (iii) the most fierce bombing of military targets in North Vietnam and the supply routes of the liberation forces, for which the most fantastic achievements were being claimed till the other day, have impaired neither the ability nor the will of the liberation forces to carry on their struggle. Given these facts, brought home to him by his own intelligence agencies, Nixon is left with a single option — and by breaking off the Paris talks he has signified his determination to pursue it. This remaining option is simply terror bombing of the North. By progressively stepping up bombing of economic targets like power stations, irrigation dykes and industrial plants as well as population concentrations, Nixon expects to force North Vietnam to get the liberation forces in the South to call off their offensive on pain that otherwise the cost in terms of economic devastation and loss of life would be made intolerable.

The reactions he has had from the two countries most in a position to influence his decision in the matter — the Soviet Union and China — have hardly been such as to persuade Nixon to hesitate over his plans to "bomb North Vietnam back into the stone age" if need be (though he no doubt expects that the North Vietnamese will cry 'halt' well before that point is reached). The Soviet Union has, of course, supplied large quantities of sophisticated arms, especially air defence equipment, to North Vietnam and, what is more, it has recently reiterated its intention to keep up this assistance. On the other hand, however, both the Soviet Union and China have conveyed to the US that they would not allow developments in Vietnam to affect their overall relations with it. During his recent visit to Moscow, Henry Kissinger is said to have been most hospitably received by his Russian hosts and assured by Brezhnev himself that the US president need have no fear that his visit to the Soviet Union would be imperilled by whatever he might do in Vietnam. Kissinger evidently returned to Washington with the impression that the Russian-American *detente* in general would suffer no serious damage nor need there be any setback to specific negotiations such as those over the control of strategic nuclear arms. Relations between China and the United States are, of course, at a more rudimentary stage but Mao Tse-tung — usually so adept at communicating through symbols — did not consider it necessary to recall the Chinese table tennis team now visiting the US even as Nixon proceeded to strengthen enormously his already fearsome air and naval armada against North Vietnam.

Indo-Soviet Trade

Filling the US Aid Gap

THE Foreign Trade Minister L N Mishra is in Moscow to sign a trade protocol with the Soviet Union and to finalise some of the points on which agreement between the two countries could not be reached earlier. The Indo-Soviet trade plan for 1972 has evoked considerable interest because of the likely impact on Indo-USSR trade relations of the suspension of US aid to India. The trade plan would largely follow the broad outlines laid down in the five-year trade agreement signed nearly 18 months ago. The five-year agreement provides for a 15 per cent annual growth in trade between the two countries. In the event of a slower growth of trade during any particular year, the two countries would attempt to achieve at least a 75 per cent increase in trade between 1970 and 1975.

The agreement did make some important departures from the past pattern of Indo-Soviet trade. It reflected the desire of both governments for closer economic relations and a more diversified pattern of trade. New commodities introduced in the Indian export list were excavators and products of Soviet-assisted projects such as electric motors, aluminium cables, garage equipment, wire-ropes, spectacle lenses, machine-made carpets, etc. The agreement also envisages substantial stepping up of exports of readymade garments, woollen knitwear, cotton textiles, automobile batteries and tobacco. Sizeable exports of established items like tea, jute goods, handicrafts, shoes and oilcakes would, of course, continue. On the import side the USSR, for the first time, agreed to supply ships and tankers to India on rupee payment basis. The USSR would also supply copper and increased quantities of non-ferrous metals, platinum, palladium, zinc and nickel. It also agreed to supply 72,000 tonnes of rolled steel for the Bokaro project against 40,000 tonnes offered earlier. But in spite of these prominent features, basically the five-year trade agreement marked an extension of the already evolving pattern of trade relations between the two countries. To that extent the impact of the Indo-USSR treaty of peace and friendship and the Indian Prime Minister's visit to Moscow last year have yet to be seen in terms of any qualitative change in economic relations with the Soviet Union.

The purpose of the Foreign Trade Minister's present trip to Moscow is thus not likely to be limited to signing the trade protocol but may extent to persuading the Soviet Union to fill in some of the gaps that have emerged following the suspension of US aid. Particularly affected has been our capacity to import commodities like fertilisers, cotton and newsprint. Excluding PL 480 assistance, US aid authorisation has averaged Rs 200 crores during the last four years. It is unlikely that the USSR would be able to supply all the commodities obtained by India from the US. For instance, the USSR cannot export cotton and newsprint unless it agrees to purchase these commodities from third countries to supply them to India. But there are such items as copper, zinc, nickel, sun-flower-seed oil, crude oil, rolled steel and mercury which the USSR is in a position to supply without causing undue hardship to itself. India has recently handed over a supplementary list of goods available for export to the USSR. This has been done with a view to persuading the USSR to meet some of our additional requirements, over and above the trade plan provisions.

The USSR has expressed a desire to import from India more non-traditional and traditional products. But as regards the items of particular interest to India, it has so far pleaded that it stood already committed to sell most of these to other countries, especially East European countries that have the closest trade relations with it. The USSR also appears to be unwilling to convert unutilised project aid into non-project aid. As on March 31, 1971 India had drawn upon only about 62 per cent of sanctioned USSR aid and unutilised aid amounted to Rs 351.5 crores. The delay in utilisation of project aid has created a new situation in that the import content of some of the projects has undergone drastic change due to some of the items earlier earmarked for import becoming available domestically. This has been used by India to strengthen its case for converting some of the project aid already committed into non-project aid or for at least switching it to new projects of relevance to the country's changed economic situation.

Past experience suggests that trade negotiations with the USSR invariably turn out to be tough. The ill-fated wagon deal is an example of this. The Russians then quoted prices for wagons which were much lower than those agreed to for similar exports to East Asian and even East European countries. Similarly the Russians have driven a hard bargain in respect of the cotton conversion scheme under which cotton supplied by the USSR is made into textiles for export to the USSR. The prospects of the Foreign Trade Minister's current mission have to be assessed against this background.

Bihar

Hundred Years After

N K Singh writes:

"THE relations of landlords and tenants are those of a high-handed proprietory body on the one hand, habitually disregarding the law, and on the other a tenantry, ignorant, very helpless, and sunk in the very most abject poverty.... Though the rent law gave the ryot certain rights, he was so helpless or so ignorant that he was unable to assert these rights out of court, or to go into court to enforce them." So wrote the Famine Commission in 1880, in a report where they ascribed the miseries of the people in Bihar to the nature of the agrarian system. This year, the one-lakh strong Paharia community — tribals living in the forest hills of Santhal Parganas in south Bihar — are starving. Even a hurried tour of the affected areas is enough to strike home the sharp miseries that have resulted from the failure of two successive crops. In normal times, too, the Paharias suffer from chronic malnutrition. But this year, the situation is alarming, particularly in eight blocks — Littipara, Amarapara, Sundarpahari, Goarijore, Boria, Barahat, Pothana and Taljhiri — inhabited by 65,000 people.

Batches of hungry, ill-nourished Paharias, who seldom leave the hills, have come down to the plains and are seen roaming in search of food. In front of restaurants in Godda, Pakur, Amarapara and Hiranpur towns, squat scores of starving men, women and children, waiting all day long to share the left-overs with the stray dogs of the town.

Paharias live today as they have lived for centuries. Once in a week they come down from their hills to nearby towns to sell the faggots, roots, tubers and fruits that they collect from the jungles, and to buy basic consumer goods for their homes. Their general isolation makes them suspicious not only of the Dikkus (the plains' people) but also of the tribal Santhals. Such cultivation as they practice is of maize and ghanghara, and for this they use the method of shifting cultivation, which demands more time, space and labour and results in unnecessary wastage of much-needed forest resources. But their main food comes from wild fruits like mahua, roots, tubers, etc. No government has ever felt the need to take the trouble to induce them to improve their economy or to join the mainstream of the state's life. In the circumstances, they continue to live a deprived and insecure life. Many are afflicted by TB and leprosy. There is hardly any medical facility worth the name. The few show-piece health-centres are virtually inoperative, and either have no doctors or no proper medicines. Education is practically non-existent. Drinking water is not easily come by in most villages, and some villages fetch water from anywhere like three miles away.

Last year's excessive and untimely rain ruined the Paharias' bhadai crop altogether. Rabi is never grown in the tribal areas of the district. Even mahua, which yields food as well as beverage, was not available on the trees this year. After two such years, the Paharias' plight is far worse than usual.

When the subject was raised in the Bihar Vidhan Sabha, the government claimed that it had already taken up relief measures: Free rations were being distributed, and other relief measures such as loans, subsidies, and manual labour schemes to give the Paharias purchasing power, had been started; fair price shops had been opened on the hills and orders issued to district officials that whatever forest produce the Paharias brought should be officially purchased, again to provide them with purchasing power.

The fact is that the government has sanctioned altogether Rs 50,000 for the one-lakh strong Paharias — i e, approximately 50 paise of 'relief' per head. Such are the circumstances in which the 'self-sufficiency' in foodgrains — which the Agriculture Minister for Bihar claimed Bihar would reach by the end of this year — has to be evaluated.

Temporary relief is no solution, of course, to such famine situations — the roots of which lie deep in the feudal exploitation, known to persist in the villages of the Santhal Parganas. Misery, poverty, unemployment and illiteracy are by-products of the feudal structure headed by the moneylenders in the region. For all practical purposes, that structure is as it was nearly a hundred years ago: Land reform, irrigation, better agricultural practices, have never been heard of in these parts.

Foreign Investment

Making Lollipops

SOME of the established foreign companies in the country have been showing

a tendency to branch into the production of non-essential consumer goods. Prominent among these have been the foreign pharmaceutical companies many of whose expansion plans appear to be mainly in non-pharmaceutical lines. The control of drug prices has clouded their chances of continuing to make super profits out of making medicines. There is also the fear that an essential item like pharmaceuticals will continue to be the object of public and governmental attention from time to time. At the same time, many of these companies have the liquidity and the managerial resources for expansion.

There are a number of factors which lead these companies to diversify into non-essential consumer items. First, production of these items generally does not call for significant imports of equipment or raw materials. This helps to avoid seeking a variety of government clearances. For the same reason the parent companies abroad are prepared, if necessary, to waive royalty payments for use of brand-names, etc, and are satisfied with the larger dividend repatriation out of the profits from the expanded operations in India. Second, in many of these products the foreign companies are the owners of internationally famous brand-names whose use would give them an instantaneous advantage over established indigenous products. Third, such skills as these companies have developed in this country lie not so much in the sphere of manufacture as that of mass marketing. This leaves them ideally placed to go into the making of products like cosmetics, sweets, chewing gum and the like. It is interesting in this context that even a gigantic company like Hindustan Lever has not shown much appetite for expanding into industries like paper or fertiliser but has preferred areas like packaged foods.

While these are undoubtedly very good reasons from the foreign companies' point of view, the question that needs to be asked is what public purpose is served by their going into the production of these consumption goods. The case for permitting foreign private investment in the country rests on the need to acquire advanced product and process knowhow and technological skills unavailable in this country. But there is absolutely no worthwhile transfer of technology in most of the areas that the foreign pharmaceutical companies appear to be going into. On the contrary, what actually results is misallocation of resources in the production of unessential consumption goods. A typical case is that of chewing gum. Within a couple of years of the entry of a foreign company into the field, production of chewing gum in the country is known to have gone up from Rs 50 lakhs to roughly five times that figure. The proliferation of consumer items like chewing gum can hardly be said to make a contribution to any of the country's avowed economic objectives. What is worse this negative achievement is secured at the cost of enlarged profit remittances abroad in free foreign exchange. Currently there are reports of a large pharmaceutical company proposing to start manufacture of confectionery, to be impressively labelled medicated sweets'.

What it all boils down to is that the government appears to have no clear policy towards foreign private investment. Which are the industries where foreign investment will be in the national interest? And where is such investment clearly irrelevant and unwanted? The government is unlikely to get at the right answers to these questions if it decides matters on the basis of whether a proposed new activity by a foreign company calls for import of additional capital equipment or raw materials or whether it will involve payment of royalty fees. Mere absence of imports or of payment of royalty is no merit in itself if the end product of the activity is socially worthless.

Land Ceiling

18 Acres Is Too High

A Correspondent writes:

WHILE the political controversy over it continues to rage, the economic case for lowering the ceiling on agricultural holdings is clear. The country has surplus labour and the ceiling has to be low enough to discourage farm mechanisation to replace labour. There is no evidence to suggest that productivity will suffer as a result. On the contrary, available data show that yields per acre are higher on smaller farms than on bigger farms. Besides, an important aspect which does not receive adequate attention is the gain in productivity which will result from very small holdings becoming viable as a result of the distribution of the surplus land. If the very small holdings are thus enlarged it would be easier to provide them the means of irrigation and enable them to take advantage of new farming techniques. While a strong economic case for a lower ceiling on land can be made out on these grounds, there is a stronger social case for a lower ceiling. So long as the shifting of labour away from agriculture remains a distant goal, the possession and use of land has to be so ordered that there is equity.

The ceiling that is being talked about is to be between 10 and 18 acres of perennially irrigated land (capable of growing two crops in a year) for a family of five members. A lively controversy has developed around the definition of irrigated land to include only land irrigated from government sources of irrigation (see "Land Ceiling: The Irrigation Swindle", April 29, pp 858-9). But even if privately irrigated land holdings are covered, the ceiling of 18 acres would still be too high and would certainly not render enough land surplus to ensure, through redistribution of such land, that a large majority of farmers have holdings of a reasonable size — say, 5-8 standard acres.

As for holdings irrigated through private effort and investment, the Chief Minister of Maharashtra has argued that if a lower ceiling is applied to such holdings, cultivators may prefer to keep their lands dry. While there is no justification for exempting any land from the ceiling, lands brought under irrigation through private investment may have to be shown some marginal concession *vis-a-vis* canal irrigated lands. This point can be taken care of by a proper definition of a standard acre and the controversy is, therefore, basically between those who want a lower ceiling and those who do not want it.

Whatever the practical difficulty in enforcing a lower ceiling on existing holdings, there is no reason why there should be any hesitation in fixing a very low ceiling (say, 3-5 standard acres) for future acquisition of land so that the upper strata of farmers are kept out of the land market. So also, there is a strong case for a heavy tax on all holdings above a certain size (lower than the statutory ceiling) to ensure their intensive cultivation. Alternatively, the heavy tax will force owners to sell that portion of their holdings which attracts the tax — which would be all to the good (see "Crucial Aspects of Agricultural Development" by H B Shivamaggi, September 27, 1969).

Having said all this, it needs to be added that the controversy over land ceiling will not cease unless steps are taken to place a similar ceiling on individual/family income and assets in other sectors. The farm lobby can advance the plausible argument that if the larger cultivators had accumulated property in the urban areas instead of investing in land they would have got away untouched. This argument is bound to become louder in the next few months. The government and the Congress party can, therefore, no longer evade the responsibility of examinig the issue of income and wealth acquisition in all sectors of the economy.

Readymade Garments

Exports to What End?

A Correspondent writes:

THE assurance held out by the Textile Commissioner that help would be given for increasing the export of readymade garments may be just one more instance of the drive to export at any cost. It may incidentally help the industry to utilise its surplus capacity. Yet there are no indications, either in our export performance, or in the existing structure of the industry, or in the market situation abroad, that point to our suitability to export these items on a large scale.

Although exports of woven garments from India increased from Rs 3.56 crores in 1966 to Rs 8.20 crores in 1969 and further to about Rs 16 crores in 1971, India's share in world markets is quite negligible—especially compared to exports of countries like Japan and Hong Kong. Even the current volume of exports would not be possible but for the increasing offtake by Russia which accounts for over 50 per cent of our total exports of woven exports. Exports to the US, the UK and the Common Market countries are regulated by annual quotas. Even these quotas the Indian industry has been unable to anywhere near fully utilise. The prices of Indian fabrics are 30 to 35 per cent higher than those of competing countries. Thus markets for utility items, such as shirts, slacks, pyjamas, etc, for which there is sizeable demand in Western markets are simply beyond the reach of Indian exporters. The international prices of utility wear are more or less established and no minor adjustments by India can help increase exports. Most of India's exports to the West consist of fashion items for which there is a limited market. In fabric blends such as polyester-cotton and polyster-wool Indian prices are about 250 to 300 per cent higher than the ruling international prices. Consequently, though there may be a considerable demand for woven fabrics apparel of different fibre fabrics, such as cotton, wool, natural silk, synthetics and blends (the US alone consumed Rs 33 crores worth of ready-to-wear apparel of different fibre fabrics and blends in 1970, against Rs 22 crores in 1965; and West Europe consumes as much if not more) the Indian industry would have to rely sizeably on raw material imports if it wants to compete for this market. One factor that has helped Hong Kong to increase its exports of garments to about Rs 500 crores per annum is the liberal imports of basic fabrics and other trimmings. South Korea, Taiwan and Singapore too have been permitting liberal imports of basic fabrics for conversion into apparel. Lately, Ceylon and Pakistan have followed suit in an attempt to increase their exports of apparel.

As is to be expected, the Indian Clothing Manufacturers Association has been pressing government for import of polyester-cotton fabrics on the ground that they are needed for the fabrication of garments for export; and, after much hesitation, imports of fabrics of different fibres and blends, including cotton fabrics with specialised finishes, have been permitted for conversion and re-export as apparel. Already, for the apparel-manufacturing machines—especially various types of sewing machines which are constantly undergoing rapid design changes—India relies heavily on imports. Japan's ability to develop sewing machines designed to meet market preferences in apparel has helped it greatly to compete effectively in international markets. It is in fact only when the industry is capable of supporting its exports by such indigenous capabilities that exports of readymade garments would become worthwhile. While the country has developed some base for blends like polyester-viscose, polyester-cotton and polyester-woollen, and for knitted embroidered garments, and while there are Indian prints acceptable in international markets, it has still a very far way to go.

Hong Kong and Singapore have recently arranged tie-ups with well known foreign brands to boost exports of their apparel. Indian garment exporters, comprising well known textile units like Mafatlal, Tata, Bombay Dyeing, and Binny, might want to explore such possibilities. But the fundamental problem of high-cost production would remain. And, apart from liberal raw materials imports, the industry has no alternative to offer. Besides fabrics, even things such as nylon zippers, fusible interlinings, sewing thread, and lining material have to be imported. These are either in short supply indigenously or, when available, do not come up to international standards in quality and cost. There are only two manufacturers of nylon zippers in India; the fusible interlining material manufactured in India, it is claimed, is not suitable for quality garments; the situation is the same regarding local supplies of sewing thread: synthetic sewing thread supplies have not improved in quality and quantity, and the indigenous price of polyester sewing thread is six to seven times higher than that of imported synthetic sewing thread.

In the midst of all this, the readymade garments industry has been pressing Government for a separate Export Promotion Council—useful no doubt, as an officially promoted pressure group constituted of manufacturers, that will proceed to demand various forms of assistance, but of questionable value since the validity of export is itself dubious. (Today the task of export promotion is entrusted to the Garments Panel of Texprocil.) Yet the point seems to be that internal demand for readymade garments has not picked up as anticipated and there exists surplus capacity in the heavy-overhead, modernised, units in the industry—and exports have a use there.

Irrigation

Backwash Effects

A Correspondent writes:

THE Irrigation Commission has rightly drawn pointed attention to the problem of water-logging and consequent rise in soil salinity in different canal irrigated areas in the country. According to the latest estimates, nearly 15 million acres are affected by this problem. This process of lands being rendered barren (the result, paradoxically, of huge investment of scarce resources in irrigation) is operative also in the new irrigation schemes in states like Rajasthan, which indicates the failure on the part of the irrigation authorities to learn any lesson from the past experience of irrigation schemes in Punjab and Sindh.

In areas with impeded drainage, the 'backwash effect' of canal irrigation has taken two forms, as illustrated by the Jawai medium irrigation scheme in Pali district of Rajasthan. After construction of the dam, the well irrigated areas in the lower reaches of the stream (e g, around Ahore) have been rendered dry due to deterioration in the quantity and quality of water in the wells. Some areas (e g, around Takhatgadh) commanded by new canals on the other hand are faced with the problem of water-logging and increased soil salinity.

Incidentally, anticipating such consequences an officer of the Geological Survey of India had warned (in 1921-22) against the construction of a dam on Jawai (which was as a result

postponed for nearly 20 years). As recorded in the settlement report of D Brookman (the then revenue minister of Jodhpur state), the officer went to the extent of suggesting that the small irrigation dams or tanks constructed earlier should also be broken up, because of their harmful consequences. The extent of fertile lands rendered waste (due to rise of salinity) in the command areas of some of those dams was reported (in 1917-18) to be as follows: Sarbar Samand 17 per cent, Kharda 42 per cent, Chopra 19 per cent, Bankali 9 per cent, Sovania 9 per cent and Bhabolai 8 per cent.

Moreover, in some areas of the Pali, Jodhpur and Barmer districts in Rajasthan the constant use of saline well water (without taking due precaution) for irrigating crops like the *Kharchi* variety of wheat has also made irrigable lands unproductive.

LETTERS TO EDITOR

Modern Indian Historiography

M N SRINIVAS states the obvious when he claims to be 'only a social anthropologist/sociologist' (April 8, pp 739-40). But the obvious does not constitute the whole. The distinction between historical sociology and social history is, after all, but slender. "Social Change in Modern India" is basically concerned with historical sociology/social history. And its weakness, to my mind, emerges from the incipience of researches in modern Indian social history. Having utilised the scanty, and by no means very sound, historical literature to provide a conceptual framework to the study of modern Indian social history, Srinivas has initiated, willy-nilly, a trend which practitioners of historical sociology/social history are beginning to follow. Whatever its possible consequences, this development is symptomatic of an enlarging two-way traffic between scholars of historical sociology/social history in India. The one provides the data and the other uses it to theorise; the data and the theorisation interact, and significantly affect the writing of both history and historical sociology. This may be a sad commentary on the conceptual poverty of the Indian historian as also on the methodological ease inducing the Indian sociologist to make a virtue of leaving the original sources to the historian. But this is true.

Srinivas has certainly described contemporary Indian society in terms of vertical and horizontal unities. But his account of social change during the 18th-19th centuries deals almost entirely with caste which happens to form the very pivot of Sanskritisation. I was concerned in my note with Srinivas' portrayal of social change in India in its historical context and not with his sociological/anthropological micro studies.

No academic exception could be taken to my using the term sketchy. Such expressive words have to be salvaged from the unnecessarily pejorative connotation they have acquired. I used this expression because it conveyed the idea that "The Indian Middle Classes" and "Social Change in Modern India", in spite of being important works, barely sketched the outlines of their respective themes.

What I wrote about Risley was that he had described the process which Srinivas designated as Sanskritisation, not that Risley was aware of its ramifications or of its links with Westernisation.

SUDHIR CHANDRA

Allahabad

Naxalite-Sarvodaya Syndrome

THE article "Naxalite-Sarvodaya Syndrome" by M R (April 15, pp 793-5) is thought-provoking. This is the first occasion perhaps when the national Press has taken note of the issues that the Andhra Pradesh Naxalite cases have brought to the forefront.

First, I wish to correct a factual error and also complete the picture regarding the judgments by AP High Court. Nagabhushan Patnaik was sentenced to death not for the murder in Srikakulam district across the Orissa-Andhra Pradesh border, as stated in the article, but for a murder in Visakhapatnam district and this case was popularly known as the Visakhapatnam Naxalite case. The observations of the High Court in the Nellore Naxalite case, which have been extensively quoted in the article, were made by Their Lordships Justice Chinnappa Reddy and Justice A D V Reddy. However, in the Visakhapatnam cases, the Division Bench of High Court consisting of Chief Justice K V L Narasimham and Justice V Parthasarathi took a completely different view. The observations of the Court in this latter (and later) case are important, as they had referred to the earlier judgment and expressed their specific disagreement with it. The Court observed:

> "We cannot endorse the view that where a murderer asserts that 'the dictates of his conscience' impelled him to kill another person, a case is *ipso facto* made out for the award of the lesser sentence. Human life can no more be sacrificed at the altar of one's political idols than it can be at the altar of religion. There is as little justification for the one as for the other."

The Andhra Pradesh government has gone in appeal against the earlier decision. The matter is thus before the Supreme Court and perhaps, it would not be appropriate to say anything further on it. But the issue posed is important and does not permit of an agreed answer. The Supreme Court will no doubt give its final finding on the question of law — whether under the Indian Penal Code a deliberate and planned action of this nature was different from a murder committed by any other person. This, in turn, would give rise to a question relating to the value judgment to be adopted by society — should a political murder which has no personal motive be treated on par with other murders? What, in other words, is the distinction between what may be termed as criminal violence and what is considered as political violence? Does an act of violence, premeditated, planned and adopted as a part of a programme for achieving political ends become less of violence?

M R rightly condemns the bankruptcy of the Left intellectuals and their unpreparedness to face basic issues and focus public attention on them. Left intellectuals of today merely romanticise the revolution and prefer theory to practice. They write about history and interpret it, entering into polemics for their own sake; but they forget that they have to make history. Sarvodaya workers have certainly shown greater willingness to turn to action and sacrifice.

A CORRESPONDENT

New Delhi

A Made to Order Election

YOUR West Bengal Correspondent's post-election report (March 25, 1972, p 663) predictably hangs in the air. After having said what he did in his poll-eve despatch (March 11, 1972, pp 574-5) on the "remote prospects" for stability, the Correspondent clearly finds himself in a tighter corner than even the CPI(M). Faced with the fact that the Left Front-FB alliance could win less than 20 seats against his confident expectation of 110 seats, the Correspondent seems to be unsure whether to cry or shout. The tone of his second despatch suggests that he has tried to do both; but finds, because of what he might think to be his conviction, and the courage (wounded pride ?) of that conviction, a lump in his throat. The despatch is a heroic effort to push down that lump.

He talks of the 100 to 300 per cent increase in the Congress(R)-CPI alliance's poll in some of the key contests against CPI(M) stalwarts and sees this as a product of *indrajal* rather than of *Indirajal*. And about the overall results he suggests that anything but a slight edge to the Congress(R) over the CPI (M) would have been unthinkable if not for the "open and bold tampering with the election process." (Of course, he is careful to say that this is the allegation made by the "left press and spokesmen"; but in the two despatches, why, in many more earlier, the Correspondent has been a consistent mouthpiece of these very elements). In the same breath, however, he proclaims that the candidates of the Left alliance have between them polled about one-third of the total valid votes, and resolutely refutes the statement of a CPI leader that the CPI (M) had received a "thoroughgoing trouncing". The CPI(M), he tells us, has bagged 27.14 per cent of the total valid votes polled as against the 47.52 per cent collected by the Congress(R). Why, he even raises the ghost of the proportional representation system to tell us that, had that system been in force (when was it ?) the CPI(M) would have bagged a quarter of the total seats. (Surely, granting their share accordingly to the other parties of the Left alliance, the aggregate would not have reached the figure of 110 that your Correspondent dreamt of?)

There is really no point in going into the voting figures over the years and trying to assess the shift if any in the alignment of the voters. The effective alignments among the various parties, indeed even the very internal structures of certain parties, not excluding the CPI(M) itself, have undergone radical changes over these years so much so that comparisons between the various elections will be meaningless. (Give a trophy, please, to anyone who can draw meaningful conclusions from the table given by your Correspondent on the CPI(M) and Congress(R) votes in some selected constituencies !) Suffice it to say that in the matter of votes polled the Congress(R) has got no more than a "slight edge" over the CPI(M). The rest is a consequence of the realignment of the political forces. What big *indrajal* did *Indirajal* achieve then? If in spite of the advantage of this realignment and of the "national euphoria" (which is more intimate to West Bengal, understandably), the ruling party needed "tampering of the election process" to gain the slight edge it got, S S Ray had better go to the Himalayas.

Your Correspondent has been advocating some such thing already. His complaint is that Ray and his party machine have not been allowing the CPI(M) to continue its acts of intimidation, terror and hooliganism. After all, a party which openly advocates violence can rightly practise violence, and it is none of the business of a party which stands for democracy (indeed non-violence) to use violence even to end this violence ! Indeed it is not enough if the votary of non-violence shows the other cheek when slapped on one; conscientiously he must invite the first slap too. They are philistines, they that believe in an eye for an eye, a tooth for a tooth. Not this for SIDDHARTHA Ray. In fact, the CPI(M) could have managed with less of violence had it been helped into power again. Now if it is forced into more violence Ray must take the blame !

Thus, your Correspondent's wail for stability. But should he weep for a thing which the Bengalees have never seen ever since the CPI(M) raised its head in the state ? Understandably they are prepared to bet on Ray. Let us see.

MOHAN RAO

Bombay

All Fluff

THIS refers to your editorial "All Fluff" in the issue of April 1. In para 3 of the editorial you observe:

> "The cotton trade puts out its own estimate of the crop mainly with the objective of influencing prices in the direction in which it wants to"

thereby imputing motives to the cotton trade.

The cotton traders prepare estimates of cotton crop primarily for their own use. They are the losers if the estimates go wrong and suffer in prestige.

It is, however, no use imputing motive to the trade. Some arrangement must be made by government to make available in time the vital statistics regarding crop arrivals, ginning and pressing figures and the estimates of crop. If the government is not in a position to take this arduous job let the same be entrusted to some agency like the East India Cotton Association Limited which is recognised by the Government under the Forward Contracts (Regulation) Act to regulate cotton trade and which can for the purpose establish contacts all over India, and to provide it with the funds necessary to carry out that job.

In the absence of vital statistics we are at present groping in the dark and all our efforts to comprehend the cotton situation become an exercise in futility.

May the merciful Lord grant that the next two cotton seasons are normal. This will send the Cotton Corporation of India packing home and on the double. This alone will resurrect the hedge market and eliminate the "violent price fluctuations" you complain about.

D P MESSMAN

Bombay

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Concessional Rates Are Not Applicable to Institutions

The Future Takes Shape

Romesh Thapar

FOR the first time in twenty-five long years the possibility opens for peace—lasting peace—on the subcontinent. Ironically, even as the emissaries talked in Murree and the revanchists on both sides of the Indo-Pak border raised the familiar uncompromising demands and bogeys, it was apparent to the dullest mind that the rise of Bangladesh had made this exciting perspective possible.

History unfolds in the strangest of ways, but we must continue to be vigilant if a genuine peace is to be won. And let's not be unhappy that Bhutto and Tikka Khan are the spokesmen of Pakistan. At least, they cannot be accused of partiality. A double irony...

Of course the Indo-Pak *detente* is only one of many absorbing developments. The debate on "ceilings", for example, is now fully joined. The attack is launched from within the ruling party on the phrasing of the rural ceilings legislation. The "loophole" for evasion is the restriction of ceiling curbs to holdings irrigated by government water systems. This it is alleged helps those who rely on their own tube-wells.

The *kulaks* are mobilising against those who demand a strict implementation of the Congress party manifesto on land ceilings, a paragraph which could be interpreted in many ways. But whatever the result of the uproar, we can bet our last paisa that the legislation in the states will be shot through with "loopholes" not imagined as yet.

A variation on this theme is possible on urban ceilings. All the inner-government exercises on the feasibility of this particular step—to equalise the attack, we are told, between the urban and rural rich—suggest that urban ceilings of an effective kind are just not possible. They will be vulnerable to all manner of corrupt assessments by inspectors and the like during a period of intense inflation, with property values—on paper ! — shooting up.

Those searching for a more practical way out suggest an allotment of fixed "living space" per individual without value assessments. In such a situation, families would tend to live together—and that's not such a bad thing in the insecurity that is India.

Attention is also excited by the prospect of limiting the upper levels of income. This seems a crazy exercise when, from ministers downward, so many perks and black money operations are built into the system. But we are in a crazy period of national evolution. The slogan popularisers are busy as ever, but the thinkers are unable to counter the nonsense that is being peddled. One day—and we hope sooner than later—we should descend to earth with a thud. This will happen when it is found necessary to change the frame of planning to contain the new content of planning.

Meanwhile, we hold our breath as the Public Accounts Committee (PAC) of Parliament tells us what's been going on in the key plants of the public sector. Scandal upon scandal. Crores lost, criminal negligence. Declining productivity. Managerial bankruptcy. Dishonest reporting. Rampant corruption. And not a stir from the slogan-shouters. This is not socialism, it is anarchy. Our politicians can't tell the difference. Their eyes are on the next opportunity for advancement, the next opportunity for a fix.

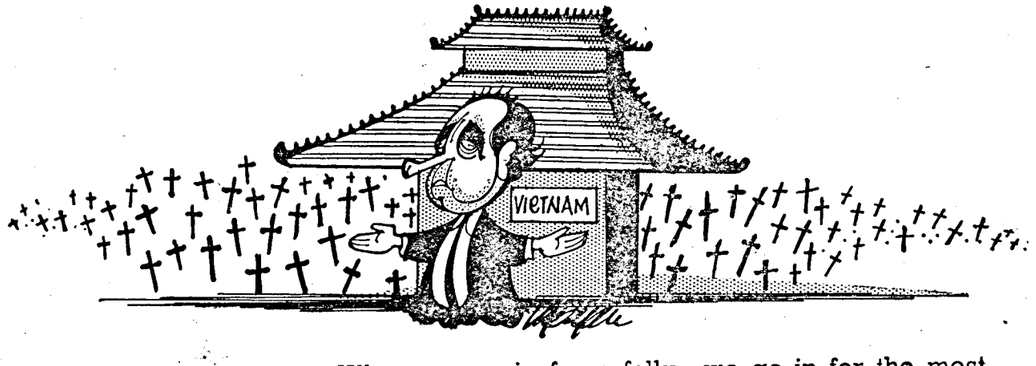
The PAC, a body of politicians now educated, warns that within a few years we will be called upon to re-finance some of the major projects of the public sector. I hope our leadership understands what that means.

It is against this background that we are beginning to understand the new desire of certain powerful interests in the private sector to urge public sector operations in several areas of industry—for instance, small car production. Apparently the idea is that in the inefficiency of the public sector lies the guaranteed profit of the private sector, for inefficiency means higher prices.

The mixed steel industry is always held out as a revealing example of how the private sector battens on the incompetence of the public sector. It's quite a situation, and doesn't require statistical support. Then there is Heavy Engineering about to establish a Rs 100 crore loss! How to put a ceiling on public sector losses, that is another one of those interesting problems gathering around us.

And, so, the future takes shape...

May 1



"It's a matter of taste. When we go in for a folly, we go in for the most expensive one."

New Conglomerate

Hansavivek

KOTHARI (MADRAS), which has come into being as a result of the merger of three plantation companies (Blue Mountain, Waterfall and Balmadies) and two textile companies (Kothari Textiles and Adoni Spinning) has a licence for the manufacture of diversify its activities. The company has a licence for the manufacture of electronic components, which is intended to be implemented in the near future. It is also proposed to set up a plant for the manufacture of automobile batteries, industrial train lighting cells and nickel cadmium batteries. A letter of intent has been obtained, and a collaboration agreement has been entered into with a German firm. There is also a proposal to go in for the manufacture of various plastic items, namely rigid PVC pipes, films, containers and heavy-duty bags. The company has also plans to go in for the manufacture of calendered plastic materials and printed plastic materials. It is also proposed to participate in a joint-sector company to be promoted by Gujarat government for the manufacture of rubber tyres and tubes. Gujarat Industrial Investment Corporation has a 'letter of intent' for the annual production of four lakh numbers each of tyres and tubes. Kothari (Madras) will have a substantial holding in the equity capital of the new company. The project cost is estimated at around Rs 14 crores, of which Rs 3 crores will be met out of share capital. A collaboration agreement has been entered into with a well known foreign firm. All these projects are proposed to be located at or near Baroda. In addition, the company also intends to establish a watch factory in Tamil Nadu in collaboration with 'Timex' of the US.

At the same time, the modernisation programme of the three textile units is being carried out expeditiously with a view to further improving productivity. The teas manufactured by the company's estates are among the finest produced in South India and fetch the highest prices in Cochin auctions. The coffee is also of the best variety and fetches the maximum points per unit. The total annual turnover of the company is in the region of Rs 16 crores and profit about Rs 90 lakhs. Both turnover and profits are expected to increase gradually when the benefits of the proposed diversification and modernisation of the existing production facilities start flowing in. The company has already declared an interim dividend of 10 per cent. According to H C Kothari, a director, the company should be in a position to pay a final 10 per cent for the year ending August next.

GOKAK MILLS, engaged in the business of cotton spinning for the last 53 years, is adding some new object clauses to its memorandum of association. These include a long list of new businesses of diverse types proposed

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

	Gokak Mills		Bayer		Sandvik Asia	
	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 31-12-71	Last Year 31-12-70
Paid-up capital	130	130	300	300	110	110
Reserves	192	173	272	109	168	121
Borrowings	200	129	341	481	182	265
of which Term borrowings	80	80	236	272	—	—
Gross fixed assets	463	432	694	678	343	312
Net fixed assets	224	212	438	474	146	147
Investments	—	—	—	—	—	—
Current liabilities	95	63	99	84	173	158
Current assets	392	283	574	499	486	507
Stocks	289	176	294	296	272	250
Book debts	95	95	245	177	190	242
Net sales	1075	903	1051	741	635	431
Other income	7	5	22	23	4	2
Raw material costs	763	576	471	365	276	177
Wages	176	154	126	91	80	52
Interest	18	12	33	37	24	17
Gross profit(+)/loss(—)	96	84	218	161	152	111
Depreciation provision	20	19	53	55	27	23
Tax provision	37	28	—	—	65	51
Net profit(+)/loss(—)	39	37	165	106	60	37
Development rebate provision	4	5	4	1	2	1
Transfer to reserves	15	12	99	—	42	23
Dividend						
Amount	20	20	45	—	16	13
Rate (per cent)	15	15	15	—	15	16
Cover (times)	1.75	1.60	3.20	—	3.62	2.73
Ratios (per cent)						
Gross profit/sales	8.93	9.30	20.74	21.73	23.94	25.75
Net profit/capital employed	7.47	8.56	18.07	11.91	13.26	7.46
Inventories/sales	26.88	19.49	27.97	39.81	42.83	58.00
Wages/sales	16.37	17.05	11.98	12.28	12.60	12.06

to be included among the objects, such as metal founders, smelters, shipbrokers, financial, monetary and commercial agents and advisers, apart from manufacturing of chemical, biochemical and other preparations, dyes, chemicals, acids, alkalies, pigments, paints, engineering and electrical goods, containers, boxes and cartons and even production of copra, cottonseed, castor seed, groundnuts, etc. No indication has been given as to which new businesses are intended to be taken up by the company in the near future. Shareholders are left guessing about the future activities of their company. Another resolution proposed to be placed before the shareholders is to empower the company to amalgamate with any company or companies. It is stated that the proposed alteration is of an enabling nature.

Gokak has drawn up a phased programme for diversification and expansion of production capacity, and an expenditure of about 44 lakhs is envisaged on new machinery and buildings. F H Kemple, chairman, has indicated that various proposals are under consideration for raising fresh finance. Additions to plant and machinery made last year cost the company some Rs 21 lakhs. The mills continued to work seven days in a week and this proved beneficial to the company. The working results showed higher sales and earnings. Apart from maintaining dividend at 15 per cent, the Board has recommended a gift of shares on a one-for-two basis. Kemple frankly admits that the "rather depressing views" about the 1971 results expressed by him at the half-way stage turned out to be incorrect.

BAYER (INDIA) is paying a maiden dividend of 15 per cent, one-half of which is expected to be exempt from tax and is also issuing bonus shares in the proportion 1:5. The company has produced good results for 1971, following bigger contributions from all divisions. With the demand for pesticides growing, the management intends to undertake an expansion programme subject to government approval. Discussions with government in connection with the implementation of a 'letter of intent' for expansion of the rubber chemicals division are also in an advanced stage, and this programme is expected to be implemented in the near future. Last year, the company received a 'letter of intent' for the manufacture of TDI (toluene di-isocyanate), the basic raw material for the production of polyurethane foam. Certain details in connection therewith are under discussion with government. The performance of the pharmaceutical division was satisfactory, both in regard to sales of formulations as well as production of chloroquine phosphate and other basic drugs. The company continued to export substantial quantities of its drugs and formulations to other countries, mainly in South and South-East Asia.

SANDVIK ASIA is seeking government permission to expand capacity from 84 tons to 150 tons of tungsten carbide products. The expansion programme, estimated to cost Rs 90 lakhs, will be financed partly with additional share capital which would be issued "in due course". The latest results, though not strictly comparable with those of the preceding year when the accounting period was changed, show a marked improvement in sales and earnings. Dividend is stepped up by 3 points to 15 per cent. The company is still awaiting government consent for the issue of bonus shares on a one-for-five basis. The company's exports increased from less than Rs 16 lakhs to a new peak of Rs 39 lakhs last year. One of the consignments imported by MMTC for the company has been found to be "outside the company's specifications and as such not usable for the purpose intended". The matter has been taken up with MMTC. Meanwhile, a sum of about Rs 17 lakhs has been written off in the accounts in this respect.

INSTITUTE FOR SOCIAL AND ECONOMIC CHANGE

Bangalore

The Institute for Social and Economic Change or ISEC is an All-India inter-disciplinary institution for research and training in the social sciences, which will start functioning in Bangalore from June-July this year. It will have centres in Economics, Sociology, Demography, Education, Organisation and Administration, Research Methodology and Statistics, and Human Geography and Ecology.

Economics will include agricultural, industrial, quantitative and public sector economics, public finance, credit utilisation, and economic planning and policy. Sociology will deal with the different aspects of the Sociology of Development and include Social Psychology and Social Stratification. Demography will include regional, urban-rural and policy problems. Education will include higher education, vocationalisation, and development. Human Geography and Ecology will include regional planning, resource identification, and changing mass-environment systems. Organisation and Administration will include public administration at the grass roots level, communication and evaluation. Research Methodology will include Econometrics, Statistics and field work techniques.

Applications are invited for the posts of Senior Fellows (corresponding to University Professors), Fellows (corresponding to University Readers) and Research Associates (corresponding to University Lecturers) in all these disciplines. The salary scales for these posts will be the same as those approved by the University Grants Commission for the University of Delhi.

Applicants are requested to send their bio-data in triplicate, giving full details of their age, academic qualifications, research and teaching experience, present position, field of specialisation, list of publications and names of referees and indicate clearly the category of the post for which they would like to be considered.

Applications should be addressed to Dr. V. K. R. V. Rao, Director, Institute for Social and Economic Change, Ratna Vilas Road, Basavangudi, Bangalore-4, and reach him on or before the 31st May 1972.

V. K. R. V. Rao
Director

NEW DELHI

Land Ceiling and the New Farm Entrepreneur

THE issue of land reform, in particular the lowering of the ceiling on land holdings, has come to a head. It is all to the good that, for once, the problem has come to be posed not merely as one of principle, to which everyone readily subscribes, but as one of implementation. The discussion on the question has also brought into focus the emergence of new vested interests in land which have so long managed to remain submerged in the mass of the peasantry and secured special concessions and large economic gains in the name of the poor farmer.

It is not entirely fortuitous that the controversy should have erupted immediately after the conference of Chief Ministers which rejected the report of the Agricultural Prices Commission on rabi prices and sidetracked the issue of lowering the ceiling on land ownership with a vague discussion of the exemptions allowed under existing land ceiling laws. After the Chief Ministers' conference the Prime Minister herself conceded that the state leaders had "scored over" the Centre on the question of the procurement prices for wheat. They could not but go forward from that point to secure further gains for their main constituents, the rich farmers, and tailor the proposals for lowering ceilings to suit their interests.

The Chief Ministers conference also helped to show that the Agriculture Ministry at the Centre was very much in sympathy with the Chief Ministers' position and shared their anxieties. But even then it was not known that the so-called farmers' lobby was so strongly entrenched in the Ministry. This was revealed in the annual report of the Ministry which brought to light the quiet moves within the Ministry to circumvent, if not completely undermine, the proposals for lowering land ceilings. Attention was attracted to that part of the Ministry's report which dealt with the problem of lowering land ceilings in the light of the recommendations of the Central Land Reforms Committee. The CLRC was charged with recommending practical legislative and other measures to carry out the Congress party's commitment to lowering the ceilings in such a manner as would yield substantial surplus land for redistribution among the small farmers and the landless. Chief Ministers had a large weightage in the composition of the Committee which functioned under the aegis of the Union Agriculture Ministry.

The manner in which the CLRC conducted its inquiry and the role of the Union Agriculture Ministry were revealing. A statement was placed before Parliament on August 4, 1971 outlining the recommendations of the CLRC on lowering land ceilings. Recently when discrepancies between the statement as placed before Parliament and the annual report of the Agriculture Ministry were noticed, this was sought to be explained away by the Ministry with the statement that there had in fact been no report by the CLRC at all; the Committee had only reached a 'consensus'. The intentions of the Committee, it was claimed, were more faithfully reflected by the report of the Ministry than by the wording of the statement placed before Parliament.

But the issue is not one of semantics. The recommendation of the CLRC on the lowering of the land ceiling, as presented in the statement to Parliament last August, was as follows: "The ceiling for a family of five members may be fixed within the range of 10 to 18 acres of perennially irrigated land or land capable of growing two crops". As put in the Agriculture Ministry's report, the recommendation was that "The ceiling for a family of five members may be fixed within the range of 10 to 18 acres of perennially irrigated land or land under assured irrigation from government sources capable of growing two crops". The addition of the words "from government sources" is obviously not innocuous. It would mean that lands irrigated from private sources of irrigation, among which tubewells figure prominently, would be exempt from the ceiling. We are thus back playing the exemptions game in a big way — and this after accepting that exemptions have been the principal device to evade existing ceiling laws.

It is estimated that out of a total net crop area of 13.9 crore hectares in the country, the net irrigated area in 1969-70 was only a little over 3 crore hectares or about 22 per cent of the total. The percentage of area sown more than once to net sown area was even less and was only 17.6 per cent of the total. Government canals account for only 37 per cent of the net irrigated area while 29 per cent is irrigated by private canals, tanks and other similar sources. Of the irrigated area 33.7 per cent is served by tubewells and other wells, the majority of them being privately owned. By restricting the application of the ceiling law to only such lands as are irrigated from government sources, the scope of the legislation would automatically be severely limited.

Nor is this the only loophole. The way perennial irrigation is defined has served the same purpose. Perennial, it is suggested, means all the year round or at least ten months in a year. The Gujarat ceiling law of 1970 actually incorporates this condition in respect of perennial irrigation. It is well known that very few canals serve lands for irrigation purposes for as long as ten months in a year. Indeed, this is not even necessary for the optimum irrigation of the command area of a canal.

The Chief Ministers, under pressure from the Central leadership to enact ceiling legislation, have jumped at the Agriculture Ministry's version of the CLRC's recommendation for lowering the ceiling and bills have been drafted or are in the process of being drafted in keeping with this. This has been almost a case of quiet collusion between the farmers' lobby at the Centre and in the states to defeat the move for radical land reform.

The issue first figured in the meeting of the Congress Parliamentary Party where some of the Chief Ministers were criticised for dragging their feet on the land ceiling issue. The party executive, it appears, was at first not even aware of the original version of the CLRC report or of the riders that were added to it in the Agriculture Ministry's report and the directives issued to the state governments on that basis. Subsequently it was found that while the original version of the CLRC report, as laid before Parliament, had been incorporated without change in the Congress election manifesto for the Assembly elections, the Agriculture Ministry and the state governments were acting on a revised version.

The Food and Agriculture Minister attempted to explain away the whole thing with a statement in Parliament but his attempt did not succeed in quietening the critics in his own party. He has now proposed to call the CLRC back into session to clarify what exactly its intentions were. But this too has been questioned as being an attempt to se-

cure *ex post facto* clearance for the revision of the Committee's report by the Agriculture Ministry.

What is significant is that in spite of the sharpness of the controversy, very little of it has found expression on the floors of Parliament. The controversy has remained within the lobbies and committee rooms of different parties. What this suggests is that issues have to be clinched within the various parties first since there does not seem to be a single party, whether of the Right or the Left, which does not have a strong farmers' lobby operating within it. Even the Opposition parties have maintained almost total silence on the issue during the sessions of the two Houses of Parliament though the issue would have provided an excellent opportunity to embarrass the government. This speaks volumes for the real nature of the interests that all parties, including those that sport socialist and communist labels, hold close to their hearts.

In this context it is of interest to note the content of the opposition to land reforms. With the abolition of zamindari the interests which would be touched by further land reform are no longer the narrow social group of feudal landlords without much social or political influence. Land reform would now impinge on the more numerous and the socially and economically influential group of landowners with enterprise and the resources to invest in the modernisation of agriculture. This stratum of rich farmers has been the focal point of the new agricultural strategy and the much advertised green revolution. They have been pampered with incentives and liberal resources and they have taken full advantage of these and have given returns of a kind. With the strengthening of their economic base, their social and political influence has grown. This fact is seen in practically all the political parties. That the opposition to land ceiling should be on the ground that it ought not to extend to lands which are privately irrigated — that is, lands on which most of the investment has been made in recent years and whose owners have displayed a measure of entrepreneurship in modernising agriculture — is indeed revealing.

SOUTH

Kerala Signals

Mohit Sen

THE new turn that has come about in India's political life — the establishment of a Left and democratic coalition to accomplish radical change — was first tried out on a small scale in Kerala as early as the autumn of 1969. It was at that time that a beginning was made in this state to make a break from the previous strategy of going forward along the path of building anti-Congress Left unity. The attempt was made to bring into being a broader unity which would include the progressive sections in the Congress and which would have given an impetus to the process of policy struggle within that party. At that time many considered it a gamble and a leap in the dark. Some went on to say that it would lead to a betrayal of the possibility of revolutionary advance. Now the experiment has spread to other states, above all to that crucial state of West Bengal.

The eventful months that have passed since then have shown the possibilities of this new strategy. They have demonstrated, particularly in connection with the liberation of Bangladesh and the response to the US aggression in Vietnam, that the Left in India can no longer advance by attempting to establish an anti-Congress front. In the present situation this would lead straight to the strategy of fighting "Indira's semi-fascism" in the company of the Jan Sangh!

Recent events have also demonstrated that the Congress, despite the massive electoral victory that it has been winning from 1971 onwards, by itself and on its own cannot accomplish the task of radical democratic renewal. The contrast between the immobility of Andhra and the advance in Kerala is too glaring to be missed. This lesson is further brought home by the fierce controversy that has developed on the question of ceilings within the Congress. Water comes into the ambit of class struggles as does the definition of irrigation! What a far cry this is from the fact that tenancy has virtually ended in this state and that the landlord rentiers have receded into history.

In Kerala now the problem of finally ending the concentration of land ownership is on the agenda. Landlord-tenancy relations are largely a matter of the past. This itself is a vast social change which has not at all received the attention it should have. Building upon this the edge of the Left and democratic forces has now to be turned against the continuing concentration of land ownership. There are some wiseacres who imagine that ceilings on rural land ownership are not a significant issue. They had better go to Kerala's countryside and see what an amount of resistance is being generated by the large landowners to this measure. So much so that action by the government machinery is far from enough. It has to be combined with and even preceded by the action of the masses themselves. But for what purpose? Not to topple the Achutha Menon Ministry nor to embarrass the government to secure the completion of an extremely important task of the democratic revolution in the countryside. The point is to properly combine the vantage point of a government which is favourable to this measure with a powerful mass movement from below. The climate, politically speaking, is extremely favourable for such a pincer movement.

Such a strategy, however, cannot be separated from a proper appreciation of the present coalition that administers Kerala. There are certain specific features about it, such as the inclusion of the Muslim League. The character of this organisation in this state is not quite the same as in other parts of the country. It has accepted a programme of democratic transformation and has till now fully co-operated in its implementation. It joined the national mainstream on the question of Bangladesh. The point of objection as to its communal character is, of course, a valid one and much more so when some of its leaders seek to project this on an all-India scale. This peculiar and even unique aspect is not, however, the most important one. More important by far is the fact that this coalition government includes the Congress. And this Congress has not only fully accepted the programme of democratic transformation but from time to time has suggested radical amendments to it. This is a fact of Kerala's life and it has already had serious all-India repercussions. Surely, the CP(M) cadres, members and followers need to reckon with and ponder upon this fact. How can they build a whole revolutionary strategy without properly assessing this fact? It has been said before and it may as well be reiterated that the CP(M) or the major portion of its cadres and masses have to come into the coalition if it is to acquire the character of a Left and democratic front. What prevents this from happening is "face", prejudice and a clinging to dogma.

An extremely important and revealing event has been the deliberations of and the resolution passed by the conference of the Kerala Pradesh Congress. The lowering of the ceiling, ending the exemption to lands owned by temples and other religious institutions, the nationalisation of all plantations and of private educational institutions — a whole range of radical recommendations are made which no Left party in the state can possibly object to. The evolution of the Left in the Congress in Kerala has proceeded a stage further as a response both to what has already been accomplished in the state as well as to fresh stirrings in the country as a whole. This augurs well for the coming days when a great battle over policy would rage over the entire length and breadth of our country.

All this should not be taken to mean that the coalition in Kerala is all plain sailing. Its proper functioning also depends upon the correct application of the tactical line of unity and struggle. And this application takes place on a different level from that in the rest of the country. But it remains a general guideline even in Kerala. When the masses are in movement, when loyalties are beginning to shift there would naturally be an element of competition among the partners of the coalition as to who would garner the harvest of this change and shift. There is nothing wrong in such competition provided it proceeds along the lines of a competition to best and most swiftly carry out the programme of democratic transformation as well as to win adherence on the basis of the total programme and ideology of the parties concerned. To this competition, too, the CP(M) must respond if it wants at all to be of relevance to Kerala's advance and India's remaking.

NORTH

New Race in Radicalism

PERHAPS in no other state is the race for ultra-radical postures being so frantically run as in Punjab these days. Both the Congress party and its principal rival, the Akali Dal, are outbidding each other. The latest vote-catching gesture was made by Finance Minister Hans Raj Sharma in the state assembly on April 28. Reiterating his government's objective of a social and economic revolution at an early date, he announced that no one would be allowed to accumulate wealth at the cost of the poor. In pursuance of its poll pledges, he said, the government proposed to fix a ceiling on personal incomes and expenditure besides the restrictions on the size of rural and urban property. Truly breathtaking in scope, some of the policy declarations which the Finance Minister and his colleague, Rattan Singh, have been making are designed to steal the thunder from all others. Most Congressmen, Akalis and members of other political groups console themselves with the thought that the radical announcements being made in quick succession are extremely difficult to implement and are hence a part of the image-building drive.

The Akalis have resolved to go one better. While the Congress assembly party on March 21 unanimously passed a resolution favouring a uniform ceiling of Rs 2.5 lakhs on rural and urban property (though later it staged a *volte face*), the Akalis decided on April 28 to sponsor a resolution seeking a Rs 85,000 ceiling on all urban assets, both movable and immovable. Stemming from the Congress move to fix a 17.5-acre ceiling on farm lands (valued at the average rate of Rs 5,000 an acre, amounting to Rs 85,000), the tongue-in-cheek Akali bid is designed to corner the Congress and to beat it with its own stick when the time for electoral reckoning comes five years hence. Ownership of property and vested interests knows no political frontiers, and there are as many propertied persons in the Congress as among the Akalis.

Landlord Lobby Optimistic

Since it is the Punjab Congress which is thoughtlessly making a fetish of radicalism, the Akalis intend to demand that all state legislators, including Ministers, should promptly lay a statement before the House listing all their assets. But to remain on the right side of the landed gentry, Akali opposition leader, J S Brar, stated in an interview that his party would have preferred to maintain the *status quo* in respect of the ceiling (30 standard acres) on farm land and to back the original Congress move for a Rs 2.5 lakh limit on urban property. To what extent the Centre modifies the Punjab ministry's bill on ceilings, now awaiting it approval, remains to be seen. Though the landlord-kulak lobby in both Punjab and Haryana appears to be lying low for the present in view of the Centre's pressure and the socialist winds, it is quite optimistic about the ultimate outcome. While keeping up the appearance of conforming with the all-India ceiling pattern, the parties affected are already getting set for the none-too-difficult task of circumventing the land laws and thus defeating their purpose.

In progressive Haryana, too, the ministry has decided to lower the ceilings and modify the draft ordinance it submitted to the Centre for approval a year ago. It cannot but assure compliance with the Central directive. The pro-landlord lobby has found some half-hearted spokesmen in Congress(O) and the Jan Sangh, though they realise the heavy odds they have to contend with. Ironically, the most vocal advocate of the 30 acre ceiling in Haryana has turned out to be the state's veteran and volatile politician, Hardwari Lal. Though elected on the Congress (O) ticket, he defied the party directive in the Rajya Sabha elections. He has since broken away to form a new group of "Progressive" Independents. Other politicians have chosen to remain silent on the ceilings issue as a measure of expediency. Congress(O), which in the March poll emerged as the largest opposition group, has virtually collapsed, marking another political triumph for Chief Minister Bansi Lal's tactics of winning over opposition legislators by offering them lollypops in varied disguises.

In Himachal Pradesh the past fortnight has been a quiet one, with most politicians away from Simla and hardly any national issue exercising the minds of the people. In this relatively unruffled state, controversial questions somehow get pigeonholed until the next assembly session. The disclosure by the Himachal Pradesh Financial Corporation about having earned the largest profit since its establishment in 1971-72, however, created some interest in knowledgeable circles. The industrial climate the Corporation has sought to promote in the state is in evidence at some places, following its loans to small or medium-sized establishments. The disbursement ratio of about 25 per cent of the allocation during the first three years has gone up to over 80 per cent. More significantly, the record of recovery of loans is highly creditable, over 90 per cent of the loanees having paid instalments regularly — a feat which most other states cannot boast of.

CPI (M) between Moscow and Peking

M R

IN 1964, when the Communist Party of India split vertically, it was hard to place the break-away wing — the Communist Party of India (Marxist), as it came to be known later — in the broad spectrum of the international pro-Chinese tendency resulting from the Sino-Soviet ideological conflict. Closest to the Chinese party were the two other ruling communist parties of Asia (of North Korea and North Vietnam), and one ruling party in Europe (of Albania). Then came a group of Asian communist parties which were wholly with the Chinese party to begin with (of Indonesia, Japan, and Malaysia being the more important ones in this category) and the New Zealand party (the only white party besides the Albanian to support the Chinese positions unreservedly). The CPI(M) which began with a considerable mass base was so variegated in its composition that it was at best an ally of the Chinese party and not its partisan. The breadth of the CPI(M) base at the time of its formation, the strategic importance of the pre-split CPI to the Sino-Soviet ideological dispute, and the Sino-Indian border conflict (which became one of the issues in the Sino-Soviet ideological dispute) vested the CPI split with unique significance. The CPI(M) was a category by itself in the spectrum which had at least three other categories to its right — groups or splinter parties in semi-colonial countries as also in Europe resulting from the main party's alignment with the Soviet party; groups in favour of Chinese positions still continuing in pro-Moscow parties; and nuclei and cadres in revolutionary movements in colonial countries, particularly in Africa, who favoured Chinese positions.

In India, the CPI had already committed itself to pro-Soviet positions in the ideological dispute when the split took place. But the split did not represent a straight Moscow-Peking polarisation in the CPI and the newly formed CPI(M) did not take a stand on the ideological issues dividing the world communist movement until after four years. In 1968, when it came to grips with the ideological issues, the CPI(M) had to split. The Madurai ideological draft of 1967 examined Soviet positions on ideological issues and rejected all except one of them. It did not examine the Chinese ideological positions at all except in one instance only to reject it. The Madurai draft was rejected outright by the Andhra Pradesh and Kashmir plenums but was passed at the all-India plenum at Burdwan in 1968. The CPI(M) rejected the Soviet positions as revisionist but, examined from the Chinese positions, the CPI(M)'s stand itself might look revisionist. In short, the CPI(M) position was one of anti-revisionism sans Maoism. And surprisingly, over the Czechoslovak issue in 1968, the CPI(M) supported the Soviet action while the pro-Moscow CPI found itself divided.

The alignment of parties in the international communist movement has changed since the great schism. The North Vietnamese and North Korean parties which were closest to the Chinese at the time of the schism moved to neutral positions. In Europe, the Rumanian party which was close to the Soviet party also moved to a neutral position. The Cuban party is also neutral between Moscow and Peking. At least, these four ruling parties have asserted their ideological independence of both Moscow and Peking to some degree or other. The emergence of an "independent" bloc of ruling communist parties gave the CPI(M) a chance to establish a bridge with the international communist movement to overcome its isolation. The party's endorsement of the Soviet action in Czechoslovakia was perhaps an attempt at establishing such a bridge through the Soviets but it ended in failure. The CPI(M) hoped that Rumanian intervention could secure for it an invitation to participate in the 1969 world communist conference in Moscow as a "parallel" party from India or at least as an observer. This too failed.

Part of Independent Bloc

Since 1969, the CPI(M) has regarded itself a part of the "independent" bloc of parties but this has not helped it overcome the isolation from the world communist movement. The CPI(M) has been independent of both Moscow and Peking on issues of ideology and is suspect in the eyes of both whereas the ruling communist parties which constitute the independent bloc have been friendly to both Moscow and Peking and are wooed by both. The "independent" bloc is again an ideologically heterogeneous lot. They have not taken agreed positions on issues. Cuba backed Soviet intervention in Czechoslovakia but Rumania did not. North Vietnam and North Korea were neutral. Similar differences were noticeable on isues like Nixon's Peking visit.

The CPI(M) has been maintaining fraternal relations with the ruling parties of the independent bloc — CPI(M) leaders have visited North Korea, Cuba and Rumania — but none of these parties accepted its invitation to its last party congress in Cochin in 1969. Its isolation still continues.

The latest (on April 23) CPI(M) attack on the Soviet and Chinese parties underlines this isolation and failure of its efforts to overcome it. The party's 45-page draft political resolution for its next congress in June denounces the political, ideological and organisational lines of both the "big" parties which are blamed squarely for the weakness of the world revolutionary movement. Such criticism has been made earlier but what lends the latest document significance is the attacks on the attitude of the big parties to the situation in the subcontinent. The CPI(M)'s stand here can be summed up as follows:

> The Soviet party has been openly acclaiming and supporting the "right" party (the CPI) which has been "unashamedly" collaborating with the Congress party and its Central government in suppressing the people's struggles, and in its killings of CPI(M) cadres and leaders. The press in socialist countries has had no word of criticism of the Congress government's "atrocities" on the working classes. "The Soviet Communist party goes on showering encomiums on the Indira Gandhi government as a progressive government."

The Chinese party has been charged with hailing and giving every encouragement to the "so-called Naxalites" who, it is alleged, not only concentrated their disruptive attacks on the CPI(M) and its mass movements but indulged in the assassination of cadres and leaders of the CPI(M).

In effect, the CPI(M)'s contention is that the Congress and the Naxalites have been attacking the CPI(M) and its mass movements, with the backing of the Soviet and Chinese parties, respectively.

On Bangladesh, the CPI(M) is all praise for the Soviet stand and is critical of the Chinese stand. On Kashmir, it endorses Soviet support to India and is critical of Chinese support to the right of self-determination for the Kashmir people.

The CPI(M) in this sense sees more plus points on the Soviet side and fewer on the Chinese side. Nevertheless it tries to equate both in one sense when it says that both the parties have been opportunistic to the extent they have been helping the bourgeois regimes in newly-liberated countries in the belief they are useful. It says the pursuit of "calculated anti-communist, anti-democratic policies at home and the adoption of anti-imperialist position in certain matters of foreign policy" are admirably suited to the class aims of bourgeois regimes in the newly-liberated countries.

"If the leaders of the big socialist states imagine that they have been shrewd in extending them aid and utilising them in the struggle against imperialism and its war machinations, the capitalist regimes of these newly-liberated countries have every reason to gloat over the fact that they have been able to successfully bargain between the opposing camps of socialism and imperialism in the furtherance of their path of capitalist development and simultaneously suppress the democratic movements at home with impunity," the CPI(M) says.

However, one cannot help noticing the contradictions in the CPI(M)'s thesis. The party by implication welcomes Soviet diplomatic support to India and its reservations are limited to Soviet support for India's domestic policies. The Chinese party is attacked for taking what are seen as anti-Indian positions over Bangladesh and Kashmir in contrast to Soviet positions but the CPI(M) fails to note that the Chinese party has been consistently critical of India's domestic policies. The criticism of the Chinese support to the Naxalites pertains to issues of the Indian government's domestic policies. The CPI(M) would be happy if the Soviet party stops backing the CPI and the Chinese party, the Naxalites. In short the CPI(M) wants for itself the role of a "national" communist party, ultimately enjoying the support of both the communist giants. But at the moment it is in an unenviable position. It is in general agreement with the foreign policy interests of the ruling class alliance and collides with its domestic interests.

The CPI(M) provides an interesting example of a non-ruling communist party of consequence caught in the Moscow-Peking cross-fire. Its position is not the same as that of a ruling communist party trying to balance its interests between Moscow and Peking and perhaps get the best of both the communist worlds. The "independent" communist parties are independent either to pursue revisionism or revolutionary aims. The CPI(M) has tried to be anti-Soviet (i e, anti-revisionist) without being pro-Chinese and its objective has been far from clear.

BANGALORE

Co-operation or Subservience?

ONE month is too brief a period to assess the performance of any ministry — let alone a ministry which is strong on ideology and weak in talent. In the context of our underdevelopment, intellectual and material, one cannot complain too loudly about the dearth of talent. And if Urs had gone the whole hog in search of talent, he could not have put together an ideologically homogeneous team. When Nijalingappa ruled the roost, nothing could be done without the patriarch nodding assent. The Syndicate leader, with his strong likes and dislikes, antagonised quite a number of talented and vocal Congressmen. Handicapped by this constraint, his protege, Veerendra Patil, could do little to restore the fast-eroding confidence. The "Indira Wave" swept him out of power, as it did many other politicians in other states.

Devaraj Urs is in no danger of being swept away by any wave. He seems to have, at the moment, strongly established himself as the leader of the party and as Chief Minister. Even so, it is difficult to say, with certainty, that he will stay for a full term. Those who asserted that the victory of the Congress party in Mysore in the March elections meant the swan-song of communalism are having second thoughts. While there is no denying that by carefully shifting the weightage from the major communities, *viz*, Lingayats and Vokkaligas, to the relatively minority castes and groups in the issuance of party tickets, Urs has brought about a swing away from Communalism, as it is understood in Mysore, he has not quite succeeded in eradicating it. He is realistic enough to concede that one has to live with it.

During the brief period of just over one month, Urs has had to face three minor political setbacks. The first related to the election of his adversary, Veerendra Patil, to the Rajya Sabha which would not have been possible but for a fair measure of cross-voting. The second was the defeat of the Congress nominee in the election of the Chairman of the Legislative Council and the third was the passage, in the Council, of an opposition amendment to the Tenancy Bill. The last two setbacks came as no surprise since the party does not enjoy a majority in the Upper House. In the context of these developments, the outcome of the forthcoming by-elections — yet to be scheduled — to enable the entry of Devaraj Urs and S M Krishna, the State Industries Minister, into the lower house, is awaited with unusual interest. Incidentally, Urs did not contest the March elections and Krishna was drafted from the Lok Sabha.

Habits die hard. And Devaraj Urs has still to shake off the habit of slogan-mongering. Even the intellectual Left, which has blessed the radical slant of the new ministry, has grown weary of the shadow-boxing that goes on in the political arena. Urs may be conscious of the popular mandate he enjoys but that is not enough to restore credibility. Credibility is a function of the success of policy measures. There has no doubt been a change in the relations between New Delhi and Bangalore. Those who say that the era of confrontation has given way to an era of co-operation do not seem to have grasped the nuances of Centre-State relationship. Co-operation on the basis of a recognition of mutual obligations under the Constitution needs to be distinguished from subservience practiced for the sake of political expediency. It will not be long before the leaders at the state level realise that Indira Gandhi has no use for leaders who have lost their credibility *vis-a-vis* the people whom they serve. Therefore, Urs will do well not to do anything which erodes the credibility of his government.

Political Horse-Trading

Take for instance, the issue of Tungabhadra waters. If Urs had considered Andhra Pradesh's request for a little bit of Mysore's share of water to tide over the summer months reasonable, he should have magnanimously responded to it instead of saying a "no" in the first instance and later yielding to Indira Gandhi's suggestion. The climb-down was, without doubt, political. Again, subtle pressure is brought to bear on Urs to make him agree to an "out-of-court" settlement of the Krishna-Godavari issue. On principle, the conciliatory approach is unexceptionable but those who warn Urs to watch his step may have a point. It was precisely because nego-

tiations failed — so the argument runs — that the issue was referred to a Tribunal as a last resort. Where is the assurance then that a mutually satisfactory solution could be found through *negotiation? Cynics are already pointing* out that it will be arbitration "by other means". In other words, the emphasis really is not so much on settlement through negotiation but on political horse-trading.

However, the critics of Devaraj Urs are less than fair to him when they accuse him of showing "softness" on the Mysore-Maharashtra border issue. The Centre is genuinely concerned that if the issue is allowed to hang fire indefinitely, it will vitiate the relationship of the states concerned with the Centre. Urs has taken the stand — allowing for the credibility gap — that the Parliament is the final authority to settle the issue. Ultimately, the issue coulld be settled that way but, at the moment, New Delhi is making serious attempts to get the Chief Ministers of Mysore and Maharashtra to agree on essentials. K C Pant, who was here recently to sell the idea, may not have got a *carte blanche* from Urs who is not slow in learning the art of reticence.

BIHAR

Medical Colleges or Teaching Shops?

N K Singh

THE Medical Education Committee which was appointed by the Bihar Government to inquire into and suggest ways to improve the standard of medical education seems to have examined the problem thoroughly. Its recently submitted report states: "The organisers of none of the private medical colleges in the state seem to have made any donation. It is, therefore, clear that there is no element of philanthropy in these enterprises and the organisers have not been motivated by missionary spirit. On the other hand, whatever may have been their intentions, they seem to have created the impression that youngmen's craze for medical education is being exploited under the cloak of missionary spirit."

The Committee has also suggested the promulgation of an ordinance to check immediately the mushroom growth of private medical colleges. Consequently, the Health Department of the state government has sent the draft of such an ordinance to the Law Department where the whole issue is being scrutinised for further action.

In the course of its investigation, the Committee has found that none of the half dozen private medical colleges in Bihar — which admit students after charging a capitation fee ranging from Rs 15,000 to Rs 20,000 per student without having any uniform admission criteria — are adhering to the principles laid down by the Medical Council of India. Most of these colleges are without any buildings of their own, adequate teaching staff, necessary equipment or attached teaching hospital for training. These basic facilities are supposed to be created later on with the help of 'donations' from students.

Expressing concern for the responsibilities of medical personnel, the report points out that by lending their names to these institutions some retired and senior teachers and doctors have definitely caused "serious harm to medical education in the state. . . They have allowed their prestigious position as eminent retired teachers to be misused by organisers of private medical colleges to mislead young men desirous of acquiring medical education." The Committee found that motivated by considerations other than academic, the universities in Bihar have affiliated these colleges without inquiring about their standards of teaching and other matters.

Backing of Important Politicians

But after having said all this, the Committee suggests that "four of the private medical colleges might be allowed to continue . . ." Perhaps the Committee could not do otherwise as any hint of denial of recognition of the said medical colleges would have created serious political trouble in Bihar. It is an open secret that most of these teaching shops have the powerful backing of important politicians. As for the Committee's recommendation that the "opening of private medical colleges in the state should be made a penal offence", it is not difficult to visualise that several powerful political barons will not allow this to happen. The Bihar Government had earlier decided against granting recognition to such colleges but ministers continued to be willing to inaugurate them and support them and eminent doctors were willing to lend their prestige to make these teaching shops look respectable and reliable. In fact, the affair is partly due to government's failure to expand facilities for medical education in the state.

Even in these days of acute unemployment, the administrative, technical, medical fields offer some job prospects. Hence, many students want to take up studies in these fields. There is a scarcity of recognised medical colleges in Bihar. While Maharashtra with a population of 48,000,000 has twelve established medical colleges and Mysore with 28,000,000 has nine, Bihar with 56,000,000 inhabitants has only three reputable medical colleges.

The growing demand for medical education encouraged some persons to start 'private medical colleges'. These clever businessmen — and there is no shortage of them — found good scope for extending their business empire into the academic field. And this could be done without putting in any capital of their own. This 'no capital' business had the backing of a number of influential persons, including ministers, legislators, senior doctors, and some so-called academicians. Taking advantage of the situation, about half a dozen private medical colleges and even a 'medical university' sprang up one after another.

Admission by Donation

The association of these colleges with the names of respectable people helped to encourage the feeling that in time the colleges would be affiliated to different universities (which did happen) and ultimately the Medical Council of India would recognise them (which did not happen). Several hundred students, most of whom had failed to gain admission into the government medical colleges due to lack of merit, were admitted by the private colleges on payment of a lump sum 'donation' of about Rs 20,000, besides the heavy tuition fees. In this way the sponsors were able to collect several crores of rupees — the sole motive behind their 'philanthropic' and 'missionary' spirit.

The skeletons in the cupboards of the private medical colleges began falling out when the sponsors of one of these colleges, the Patliputra Medical College, quarrelled amongst themselves in April, 1971. While the 'Registrar' of the College charged its 'Managing Committee Chairman' — a former Chief Minister of Bihar — and others with defalcation of college funds to the tune of one crore rupees, the 'Secretary' was reported to have threatened the 'Treasurer' with a revolver. A case, known as the Patliputra Medical College Defalcation Case, is pending in the courts and several influential persons, including politicians, are involved in it.

VIETNAM

Crumbling ARVN Abandons Countryside

Harish Chandola

SAIGON: The pivot of the "Vietnamisation of the War" policy, the South Vietnamese Government soldier, does not appear to have the will to fight. This does sound unkind, but this is what I have witnessed on the battlefields in this country during the past fortnight and this is what must by now be the impression of those following the fate of this war in the newspapers.

During the past month of fighting, the Army of the Republic of Vietnam (ARVN) just abandoned its defences along the entire northern front, gave up one base after another in the vital Central Highlands and in the north and northwestern neighbourhood of Saigon, surrendered control over eight district headquarters until the time of writing this, and, what is of greater importance, failed to recuperate and initiate offensive to regain the lost ground. This has happened in spite of the massive US air and naval support to it and the actual leadership of US military advisers in the battlefields. (Almost the entire B-52 bomber strength of the US Air Force is now flying in support of the Saigon troops and dropping on an average about 10,000 bombs a day over the South Vietnamese countryside to prevent the Viet Cong from advancing.)

The Saigon army has almost completely abandoned the countryside and has withdrawn itself into population centres. It is now said that there it will give battle to the advancing Viet Cong forces supported by North Vietnamese artillery and armour. Hopes are now being voiced in Saigon, which in fact is very worried over the situation, that the coming battle over population centres will turn the tide. These hopes lack conviction because no one really believes that the attitude of the South Vietnam Government soldier will change once he establishes himself in positions inside population centres.

Fighting for What?

If you ask a Saigon Government soldier what he is fighting for, he would simply say he does not know, except that he has been drafted to do so for a monthly wage of the equivalent of about Rs 188. If you look at the current high prices of essential commodities in South Vietnam, with that wage the soldier can hardly buy the daily requirements of his family (it would take him nearly two months' wages to buy a full bag of rice). The soldier also sees that not everybody in his country is leading a poor life. In Saigon and other big towns, he sees his prosperous countrymen travelling in air-conditioned cars and paying more than his month's wage for a single meal, not to mention entertainment. And he wonders if his life is being sacrificed to keep these people in luxury and protect them from the war.

And what are the conditions in the field for him like? With all his battalions and fighting units there are US military advisers, always talking tough. But when the Viet Cong attack, the US military advisers are the first to leave. They ask for rescue helicopters over radios and leave the Vietnamese troops behind either to be killed or captured or to manage a retreat on their own to their next base. Life is equally dear to the Vietnamese, and so when the helicopters come to rescue the American advisers, the Vietnamese soldiers too want to get on to them in their bid for safety, often clinging to the skids and causing the danger of accidents, as happened in the Central Highlands a few days ago.

During the current offensive, the Saigon troops had to leave behind their wounded when they retreated. This has caused another setback to the morale of the South Vietnamese soldier. He now thinks that if he is not killed outright in the fighting and is merely wounded, he is going to be left behind to die of his wounds. And so he tries to be careful not to get wounded. In the seige of An Loc, 60 miles northwest of Saigon, hundreds of wounded, perhaps more, were just left behind. And what happens to the wounded who do get evacuated? The army surgeons are so overworked these days that they do not have the time to take proper care of wounds. To save time and take care of as many as they can, they find it quicker to amputate the injured limb, instead of patching it up and taking care of it. Amputation takes less time. In Saigon you can see a number of people whose limbs have been amputated begging on the streets. Many of them wear the uniforms of their former military formations, showing a hollow sleeve or trouser leg, tied and fastened to stop it from flapping. Villages are full of young men hobbling on crutches.

Morale in these conditions cannot be very high and this is reflected in the battlefronts.

No Co-ordination

Two days ago I was following a military convoy got together to open the embattled Highway 13, below Chon Thanh, about 45 miles from Saigon. The Viet Cong had set up an elaborate ambush at a point where the treeline came closest to the road. No sooner did the convoy reach there, the Viet Cong opened fire on it. The Saigon troops quickly moved out and took up positions, but they were pinned down by the Viet Cong fire. There were about five or six armoured personnel carriers (APCs) in our convoy. No sooner did the firing begin than the APCs just stopped in their tracks and stayed there. They saw their men helplessly pinned down by the Viet Cong fire and in danger, but not one of the armoured vehicles moved forward to help them. The men in the APCs were afraid that if they moved forward they would get killed. While they just stood there watching the battle ahead, the Viet Cong fired a rocket which hit the sides of one of the APCs. Five men were taken out of it moaning and bleeding. And then all the APCs moved back together to get out of the range of Viet Cong mortars and rockets! But they took no part in the fighting.

By evening the forward troops were moved back, the treeline held by the Viet Cong was bombed from the air and pounded by artillery, but the battle remained inconclusive and the Highway could not be opened. The whole convoy then returned to Lai Khe, the 5th Division headquarters. There were tank units at Lai Khe, but they too did not come out to help the troops during the day-long battle.

This is an example of the level of co-ordination between the various arms of the South Vietnamese forces. Except those detailed for the battles of the day, nobody else comes out and takes risks.

This enormous army of South Vietnam, of 1.2 million regular soldiers, was raised very quickly, not in accordance with the requirements of the country but in accordance with the US requirement of withdrawing its troops. The South Vietnamese were barely taught the use of arms and war machinery the US troops were using, and while even that had not been completed, they were pushed into the role of defending the Saigon government. All

this was very good for the propaganda regarding "Vietnamisation of the war" and to show that a colossal South Vietnamese army had been created for the purpose, but nobody bothered to find out how the individual soldier forcibly recruited or drafted into this army and pitched into the war felt about the task that had been given to him. Now one can see the result of ignoring the soldier's attitude towards this war in the fighting that is going on. Every time the Saigon troops encounter Viet Cong they call in artillery and air support because that is what the Americans have taught them. But air and artillery support do not capture ground. Troops have to move in to do that.

Three Major Fronts

The situation in South Vietnam is pretty grim. The Viet Cong, with North Vietnam support, are advancing everywhere at the moment. They have opened three major fronts: (1) In the north where they have gained a whole chunk of territory south of the Demilitarised Zone and are now threatening Hue; (2) In the Central Highlands, where their troops have routed the Saigon forces led by US advisers, and where the main Viet Cong forces are now poised to push westwards and link with their guerilla forces in the coastal province of Binh Dinh next door, thus attempting to cut the country into two; (3) In the north and northwest neighbourhood of Saigon, where while fighting for control over Highway 13, leading to Saigon, they are also making flanking movements to send in their forces closer to Saigon by other minor routes in their attempt to surround the capital.

Besides these fronts, the Viet Cong guerillas and irregulars are active everywhere in the country. In the populous and rich Mekong Delta region, they have not merely completely eliminated the Saigon Government administration but have also driven Government forces out of hamlets and villages and into population centres. Soon the population centres will start coming under attack in that region.

May will be a crucial month for this war. Rains will then have set in over half the country, thus making movement difficult for both, but far more difficult for the Saigon troops which cannot receive air support in bad weather, than for the Viet Cong. Again unfounded hopes are being expressed about Viet Cong supplies getting slowed down by the rain. The Viet Cong does use vehicles for moving its supplies, but it is not totally dependent on them. When the vehicles get bogged down in the rain, waves of human beings move the supplies for them. This they have been doing faultlessly right from the time of their war against the French, for about 30 years. Saigon forces cannot do that and therefore the pressure on them is going to continue.

The Americans these days express a negative kind of joy when they say that they are punishing the Viet Cong and the North Vietnamese by killing a large number of them in bombings. They think if they keep on doing that, a point might come when the Viet Cong and the North Vietnamese will not be able to bear the losses and will give up their struggle. This is merely a talking point but in reality this never happens. Even according to the US statistics, which are apt to be exaggerated on this score, in the entire ten-year-old war only 815,780 Viet Cong and North Vietnamese have so far been killed. At this point, let me recall what the North Vietnamese Defence Minister, Vo Nguyen Giap, had said in 1968 on this subject of losses in the battlefields. He had said that in 1945, to suppress the Vietnamese freedom struggle, the French had imposed a famine on Vietnam by stopping the movement of food. In a few months two million of his countrymen had died of hunger. But that did not stop the struggle against the French colonialists. And how many had so far died for the freedom of South Vietnam? he had asked. Not even half a million, he thought. If two million could die of hunger in a few months, half a million deaths for the freedom of the country was not an alarming sacrifice, he had said.

What are the objectives of the Viet Cong offensive? These can only be a total victory in the battlefield, because only that can really free South Vietnam and others around from the bondage of an imperialist power. The war of course can be halted the day the Americans announce that they will completely withdraw from Vietnam and not run the war there by proxy. Besides these, there are not many alternatives.

*

The War Near Saigon

LAI KHE (South Vietnam): The countryside here is so much like that of Assam: lush and green and full of small rivers. Even on Highway 13, which is now alive and flashing with death, when I see the small clusters of wooden houses with thatch roofs, fringed with coconut palms, people breaking clods in small fields or children in their fathers' shirts running along the edge of paddies, I think of Assam and as my hired, moth-eaten old American car rattles along, I sometimes become so forgetful that I think I am about to arrive at Numolighar, between Gauhati and Jorhat, and am going to stop there for a cup of tea on my way to Dimapur!

But beyond Ben Cat, the landscape changes dramatically: the country becomes flat and greenery sparce with an occasional plantation of under-nourished rubber trees. The grey earth looks parched, waiting for rain. The fields are fallow; the roaring traffic from Saigon goes along Highway 1, and at the junction few vehicles turn into Highway 13, the other end of which, from about 15 miles onwards, lies in Viet Cong control. It is along this Highway 13 that the war is approaching dangerously close to the capital of South Vietnam.

The contest for the Highway begins about six miles ahead, from a point little beyond Lai Khe, the sleepy-looking headquarters of the Saigon government's 5th Infantry Division, hiding away in a mangled rubber plantation astride the road. From there onwards the road is cut more often and hastily repaired, or one just goes round the point where it is mined. Before one reaches Lai Khe, one starts running into small bullock-cart convoys of peasants fleeing their homes in the war zone. Inside the carts women hold babies in arms and men sit over piles of rice and household furniture. The rich carry their bicycles tied to the carts.

From Lai Khe to Chon Thanh, about 12 miles away, the road gets closed every other day. And nobody, not even military convoys proceed beyond Chon Thanh to the provincial capital of An Loc, ten miles up, which has been under Viet Cong siege for about a fortnight now, and where nearly two regiments of Saigon troops with the commander of the 5th Division, Gen Huong, remain trapped. Supplying this besieged garrison has become a serious problem as no planes or helicopters are able to land there because of Viet Cong fire. Two giant C-130s of the US Air Force and three planes of the South Vietnam Air Force have been shot down there while trying to airdrop supplies. Neither can the wounded nor the dead who lie there in thousands be taken out.

But both the Americans and the South Vietnamese government are determined to hold on at all costs (and a fairly high cost in lives has already been paid) to Highway 13 from Chon Thanh downwards to Saigon, because abandoning it would only mean allowing the war to reach the Capital. Today (April 25), the government dropped 4,000 paratroopers behind the Viet Cong lines to help break the siege of An Loc.

Last Saturday when I drove along this embattled Highway from Lai Khe to Chon Thanh, at the divisional headquarters I had been told that there was a battalion of South Vietnamese troops at Chon Thanh supported by an artillery unit and that the road was relatively safe. A guard at a checkpoint who waved our car on did say: "Beaucoup VC" (full of Viet Cong), but he said that with such a broad smile on his face that I thought he was just trying to frighten a small Indian from needlessly wandering around in a war-torn area.

From the checkpoint onwards there was not a soul in sight. There were no South Vietnamese troops anywhere. The wooden shacks in Chon Thanh were all shuttered and the town was completely deserted. We looked around for the Saigon battalion which I was told was there but there was no trace of its men. There was not even a stray dog anywhere. It looked like a ghost town. Were the Viet Cong around? I would not know because if they were, they certainly did not open fire on our lone, lost car. Not finding any troops around, I and my driver realised the danger we were in and so we turned around and drove out towards the inhabited Lai Khe as fast as we could.

We drove up on this Highway again today (April 25). Near Lai Khe, at the checkpoint, we were told the road was opened today by the South Vietnamese troops who had made a brisk sweep through sniper fire and sharp, deadly clashes. But my driver did not want to go beyond. So I took a lift in an ambulance going up the road to pick up the injured. Today the road was full of empty shell casings from the 50 calibre machine-guns which the South Vietnamese must have used to fight off attackers ambushing their convoys. The ambulance drove past splintered rubber trees and fires started by searching white phosphorous shells.

A bus blown up by a mine and looking like a trampled toy, which we had passed on Saturday, was still there. So was the body of a Viet Cong soldier, a sniper who, we were told, was burrowed in a hole near the roadside with a load of B-40 rockets, and who was killed with a grenade thrown into his burrow. Nobody had removed the body from the roadside. The remains of three trucks rocketted by the Viet Cong were also there today. There were a few reporters on the Highway today with the troops. And there was a crazy Frenchman; he said he was a teacher; wandering in that war wearing a bright shirt and drawing a lot of Viet Cong fire wherever he crawled. He was desperate, we were told, to obtain a press card from the Saigon authorities.

Troops Listless

The Saigon troops wearing bright red scarfs round their necks appeared listless, as if they had been forced into the fight. They were troops of the 21st Division, freshly brought from the infernally hot Delta region, where they used to hunt guerillas. They were not used to the kind of war they had been pitched into. Truckloads of them went beyond the point where a US military adviser stood by his jeep giving instructions over a radio mike. Some of them moved in a column down the Highway and others entered the thick growth on both sides of the road. The American adviser was asking another American adviser out with the troops in the woods: "Do you want machine-gun fire?" "No", a voice replied on the radio, "I can't see the tracks to control them." That meant that the fight in the woods would have to be rifle to rifle.

At the head of the military convoy were two 105mm howitzers directing their fire forward. Then there was a thump on the roadside and greyish smoke and dirt rose up in a column. The attack was being answered. Artillery then began pounding the spindly woods, full of neglected rubber trees. The South Vietnamese troops fell back slightly and marked their position with greenish smoke, clearing the way for friendly artillery to pound the woods beyond, which the artillery promptly began doing. Medivacs (medical evacuation men) holding stretchers above their shoulders began running around bushes looking for the injured.

There was a little rain then and when it stopped a sharp wind blew. And the few red-scarfed Saigon troops near us began shivering in their wet clothing. Having just come from the hot Delta, they were not used to the cold. But the sun came out immediately and saved them from freezing. Air support was called for and the Phantoms flashed in. A forward air controller asked for cluster bomb units, but the American adviser standing by his jeep said "no" over the radio because that would require the South Vietnamese to move back 500 metres and that he thought was too far to backtrack. The adviser ordered conventional high explosive bombs and nothing else. The Phantoms were promptly challenged by 51 caliber machine-gun fire from the ground. The Viet Cong unit carrying them had to be bigger than a platoon. It could be a company, or even a battalion.

Anything would be out there. It is like that these days along Highway 13.

THE FOURTH ESTATE

Barred from Murree

Nireekshak

WHATEVER the government's motives may have been, it was a "most highhanded decision", as *Hindustan Times* put it, to prevent Indian newsmen from accompanying D P Dhar to cover the Murree talks. As a result, our newspapers had to depend on Radio Pakistan and the international press and wire services to report on the most significant happening of the week. Many newspapers had wanted to post their men in Pakistan for the event. The government, through its Press Information Bureau, dissuaded them saying that arrangements were being made for the two national news agencies, PTI and UNI, and All India Radio to do the job for them in Murree. There were murmurs but the government's decision was accepted in good faith. Then came the let down. The correspondents of PTI, UNI and AIR were all set to leave when they were told that the government had changed its mind. At first an official spokesman tried to pass the buck to Pakistan but this soon boomeranged as it came to be known that an enterprising news agency correspondent had already secured a Pakistani visa for himself through the Swiss Embassy. If Pakistan had any objection to Indian newsmen accompanying Dhar, it could have withheld the visas. But it did not. This made it abundantly clear that it was the Government of India which had debarred Indian newspapermen from re-

porting the Murree talks. In other words, it had indulged in the most blatant form of news management.

News management is nothing new in this country. Some of the news agencies and big newspapers indulge in it all the time. For example, PTI, which specialises in verbatim coverage of Parliamentary proceedings, not many weeks ago failed to mention the allegations made against its management on the floor of the Lok Sabha. Not only this, it blacked out the comments of Nandini Satpathy, Minister of State for Information, on the allegations. All India Radio and the rival news agency UNI, however, made up for PTI's unethical lapse.

Back to the Murree talks. Few newspapers seem to have reacted to the exclusion of Indian mass media from such an important event. That they were all treated on par and that no favouritism or partiality was practised seems to have satisfied them! *Hindustan Times* appears to be have been the only paper which registered a strong protest, editorially, against what it rightly called the "most highhanded decision and a gross interference in the freedom of the Press...". One wonders what the government sought to achieve by keeping Indian newsmen away from Murree. On the face of it, nothing. In the words of *Hindustan Times*, "the government has goofed, and goofed badly. And this, just a day after the Minister of State for Information and Broadcasting told the Lok Sabha of the government's commitment to the freedom of the Press. What is this freedom of the Press that the government is going to defend if it does not even have an elementary understanding of what it is all about?"

Not All Applause

The outcome of the Murree deliberations have by and large been hailed in cautious undertones. *Patriot* and *Motherland* are the exceptions. Though diametrically opposed to each other, the two papers have struck a somewhat similar warning to those who see a silver lining in the Murree talks and the proposed Indira Gandhi-Bhutto meeting. *Motherland* intensely distrusts Bhutto. This is reflected in its various reports, articles and editorials. *Patriot* has the same fears. Prefacing its comments by remarks such as that "a new Muslim consolidation within Pakistan is absolutely necessary for Mr Bhutto, the hedonist, if he is to survive in power and be able to exploit the still-powerful Mullas", *Patriot* goes on to warn that "a Bhutto who has only such assets may not exactly be the person with whom secular India can meaningfully negotiate for a period of stable peace".

The provincial press has also made some interesting and significant comments on the Murree meet. The Pro-Congress Calcutta daily, *Amrita Bazar Patrika* said: "It is all very well to say as Mr Dhar did, that India 'wants to live in eternal friendship, cordiality and amity with the people of Pakistan'. But the people of Pakistan have no voice in the governance of their affairs and President Bhutto, though he has lifted the martial law, has not transferred power to the people." *Searchlight* of Patna said: "No sane person in this country wants Mr Bhutto to come to India on bended knees and offer complete surrender. But he and others who will negotiate on behalf of Pakistan will have to be reasonable and sincerely play their role in ending the tension between the two countries. Any kind of trickery will not pay. Those who are supplying arms to Pakistan, mostly as free gifts, obviously do not like that there should be a permanent and settled border between Indian and Pakistan. They will do everything possible to wreck the talks which are to be started shortly." *Mail* of Madras said: "So far as India is concerned, the issue of prisoners of war is a relatively minor one. India very much wants a final settlement on Kashmir, which has twice been the cause of Pakistani aggression. Without a settlement on Kashmir there cannot be peace in the subcontinent." *Deccan Herald* of Bangalore said: "If Mr Bhutto really desires a turn away from the bitter past he can give evidence of it not by pronouncements which savour of playing to the domestic and international gallery but by demonstrated willingness to hammer out an enduring settlement of all the issues in dispute not only between Pakistan and this country but between Pakistan and Bangladesh." And *Tribune* of Chandigarh said: "Restoration of civilian supremacy in Pakistan was a great achievement for Mr Bhutto. Greater triumph will be his if he leads Pakistan to a reconciliation with India and Bangladesh."

The debate on the government's newsprint policy continues in the columns of newspapers. That *Times of India* has succeeded in increasing the number of its pages through the intervention of the Supreme Court, which issued a stay order on an application challenging the constitutional validity of the government's newsprint allocation policy for 1972-73, has added a new dimension to the discussion. The government and the Indian Federation of Working Journalists have retaliated by exposing the monopoly character of the ownership of big newspapers. Nireekshak has in mind the script broadcast over All India Radio last week in the programme 'Spotlight' and an article "Monopoly Grows" in the latest (April) issue of the *Working Journalist*, which is the official organ of the IFWJ. Meanwhile big business newspapers are trying to focus attention on factors like circulation, readership index, employment potential, quality of editorial services, etc. Some advertising agencies have pitched in with so-called 'surveys' of the effectiveness of various media. According to one such agency, it will be difficult to divert advertising from big newspapers to small and medium size papers for some years to come. Their projections show that even at substantially higher advertising rates, it will be economical and profitable for their clients to use the big newspapers for effective advertising.

Scramble for Top Jobs

There has always been a scramble for top jobs in journalism. The fabulous salaries that go with them provide the additional incentive, if any is needed. The Editor-in-Chief of *Indian Express* is to retire shortly and, it is said, that there are as many as 20 contenders for the post. Among the more serious ones are a High Commissioner due to retire shortly from his diplomatic assignment, a former editor of *Hindustan Times* and two senior journalists at the moment working for *Times of India* and *Statesman*. All of them have made their rounds to the proprietor who is keeping his options open and has made known his amenability to any pressures that may be exercised by the powers-that-be in New Delhi. Who will eventually bag the coveted job is being watched with interest in the profession. Meanwhile, in *Times of India* the succession issue has been shelved for the time being by the present editor being given a two-year extension — much to the disappointment of those among the senior staff who saw their chance of moving up blocked.

Employment by Spending

T S Papola

IN SPITE of the considerable growth of the various sectors of the economy during the last two decades, all available evidence suggests that the magnitude and intensity of the unemployment problem have increased. The government assigned the task of assesssing the extent of unemployment and underemployment and suggesting suitable remedial measures to a Committee in December 1970. The Committee submitted its Interim Report in February 1972. As the sub-title of the Report indicates, the Committee has recommended certain short-term measures for employment. Basic issues likes strategies of development and techniques of production, which are of fundamental importance for a programme of employment generation on a sustained basis, are reported to have come up for consideration before the Committee (as is indicated in the Chairman's letter to the Minister presenting the Report), but they do not find a place in the Interim Report. These and other related issues are now being examined by Working Groups of the Committee. While more detailed information and analysis to evolve a fresh approach to the problem would be available to the Committee only after the Reports of these Working Groups are submitted, the Committee in the meanwhile felt it necessary to submit an Interim Report recommending merely enhancement of expenditure on some of the "labour intensive" programmes of the Fourth Five-Year Plan during the next two years.

Plan Strategy and Employment

The Committee seems to have accepted, at least for the time being, the plan strategy as given. This strategy has been basically directed to the growth of output with special emphasis on the creation of an economic structure which could generate self-sustained growth. Yet the problem of unemployment could not be altogether ignored; its solution was stated as one of the objectives of planning. In the core production sectors of the Plan, however, this objective had to be subjugated to that of a rapid rate of growth. So the employment objective could be met only to the extent it was coterminus with the objective of growth. On the periphery of the plan, there were certain schemes more specifically directed towards the employment objective, but in effect these schemes degenerated into financial allocations and their success tended to be evaluated by the Central and state governments on the basis of the extent to which the funds provided were spent.

It seems that the planners either considered postponement of serious consideration of the unemployment problem harmless or they believed in the notion of a strong complementarity between growth and employment. Experience has, however, belied these assumptions. The Indian economy has grown substantially in both its productive sectors, agriculture and industry. It was the non-agricultural sector, mainly industry, which was supposed to be the main source of employment, but the rate of growth of employment in this sector has lagged behind the growth of output. As a matter of fact, there has been a fall in manufacturing employment in the post-1965 period. Construction activity, which provided about 25 per cent of total additional non-agricultural employment during the Second and Third Plans, also experienced a steep decline after 1966. So the backlog of unemployment has been increasing to which is being added annually over six million new entrants to the labour market.

In the circumstances, therefore, it might seem worthwhile to consider the desirability and feasibility of a plan with employment as its basic objective in which plan outlays and their allocations and also the choice of techniques are determined by the targets of, instead of their determining the estimates of, employment generation. Thus the overall investment pattern of the plan is subjected to the test of employment creation. If activities with greater employment potential have lower growth potential, in order to achieve a high rate of growth the resource requirements would be higher. In view of the overall resource contraint, however, a trade-off point between the two objectives may have to be decided on a socio-political basis. One hopes that the final report of the Committee will throw useful light on this issue. Should the Committee come to the conclusion that a change in plan strategy is warranted, it may be desirable to indicate this before the Fourth Plan, already under formulation, is finalised.

Types and Priorities

The Committee has assigned the task of finding out the extent of unemployment to a panel. Pending its report, the Committee has had to content itself with the general impression that urban unemployment, as indicated by Employment Exchange registrations, has been increasing, and that there exists large-scale underemployment, and some open unemployment as well, in the rural sector. The types of programmes to be suggested have obviously to be based on the nature and extent of the problem, which differ not merely between the urban and rural sectors but also among the various geographical areas. Further, it is not possible to wipe out unemployment at a stroke. Therefore, priorities need to be clarified among the various types of unemployment.

For this purpose the unemployed may be broadly classified into four categories: (i) educated (mainly urban), (ii) urban uneducated, (iii) rural unemployed (mainly agricultural labourers) and (iv) rural underemployed (agricultural labours and small farmers). The first three categories are those of open unemployment and therefore full-time jobs alone would solve their problem while for the last category the solution lies in providing suitable additional work commensurate with the time and skills available. As the Committee reports, there were 44.95 lakh registrants with the employment exchanges in June 1971 of which 20.53 lakhs were educated (including 65,000 engineers) and the remaining 24.42 lakhs were uneducated. Taking a clue from the NSS estimates of under-reporting of the unemployed by the Employment Exchanges, the number of job-seekers may be placed roughly at 70 lakhs. The failure to register being greater on the part of the uneducated than the educated, the figure for uneducated unemployed could be placed at around 40 lakhs and that for educated unemployed at 30 lakhs. These figures give us broadly the extent of categories (i) and (ii) of the unemployed.

No precise and aggregate estimates are available for the rural sector, but some studies in different states indicate that around 30-35 per cent of the total man-days available in rural areas remain unutilised — after taking account of not only farming operations but also allied activities under the given technological

and organisational conditions of work. Of these, the major part consists of man-days belonging to people who have some work at one time or the other during the year. The Green Revolution in certain parts of the country has led to the phenomenon of labour shortage during the peak seasons which means that the number of people unemployed throughout the year — i e, category (iii) — is on the decline. Thus measures providing full time jobs to people are neither desirable nor workable for tackling the problem in the rural areas. Even activities which require more or less the same *number* of people throughout the year may also not be workable in some parts. The activities may have to be such that they come to a standstill for some time so that the agricultural operations do not suffer on account of lack of labour.

Unemployment Is Bad!

There is another and more important dimension of the problem of unemployment, *viz*, its co-existence with poverty. Joblessness without the means of subsistence is certainly a much more serious problem than idleness with sufficient provision for one's needs. The problem of unemployment of the uneducated in the urban areas and the landless labourers in the villages is coterminus with poverty and starvation. The small farmer making both ends meet somehow may enhance his income by working during the period he has no work on his farm; but for an agricultural labourer work is the only means of livelihood. Similarly, the way educational opportunities get distributed in India, it can generally be presumed that a person who has been able to cross the matriculation stage of schooling has one or two earners in his family, whereas an uneducated person is by definition poor and is likely to have hardly anybody to support his family when he is out of work. There is no doubt that unemployment is bad for anyone irrespective of his educational achievements or economic status. But if the resource constraints compel a choice, the decision should obviously go in favour of helping such of the unemployed as face starvation in the absence of a job. It is possible that the most needy may not be the most vocal, but it would be a short-sighted policy to set priorities on the basis of the nuisance value of the different categories of unemployed rather than on their genuine need.

The Committee's main concern in its interim report has been with rural unemployment and underemployment. Here it has considered first the Central programmes for rural employment under the Small Farmers Development Agency, the Marginal Farmers and Agricultural Labourers Agency, the Drought Prone Areas Programme and the Crash Scheme for Rural Employment. The SFDA and MFAL programmes do not seem to have made much headway; during the first two years of the Plan only a small sum of Rs 4.5 crores had been spent out of a total of Rs 115 crores provided under the Plan. The Committee, therefore, did not find it necessary to recommend a larger outlay as it has done in the case of most of the other Plan programmes for rural development. It has instead recommended vitalisation and speeding up of these programmes. It similarly suggests more efficient execution of the Crash Programme and rightly emphasises the need for a concentrated area-approach instead of thinly spreading out and diffusing resources and energies over a large area.

The major thrust of the Committee's recommendations is on an enhancement of outlays to the extent of Rs 740 crores on certain labour-intensive rural programmes which are already a part of the Fourth Plan, *viz*, minor irrigation, rural electrification, road and inland water transport, rural housing, and water supply. On minor irrigation the Committee has recommended an additional expenditure of Rs 100 crores during 1972-74 to be met by the financial institutions. The additional employment generated with this expenditure is estimated at 4 lakh unskilled and 50,000 skilled man-years. The addition of Rs 100 crores takes the total plan outlay under this head for the next two years to Rs 575 crores which is expected to generate employment to the tune of 23 lakh unskilled and 4.5 lakh skilled man-years. The estimates relate only to the construction stage of the minor irrigation works and the Committee expects a substantial increase in employment potential of farming operations with the availability or irrigation potential. The evidence provided in this respect is scanty and only one case, that of sugarcane in Deoria, gives convincing support to the Committee's observation. In any case, the programme is mainly meant for small farmers and an increase in labour use in their case would mean larger use of family labour and would not directly benefit landless agricultural labourers to any significant extent.

A related issue which the Committee has not considered at all is that of mechanisation of farming operations. Sometimes it is observed on the basis of limited evidence that mechanisation has not led to a decline in employment. Whereas it is possible that the use of labour per hectare has not declined, the labour-output ratio must decline if there is any rationality involved in the use of machines. The issue that needs examination is whether an increase in output would have been possible with a more intensive use of labour rather than by mechanising the operations. Is labour a limiting factor in Indian agriculture? How far can the growth of output be attributed to mechanisation and what is its relative role *vis-a-vis* other inputs such as irrigation? An examination of these issues in a long-run perspective is necessary for formulating priorities in input supply and for spreading the use of techniques which increase employment without adversely affecting the rate of growth of output.

Committee's Recommendations

The Committee has similarly recommended an increase in plan outlays under other heads of rural development. On rural electrification an additional expenditure of Rs 235 crores (Rs 100 crores from budgetary resources and Rs 135 crores from financial institutions) for electrifying 37,000 villages and energising 3 lakh additional pump sets/tube wells is recommended. No estimate of employment potential of this programme is given. For the construction of rural roads, an additional outlay of Rs 110 crores has been recommended for the next two years which is expected to generate additional employment to the tune of 5,463 man-years for every crore of rupees spent. For Rural Housing the recommended additional expenditure of Rs 230 crores is expected to generate employment to the tune of 2 lakh man-years in construction activity itself and 3.2 lakh man-years in activities induced by the programme through backward linkages. The resources for the programme are to be mobilised mainly through private investment (Rs 180 crores) and supplemented by budgetary provision (Rs 20 crores) and financial institutions (Rs 30 crores). Similarly, an additional sum of Rs 65 crores is to be spent on rural water supply programmes to be financed through budgetary provisions (Rs 50 crores) and financial institutions (Rs 15 crores). The employment potential of the programme is estimated to be 25,498 man-years.

Unemployment among the urban uneducated is expected to be taken care of by the utilisation of excess capacity in industries. The measure is, in any case, warranted irrespective of the unemployment situation as a more limiting resource, i e, capital, lies unutilised. Utilisation of industrial capacity is, however, a function of several factors and the Committee could not go into the details; nor did it provide any estimates of the employment potential of the programme. Thus the problem of this segment of the unemployed, which warrants priority on the criterion of poverty, did not get serious attention from the Committee. The educated unemployed, however, seem to have attracted greater attention. Their case is better argued and a programme for them is worked in greater detail. A programme of primary education and adult literacy has been suggested which will generate full time jobs for 2.52 lakh persons with matriculation or higher qualifications and part-time jobs for another 30,000 such people during the next two years. Besides, banks have been urged to finance activities for the self-employed by allocating 25 to 30 per cent of their additional resources to this scheme. It is, however, not clear as to how a figure of 30 lakh jobs for the educated during the next five years has been reached. It may be possible to estimate what 25 to 30 per cent of banks' additional resources will amount to, but in the absence of any concrete programmes of activities, how does one know how many jobs this sum will generate?

The Committee has also suggested that unemployed persons should not be charged application fees when applying for jobs. While this may be a desirable measure from the viewpoint of social justice, particularly when the unemployed also happens to be poor, it cannot be a measure for creating additional employment. It may help if the payment of fees is leading to such imperfections in the labour market that a matching of jobs and suitable job-seekers is hindered so that jobs remain vacant and suitable persons also remain unemployed.

So far as the Committee's recommendations about the banks' role are concerned, they seem to be too obvious and general to be of any special significance. The Report of the Thakkar Committee is understood to have been considered by all the commercial banks and suitable programmes have also been initiated in some cases. The "broad and liberal view" which is recommended by the Committee towards disadvantaged borrowers has been, at least in principle, the major plank of banks' credit policy after nationalisation. Every bank has credit schemes for the self-employed and disadvantaged borrowers and preferential terms and conditions are made applicable to them. But, if the banks are expected to make a more direct contribution to the solution of the unemployment problem, it may be necessary to evolve a clear-cut policy of preferential treatment of borrowers on the criterion of employment generation, irrespective of whether the borrower falls within or outside the so-called priority sectors as defined now.

On the whole, the contribution made by the Committee to rethinking on and reorientation of employment policies seems insignificant. There are certain programmes already in operation under the plan or outside it; the Committee has recommended higher outlays on these programmes and their more efficient implementation. One may argue that if resource availability posed no constraint, more could be spent under almost every head and there would be no problem which would need to be considered by a Committee. But the resource constraint is severe and therefore, the real issue is that of allocation both between mainly productive and mainly employment-creating activities and also among alternative activities of the latter type. Raising the scale of spending, as the Committee has recommended, is relatively much simpler than deciding among alternatives within a given scale. Obviously, during the one year of its existence the Committee could not mobilise enough thinking and material to undertake the less simple task and so had to be content with shuffling existing programmes.

The Interim Report is rightly subtitled "on short-term measures for employment". But the Committee would probably like to consider longer-run measures for generating sustained employment rather than temporary jobs flowing from predominantly construction-based programmes. There are some important issues, raised above and recapitulated below, which do not feature in the Interim Report, but cannot be ignored in view of their long-run implications. First, it would be useful if the committee considers the problem of unemployment in relation to the strategy of development. It may be worthwhile in this connection to consider the desirability of reorienting the plan strategy towards the goal of "growth for employment". Secondly, the incidence of unemployment may be examined in relation to poverty, and it may be desirable to give priority to a programme for providing employment for ensuring a minimum level of income for everyone. It may be necessary to decide as to whose labour is to be utilised first, if all labour cannot be utilised immediately.

Thirdly, rural unemployment being mainly in the nature of lack of full utilisation of labour rather than complete idleness, the nature of the problem and the measures provided for solving it would differ significantly among different areas. It may be useful, therefore, to have more detailed area-wise studies and to evolve programmes suited to different areas, rather than suggest programmes for all areas on a uniform basis. Fourthly, it may also be desirable, at least from the long-run viewpoint, to examine the problem of technological choices in agriculture with a view to devising a policy on the use of various inputs to achieve the objectives of increased output and employment. If it is possible to enhance agricultural output with the use of labour-intensive methods without recourse to large-scale mechanisation, a policy of discouraging indiscriminate mechanisation will have to be evolved.

And, lastly, the experience of the working of various programmes suggest that the administrative organisation needs to be suitably tailored according to the requirements of particular schemes. It may just be possible that a replication of a given office-type organisation in the field of operation, which has been the uniform pattern of administration of various schemes so far, needs to be discarded in favour of a more dynamic and flexible form of organisation. Similarly, the system of appraisal and evaluation may also have to be more oriented to the end results rather than merely to the disbursement of allocated funds. It would, therefore, prove very rewarding if the Committee also gave some thought to outlining the organisational set-up for each programme it suggests to ensure its effective implementation.

Books Received

Ch'en, Jerome (Ed): Mao Papers; Oxford University Press, 1971; pp xiii + 161; Rs 8.50.

Lamberton, D M (Ed): Economics of Information and Knowledge — Selected Readings; Penguin Books, 1971; pp 384; 60 p.

Liu, Alan P L: Communications and National Integration in Communist China; Oxford University Press, 1972; pp xviii + 225; Rs 45.

Louvish, Misha and Mordekhai Nurock (Ed): Facts about Israel, 1971; Keter Publishing House; pp 192.

Central Bank of India

Balance-Sheet as at 31st December, 1971

CAPITAL AND LIABILITIES

31st December, 1970 Rupees		Rs. Ps.	Rs. Ps.
	1 Capital :		
4,75,14,600	Paid-up Capital (wholly owned by Central Government)		4,75,14,600.00
	2 Reserve Fund and Other Reserves :		
7,67,88,080	Reserve Fund	8,25,88,079.54	
50,00,000	Contingency Fund	53,29,770.96	
2,54,241	Special Reserve	—	
2,25,000	Development Rebate Reserve	1,50,000.00	
3,63,700	Capital Suspense	3,63,700.00	
3,61,519	Share Premium Suspense	3,61,519.25	
530	Shares Forfeited	—	
8,29,93,070			8,87,93,069.75
	3 Deposits and Other Accounts :		
2,80,33,82,267	Fixed Deposits and Cash Certificates	3,43,62,34,094.47	
1,48,97,64,300	Savings Bank Deposits	1,80,82,94,243.74	
1,34,03,67,795	Current Accounts, Call Deposits, Contingency Accounts, etc, (including Staff Gratuity Fund Rs. 1,51,50,000.00)	1,58,45,49,725.81	
5,63,35,14,362			6,82,90,78,064.02
	4 Borrowings from Other Banks, Agents, etc :		
	(1) Secured :	In India Rs.	Outside India Rs.
21,88,50,000	(a) By part of investments and bills per contra	8,91,50,000.00	—
3,86,21,224	(b) In respect of borrowings (secured by part of advances per contra) from : (i) The Industrial Development Bank of India	2,33,91,224.00	
10,46,240	(ii) The Agricultural Refinance Corporation	61,66,090.00	
—	(iii) Other Financial Institutions	1,85,00,000.00	
52,66,840	(2) Unsecured :	1,90,42,908.66	27,35,945.15
26,37,84,304		15,62,50,222.66	27,35,945.15 15,89,86,167.81
8,08,08,084	**5 Bills Payable**		9,41,32,856.57
	6 Bills for Collection being Bills Receivable as per Contra :		
40,79,58,877	(i) Payable in India	40,14,67,316.34	
4,33,15,104	(ii) Payable outside India	4,53,53,773.35	
45,12,73,981			44,68,21,089.69
	7 Other Liabilities :		
16,01,29,211	Branch Adjustments	14,81,66,458.18	
1,48,60,878	Amount owing to Subsidiary Company (including on their Clients' Account)	1,65,56,812.90	
9,08,507	Unclaimed Dividends	8,78,165.20	
53,68,582	Rebate on Bills Discounted	53,80,154.43	
37,92,778	Amount payable to Central Government (Net surplus for the period from 19th July, 1969 to 31st December, 1969)	—	
18,50,59,956			17,09,81,590.71
31,03,87,994	**8 Acceptances, Endorsements and Other Obligations as per contra**		36,15,34,746.02

Central Bank of India

Balance-Sheet as at 31st December, 1971

PROPERTY AND ASSETS

31st December, 1970 Rupees				Rs. Ps.	Rs. Ps.
	1 Cash :				
55,13,59,667	In hand and with Reserve Bank and State Bank (including foreign currency notes)				56,34,95,061.98
	2 Balances with Other Banks : On Current Accounts :				
1,72,29,910	(i) In India			1,70,94,706.22	
1,03,01,808	(ii) Outside India			1,22,67,846.08	
2,75,31,718					2,93,62,552.30
88,00,000	**3 Money at Call and Short Notice**				80,00,000.00
	4 Investments : (at below Market Value)				
1,51,20,98,211	(i) Securities of the Central and State Governments and other Trustee Securities			1,76,66,00,785.08	
	Treasury Bills of the Central and State Governments				
	(ii) Shares	Fully Paid Rs.	Partly Paid Rs.		
	(a) Preference	86,27,703.26	—		
	(b) Ordinary	2,64,71,271.50	96,19,631.30		
	(c) Other Classes	57,798.75	—		
4,41,79,494		3,51,56,773.51	96,19,631.30		4,47,76,404.81
2,81,77,163	(iii) Debentures or Bonds			2,67,18,752.03	
9,39,908	(iv) Other Investments			4,52,610.00	
—	(v) Gold			—	
1,58,53,94,776					1,83,85,48,551.92
	5 Advances : (Other than bad and doubtful debts for which provision has been made to the satisfaction of the Auditors)				
	(1) Loans, Cash Credits, Overdrafts, etc :				
3,04,25,09,912	(i) In India Rs. 3,42,15,39,305.78 (Includes an amount of Rs. 4,80,57,314/- relating to medium-term advances in respect of which finance has been obtained from the Industrial Development Bank of India, the Agricultural Refinance Corporation and other Financial Institutions as per contra)				
1,36,76,254	(ii) Outside India		91,67,419.44	3,43,07,06,725.22	
3,05,61,86,166					
	(2) Bills Discounted and Purchased :				
84,70,66,889	(i) Payable in India*		1,24,12,72,021.36		
10,53,55,127	(ii) Payable outside India**		9,95,56,759.92	1,34,08,28,781.28	
95,24,22,016					4,77,15,35,506.50
4,00,86,08,182	* Includes Rs. 2,25,00,000/- under Bill Market Scheme of Reserve Bank of India per contra. ** Includes Rs. 5,25,00,000/- under Pre-shipment Credit Scheme of Reserve Bank of India per contra.				—
	PARTICULARS OF ADVANCES				
3,27,33,86,904	(i) Debts considered good in respect of which the bank is fully secured			3,60,81,66,499.15	
18,50,94,318	(ii) Debts considered good for which the bank holds no other security than the debtors' personal security			21,29,28,850.85	
55,01,26,960	(iii) Debts considered good, secured by the personal liabilities of oneor more parties in addition to the personal security of the debtors			95,04,40,156.50	
—	(iv) Debts considered doubtful or bad not provided for			—	
4,00,86,08,182				4,77,15,35,506.50	

Central Bank of India

Balance-Sheet as at 31st December, 1971

CAPITAL AND LIABILITIES

31st December, 1970 Rupees			Rs.	Ps.	Rs.	Ps.
	9 Profit and Loss :					
—	Balance as per last Balance Sheet		—			
2,07,91,537	Profit for the year		2,88,55,512.06			
2,07,91,537						
	Less : Appropriations :					
41,58,307	Transferred to Reserve Fund	58,00,000.00				
1,34,00,000	Provision for Bonus to Staff (including Diamond Jubilee Bonus)	1,97,00,000.00	2,55,00,000.00			
1,75,58,307						
32,33,230	Balance to be transferred to the Central Government				33,55,512.06	
	10 Contingent Liabilities :					
	(i) Claims against the Bank not acknowledged as debts (including claims at London Branch —See Note (5))	4,43,11,008.52				
4,39,24,584	(ii) On Investments in partly paid shares	1,10,63,342.50				
93,31,193	(iii) On Letters of Guarantee on behalf of Constituents (including Rs. Nil on behalf of officers)	64,38,27,389.22				
67,85,94,642	(iv) Liability on account of outstanding Forward Exchange Contracts	31,02,75,338.33				
30,80,91,495	(v) Liability on Bills of Exchange Re-discounted	11,94,06,020.68				
10,99,11,812						
7,05,85,69,581		Total Rupees			* 8,20,11,97,696.63	

Notes forming part of the Accounts :—

(1) The actual amount of liability arising from future gratuities payable to staff has not been ascertained but is greater than the amount provided.

(2) As returns in respect of Pakistan Branches have not been received for period after 30th June, 1965, unaudited returns as at that date only have been incorporated in the Bank's Balance Sheet as at 31st December, 1971. As no further information is available, the assets and liabilities in Pakistan have not been shown in the Balance Sheet under the individual heads but only the net book value thereof has been incorporated.

(3) The figures for the previous year have been regrouped where necessary and possible.

(4) Certain old items in branch reconciliations remain to be cleared. The balancing of general ledger with subsidiary ledgers/schedules remains to be completed at a few branches. The schedules supporting general ledger balances and reconciliation statements for accounts with other banks were not ready at a few branches. Necessary steps are being taken in this regard.

(5) Bills of Exchange amounting to DM. 10.5 million reported to have been discounted with some German/Swiss Banks are purported to have been endorsed/guaranteed by the Bank's London Branch and in respect of claims relating to some of these bills amounting to DM. 2.5 million, legal proceedings have been instituted against the Bank. The Bank has repudiated all alleged liabilities in respect of all such bills and claims/disputes arising therefrom.

(6) No interest has been taken into account in respect of doubtful debts where legal action has been initiated.

In terms of our report of even date attached
HARIBHAKTI & CO.
FORD, RHODES, PARKS & CO.
LOVELOCK & LEWES
Chartered Accountants

Bombay, 20th April, 1972.

Central Bank of India

Balance-Sheet as at 31st December, 1971

PROPERTY AND ASSETS

64,83,940	(v) Debts due by officers of the bank or any of them either severally or jointly with any other persons		95,24,548.85		
—	(vi) Debts due by companies or firms in which the directors of the bank are interested as directors, partners or managing agents, or, in the case of private companies as members		—		
64,83,940	(vii) Maximum total amount of advances, including temporary advances, made at any time during the year to directors or managers or officers of the bank or any of them either severally or jointly with any persons		95,24,548.85		
—	(viii) Maximum total amount of advances, including temporary advances, granted during the year to the companies or firms in which the directors of the bank are interested as directors, partners or managing agents, or, in the case of private companies, as members		—		
1,10,07,707	(ix) Due from banks		1,32,03,881.12		
	6 Bills Receivable being Bills for Collection as per contra :				
40,79,58,877	(i) Payable in India		40,14,67,316.34		
4,33,15,104	(ii) Payable outside India		4,53,53,773.35		
45,12,73,981					44,68,21,089.69
31,03,87,993	**7 Constituents' Liabilities for Acceptances, Endorsements and Other Obligations per contra**				36,15,34,746.02

8 Lands and Buildings :

	Bank Premises	Investments in Properties	Non-Banking Assets acquired in satisfaction of claims		
Cost as per last Balance-Sheet	2,24,43,883.84	—	6,83,891.34		
Less : Adjustments during the year	—	—	5,83,893.34		
	2,24,43,883.84	—	99,998.00		
Add : Cost off Additions made during the year	6,56,769.85	—	—		
	2,31,00,653.69	—	99,998.00		
Less : Depreciation written off	53,57,770.46	—	9,999.85		
	1,77,42,883.23*	— †	89,998.15††		
1,75,01,286*					
— †					
4,72,766 ††					
1,79,74,052					1,78,32,881.38

9 Furniture and Fixtures :

4,84,80,474	As per last Balance-Sheet	6,09,97,987.48	
1,25,17,514	*Add* : Additions less Sales made during the year	1,25,72,293.24	
6,09,97,988		7,35,70,280.72	
2,51,88,088	*Less* : Amount written off to date for Depreciation	3,04,12,949.22	
3,58,09,900			4,31,57,331.50

10 Other Assets :

	Shares (partly paid) of the Central Bank Executor and Trustee Co. Ltd. (Subsidiary Company) at Cost	10,00,000.00	—
10,00,000	Interest accrued on Investments	2,35,45,976.00	
2,20,93,832	Income-tax paid in advance	3,10,01,850.00	
2,18,76,850	Share Application Moneys	2,76,30,750.00	
33,91,500	Sundry advances, Deposits, Stamps, Stationery, Home Saving Safes, Safe Deposit Boxes, etc.	3,77,31,399.34	
1,30,67,130			12,09,09,975.34
6,14,29,312			
7,05,85,69,581	Total Rupees		8,20,11,97,696.63

B. N. ADARKAR
Custodian

P. KRISHNA IYER
Officer on Special Duty

V. M. BHIDE
BRIJRAJ NARAIN
A. H. ELIAS
M. NARASIMHAM
G. B. NEWALKAR
Directors

B. S. MUNSHI
Chief Accountant

Bombay, 20th April, 1972.

Central Bank of India

Statement of Profit and Loss Account for the Year Ended 31st December, 1971

Previous Year Rupees	EXPENDITURE	Rs.	Ps.	Rs.	Ps.
20,48,46,814	1. Interest paid on Deposits, Borrowings, etc			25,20,71,835	90
15,96,06,426	2. *Salaries and Allowances	19,19,32,457	63		
71,91,636	Contributions to Provident Fund	79,73,407	88		
—	Bonus to Staff	—			
16,67,98,062				19,99,05,865	51
20,621	3. Directors' Fees and Allowances	47,843	05		
—	Committee Members' Fees and Allowances	377	60		
20,621				48,220	65
1,29,60,934	4. Rent, Taxes, Insurance, Lighting, etc.			1,54,19,817	23
1,78,181	5. Law Charges			6,33,840	49
46,33,069	6. Postage, Telegrams and Stamps			61,68,864	77
	7. Auditors' Fees:				
2,37,550	To Statutory Auditors (including Branch audit fees)	3,42,000	00		
1,10,500	To Branch Auditors	2,08,000	00	5,50,000	00
3,48,050	8. Depreciation on Banking Company's Property	3,54,786	79		
3,29,396	Repairs to Banking Company's Property	1,99,688	39		
5,88,784	Other charges on Banking Company's Property	3,37,344	39		
5,07,606	Depreciation on Furniture and Fixtures	52,25,841	91	61,17,661	48
55,52,587	9. Stationery, Printing and Advertisements, etc.			88,89,784	28
78,73,062	10. Loss from sale of or dealing with non-banking Assets			—	
—	11. Other Expenditure			1,79,66,332	67
1,38,25,919	12. Balance of Profit subject to Bonus to Staff			2,88,55,512	06
2,07,91,538					
43,78,28,837			Total Rupees	53,66,27,735	04

Previous Year Rupees	INCOME (less provision made during the year for bad and doubtful debts and other usual or necessary provisions)	Rs.	Ps.
37,29,34,500	1. Interest and Discount	46,44,09,432	68
6,29,32,731	2. Commission, Exchange and Brokerage	7,03,12,725	62
17,38,785	3. Rent on Bank's Premises (excluding Rent on Premises used by the Bank)	19,05,576	74
—	4. Net Profit on Sale of Investments, Gold and Silver, Land, Premises and other Assets (not credited to Reserves or any particular Fund or Account)	—	
—	5. Net Profit on Revaluation of Investments, Gold and Silver, Land, Premises and other Assets (not credited to Reserves or any particular Fund or Account)	—	
2,22,821	6. Income from non-Banking Assets, and Profit fromsale of or dealing with such Assets	—	
43,78,28,837	Total Rupees	53,66,27,735	04

Central Bank of India

Notes: (1) Particulars of remuneration paid to the Custodians:

Previous Year Rupees			Rs.	Ps.
60,000	(i)	Salary	46,369	91
6,600	(ii)	Allowances	6,773	95
5,000	(iii)	Contribution to Staff Provident Fund	3,864	08
—	(iv)	Bonus	—	
71,600			57,007	94
30,400	(v)	Leave pay, allowances etc. to ex-Custodian	—	
1,02,000			57,007	94

(2) Salaries and Allowances include Rs. 22,16,131.25 being bonus paid for previous years in excess of the provision made.

(3) Advertisement expenditure incurred during the year Rs. 8,88,264.01 (Previous Year Rupees 11,14,753)

In terms of our report of even date attached
HARIBHAKTI & CO.
FORD, RHODES, PARKS & CO.
LOVELOCK & LEWES
Chartered Accountants

Bombay, 20th April, 1972.

B. N. ADARKAR *Custodian*

V. M. BHIDE
BRIJRAJ NARAIN
A. H. ELIAS
M. NARASIMHAM
G. B. NEWALKAR
Directors

P. KRISHNA IYER
Officer on Special Duty

B. S. MUNSHI
Chief Accountant

Bombay, 20th April, 1972.

Auditors' Report to the President of India

1. We have audited the attached Balance Sheet of Central Bank of India as at 31st December, 1971 and also the Profit & Loss Account of the Bank for the year ended on that date annexed thereto, in which are incorporated the returns of 152 Branches audited by us, 308 Branches audited by other auditors, 5 Branches in Pakistan for which unaudited returns as at 30th June, 1965 have been incorporated and the unaudited returns in respect of 545 Branches not visited by us.

2. The Balance Sheet and the Profit and Loss Account have been drawn up in Forms 'A' and 'B' respectively of the Third Schedule to the Banking Regulation Act, 1949. Accordingly, they disclose such matters as were required to be disclosed in the case of banking companies prior to nationalisation by virtue of the provisions of the said Act as read with the related provisions of the Companies Act, 1956. Subject to the limitations of such disclosure and on the basis of the audit indicated in the first paragraph, we report that :-

   (a) In our opinion and to the best of our information and the explanation given to us and as shown by the books of the Bank :-

      (i) the Balance Sheet read with the notes thereon is a full and fair Balance-Sheet containing the necessary particulars and it is property drawn up so as to exhibit a true and fair view of the affairs of the Bank as at 31st December, 1971 and
      (ii) the Profit and Loss Account read with the notes thereon shows a true balance of profit for the period covered by the Account;

   (b) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and have found them to be satisfactory;

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

   (d) The returns [except for Pakistan Branches—See Note (2)] received from the branches of the Bank have been found adequate for the purposes of our audit.

HARIBHAKTI & CO.
FORD, RHODES, PARKS & CO.
LOVELOCK & LEWES
Chartered Accountants

Bombay, 20th April, 1972.

Studies in Planning Techniques

I—The Planning Horizon

R M Sundrum

A number of circumstances make this an opportune time to reconsider some aspects of Indian planning techniques.

The planning techniques which have been perfected upto now have many achievements to their credit in the past twenty years, but past experience also reveals some directions in which they can be improved.

The need for such improvements has also become more urgent at this time, when there are too many ominous signs of the pace of development slowing down, while expectations continue to rise. This is partly because some of the factors which helped the planning process in the past are no longer fully operative.

A basic reconsideration will also be useful as the renovated Planning Commission takes a look at its future tasks, in which the objectives of economic development have taken on new dimensions of concern with its social aspects.

This series of four studies by the author is concerned with some issues of the techniques of planning, i e, with questions, not so much of what decisions are made in the context of planning, but of how these decisions are made, and with some of the ways in which this decision-making process can be improved in future. The subject of these studies, therefore, overlaps considerably with the question of the machinery of planning, as considered by the Administrative Reforms Commission and its Study Team.

This, the first of the four studies, discusses the problem of the planning horizon.

Indian planning techniques have so far been dominated by the Five-Year Plan approach. In making plan decisions over as long a period as five years at a time, Indian planning has made a very great advance. But this has been achieved at some cost.

There has been a tendency to determine the details of individual projects to suit the financial allocations rather than the other way about. Thus, while there has always been a great deal of discussion of physical targets, Indian planning has often failed to bring the financial targets and the physical targets together.

At the financial level, the planning effort has served the country well upto a point. In spite of the lack of correspondence between financial targets and physical outcomes, financial planning has guided the economic evolution of the country in a direction roughly corresponding to the overall design of development.

But the time has come to build further on this achievement and give greater emphasis to the underlying economic aspects of planning. For this purpose, some modification of the Five-Year Plan approach is necessary.

This paper suggests an alternative model of the planning process. In this model various developmental activities are classified into three categories consisting of (i) those in which the optimum period of advance decision-making is particularly long, say, one or two decades; (ii) those requiring a medium period of advance decision-making of, say, five years; and (iii) those where very little advance decision-making can be done and, therefore, have to be covered by annual plans.

The other three studies in this series will deal, respectively, with the 'development strategy', 'decentralisation of planning' and 'planning the distribution of income'.

The Five-Year Plan Approach

INDIAN PLANNING techniques have so far been dominated by the Five-Year Plan approach. This means that the operational planning horizon in various sectors is taken as five years and that the plans for all sectors are synchronised. Perhaps this approach was originally chosen because the planning period coincided with the normal tenure of each Parliament. More likely, it was based on the previous example of Soviet planning. But this example is a misleading one, for Indian conditions are so different from those of the Soviet Union that as Hanson has warned there is a danger in trying to hit Soviet-type targets with un-Soviet-type methods. The Soviet Union, at least until recently, was essentially a command economy, in which the basic economic decisions were made by a central agency. Moreover, the Soviet Union started with a much clearer picture of its long-term tasks. Hence, the Soviet Plan is best compared with a 'blueprint', which directs and co-ordinates the efforts of a number of workers engaged, say, in constructing a building. In this sense, the 'plan' is just a way of spelling out the tasks falling to the various agents involved out of a clearly formulated grand design. As such, these tasks had to be specified in considerable detail, and could in fact be carried out in that detail, because of the commanding authority of the central planning agency.

In contrast, Indian planning has had to operate under conditions of much greater uncertainty. For one thing, it is concerned with the development of a mixed economy, in which many important economic decisions are left to a large private sector, of whose aspirations, attitudes and modes of behaviour little is known, and over whose actions the planning agencies wield only an indirect and limited influence. Another important circumstance contributing to the uncertainty facing Indian planners is the role of the states, which have increasingly sought to share more actively in the making of development policies and planning decisions. Finally, there is the uncertainty regarding resources, domestic and external, on which Indian planners have had to rely so greatly.

Faced with these uncertainties, Indian planning has made a very great advance, namely in making plan decisions over as long a period as five years at a time. And it is important that this achievement should be fully recognised. But this has been achieved at some cost. Because of the emphasis placed on securing sufficient consensus among the various sections of the people, and the various states of the Union, Indian planning has tended to concentrate rather heavily on the financial aspect of plan decisions. This is not to say that the non-financial aspects, especially the physical aspects, have been neglected. But on the whole, there has been a tendency to determine the details of individual projects to suit the financial allocations rather than the other way about. As a result, estimated costs have often turned out to be way out of line, and the costs and benefits expected from projects have sometimes been doctored to sell a project. Also, because of insufficient specification of projects in advance, various delays in their execution have nullified the timetables laid down initially for their completion. Thus while there is always a great deal of discussion of physical targets, Indian planning has often failed to bring the financial targets and the physical targets together. This has been a heavy price to pay, as the progress of development depends on the physical achievements, rather than on the monies spent.

While the relative failure on the physical side has to be admitted, the planning achievement on the financial side has been a considerable one. Each Plan has estimated the financial resources likely to be available for development, from a variety of sources, for as long a period as five years, and allocated them for a variety of purposes to a multitude of agencies all over the vast country for the same period, in a manner that has had to meet with the concurrence of democratically elected legislatures both at the Centre and in the states. In the process, the amount of resources raised and allocated for plan purposes has been steadily increased over the four Five-Year Plans in a way unrivalled by any other less-developed country. Some idea of the magnitude of this achievement may be gained by comparing this to what the Central Ministry of Finance would have had to do if it made its budgets for five years at a time, instead of annually. While planners at the Planning Commission and elsewhere have worked hard at the non-financial aspects of planning, it is still perhaps true to say that the energies of the most senior members of the Planning Commission and of the Government have been engaged in securing this co-ordination at the financial level.

Up to a point, the planning effort at the financial level has served the country well. In spite of the lack of an exact correspondence between financial targets and physical outcomes, the financial planning has guided the economic evolution of the country in directions roughly corresponding to the overall design of development and has served to raise the magnitude of the country's development effort. Perhaps, the time has come to build further on this achievement and give greater emphasis to the underlying economic aspects. For this purpose, there are indications that some modification of the Five-Year Plan approach is necessary at the present time. As the Study Team on the Machinery of Planning, set up by the Administrative Reforms Commission, says, "there has been overemphasis on the Five Year period in our planning" (p 3).

Planning as Co-ordination

It must be stressed that the present study is rather severely confined to questions of the techniques of planning, i e, to the nature of the decision-making process. From this point of view, we must beware of the common tendency to attribute all the economic progress of the past twenty years to the planning process; it may be argued that much of this progress might have occurred anyway as a result of the increased scale of investments even without the planning approach. One of the ways in which planning has contributed has been to secure greater co-ordination among the various plan decisions. In fact, it may be said that the possibility of such co-ordination has been the principal rationale for the particular type of planning that has been carried out, namely the Five-Year Plan approach. As mentioned before, there has been a real progress in co-ordination at the financial level, especially as the scale of operations has been steadily increased in the face of fearful odds. But there have been real difficulties in co-ordinating at the physical level. The symptoms of this failure are the present shortage of steel all over the country, the shortage of power in parts of the country, the excess in the supply of matriculates and graduates over the demand, the chronic difficulties with foreign exchange, and so on.

This is not to say that these excesses and shortages could have been avoided with any sort of planning. But it does suggest that the systems of planning should not be geared so heavily towards achieving an unattainable degree of co-ordination, at the expense of other ways in which planning can help to make any given level of developmental expenditures more effective in realising their long-term objectives.

Planning as Advance Decision-Making

It is the main thesis of this study that there is another important way in which planning helps the development effort and that the present planning process may be modified in some important ways to exploit this advantage. This aspect of planning may be briefly described as 'advance decision making' It comes out quite clearly in the definition of planning suggested by Dror, namely:[1]

> Planning is the process of preparing a set of decisions for actions in the future directed at achieving goals by optimal means.

In this definition, the points to be noted are that (i) planning is a process, i e, not a one-shot affair; (ii) planning is concerned with a set of decisions, rather than with one decision at a time, to allow for the interactions among the consequences of different decisions, especially decisions for actions at different times; (iii) planning is concerned with actions in the future, rather than with action at the present time, though

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the decisions to act are taken earlier than the actions themselves; (iv) planning is action towards definite goals, and (v) planning aims at the optimal means to achieve these goals.

This definition takes full account of the need to co-ordinate plan decisions among themselves. But it also stresses the element of advance decision-making. If we like, we may subsume advance decision-making also as a species of co-ordination i e, co-ordination of decisions over time. For clarity of thinking, it may be useful to distinguish the two aspects, reserving the term co-ordination for the relation between decisions at one time but affecting different sectors of the economy — a kind of horizontal or latitudinal balancing, while advance decision-making is some kind of vertical or longitudinal balancing.

From this point of view, the essential question concerning the techniques of planning is whether a country's development efforts are improved or made more effective by the method of advance decision-making. It is all too often assumed that the anwer to this question is in the affirmative, but in fact there is a cost to advance decision-making, and for a complete answer, the benefits of advance decision-making must be weighed against its costs. Further, it is also often assumed that planning is better, the longer the period in the future which it covers. This again is not necessarily true for all sectors. The fact that a five-year plan is better than a two-year plan does not mean that a twenty-year plan is better than a five-year plan or that a fifty-year plan is better than a twenty-year plan. In fact, by considering the costs and benefits of advance decision-making in each case, we might pose our problem as one of determining the optimum period of advance decision-making for various sectors and aspects of policy.

The basic cost of advance decision-making is that we surrender a degree of manoeuvrability in the future. It means making decisions without full knowledge and full analysis of the relevant facts. It means crossing bridges before you come to them or violating the decision-making rule, "Don't shoot till you see the whites of their eyes!". As against this, some clear advantage must be demonstrated for advance decision-making. It is not sufficient to say that development is a long-term affair and therefore needs long-term planning. The arguments must be spelt out more specifically. There are a number of theoretical and practical arguments. One theoretical argument is based on long gestation periods of development projects. If you want something in ten years time and if that something takes ten years to achieve, you have to get started now. This, however, is just sound managerial practice. It does not go to the heart of the case for long-term planning.

The best illustration of the case for long-term planning is in the story of the dog and the master.[2] In this story, a man walks along a straight road and his dog is trying to catch up with him from a point off the road. If the dog runs always pointing in the direction in which it *currently* observes the man, the dog will follow a curved path and eventually catch up with its master, so long as it moves faster. But it can be seen easily that the dog can catch up with the master sooner along a straight line path which brings it to a point on the road at the same time as the master. This story shows how long-term planning can widen the range of our options and enable us to choose a more efficient policy so long as certain conditions are present. These conditions may be listed as (i) a clear idea of the objective; (ii) a good understanding of the working of the system needed for (iii) sufficient predictability of the future motion of the system including the objective; and (iv) a resulting optimum course of action that is significantly different from that of a short-term planning approach. If the optimum solution is the same in both cases, there is no point in making present commitments much in advance of future actions. If the future is not predictable to a sufficient extent, again, the long-term approach has little advantage or may not even be feasible. For example, in some operations such as aerial combat, the short-term approach of constantly moving towards the current position of a violently fluctuating target might be a superior policy.

These are the theoretical advantages. There are also some important practical advantages. The most important is the effect on uncertainty. Uncertainty about the future is the enemy of planning. A good deal of future uncertainty is unavoidable because we simply do not know. But some of the uncertainty may be avoided. If the state, the single most important economic agency in the country, announces certain firm commitments to future actions and policies, this will considerably reduce the uncertainty facing the private sector. In an economy in which the private sector is so large and subject to so much control and regulation by the government, one of the main factors underlying economic uncertainty is the future policy of the government itself. Hence, long-term planning in the government sector will promote long-term planning in the private sector.

Another practical advantage is that the important task of formulating specific development projects will be performed more efficiently, even within the public sector. Such project formulation is the essence of development and has to be carried out continuously; it needs important changes in the organisation of project work and the recruitment and training of technical personnel at all levels. Such changes are not likely to come about if attention is focused so heavily on choosing projects just for the next five-year plan.

There is yet another practical advantage which Arthur Lewis has called the purely political advantage of long-term planning.[3] When various sections of the people put forward projects for inclusion in, say, a five-year plan, the result may well be that the costs of these projects greatly exceed the resources likely to be available in so short a period. Then the planning period may be extended to accommodate all the justifiable projects. In this way, the planning agency will recognise the legitimate needs of all sections of the people. This will be particularly facilitated by the fact that "we can put more than twice as much into a Ten-Year Plan as into a Five-Year Plan". The conflict over whether to undertake a project in region A or in region B gives place to the lesser conflict of whether to construct a project in region A before or after a corresponding project in region B. This is recognised in principle in the Indian plans; for instance, the Third Five-Year Plan says that "certain problems involving conflicts of a regional character in a large and diverse country like India can only be resolved in terms of a long-term plan which fits different regions into a larger design of national development" (p 21).

The first consequence of the above analysis is that there is something like an optimum period of advance decision-making. The second consequence is that this optimum period of advance decision-making may not be the same for all sectors. A third consequence is that, from the point of view of planning as advance decision-making, it is not necessary and may not even be desirable to synchronise the plans for all sectors. These consequences are ultimately due to the conflict between two desiderata of planning techniques that have generally been put forward. Thus, it has been said that planning is better the longer the period it covers in

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the future and also that planning is better, the more comprehensively it covers all sectors of the economy. But these two criteria are mutually incompatible; the more comprehensive the plan, the less effectively can it cover a long period in the future. Or to put it in other words, there is a conflict between the two aspects of planning, namely intra-temporal co-ordination and advance decision-making. This suggests that it might be useful to consider some departure from the five-year plan approach used at present. This would at the same time avoid some of the fierce burdens imposed on Indian planners quinquennially and make planning a more continuous process.

Alternative Model of Planning Process

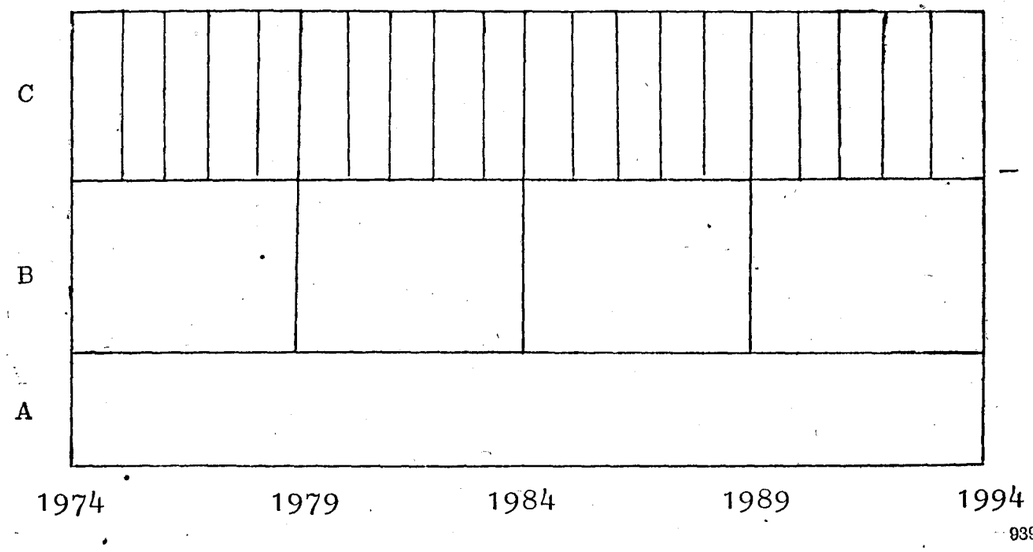
To take account of the advantages of advance decision-making as they occur in various sectors of the economy, an alternative model of the planning process may be designed as in the Diagram.

In this model, various developmental activities of the economy are classified into three classes A, B and C. Developmental projects in class A will consist of those in which the optimum period of advance decision-making is particularly long, say one or two decades; these projects will then be covered by long-term plans. The class B projects will consist of those requiring a medium period of advance decision-making, to be covered by medium-term plans of, say, five years. The class C projects will consist of those where very little advance decision-making can be done, and will, therefore, have to be covered by annual plans. Under Indian conditions, it may help to think of class A projects accounting for about 20-30 per cent of development expenditure, class B projects about 50 per cent, and class C projects another 20-30 per cent.

It may be argued that this approach to planning is, in fact, what is being followed by Indian planners in their combination of five-year plans with perspective planning on the one hand and with annual planning on the other. In fact, however, there are important differences. These differences may ultimately be traced to the way in which the term 'planning' is used in the approach suggested here. In our use of the term, planning refers to making a set of decisions, decisions for future actions. Although this is a fairly literal interpretation of the term 'planning', the term has come to be used in so many other ways that it may be useful to dwell on the implications of our interpretation for a while. On this interpretation, planning is much more than projections which merely give the planning agency's best estimate of the most probable future course of events. Projections are certainly needed for making plan decisions, but do not by themselves constitute planning. Similarly, planning is more than just laying down certain targets for the future; it means the consideration of alternative routes to any given target and the deliberate choice of one of these routes based on definite decisions for future actions. Without such a commitment to future actions to attain such targets, the targets will only remain pious hopes. Further, if planning means a set of decisions, then the plan as drawn up by the state can only cover the sector whose activities can be decided by the government. This would seem to contradict the general feeling in most studies of planning that it should cover the entire economy. While the government's plan should certainly take full account of its reverberations in the private sector and in other countries, obviously the government's plan cannot commit itself to firm decisions by the private sector. All that it can do is to make decisions about policies by which the public sector can try to influence the private sector to move in particular desired directions.

Finally, there is one important implication about the objectives of planning for development. It is all too often said that the target of a plan is to raise the total, or per capita, national income, by such and such a percentage in a given planning period. This may well serve as a broad goal of all government policies, whether carried out through planning or not, but it is not good enough as a target for formulating a plan or evaluating its implementation. The basic reason is that the growth of the national income depends on so many fortuitous circumstances and on the decisions of so many individuals and agencies over whom the

Diagram



planner has only a limited influence. Therefore, it is preferable to consider the growth of the national income as the probable consequence of the plan decisions, rather than the specific target. Beyond that, we should also recognise that the process of development is not just the same thing as the current, and continuous, growth of the national income. Development is more concerned with the structural and institutional changes needed for self-sustaining growth; this means, as Arthur Lewis puts it,[4] that the engine of growth must be internalised. It may, therefore, be useful, in an underdeveloped country like India, to distinguish between a 'development phase' for the rest of this century, to be followed by a 'growth phase'. Growth is still the prerequisite of development, because all the structural and institutional changes involved in development are facilitated by growth and frustrated by stagnation. But the central objective of development is to bring about these structural changes. There have been many cases of growth without development either because the growth process did not generate the flow of resources needed to sustain the process or because the growth of demand did not keep step with the production possibilities.

This is a rather strict interpretation of planning, making it consist of a set of quite specific decisions. In addition to these decisions and underlying them, it is useful to have a general idea of the broad direction in which it is intended that the economy should progress. This may be described as the country's development strategy. It differs from the plan, in that it does not consist of specific decisions about actions to be taken by the state according to any time schedule, but rather as an account of what the entire economy is intended to be as a result of development activities and the broad directions along which it moves to get there. The elements of such a strategy may be inferred from the various policy statements of political leaders but there is considerable vagueness in these statements and also a number of gaps on important issues.

On the interpretation of planning suggested above, it follows that what goes under the name of perspective planning is not quite the same thing as long-term planning.[5] In India, perspective planning is essentially concerned with drawing out the implications, of a macro-economic projection for some broad sectors of the entire economy. It aims to cover the entire economy for a period of 15 to 20 years. It does not involve any commitments to future actions over this period. An attempt is made to relate the macro-economic projections to what are called long-term plans in some key sectors, drawn up by various Working Groups. These plans consist initially of certain long-term targets in individual sectors, on the assumption that there would be no financial constraint, and then later cut down to size, according to the indications given by the macro-economic projection. The main object of the perspective plan exercise is essentially to provide a background for formulating the current five year plan. One result is that the perspective plan is revised on the occasion of drawing up each five year plan.

From some points of view, the perspective plan drawn up in the course of formulating each five-year plan may be compared with the concept of development strategy suggested above. But even for this, it has some limitations. This is primarily due to the emphasis given to the growth of the national income in the perspective plan exercise. It is as if the growth of the national income during the planning period was the central objective of such planning, and that the task of planning was merely to anticipate the implications of such growth in various sectors, rather than to promote the structural transformation of the economy to achieve a high rate of self-sustaining growth after the current phase of development planning. Some illustrations of an alternative approach to the concept of development strategy will be given in the next part of the paper, comparing it with the approach implicit in the present perspective plan exercises.

At the other extreme, a great deal of effort is devoted by the planning agency to formulating the annual plans. In current practice, the annual plan is not something additional to the long-term and five-year plans, as in the alternative model of the planning process suggested above, but a way of breaking down the five-year plan in more detail and phasing its implementation. Such annual plans are needed partly because the five-year plan is not specified in sufficient detail. They are also needed to adjust the financing of the annual segments of the five-year plan. This need arises because the five-year plan aims at a comprehensive coverage of the entire economy and hence cannot ensure its financial viability over so long a period. As a result, all the elements of the five-year plan are in annual jeopardy and at the mercy of the annual vicissitudes in financial resources.

Long-Term Plans

Once a fairly comprehensive development strategy has been worked out, the next step in the planning process is to determine those areas in which long-term plans can be drawn up and to formulate such plans for those areas. Before tackling these questions specifically in the Indian context, let us review some of the objections that may be raised against such long-term planning. In this connection, it must be remembered that, for our present discussion at least, a plan means a set of decisions for specific actions in the future, and that a long-term plan is one which covers a period of a decade or more. Further, it is here proposed that the long-term plans be drawn up, not for the entire economy, but only for a few particular sectors.

The first objection to making such long-term plans is that, as these plans cover a period longer than the normal tenure of a Parliament, the present government cannot commit future decision-makers to such specific actions. This objection is, of course, valid in a legalistic sense, but it can easily be exaggerated. Indian planning experience already shows how far it has already succeeded in making advance decisions in the course of developing the five-year plan technique. Also, many economic provisions are already embodied in the Indian Constitution, so that policies resulting from these provisions will be binding on any future government succeeding the present one. And in any case, it is not proposed to commit the actions of future governments over a very wide area. What is needed is to select areas for long-term planning, such that plans drawn up at present will have a good chance of being implemented by whatever government comes into power in the future. To achieve this, the areas chosen for long-term planning must be such that the technical bases for these policies dominate the more political ones. It will be argued below that there are some areas in which these conditions are fulfilled in the Indian situation.

The next objection to long-term planning is the problem of projecting the availability of resources over so long a period in the future. This again is not a serious objection, because such long-term planning is only proposed for a few limited and high priority areas. The resources required for such plans will be a relatively small part of the total resources required for the country's development, so that it should be possible to commit this part of the future resources to implement the long-term plans, even if there is considerable variation in the total resources available.

The third objection, referring to the fact that long-term plans are made only for a few sectors of the economy, is that it will not then be possible to secure full co-ordination between developments in the areas subject to long-term planning with developments in other areas. While true, this again must not be exaggerated. In the first place, given the long-term plans in some areas, every attempt must be made to co-ordinate the medium- and short-term plans in other areas to the long-term plans already adopted. In the second place, we must include, for long-term planning, only those areas which are of high priority, so that there will be less need to modify them to co-ordinate with the plans in other areas, and therefore less deviation from the optimum in pursuing the long-term plans of action. Finally, it must be recognised that, whatever the degree of co-ordination aimed at in our theoretical studies, the amount of co-ordination actually attainable in practice is quite limited, as shown in the past experience with the five-year plan approach. It may even turn out, in practice, that greater co-ordination can be attained by keeping some policies fixed over a reasonably long period and adjusting others to this commitment.

Finally, there is the question of the machinery needed for long-term planning. The theory underlying the present approach is that planning for development is done by the Planning Commission and its counterparts in the states by persons chosen for their technical ability, administrative experience and national stature, so that their decisions on planning will be widely acceptable. This theory has clearly broken down. This is partly because of the extent of ministerial membership in the Planning Commission, which identifies the decisions of the Planning Commission so much with the ruling Government. Also, the conclusions of the Planning Commission are still subject to adoption by the Cabinet and approval by the Parliament. Therefore, planning in the sense of making decisions is still the prerogative of the political leadership, and apart from the extent to which the political leadership operates through the Planning Commission, the work of the Planning Commission is technical and advisory. Perhaps it was originally expected that by virtue of its membership and procedures the views of the Planning Commission would prevail in the political decisions of the government. But this does not necessarily mean that the present set-up is undesirable. It has the advantage of keeping the political leaders in closer touch with the economic and technical considerations involved in policy making, and also the advantage of keeping the technical staff in close touch with the political preferences of the government. But even so, as it operates now, the Planning Commission does not seem to be the best machinery for engaging in long-term planning.

The strength of the Planning Commission derives from the fact that it can constantly keep track of the past and future of the economy as a whole. Consequently, it is unlikely to be able to do sufficiently detailed work in the particular sectors deemed amenable to long-term planning. While the task of formulating the country's long-term development strategy would still be left with the Planning Commission, it may be desirable to set up some other machinery for long-term planning in individual sectors. One device that might be considered is to set up sectoral long-term planning commissions. Such commissions would be composed of the most competent technical persons, fully conversant with the working of the sector concerned and also capable of the vision and imagination to design a long-term plan. It should also include political leaders, both in the government and outside, to ensure that there will be a broad national consensus behind the conclusions of the sectoral planning commission. The inclusion of political leaders outside the government would be essential to give the resulting plan some validity beyond the life of the present government. Whether the long-term plan binding on the present and succeeding governments is actually drawn up by such a sectoral planning commission or whether it is drawn up by the government based on the recommendations of such a commission is a matter to be decided on various political and administrative considerations. But the result should be a credible long-term plan which informs the people about the intentions of the government, and which provides the basis for the more detailed work in implementation to be carried out by the administration concerned.

Short-Term Plans

Given long-term plans for certain sectors, the next step would be to draw up medium-term plans, corresponding to the present Five-Year plans. The projects included in these medium-term plans would be co-ordinated among themselves as fully as possible, and also with such long-term plans as have already been committed to. There would be one important difference between the proposed medium-term plans and the present Five-Year plans. At least in principle, the present plans aim to use up all the resources likely to be available. In the proposed approach, the long-term and the medium-term plans will be drawn up to use a large part, but not the whole, of such resources. The main reason for suggesting this departure from present practice is that there is so much uncertainty in estimating the availability of resources, even over periods of five years at a time. Under these conditions, tight financial planning will generally not be possible. If available resources turn out to be less than estimated, the plans have to be curtailed somehow; the adjustment of plans under crisis conditions will be far from optimal and at the same time, the credibility of planning will be seriously affected. On the other hand, if available resources turn out to be more than estimated, the plans would have turned out to be unnecessarily modest. Therefore, there is an advantage in deliberately planning over the long- and medium-term periods for less than the full amount of resources likely to be available.

On this basis, the task of adjusting development activities to the maximum amount of resources that can be squeezed out of the economy for this purpose will have to be faced in the short-term or even annual plans. Unlike the present procedures in which the annual plans are segments of the five-year plans, under the proposed approach the annual plans will be additional to the long- and medium-term plans. They will be co-ordinated with such plans as have already been drawn up. The annual plans will aim to use available resources as fully as possible. There will therefore be a constant incentive to mobilise the maximum amount of resources. This will be the arena for the policies of demand management, which Cairncross has suggested as being the subject of short-term planning.[6] Hence, this is the area in which the role of the finance ministry and the monetary authorities will be particularly important. In addition, the short-term plan will have to go beyond the usual fiscal exercises of the annual budget to search out for additional short-term questions as being an attempt to se-

development projects which can be financed out of the resources not already committed in the country's long- and short-term plans. To facilitate this, there should be in constant readiness a shelf of projects which have been fully researched and are ready for implementation at short notice.

(To be continued)

NOTES

1 Y Dror, "The Planning Process", *International Review of Administrative Sciences* (1963), pp 50-52.

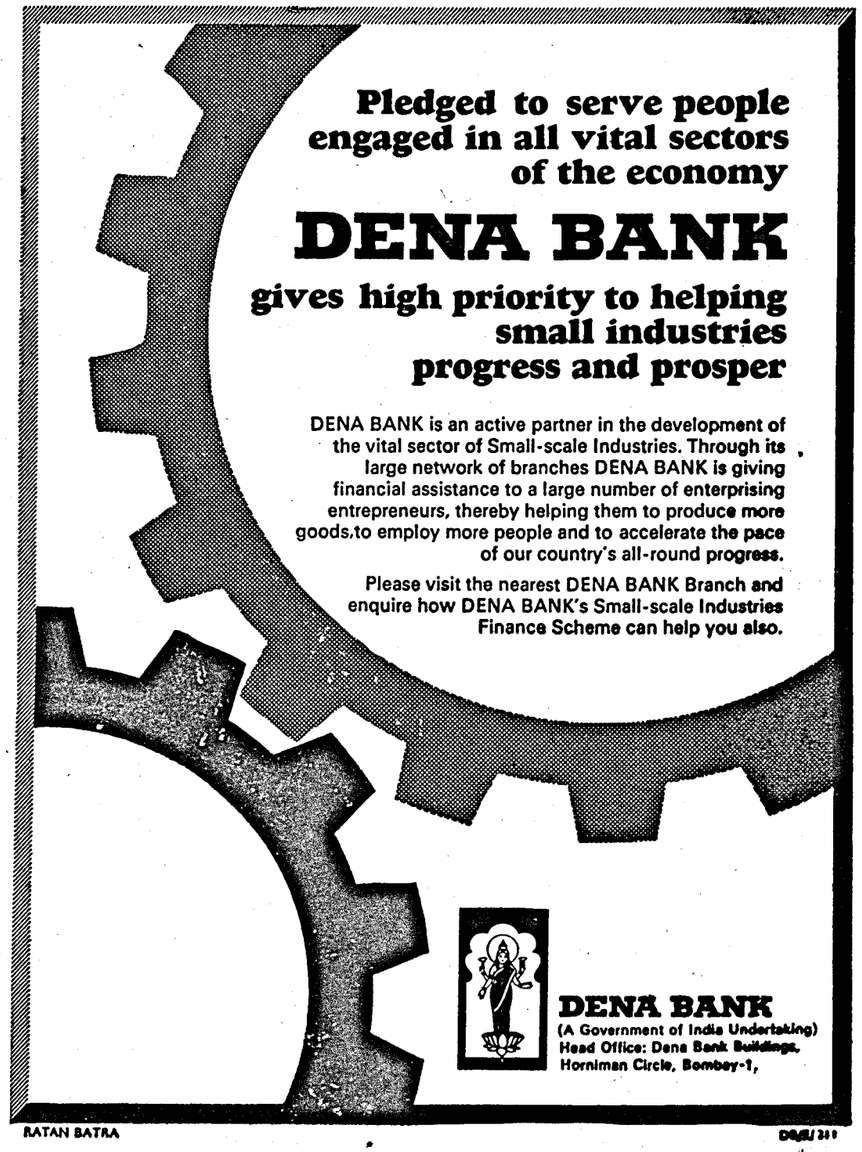
2 See, e g, R G D Allen, "Mathematical Analysis for Economists", (London, Macmillan, 1938) pp 431-433; or M Dobb, "Capitalism, Development and Planning", (London, Routledge and Kegan Paul, 1967) pp 87-88.

3 W Arthur Lewis, "Development Planning", (London, Allen and Unwin, 1966) p 149.

4 W Arthur Lewis, "The Development Process," (UN Centre for Economic and Social Information, 1970) pp 15-16.

5 For an exposition of the method of perspective planning in India and the distinction between this and long-term plans, see S R Sen, "Strategy for Agricultural Development", (Delhi, Asia Publishing House, 1962) pp 75-76.

6 A K Cairncross, "The Short Term and the Long in Economic Planning", (IBRD, 1966), esp p 12.



Has There Been a Decline in Agricultural Tenancy?

S K Sanyal

Was there a decline in agricultural tenancy during the period 1953-54 to 1961-62, coinciding with the two countrywide surveys of landholdings by the National Sample Survey?

This question is examined in this paper on the basis of the distribution of ownership holdings and agricultural holdings separately for three states: West Bengal, Punjab and Uttar Pradesh. The former two states represent regions where tenancy is most pronounced, whereas in UP the incidence of tenancy is less marked.

THE scope of tenancy legislation in the different states after 1953-54 was mainly restricted to providing security of tenure to the cultivating tenant and assuring generous terms to the share-cropper besides securing ownership rights to some tenants. As regards the former objective, it is widely believed that the reforms have not achieved any measurable success; on the contrary, in the name of 'voluntary surrenders' forced evictions have taken place. While some tenantry might have acquired ownership rights over their rented in land, existence of concealed tenancies has also been reported. It is also claimed that the share of cultivated land directly settled with the government has increased. The question remains whether there was a decline in agricultural tenancy during the period 1953-54 to 1961-62, coinciding with the two countrywide surveys of landholdings by the National Sample Survey. The results of these inquiries along with some other evidence have been pooled together by Dharm Narain and P C Joshi[1] to come to the conclusion that there was a real decline in the weight of tenancy at the all-India level during this period, though in some specific regions the weight of tenancy might continue to be high. P K Bardhan[2] is, however, inclined to believe that there was some decline but that a substantial amount of tenancy might have been driven underground. This problem has again been examined in this paper on the basis of the distribution of ownership holdings and agricultural holdings separately for three states — West Bengal, Punjab and Uttar Pradesh, the former two representing regions where tenancy is most pronounced whereas in UP incidence of tenancy is less marked.

Though the limited purpose of this paper is to examine the trends in agricultural tenancy during the period between the two surveys, it would be worthwhile to have a comparative appraisal of the concepts adopted in the two surveys so as to avoid hasty conclusions. As will be observed subsequently, this study takes into account the two concepts of ownership holding and agricultural holding. In the first land holdings inquiry (8th round, 1954-55), the concept of ownership included only land held with the right of permanent and heritable possession but in the second inquiry (17th round, 1961-62) it included, besides 'pure ownership', also land held in ownerlike possession, e g, land held on long-term lease, long tenure, etc. The fact that the proportion of landless households went down appreciably from 23.09 per cent in 1953-54 to 11.68 per cent in 1961-62 has thus to be taken in the light of this important conceptual difference. The actual decline was less than the figures suggest.

The second important concept which needs some elaboration is that of the operational holding. In the eighth round survey, all holdings of the sample holseholds whether put to agricultural use or not were enumerated, while in the 17th round only agricultural holdings were covered. In the reports dealing with the 8th round, estimates of agricultural holdings are provided, having been derived by discounting the non-agricultural ones. For reasons of comparability these estimates have been used in this paper.

Considerable Leasing Out

Some characteristics of rural households, relevant to any discussion of tenancy, are reviewed for the three states against the background of all India estimates (Table 1). Even considering the differences arising out of the concept of ownership holding, it does appear that the proportion of landless households went down for the three states. This was not, however, accompanied by any decline in the proportion of households not operating land; in West Bengal there has been actually an increase in the proportion. Added to this, the high percentage of absentee landlords still persisting in the latter period (Table 1, col 6) confirms the hypothesis that there was considerable leasing out of land. No comparable estimate of the percentage of absentee landlords or pure rentiers is available for the 8th round. Bardhan has compared the percentage of households leasing out their own land fully (2.15 per cent for all India, 8th round) with the percentage of landowning house holds who did not operate their holdings (17.42 per cent, 17th round) to conclude that there was a rise in the percentage of pure rentiers. There might have been a rise, but not to the extent suggested by Bardhan, because the 17th round estimate includes, besides households leasing out fully, those households who owned land solely put to non-agricultural uses or forests or culturable wastes and also those households who had leased out only that part which had been put to agricultural production.

Measure of Tenancy

The NSS surveys sought information on both the 'ownership' holding and the 'operational' holding. While the distribution of ownership holdings, say F(y), includes pure ownership (or proprietary rights) and/or ownerlike possessions, the distribution of agricultural (or operational) holdings, say ϕ (Z), depicts the behaviour of the real farming units composed of the two components (i) owned and operated (ii) leased in and operated. Inasmuch as F(y) takes into account the owned area which might have been leased out, the first component of ϕ (Z) is exclusive of the leased out area. Supposing C denotes the concentration ratio of the ownership holdings and corresponding ly C_z that of the agricultural holdings $C_z < C_y$ to the extent effectiv tenancy has a wholesome effect on th size of the farming units. The inequality holds good because of the incidence of leasing out by large owners and the relatively larger total area leased in by the small holdings. The existence of such an inequality at th

TABLE 1 : PERCENTAGE OF LANDLESS HOUSEHOLDS AND OF HOUSEHOLDS NOT OPERATING LAND

State	Percentage of Landless Households		Percentage of Households not Operating Land		Percentage of Households Owning but Not Operating Land
(1)	8th Round (2)	17th Round (3)	8th Round* (4)	17th Round (5)	17th Round (6)
(1) West Bengal	20.54	12.56	24.30	33.88	22.21
(2) Punjab	35.51	12.33	38.79	39.09	30.51
(3) Uttar Pradesh	9.36	2.78	23.47	20.76	18.49
(4) All India	23.09	11.68	28.21	26.86	17.42

* This column in fact gives the "Percentage of non-agricultural holdings" in the absence of any comparable estimate. In the 17th round, only 1.17 per cent of households reported more than one holding. If, therefore, we assume that each household has only one agricultural holding, the two columns (4) and (5) are more or less comparable.

same time is indicative of the prevalence of tenancy in any region. The distance $d = C_y - C_z$ would be roughly indicative of the incidence of tenancy in a state. The distance between the concentration ratios at time t_1 compared with the distance at time t_2 would reflect the relative changes in the magnitude of effective tenancy between t_1 and t_2.

About the second component, i e, 'leased in and operated', it may be mentioned that theoretically this may comprise any land taken on lease either from the government or from any institution or from urban households, besides from rural households. From what we have seen in the earlier section, a good percentage of rural households are rentier in nature and hence land leased out by such households would form a sizeable proportion of rented in area within the holdings apart from the land leased out by those who own land and migrate to the urban areas for employment. Moreover, households owning more land than they can effectively cultivate also lease out part of their land.

Again, it is true that F(y) includes non-agricultural land and to that extent the distance 'd' may suffer a further reduction if only ownership of agricultural land were considered. But the noticeable feature of the definition of agricultural holdings adopted is that even if a small portion of a holding was put to agricultural production and the remaining portion were non-agricultural, the whole area was termed an agricultural holding. Hence except for slight differences arising out of the lowest landowning classes, the reduction in 'd' may not be substantial.

The concentration ratios of ownership holdings and agricultural holdings for all India and for the three states are given in Table 2. It will be seen that the concentration ratios have been obtained in respect of ownership holdings exclusive of landless households as well as inclusive of them — the former being more relevant for comparison with agricultural holdings and the latter enabling one to have a deeper insight into the behavicur of F(y) seen independently. Considering thus the total rural population including the landless, it is observed that the concentration ratio (C_y) had not perceptibly declined in 1961-62 compared to that in 1953-54 in Punjab and UP and was almost at the same level in West Bengal despite the fact that the proportion of landless households had gone down. Excluding landless households, the distribution of ownership holdings had over this period moved towards increased unevenness in West Bengal and Punjab while being at the same level for UP, thus suggesting a possible subdivision of ownership rights among family members and probably creation of small owners out of the erstwhile tenantry. Comparing the concentration ratios (C_z) of agricultural holdings in the two time periods, it will be observed that for all the three states, the distribution became further smoothened (the evidence being stronger for West Bengal and Punjab, where there is a larger magnitude of tenancy), thereby indicating a movement towards a better size distribution of farms.

TABLE 2 : CONCENTRATION RATIOS OF OWNERSHIP AND AGRICULTURAL HOLDINGS: 8TH AND 17TH ROUNDS, NSS

State	8th Round			17th Round		
	Ownership Holdings (C_y)		Agricultural Holdings (C_z)	Ownership Holdings (C_y)		Agricultural Holdings (C_z)
(1)	Excluding Landless (2)	Including Landless (3)	(4)	Excluding Landless (5)	Including Landless (6)	(7)
(1) West Bengal	0.6562	0.7268	0.5616	0.6941	0.7325	0.4611
(2) Punjab	0.6346	0.7646	0.5368	0.7142	0.7494	0.5013
(3) Uttar Pradesh	0.6136	0.6410	0.5192	0.6108	0.6208	0.5058
(4) All India	0.6772	0.7517	0.6221	0.6834	0.7226	0.5840

CONFLICTING EVIDENCE

Now discounting the landless households in the ownership holdings, if we measure the distance (d_1) between C_y and C_z in the 8th round and if d_2 denotes the corresponding distance for the 17th round, we get the following results:

		d_1	d_2
(1)	West Bengal	0.0946	0.2330
(2)	Punjab	0.0978	0.2129
(3)	Uttar Pradesh	0.0944	0.1050
(4)	All India	0.0551	0.0994

The results above indeed show a larger play of tenancy in the latter period at the all India level relative to the former period. For West Bengal and Punjab, the two states where the share of leased area in the total operated area is quite substantial, d_2 is markedly higher than d_1. In Uttar Pradesh where tenancy is prominent, d_2 is not much different from d_1. It may thus be concluded that there has not been any decline in the magnitude of tenancy in 1961-62 relative to that in 1953-54. Rather, for West Bengal and Punjab, the magnitude of tenancy might well have increased.

Judging from the behaviour of the proportion of operated area leased in, Dharm Narain and P C Joshi have observed a significant decline in the magnitude of agricultural tenancy. If we look at Table 3 we find that not

TABLE 3 : PERCENTAGE OF OWNED AREA LEASED OUT AND OPERATED AREA LEASED IN

State	Percentage of							
	Households Leasing Out		Owned Area Leased Out		Holdings Reporting Leased In Area		Operated Area Leased In	
(1)	8th Round (2)	17th Round (3)	8th Round (4)	17th Round (5)	8th Round (6)	17th Round (7)	8th Round (8)	17th Round (9)
(1) West Bengal	10.41	7.33	15.51	7.22	41.49	29.00	25.43	17.65
(2) Punjab	22.87	11.83	30.82	13.68	53.40	47.69	40.42	35.39
(3) Uttar Pradesh	9.78	7.66	5.84	3.66	27.20	20.98	11.38	8.06
(4) All India	12.03	7.03	11.42	4.43	39.84	23.52	20.34	10.70

only the proportion of operated area leased in but the percentage of owned area leased out has gone down considerably for all India as well as the three selected states. There is all round evidence of a decline in tenancy. On the other hand, the evidence available earlier, i e, of $d_2 > d_1$, shows a more significant role of tenancy in the latter period than in the former. Thus one is apt to question whether the decline in tenancy is genuine.

UNDERREPORTING

That the decline in tenancy observed in the latter period might have been due to an underreporting bias among the informants was examined by Dharm Narain and P C Joshi. According to them, this bias should have led to a relatively sharper decline in the proportion of operated area leased in amongst the smaller holdings than in the large ones but the NSS data at the all India level reveal different results — a sharper decline was observed in the larger holdings. P K Bardhan is not inclined to accept this argument as sufficient to dispel the suspicion that a substantial amount of tenancy might have been driven underground. In partial support of this suspicion he has used the argument that a 65 per cent rise in the number of permanent farm servants per acre of operated area between the two rounds might well have been due to misreporting tenants (particularly sharecroppers) as farm servants. While such misreporting is not to be ruled out, it may be noted that in the first inquiry persons permanently employed by operational holdings were taken to be permanent farm servants but in the second inquiry all those who were more or less in continuous employment and under some contract with the employers during the period of employment were reported as permanent workers. The second inquiry thus permitted the inclusion of workers attached to holdings for relatively short periods. The rise emphasised by Bardhan has to be considered in the light of this conceptual difference.

In selecting "percentage of operated area leased in" in preference to "percentage of owned area leased out" as a more reliable measure of magnitude of agricultural tenancy, Dharm Narain and P C Joshi have correctly pointed out that the latter is more amenable to an underreporting bias than the former. It is expected that tenants will not hesitate to give out the area rented in. In order to investigate the underreporting of tenancy, let us now examine the first component of $\phi(Z)$, i e, the distribution of the 'owned and operated' part of the agricultural holdings, say $\phi(s)$, which excludes the tenancy part, and compare it with the corresponding distribution of ownership holdings excluding leased out area, i e, F(t), t denoting area owned less area leased out. If the concentration ratio of $\phi(s)$ and F(t) be C_s and C_t, $C_s - C_t$. The two may differ only slightly in the latter period because of the reference periods for ownership holdings and operational holdings being somewhat different.

It will be seen from Table 4 that $C_s < C_t$ in West Bengal and Punjab. This smoothening of the distribution of owned area self-operated needs an explanation when we see the actual farming units (or the agricultural holdings) against the ownership holdings. In this context, the limitations of such a study should first be pointed out. C_t has been obtained from the distribution of owned—leased out area by size of ownership holdings and similarly C_s from the distribution of 'owned and operated' area by size of agricultural holdings which also include the second component, i e, leased-in area. Some inaccuracies may thus creep in due to misclassification of some holdings in either case (size classification of owned—leased out area and of owned and operated area, respectively, would have been the correct classifications but, unfortunately, we do not have such data). Nevertheless, on comparing C_t with C_y and C_s with C_z, we can surmise that the inaccuracies are not likely to change the direction of $C_t - C_s$. By and large, $C_t - C$ would indicate the errors of misreporting or the bias of underreporting of the leased in area in the actual farming units or else the bias arising from underreporting of leased out area. Again, if we are prepared to tolerate a difference of $C_t - C_s$ as revealed for the 8th round as being due to inaccuracies resulting from misclassification, we find that the gap became more than three times in the latter period for Punjab and one and a half times for West Bengal. We are thus inclined to believe that there might have been an underreporting of tenancy. The possibility of households reporting tenanted area as owned cannot be ruled out.

NOTES

1 Dharm Narain and P C Joshi: "Magnitude of Agricultural Tenancy", *Economic and Political Weekly*, Review of Agriculture, September 27, 1969.

2 P K Bardhan: "Trends in Land Relations in India: A Note", *Economic and Political Weekly*, Annual Number 1971.

TABLE 4 : CONCENTRATION RATIOS OF OWNERSHIP HOLDINGS (EXCLUDING LEASED OUT AREA) AND OF 'OWNED AND OPERATED' PART OF AGRICULTURAL HOLDINGS

State	Concentration Ratio					
	8th Round			17th Round		
	C_t	C_s	$C_t - C_s$	C_t	C_s	$C_t - C_s$
(1) West Bengal	0.6369	0.5471	0.0898	0.6211	0.4902	0.1309
(2) Punjab	0.5974	0.5229	0.0745	0.7163	0.4752	0.2411

Security of Bangladesh

K Subrahmanyam

Bangladesh borders only two countries — India and Burma. Since a conflict with India, even if theoretically possible, would prove unmanageable for Bangladesh, this paper does not examine Bangladesh's security problem in that context. The problems examined here concern the internal security of Bangladesh and the maintenance of a border force, particularly for patrolling the area adjoining the frontier with Burma to prevent minority insurgent elements from moving from one side of the border to the other.

The connected issues of whether Bangladesh should have a standing professional army or a militia and whether Mukti Bahini personnel should be absorbed into the armed forces are also examined.

BANGLADESH shares a long border of more than 3,680 kilometres with India and of 240 kilometres with Burma. As far as one can foresee, except in the case of Bangladesh making a contribution to the overall security of the subcontinent, the new nation is fortunate in not having an external security problem. With India its ties, as has been repeatedly emphasised, are sealed in blood and Burma by itself does not pose a security problem in the conventional sense. Theoretically and hypothetically one may visualise a situation where Bangladesh may develop serious differences with India. If it does, and those differences will have implications for the security of Bangladesh, then the problem for Bangladesh will be unmanageable. There is no need to discuss such an unmanageable type of security problem here. On the other hand, there are some who visualise that Bangladesh may act as a proxy for an external power, just as Pakistan did all along, and develop its armed potential with external assistance. This is an unlikely event. In the fifties when Pakistan entered into military alliances, though they were recognised in India as being directed against this country, not much could be done to counter the threat actively in view of India's weakness. This will not be the case in future. On the other hand, India is likely to be extremely sensitive to the activities of external powers in the subcontinent and take active measures to countervail them at the incipient stage.

Another issue raised is about a maritime threat to Bangladesh and perhaps those raising this issue have in mind Pakistan's continuing claim on Bangladesh and the US Seventh Fleet's activities in support of Pakistan in December 1971. But a threat to Bangladesh will be considered a threat to India, treaty or no treaty. In April 1971, when called upon to do so, the Indian navy threw a protective cordon around Ceylon at short notice. In future any external naval intrusion into the Bay of Bengal will be viewed by India as an unfriendly act. A foreign naval presence in the Arabian Sea which has on its shores Pakistan, Iran, Saudi Arabia, Bahrain and various other nations with treaty relationships with foreign powers cannot be objected to by India. But on the shores of the Bay of Bengal there are only Burma, Bangladesh and India and any foreign naval presence will have to explain itself satisfactorily. The presumption will be that such a presence, unless it is in pursuance of a request from one of the three countries, is an unfriendly act. The main responsibility for ensuring the security of the countries on the shores of the Bay of Bengal from external maritime intervention will be India's.

However, every sovereign nation needs to maintain an armed force and the events in Ceylon last year emphasised the need even for those nations which have no external security problems at all to maintain an effective armed force for internal security purposes. Mujibur Rahman referred to the desirability of discussions between Bangladesh, India and Pakistan to safeguard the peace and security of the subcontinent soon after he had some discussions on the issue with the Indian Prime Minister. Radio Pakistan gave publicity to this statement. The subcontinent is a natural unit in many ways and its defence against external threats should be considered in an integrated way. Mujibur Rahman's statement appears to imply realisation of this fact. This will have an important bearing on the kind and size of security forces Bangladesh will need.

Internal Security

We may start with the internal security requirements of Bangladesh. The new nation is a poor nation, very densely populated, criss-crossed by rivers, with consequent difficulties in mobility. Mobility and communications become even more difficult during the monsoon months when operations even by helicopter and STOL (short take-off and landing) aircraft may not be possible on all days. At present major cantonment facilities are available, apart from Dacca, at Jessore, Khulna, Saidput, Rangpur, Bogra, Sylhet, Comilla and Chittagong. The internal security force could be stationed in these cantonments and be equipped for rapid riverine movement.

The next important issue is whether the borders with India should be patrolled by a para-military force or not. Pakistan maintained around 20,000 personnel for this task. There have been pleas that the border should be open. An open border, apart from having international political implications, also has economic and sociological ones which will have to be considered in great detail by both countries. Bangladesh is, populationwise, a high density area compared to some of the surrounding areas of India. An open border will inevitably mean some spillover from the Bangladesh population into these areas. This will not be readily acceptable to the Indian states bordering Bangladesh and consequently India is likely to keep up the border patrolling. In turn this may lead to Bangladesh also maintaining a border security force. If it is decided to have a Bangladesh para-military force to man the border, what should be its size?

The border with Burma will have to be rigorously patrolled in view of the conditions prevalent in the Burmese areas adjoining Bangladesh. From time to time there have been small-scale insurgencies of semi-communal, Muslim origin in the Akyab region. This may lead to the shifting of insurgent elements from one side of the border to the other. The area adjoining the Chittagong hill tracts has also its periods of turbulence. The emergence of Bangladesh and the granting of statehood within India to Nagaland and Manipur may cause the Burmese Nagas, and other minority groups to persist in their demands for statehood within Burma. This may add to the turbulence in the area and further emphasise the need to patrol the

Bangladesh border with Burma.

Let us now look at the problem from the resources end. Bangladesh's GNP is likely to be of the order of Rs 3,500 crores. Two per cent of this on defence will be about Rs 70 crores which will be a reasonable order of expenditure for a country at the stage of Bangladesh's economic developments and problems. Out of this sum, an army, navy and air force will have to be maintained in addition to a para-military force for border patrolling. Pakistan had a four-brigade division in East Bengal (before February 1971) and 20,000 East Pakistan Rifles personnel. These two elements alone, with overheads, would cost around Rs 50 crores. In addition, a river navy is essential for Bangladesh. There are reports that the coastal area of Bangladesh stretching into the Bay of Bengal may have potential for oil. Coastal patrolling which would also provide minimum protection against smuggling would therefore be needed. Given the riverine terrain, the marshy areas and the Chittagong hill tracts, helicopter and STOL aircraft for the defence forces, apart from a small air force of fighter-bombers, will also have to be planned for.

In view of the recurring devastation caused by cyclones, tidal waves and floods every year, these defence forces should be specially equipped and geared to deal with natural calamities. These considerations again emphasise the need for helicopters, STOL aircraft, power-driven rivercraft, etc.

Militia or Professional Army

In raising an army of its own, the first issue that will come up for consideration is whether Bangladesh should have a small professional army or a comparatively large militia. Militias are most suited to nations which run the risk of being overrun and occupied. To continue resistance after occupation, militias fully rooted in the local population are ideal. But Bangladesh does not have such a security problem. A professional army is suitable for nations which have limited security problems. Militias can be properly organised only in countries where there is a high degree of political indoctrination and a one-party state. Therefore, the raising of a militia will depend upon the political structure Bangladesh is likely to adopt.

A connected issue, which the Bangladesh administration will have to face in the near future, is the absorption of Mukti Bahini personnel. There may be certain demands and suggestions that they should all be absorbed into the armed forces. This suggestion needs to be gone into in great detail. The Mukti Bahini was recruited from among middle class young men most of whom are well educated and motivated. Whether all of them can be satisfactorily fitted into a regular armed force is a major issue. The spirit of association, cohesion, give-and-take in the Mukti Bahini is different from the hierarchical structure in a regular armed force. Is it, therefore, advisable for Bangladesh to convert the Mukti Bahini into a regular armed force?

Bangladesh has been a victim of militarism. All possibilities of the revival of the spirit of militarism should, therefore, be eliminated. Militarism in third world countries very often arises from the 'guardianship' role the armed forces attempt to play and the elitist self-image they have of themselves. In the case of Indonesia, Burma and Algeria, the armed forces played a notable part in the national liberation struggle which brought the new nation into being. Consequently, at a later stage the armed forces claimed for themselves the role of guardians of the state. Nations like Libya, UAR, Syria, Iraq, Sudan and above all, Pakistan, have suffered form the intervention of the armed forces in politics.

The Mukti Bahini today in Bangladesh is a name which conjures up a saga of courage, sacrifice, selflessness and patriotism which will be enshrined in the annals of Bangladesh. These very factors necessitate that the Mukti Bahini at this stage should pass into history and the new armed forces of Bangladesh should not have any continued links with the Mukti Bahini. The Bahini was born to destroy militarism. With that mission accomplished, it must dissolve itself so that in future no one should be able to invoke the aura associated with it for other purposes.

A large number of Mukti Bahini personnel may be recruited into the new armed forces and it is appropriate that they get preference. But in the interests of the future of democracy in Bangladesh the Bahini should not have a continued existence. This is no reflection on the men of the Bahini today. But who knows what may happen in future? An opportunity should not be provided for someone to misuse the Bahini name, and the legitimacy derived from it, for establishing militarism in the future.

Doubts used to be expressed about whether the Bangladesh administration would be able to disarm the Bahinis. The surrender of arms by 16,000 men of 'Tiger' Siddiqui's Bahini at Tangail and the ceremonial surrender of 10,000 weapons in Dacca stadium on January 31, 1971, indicate the loyalty Mujibur Rahman commands among the freedom fighters. The amount of weapons still left unaccounted for is not likely to be significant and disarming of such personnel may not prove a major problem at all.

Militarism

It could be pointed out that the threat of militarism arises only from professional standing armies and not from militias. This is no doubt true. But militias are not of much value for internal security duties in non-ideological states. Even in such states it has been found necessary to employ the regular army against the local militias on occasion. For instance, the Chinese People's Liberation Army had to be employed against the Red Guards to restore order. In any case, Bangladesh is in a situation where a small standing army is inescapable and the issue is how to reduce the risk of militarism while raising and maintaining such a standing army.

Another field in which Bangladesh could take the initiative at this stage, is to have joint facilities for military training with other smaller powers in the subcontinent which will lead to economies and also form the basis of intra-regional co-operation. Bangladesh, Bhutan, Nepal and possibly, Ceylon, may consider having various training academies and institutions on a common basis. For reasons that are obvious, India may be left out of direct participation but may provide staff support.

Bangladesh has an ordnance factory at Joydevpur. The economies of defence production in Bangladesh will depend upon the size of its forces. If the four countries mentioned could standardise their weapons and equipment among themselves and with India, not only could there be an economic basis for defence production in Bangladesh, but there could also be certain purchases by India from Bangladesh and the supply of weapons and equipment not made there, from India. Fortunately, India is even now in a position to buy the products made in the Joydevpur ordnance establishment.

It is obvious from this brief analysis that certain basic decisions concerning Bangladesh's political, social and economic sectors have to be taken by the Bangladesh government before it can decide on the kind and size of the armed forces it needs.

Net Present Value versus Internal Rate of Return

Further Comment

L C Gupta

IN his reply to my comment (February 26, pp M-43-47), Paul Mampilly is right when he states that the evaluation of an investment proposition should be made on the basis of "the net change, increment or decrement, that particular proposition causes to the *total* finances of an investor over a chosen horizon of time", and that account must be taken not only of what he calls 'primary flows' but also of the 'secondary flows' arising from re-investment of the primary flows. Mampilly argues at length that the re-investment rate should be taken into account for the purpose of investment evaluation and uses this argument as his main justification for the contention that the Internal Rate of Return (IRR) method implicitly assumes a re-investment rate equal to the IRR itself. However, to argue that the actual re-investment rate should be taken into account for decision purposes is one thing; to say that a particular re-investment rate is implicit in the IRR method is quite another.

In other words, while he poses the problem of investment appraisal realistically, it is a mistake to think that the assumption of a re-investment rate equal to the IRR takes care of this real-life problem or is analytically superior. No real problems can be solved by assuming them away.

What use can be made of the cash recovered and how profitably it can be re-invested are certainly of great relevance to the evaluation of an investment proposition. This is, however, an open question and, as such, the practical way to deal with it, as with many other quantifiable and non-quantifiable factors, is to give it separate and explicit consideration. In the example of the banker's overdraft, Mampilly himself recognises several different possibilities with regard to the return available from re-investment. Why then assume a re-investment rate necessarily equal to the IRR? He argues:

> "The information, that unrecovered balances yield 6 per cent, is of no use to the investor as it is only partial. He is interested to know the total impact on his finances consequent to a particular investment decision. To say that overdraft yields 6 per cent has, in fact, the potential of misleading the investor, when as in the example, the real return is only 4 per cent."

Does the re-investment assumption bring any more realism into this situation? Does it give the investor any more information and help him to decide better?

To say that IRR implies an assumption of a re-investment rate equal to itself in no way takes away the shortcomings of the IRR method as compared to the NPV method.

The calculation of IRR, or of NPV, is just one step in the investment decision-making process. While the NPV method automatically takes into account the cost of capital of the borrowing rate, in the IRR method the cost of capital has to be considered separately. The IRR procedure is as follows:

(a) Calculate the IRR;
(b) Compare the IRR so calculated with the cost of capital or the borrowing rate;
(c) Accept the proposition if the IRR exceeds the cost of capital and reject it if the IRR is less than the cost of capital.

Now, if we accept Mampilly and Rangarajan's contention that the IRR method implies that "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" and that the re-investment is made "at the particular value of the IRR", it is clear that the IRR method will make no sense in any practical situation. In order to justify the assumption of a re-investment rate equal to IRR, they had to invent the very unrealistic condition of the borrowing rate also being equal to the IRR itself and conclude that "if the IRR connotes a rate different from the established re-investment rate, it loses its practical significance". How much "practical" significance can be attached to an IRR satisfying all their assumptions?

The assumption of a re-investment rate equal to the IRR is neither realistic nor analytically helpful. It is, of course, not implicit in the calculation of the IRR.

The NPV measures the *absolute* amount of return from investment for the entire life of a project after allowing for cost of capital; on the other hand, the IRR is in terms of an annual *rate* before allowing for cost of capital. Strictly speaking, the two measures are not in comparable terms. In my last comment, I had shown diagrammatically how NPV rankings of different projects may change as the discount rate increases. Mampilly has complained that I forgot my mission of investigating the reason for conflict between IRR and NPV methods. The truth is that the mission was lost on some.

Employment in the Organised Sector

EMPLOYMENT in the organised sector increased during 1971-72, though at a slightly slower rate, it being 2.2 per cent in 1970-71 as against 2.5 per cent in the previous year. In absolute terms, employment increased from 17.1 million at the end of March 1970 to 17.5 million at the end of March 1971, according to the Annual Report regarding employment and training of the Department of Labour and Employment. The employment growth (rate of 3.2 per cent) in the Public Sector attained during 1970-71 was higher than in the preceding year (2.5 per cent). In absolute terms employment increased from 10.37 million in March 1970 to 10.71 in March, 1971.

There were 488 employment exchanges functioning in the country at the end of December, 1971. The total number of employment-seekers on the live register of Employment Exchanges showed a rise of 25.3 per cent from 40.69 lakhs in December, 1970 to 51.00 lakhs in December, 1971. The number of placements effected during April-December, 1971 was 3.99 lakhs, the figure for the corresponding period of the previous year being 3.45 lakhs.

The number of educated applicants (i e Matriculates and above) on the live register of employment exchanges continued to show a rising trend-their number was 22.96 lakhs at the end of December, 1971 as against 18.22 lakhs a year ago — a rise of 26.0 per cent. Of them 12.97 lakhs were Matriculates, 6.05 lakhs were undergraduates and 3.94 lakhs were graduates and post-graduates.

Women work-seekers on the live registers at the end of December, 1971, was 5.83 lakhs as against 4.85 lakhs in December, 1970.

Amar Dye-Chem Limited

Speech of the Chairman, Shri Amritlal Kalidas Doshi

THE following are excerpts of the Speech made by the Chairman, Shri Amritlal Kalidas Doshi, to the Shareholders at the Eighteenth Annual General Meeting of the Company held on May 4, 1972:

It gives me great pleasure to welcome you all this afternoon to the 18th Annual General Meeting of the Company and to place before you the Directors' Report and the Audited Accounts of the Company for the year ended 31st December, 1971.

These have already been circulated and have been with you for some time now. I hope you had an opportunity to go through the Directors' Report and the Accounts. With your permission, I shall take them as read.

Dividend

I am sure you would have been slightly disappointed as the dividend has been reduced from Rs 14/- to Rs 12/-. The Board has been compelled to come to this decision due to factors beyond their control. As you all know, the rate of tax has been increased in the last year by 2½ per cent as a surcharge for Bangladesh refugees and instead of repealing it, due to the emergency being over, it has now been increased to 5 per cent in the last budget. Moreover, the priority industry rebate which was already reduced from 8 per cent to 5 per cent has also been withdrawn. Thus the rate of tax has virtually gone up by approximately 8 per cent. At the same time, the salaries and wages are going up due to the increase in dearness and also the cost of production is increasing due to increase in customs duty, excise duty, octroi, railway freight and many such incidental expenses.

The Board felt that under such circumstances as existing in our country, it is not a wise policy to distribute a larger amount by way of dividend but try to retain as much as possible with the company for future expansion or at best, issue bonus shares. I hope this explanation would prove satisfactory to you.

Company's Operations

The Sales Turnover of the Company was less by slightly over 10 per cent in value as compared to the year 1970, as can be seen from the following figures:

	Year	Value
Sales	1970	Rs 10,10,93,090
	1971	Rs 9,08,48,750

It could be seen that the trading gross profit of your Company for the year under review has decreased substantially from that of 1970. This reduction is the result of various factors, some of the most important being as under:—

1. The crisis in the textile industry, resulting in poor off-take;
2. Reduction in price to meet competition due to production being greater than consumption;
3. The stringent monetary conditions which led to giving longer credits or larger Cash Discount;
4. Substantial increase in salaries and wages, due to increase in Dearness, as the index went up from 813 in December 1970 to 848 in December 1971. We also entered in a 3 years agrement with the union, under which we had to give a rise of Rs 25/- in basic salary from August 1970, but paid during the year under review.

In fact, it is not correct to compare the performance of 1971 against 1970, as it was an exceptionally good year, due to a brisk demand of Textile Industry and high prices owing to shortages. But if we compare the results of 1971 with those of 1969, which would be a fair comparison, the performance should be considered satisfactory.

Performance during the Current Year

The sales turnover for the first four months of the current year is slightly higher than the year under review as could be seen from the following figures:

January to April 1971	Rs 3.07 crores.
January to April 1972	Rs 3.33 crores.

The plant for the manufacture of Phthalocyanine Blue has gone on stream in the beginning of the year. The Company is expected to be self-sufficient with respect to this item.

We have also started manufacture of one Rubber Chemical, namely Antioxidant Phenyl Betanaphthylamine, which should contribute to our sales to some extent. This is besides the normal increase in number of items of Dyestuffs, which we are adding year after year.

Export

In the field of exports, I am glad to inform you that commensurate with the policy of Government and due to slackness of demand in the domestic market, the Company has preferred to increase its exports, as can be seen from the following figures:—

Year	Value
1970	Rs 28.80 lacs.
1971	Rs 55.50 lacs.

We are continuing our efforts to find new export markets and your company's performance is expected to be better in the current year as we have already reached, during the first four months, the figure of Rs 25.77 lacs as against Rs 17.64 lacs during the same period in 1971.

Expansion Programme

We are holding Letters of Intent for manufacturing various items such as Rubber Chemicals, Toluene di Isocyanate (T.D.I.), Hydrogen Peroxide, etc. However, the Government has imposed export obligations varying from 10 per cent to 40 per cent and that makes it very difficult to implement the programme. Even our proposed collaborators for Rubber Chemicals have refused to accept several conditions imposed by the Government. We shall, therefore, have to negotiate with the Government for these projects, before we can undertake implementation of any of them.

Similarly, some of our expansion programmes for Reactive Dyes, Pigments, Optical Brighteners have also been delayed due to the same reasons of heavy export obligation. We are not sure that we shall be able to implement them as we cannot agree to unrealistic export obligation, which the Government chooses to impose in an arbitrary manner, without realising that the conditions in the international market are constantly changing and the consumers of advanced countries are using more and more sophisticated items. Under these circumstances, we consider it hazardous to undertake any long range export obligation.

General

It take this opportunity to express my sincere thanks to my colleagues on your Company's Board of Directors for all their valuable guidance in managing the affairs of the Company as well as to the officers, staff and workers of the Company for their loyalty and willing co-operation that I have received from them during the year under review.

While thanking you all once again, I commend the Report and the Audited Statement of Accounts.

A K Doshi
Chairman

Industrial Capacity and Production, 1970 and 1971

Sl No	Industry	Unit	1970			1971		
			No of Units	Installed Capacity	Production	No of Units	Installed Capacity	Production
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Industrial Machinery								
(1)	Boilers (industrial and power)	Rs lakhs	14	1150 plus 1.3 MKW	3093	13	1150 plus 1.3 MKW	3900
(2)	Sugar mill machinery	,,	16	2100	1463	16	2100	1660
(3)	Cement mill machinery	,,	10	2300	841	10	2600	380
(4)	Drilling equipment	,,	10	300	204	11	477	160
(5)	Printing machinery	,,	5	86	33	6	96	35
(6)	Conveyors and wagon tipplers	,,	16	864	789	16	864	950
(7)	Reduction gears including marine gears	,,	13	400 plus 1500 nos	547	13	562 plus 1600 nos	600
(8)	LPG Cylinder and valves and regulators	,,	6	245	460	8	349	400
(9)	Dairy machinery	,,	3	257	247	3	257	343
(10)	Agricultural sprayers and dusters	,,	3	725	246	3	725	315
(11)	Asbestos cement product plants	,,	1	280	54	1	280	36
(12)	Industrial filters and centrifuges	,,	5	201	205	6	218	225
(13)	Industrial screens	,,	5	224	90	5	224	106
(14)	Electroplating equipments	,,	2	40	41	2	41	34
(15)	Food processing machinery including bottling machines and feed mill plant	,,	7	96	62	7	96	75
(16)	Rubber machinery	,,	2	58	15	2	58	21
(17)	Impregnating and coating plants and coil winding machines	,,	1	25	30	1	25	47
(18)	Oil and gas firing equipments	,,	5	100	70	5	100	70
(19)	Industrial drycleaning and laundry equipment	,,	1	80	30	1	80	22.5
(20)	Ceramics machinery	,,	1	12	6	1	12	7.9
(21)	Paint and varnish machinery	,,	4	24	11	4	24	16
(22)	Spray drying and evaporating plant	,,	1	—	27	1	—	7.07
(23)	Packing machinery	,,	1	—	—	1	—	20
(24)	Tea processing machinery	,,	6	230	118.89	6	250	95.93
(25)	Weighing machinery	,,	4	450	226	5	450	263.85
(26)	Tobacco processing machinery	,,	1	36	32.48	1	36	42.9
(27)	Leather and footwear machinery	,,	20	95	30.16	—	155	25.18
(28)	Oil mill machinery	,,	10	127	100	10	127	65.41
(29)	Rice mill machinery (modern and conventional)	,,	4	1012	213	4	1012	189.92
(30)	Pulp and paper machinery	,,	13	606	340	13	656	516
(31)	Mining and coal washery	,,	9	963	215	9	3000	411
(32)	Steel plant equipment	,,	NA		1160	2	NA	1628
(33)	Chemical and pharmaceutical machinery	,,	53	1834	1700	57	2740	1833
(34)	Building and road construction machinery	,,	17	547.73	132.68	14	557.23	142
(35)	Metallurgical machinery	,,	14	NA	636.41	14	NA	706
(36)	Bread and biscuit making plant	,,	1	12	10.57	1	12	1.0
(37)	Rayon plants	,,	4	NA	120.01	4	NA	144
(38)	Air separation plants	,,	2	305.67	—	2	305.67	5.84
Tools and Abrasives								
	Group I-A							
(1)	Machine-tools	,,	76	6,500	2900.44	74	6700	3523.35
	Group I-B							
(1)	Machine-tool accessories	,,	16	140	191.66	17	160	505.30
(2)	Wood working machine-tools	,,	4	35	7.88	4	35	8.83
(3)	Portable tools	,,	7	315	260.73	6	290	246.74
(4)	Other metal working machine-tools	,,	6	200	107.23	8	220	208.10
(5)	Plastic working machines	,,	3	283	261.92	2	280	297.25
	Group I-C							
(6)	Furnaces	,,	14	650	267.30	14	670	547.72
(7)	Gas welding and cutting equipment	,,	3	109	86.26	2	104	113.06
(8)	Electric welding machine	,,	2	70	66.05	2	70	100.25
(9)	Others (re-rolling mills, etc)	,,	4	97	7.06	4	97	86.74
(10)	Grinding wheels	Kgs	4	59,40,000	60,61,704	5	61,20,000	81,59,652
(11)	Coated abrasives	Reams	3	2,72,000	1,62,206	3	2,72,000	2,04,165
(12)	Steel files	Th nos	6	10,100	12,927	6	10,100	14,138.2
(13)	Twist drills	,,	7	10,060	10,074.4	6	9,940	7,863.3
(14)	Reamers	Nos	14	2,88,000	1,82,353	16	2,87,900	1,70,687
(15)	Threading tools	,,	10	28,07,000	25,61,803	13	30,01,000	28,22,158
(16)	Milling cutters	,,	16	4,20,000	3,17,354	18	4,35,900	3,38,884
(17)	Bandsaw blades (W)	RM	5	12,05,000	8,56,330	5	12,05,000	12,97,855

(Continued)

Industrial Capacity and Production, 1970 and 1971 (continued)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(18)	Bandsaw blades (M)	RM	4	11,35,000	13,97,761	4	11,35,000	13,41,700
(19)	Hacksaw blades	Th nos	5	41,000.0	20,296.5	6	46,400.0	26,355.9
(20)	Tungsten carbide (tips)	Kgs	4	1,70,000	1,45,724	4	1,70,000	93,714
(21)	Lathe tools (tools) bits	Nos	10	10,01,000	8,01,034	10	10,01,000	9,63,451
(22)	Diamond drill bits	,,	5	45,000	21,975	5	45,000	30,654
(23)	Tungsten carbide tipped tools	,,	6	7,26,000	7,32,673	6	7,26,000	10,91,144
(24)	Broaches	,,	1	2,400	4,053	1	2,400	5,401
(25)	Measuring tapes	,,	2	30,03,000	9,94,956	2	30,03,000	23,03,688
(26)	Industrial machine knives	,,	5	7,00,000	2,06,002	6	8,00,000	2,53,420
(27)	Forged hand tools	Rs lakhs	8	364.40	547.17	8	376.40	643.10
Light Electrical Industries								
(1)	GLS lamps	Mn nos	11	83.35	10.39	11	83.35	11.12
(2)	Fluorescent tubes	,,	7	8.20	10.48	8	9.20	11.15
(3)	Miniature lamps	,,	7	33.80	40.0	7	33.80	40.81
(4)	Electric fans	Nos	16	18,15,600	15,73,610	16	18,15,600	19,09,614
(5)	Stampings and laminations	Tonnes	2	39,700	33,238	2	40,200	34,058
(6)	Dry battery cell	Mn nos	6	479.0	492.1	7	539.0	569.9
(7)	Storage batteries	Lakh fios	7	10.68	11.58	7	12.6	11.52
(8)	Domestic refrigerators	Th nos	6	37.8	66.8	6	108.3	87.01
(9)	Room air conditioners	,,	7	28.28	17.04	7	32.28	21.6
(10)	Industrial air conditioning, refrigeration and air control equipment	Rs lakhs	19	1400.0	786.0	22	1,600.0	1,120.0
(11)	Air conditioning and refrigeration controls	,,	4	100	48.3	4	100	83.0
(12)	Sealed compressors	Th nos	3	65.6	26.8	3	65.6	32.2
(13)	Room air coolers	,,	2	20.0	19.1	2	25	—
(14)	Industrial cooling towers	Rs lakhs	3	150.0	145.6	3	150	177.0
(15)	Flash light cases	Lakh nos	3	82.8	115.8	3	82.0	130.3
Heavy Electrical Industries								
(1)	Electric motors	HP	20	2,568,960	2,844,474	20	2,568,960	2,365,432
(2)	Transformers	KVA	23	6,265,000	7,608,623	23	6,265,000	8,689,922
(3)	Motor starter	Nos	11	377,764	510,810	11	377,764	392,665
(4)	Elec steel sheets	Tonnes	1	18,000	34,787	1	18,000	37,025
(5)	Switchgear and controlgear	Rs lakhs	40	—	1,246.45	39	—	2,191.78
(6)	Cables and wires (AIR and PVC cables)	KM	26	814,232	422,973	25	869,200	490,988
(7)	ACSR and AAC winding wires	Tonnes	33	97,830	65,000	34	100,000	71,635
(8)	(a) Enamelled wires (b) Paper cotton covered wires and strips	Tonnes	29	27,308	16,193	29	17,509	18,969
(9)	Paper insulated power cables	KM	7	8,360	2,403	7	8,360	2,177
(10)	Bare copper conductors	Tonnes	4	14,427	735	4	14,200	860
Heavy Engineering Industries								
(1)	CI castings and alloy iron castings	,,	43	2,54,000	80,000	47	3,28,600	1,14,500
(2)	MI castings	,,	14	22,260	15,600	11	22,100	24,000
(3)	SG iron castings	,,	13	8,808	1,450	10	7,838	2,300
(4)	Steel castings and alloy steel castings	,,	42	1,37,470	52,000	42	1,37,470	56,000
Instruments								
(1)	Industrial process and control instruments	Rs lakhs	9	1,292.00	572.00	9	1,292.00	676.7
(2)	Scientific, surveying, optical and mathematical instruments	,,	12	375.00	256.76	12	375.00	241.4
(3)	Water meters	Lakh nos	6	3.5	1.60	6	3.5	1.6
(4)	Medical and surgical instruments	Rs lakhs	7	300.00	113.74	8	350.00	162.29
(5)	X-Ray and electro-medical equipments	,,	5	265.00	150.83	6	315.00	254.66
(6)	Photographic and photocopying instruments	,,	2	45.00	38.85	3	63.00	47.08
(7)	House service meters	Lakh nos	15	Sp 16.27 PP 4.30	19.44 5.69	15	Sp 16.27 PP 4.30	22.04 6.45
(8)	Electrical measuring instruments	Rs lakhs	8	250.00	136.43	9	265.00	236.34
(9)	Component industry							
	(1) Industrial jewels	,,				1	50.00	0.05
	(2) Bimetal contact	,,				1	50.00	65.29

(Continued)

Industrial Capacity and Production, 1970 and 1971 (continued)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Heavy Mechanical Industries								
(1)	Transmission towers	Tonnes	14	93,100	47,545	14	93,100	62,025
(2)	Black and galvanised steel pipes and tubes for water structurals, etc	,,	14	4,83,960	2,15,578	14	6,01,460	2,18,348
(3)	E R W tubes	,,	6	50,400	32,656	6	53,400	31,921
(4)	Seamless steel tubes	,,	1	39,600	29,254	1	39,600	34,303
(5)	Wire ropes	,,	9	36,240	20,145	9	36,240	19,977
(6)	Bright bars	,,	9	57,500	49,294	10	64,500	54,161
(7)	Welding electrodes	Mn R M	20	497	316.76	20	497	326.49
(8)	Lifts	Nos	4	910	474	4	910	626
(9)	Pen stocks	Tonnes	4	13,500	7,164	4	13,500	8,273
(10)	Railway wagons	Nos in terms of 4 wheels	16	32,819	10,489	16	32,819	7,759
(11)	Slotted angles and cold formed sections	Tonnes	5	12,300	3,762	5	12,300	4,368
(12)	Large diameter pipes	,,	5	13,820	8,343	5	13,820	9,064
(13)	Steel doors, windows, and rolling shutters	,,	3	847	2,821	3	847	1,959
Light Mechanical Industries								
(1)	Bicycle complete	Lakh nos	9	21.05	20.94	10	33.32	18.64
(2)	Bicycle parts	,,	31	—	—	31	—	—
(3)	Ball and roller bearings	Mn nos	7	15.89	17.50	7	18.91452	19.00
(4)	Steel balls	,,	4	828.7	1713.0	5	988.1	1,273.9
(5)	Data processing machines	Nos	2	11,689	4,926	2	11,689	5,890
(6)	Auto leaf springs	Tonnes	12	39,010	28,172	12	41,650	30,886,76
(7)	Industrial coil springs	,,	3	1,530	724	3	2,450	1,010
(8)	Sewing machines	Nos	5	4,93,000	1,77,961	5	4,93,000	3,37,632
(9)	Typewriters	,,	4	86,400	38,525	4	86,400	43,692
(10)	Duplicators	,,	2	7,500	3,370	1	10,100	4,615
(11)	Addressing machines	,,	1	870	673	1	870	837
(12)	Sewing machine needles	Mn nos	2	8.4	12.29	2	14.4	13.22
(13)	Zip fasteners	Lakh metres	2	29.3	36.20	2	29.3	29.05
(14)	Umbrella ribs	Doz sets	1	7,40,000	5,46,422	1	7,40,000	4,96,873
(15)	Wire gauge and wire nettings	M tons	4	24,26.25	1,179.98	4	2,426.25	875.481
(16)	Crown corks	,,	2	705.60	1,224.786	2	705.60	1,394.644
(17)	Hurricane lanterns	M nos	5	3.17	3.543	5	3.17	2.982
(18)	Time-pieces	Lakh nos	7	12.80	7.03	7	12.80	7.40
(19)	Watches	,,	2	6.70	4.66	2	6.70	4.75
(20)	Collapsible tubes	Mn nos	6	134.09	304.56	6	152.09	332.18
(21)	Clocks	Nos	4	155,000	1,00,345	4	1,15,500	1,13,902
(22)	Agricultural implements	M T	25	26,196.5	20,064	28	35,621.5	20,000
(23)	Agricultural machinery	,,	8	2,179	2,385	8	4,071	3,340
(24)	Oil barrels	,,	7	67,778	36,732	7	67,778	46,365
(25)	Small drums	,,	22	13,622	7,500	22	13,622	7,988
(26)	General line tin containers	,,	28	75,090	62,149	28	75,090	62,740
(27)	O P lamps	Nos	1	65,000	50,000	1	65,000	40,873
(28)	Stoves :							
	(*i*) Pressure type	,,	2	35,000	17,800	2	35,000	21,141
	(*ii*) Non-pressure type	,,	2	1,62,000	3,90,000	2	1,62,000	5,37,812
(29)	Calculating machine	,,	1	12,500	8,490	1	12,500	9,326
(30)	Expanded metal	Tonnes	1	1,440	736	1	1,440	581.82
(31)	Grinding media	,,	6	18,743	14,480	7	19,723	16,471
(32)	Building hardwares	,,	9	5,454	2,047	8	50.30	2,741
(33)	Steel furniture	,,	13	42,312	27,952	14	42,729	34,546
(34)	Industrial roller chains	Rs lakhs	4	130.00	120.16	5	145.00	145.30
Cement, Asbestos and Carbon Products								
(1)	Cement	Mn tonnes	50	17.36	14.034	50	19.39	14.93
(2)	A C sheets and ACC	Tonnes	9	5,61,000	2,97,453	9	5,61,000	3,25,097
(3)	A C bldg pipes	,,			14,095			8,683
(4)	A C P pipes	,,			49,580			52,680
(5)	A Tex prod (pack yarns and matt)	,,	3	1,932	1,628	3	1,932	1,415
(6)	A Joint and limp sheets	,,	2	2,800	2,229	3	3,160	2,572
(7)	A Mill boards	,,	1	500	460	1	500	400.5
(8)	Ferrobestos sheets	,,	1	100	13.6	1	100	0.72
(9)	Profax/fabre ..	,,	1	2,000	1,157	1	2,000	1,103.7
(10)	Cinema arc carbon and process carbons	Mn pairs	2	7.2	6.18	2	7.2	8.014
(11)	Cal pet coke	Tonnes	1	65,000	73,669	1	65,000	70,871
(12)	Pencils	Lakh gross	3	8.4	6	3	8.4	5.44
(13)	Midget electrodes	Mn pcs	1	250	291	1	250	336
(14)	Graphite electrodes and anodes	Tonnes	1	5,400	4,160	1	5,400	3,901
(15)	Electrodes paste	,,	1	15,000	5,800	1	15,000	8,577
(16)	Carbon blocks	,,	1	80	42	1	80	61.2
(17)	Thermolites	,,	—	—	—	1	4,200	1,018.4

(To be concluded)

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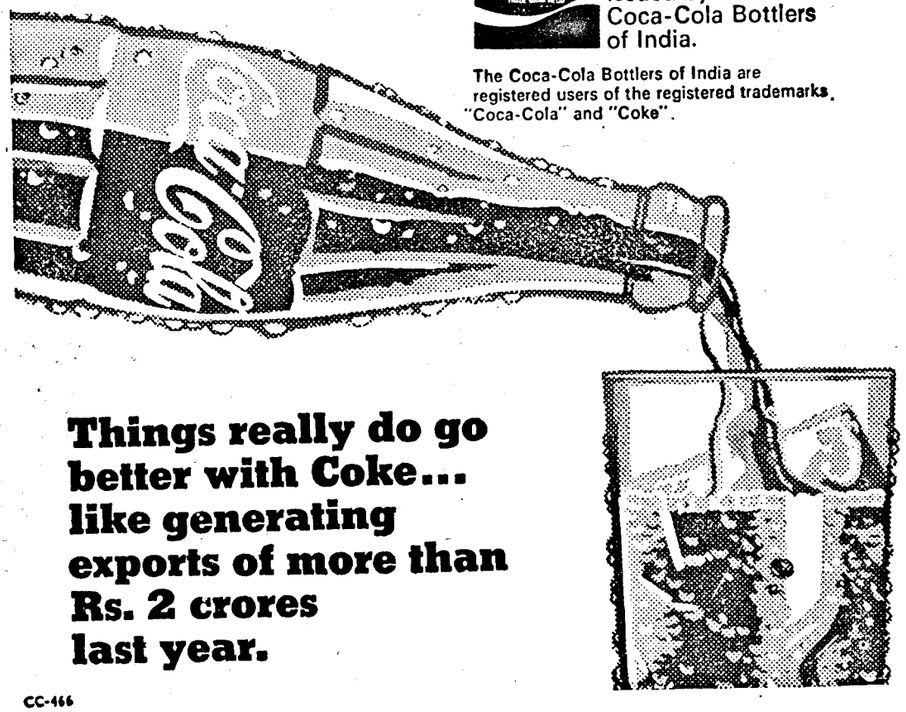
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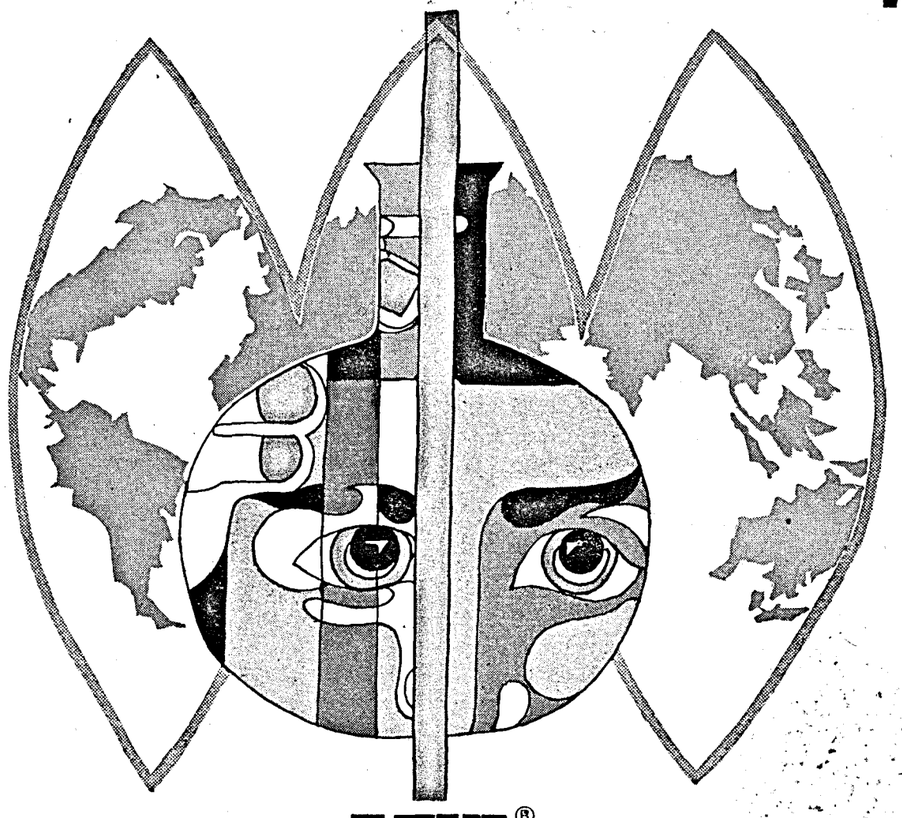


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JOINT SECRETARY TO GOVT. OF INDIA 20 MAY 1972 INDUSTRY DEPTT.

DEVELOPMENT STRATEGY

RENT CONTROL AND LOW INCOME HOUSING

BLACK MONEY IS NOT BEAUTIFUL

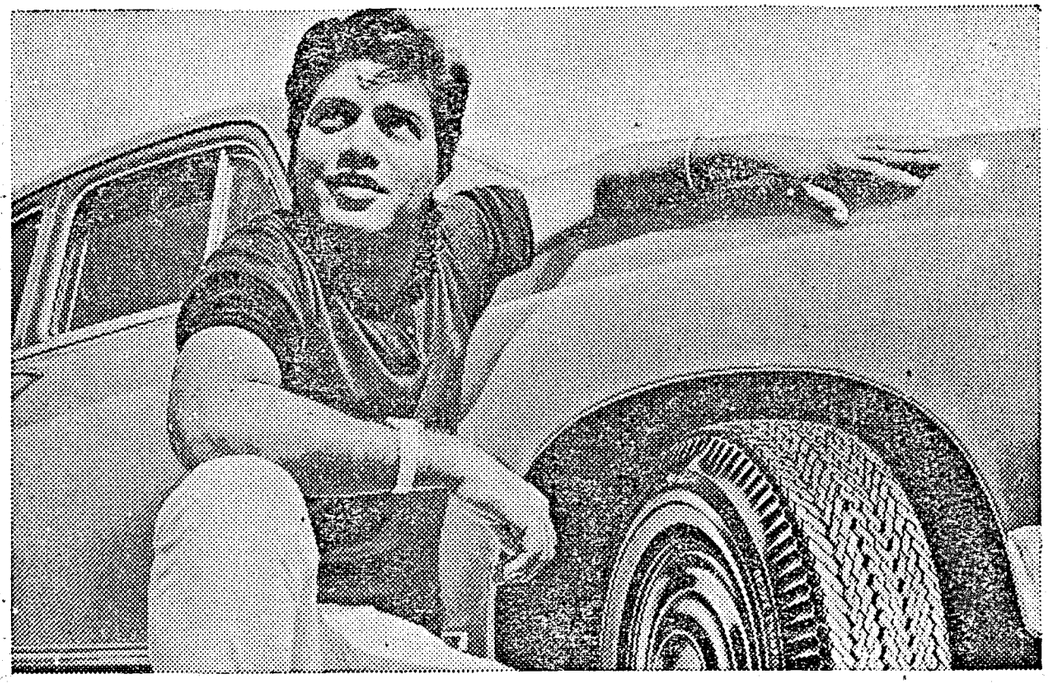
FLASHES OF ENTHUSIASM IN MINERALS

DEFENCE: THE MORE THE MERRIER

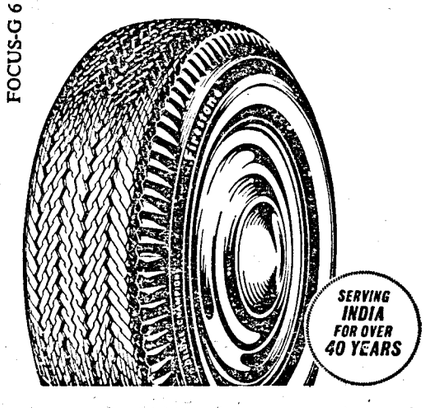
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ECONOMIC AND POLITICAL WEEKLY

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

Shiraan Heerjee, Ashok Rao

Not Again

OFFICIAL Russian and Chinese reactions came well after three days of Nixon's announcement of the mining of North Vietnamese and international waters. And these reactions were muted in tone — not reprimanding and almost regretful. Such past epithets as "the glorious struggle of the great and valiant Vietnamese people" were forgotten. The statements same to have been more concerned about the "violation" of legalisms like the UN Charter, International Law and "the generally-recognised principle of freedom of navigation". Of course there was the customary reiteration of support for the Democratic Republic of Vietnam but the spirit to back the words with deeds — not just aid — was missing.

This arouses the suspicion that neither the Russians nor the Chinese were *too happy — assuming, in the first place,* that they had been consulted — about the launching of the North Vietnamese-NLF offensive six weeks ago. At a time when the Soviet Union is about to come to terms with the United States on the limitation of strategic arms and when Peking has seen fit for its own security and diplomatic reasons to cosy up to Washington, the risks involved in an escalation of the Vietnam War were probably considered to be too high to be encouraged by the two big socialist countries.

Kissinger's recent friendly chats with Brezhnev, Moscow's refusal so far to call off the Nixon visit, the near pleading tone when referring to the Soviet Union in Nixon's mine-laying speech: "We do not ask you to sacrifice your principles or your friends but neither should you permit Hanoi's intransigence to blot out the prospects we together have so patiently prepared", might all even suggest that the Russians had tacitly agreed beforehand to the blockade of North Vietnam, so that they could then persuade the North Vietnamese to give up their forthright and risky quest for a quick solution to the American problem in South Vietnam.

The Russians might even be quite willing to persuade the North Vietnamese that Moscow could help gain Hanoi's objectives at the negotiating table if the latter would only allow the Americans to withdraw with honour and the Thieu regime in Saigon to crumble at its own pace. This could very possibly be the Soviet strategy, as it would increase Soviet influence in South-East Asia, provide the Americans with an opportunity to retreat without losing too much face and, perhaps, gain for Hanoi and the NLF their main objective, which as has been repeatedly stressed by Hanoi and the NLF is not an immediate communist government in Saigon, but merely a coalition administration with communists in it.

It is, therefore, not unlikely that the Russians and the Americans and, possibly, even the Chinese, for the sake of their super power interests, are colluding or thinking alike on these lines. The big question remains whether the Vietnamese Workers Party will allow itself once again to be guided to an international conference when a military-political victory is near its grasp in the field. The Vietnamese communists could not have forgotten that in 1954 at the Geneva Conference they were misled into accepting the artificial division of their country into two, after having defeated the French on the battlefield. As now, then also, free and fair elections were promised after a period of peace, but due to the Americans and their cronies in Saigon the promised elections were never held.

So far the signs are that Hanoi is not going to opt for a cease-fire. The fighting around An Loc, near Saigon, continues. Around Hue and Kontum, North Vietnamese forces are regrouping for a concerted attack. To prepare for further American bombing, non-essential personnel and women and children are being evacuated. The recruitment drive for the armed forces has been intensified and eighteen year olds are now going to be drafted. And Hanoi has pledged that it will sweep away the mines.

For these reasons, the resolve of the party of the Vietnamese people "never to step back so long as they have not attained their sacred objectives" can, perhaps, be taken at face value. It is not very likely that now, after a renewed and almost unbelievably heroic struggle against all the odds, those who speak and have the trust of the people of Vietnam will once again fall for the machinations of the 'great' powers. Seldom have a small people defied all the great powers together. But then the Vietnamese people have been known not to succumb to all the might of one great power. It is unlikely that they will succumb to the seductions of the other two great powers.

Power

Areas of Darkness

TILL a few years ago, electric power was considered mainly an input for industrial growth, but with the rapid expansion of minor irrigation agricultural development is also becoming increasingly dependent on adequate and regular supply of power. At the same time, recourse to power-cuts and load-shedding has become frequent in the last two or three years in a large number of states suggesting that, despite the impressive statistics of growth of installed generating capacity and per capita power consumption, the policies and programmes of power development call for review. One would have, therefore, expected to find in the Annual Report of the Union Ministry of Irrigation and Power some discussion of the problems of meeting the rapidly growing industrial and agricultural demand for power — particularly since the Ministry has for long been headed by a technocrat. The Report, however fails to fulfil this expectation; its statistical and descriptive content suggests that the Irrigaion and Power Department is still run as if it were an administrative and not a developmental wing of the government.

As regards policies and programmes of power development, the Report has nothing to offer but a mechanistic presentation of statistics. During the last two decades (1951-1971) installed generating capacity increased by 7 times, from 2.3 to 16.7 mn KW and the all-India per capita power consumption rose by 5 times, from 18 to 90 units. The Fourth Plan aims at expanding generating capacity to 23 mn KW and under the Decade Plan formulated by the Ministry the capacity is to reach 52 mn KW by 1980-81. The shortfall of 2.7 mn KW expected in the Fourth Plan is only casually mentioned. Following from this there is no discussion of the measures the Ministry proposes to take to accelerate the expansion of generating capacity in the remaining years of the Plan so as to minimise the shortfall. Nor does the report worry about how the shortfall in the Fourth Plan target will affect the Ministry's Decade Plan target of 52 mn KW by 1980-81. The Report also says nothing about the continuing imbalance in the regional distribution of generating capacity and per capita availability of power. In the government's industrial policies the objective of development of the backward regions has received considerable emphasis in the last know whether the Union Power Ministry has formulated any plans to match the pattern of power development to this accent in industrial policy.

The Report carefully avoids discussing the reasons for the repeated power crisis in states like Maharashtra and Gujarat. Power development is not just a matter of installation of generating capacity. The reports shows no awareness of the problems of supplying fuel such as coal and RFO to keep going the capacity already created in a state like Gujarat. The Ministry seems to have little say in the settlement of the prolonged disputes between Gujarat government and the Union Ministries of Petroleum and Railways over the supply and price of RFO and the movement of coal from the MP coalfields to the Gujarat power stations.

The Report is full of trivial information on the number of times the Minister and his senior officials were invited abroad for conferences, seminars, etc. But some of the trivial information throws interesting light on the government's thinking on a basic problem like unemployment. For instance, the Report mentions with pride the Ministry's efforts to mitigate unemployment among engineers. These include extension of financial assistance of Rs 3 to Rs 4 crores through the state governments for the study and investigation of flood control, irrigation and power supply programmes. The implication seems to be that investigation of basic resource-use problems is to be undertaken primarily by way of employment-generation schemes. If engineers were not unemployed in such large numbers, the Ministry would not have perhaps thought these problems worth investigating. Similarly, some 2,500 graduate and diploma-holding engineers have been recruited for practical training in power generation techniques at monthly stipends of Rs 250 for graduates and Rs 150 for diploma-holders — that is, at remunerations less than that of even peons in the Ministry!

As for how the power structure in society influences a basic development programme like rural electrification, consider the following matter-of-fact statement from the Report: "It has been observed that street-lighting and public lighting amenities in electrified villages have not been extended to the adjacent Harijan *basties* mainly because of lack of finance." It does not occur to the Ministry to ask why "lack of finances" should affect only the Harijan *basties* even as the upper caste parts of the villages are electrified. Instead it has formulated a *separate* scheme for providing concessional loan assistance of Rs 4.5 crores to State Electricity Boards (through the Rural Electrification Corporation) for the electrification of some 20,000 Harijan *basties*!

Balance of Payments

Errors and Omissions or Leakages ?

THE large figure of errors and omissions for the year 1970-71 in the Reserve Bank's balance of payments data has added fuel to the discussion of leakage of foreign exchange. Upto 1966-67 the figure of errors and omissions was below Rs 30 crores, except in 1951-52, 1963-64 and 1964-65. It, however, spurted to Rs 86 crores in 1967-68 and Rs 114 crores in 1968-69. For equally unexplained reasons, the figure nose-dived to Rs 14 crores in 1969-70, only to go up to Rs 79 crores in 1970-71. For reasons best known to the RBI, balance of payments data from 1966-67 to 1970-71 are still described as 'preliminary' though one may be sure that the size of the errors and omissions entry will not be appreciably different in the 'final' figures as and when the RBI chooses to release them.

From the fact that the errors and omissions entry has been persistently negative the conclusion is sought to be drawn that the country has lost foreign exchange to the tune of Rs 400 crores over the last decade. If only this were the true measure of our foreign exchange losses! Even the official study team on foreign exchange leakages had put the *annual* loss of foreign exchange at around Rs 240 crores. So over the last decade the losses would amount to something like Rs 2,500 crores.

The bulk of the loss of foreign exchange takes place through malpractices such as over-invoicing and under-invoicing. But these cannot affect the balance of payments data and so can have nothing to do with the large errors and omissions figures. Under-invoicing and over-invoicing were as rampant in the early sixties, when the errors and omissions figures were relatively small, as they are now.

The errors and omissions entry arises in the balance of payment data because of the adoption of a double entry system of accounting in which total receipts must match total payments after allowing for changes in official exchange reserves. If they do not, there has to be a balancing entry. The sources of balance of payments data are more accurate and are obtainable without much difficulty for the capital account but are much less precise and reliable for the current account. In the capital account the main entries are those relating to private long-term and short-term receipts and repayments of loans, movement of banking funds, official receipt of loans or amortisation payments and, lastly, variations in official reserves. Information about all these items is obtainable without much difficulty. But in the current account, data relating to imports and exports, involving hundreds of thousands of transactions are more difficult to compile. The RBI's primary source of data are authorised dealers, *viz*, commercial banks dealing in foreign exchange. For data on exports the RBI relies on the duplicates of the GR forms forwarded by the authorised dealers to whom they are submitted by exporters for collection of export receipts.

The GR duplicates do not represent the actual receipt of export earnings and so the RBI's export statistics do not relate to foreign exchange receipts. On the other hand, the import statistics of the RBI are based on information supplied by the authorised dealers in respect of sale of foreign exchange to importers. Theoretically, balance of payments data should refer to actual receipts and payments of foreign exchange but this is not in fact the case. Realisation of export earnings takes 3 to 6 months generally and so the balance of payments figure of exports is likely to under- or over-state actual export receipts, depending on whether exports during a given year are much higher or lower than in the preceding year. By this logic, the errors and omissions figure should be negative only in years when exports are substantially higher than in the previous year. But in fact in the RBI balance of payment data foreign exchange receipts on current account appear to be constantly overstated even when exports have not reflected a consistently growing trend. For instance, the RBI data show that exports during 1970-71 were almost the same as in 1969-70; yet there is an errors and omissions entry of Rs 79 crores in the balance of payments statement for 1970-71. The lag between export shipments and receipt of export proceeds cannot thus satisfactorily explain the phenomenon.

The questions that arise then are: do exporters really bring in all the export receipts due as recorded in the GR duplicates into the country? How careful are the authorised dealers about collecting foreign exchange dues on account of exports? Also, does the RBI systematically match all the GR triplicates (which are sent in by the authorised dealers after the export receipts are realised) with the corresponding GR duplicates?

Education

Not Fit for Democracy ?

A Correspondent writes :

STUDENT POWER is certainly becoming a potent force in Maharashtra. It is true that it does not yet dominate the politics of the state as it does in, say, Kerala. But in educational matters it has often been decisive in the recent past. Thus we saw the students in Marathawada successfully forcing the state government to start a new agricultural university in the region.

Taking their cue from the Marathawada students, the students of Nasik have already launched an agitation for the location in their city of the proposed university for north Maharashtra. The success of their agitation is some-

SUBSCRIPTION RATES

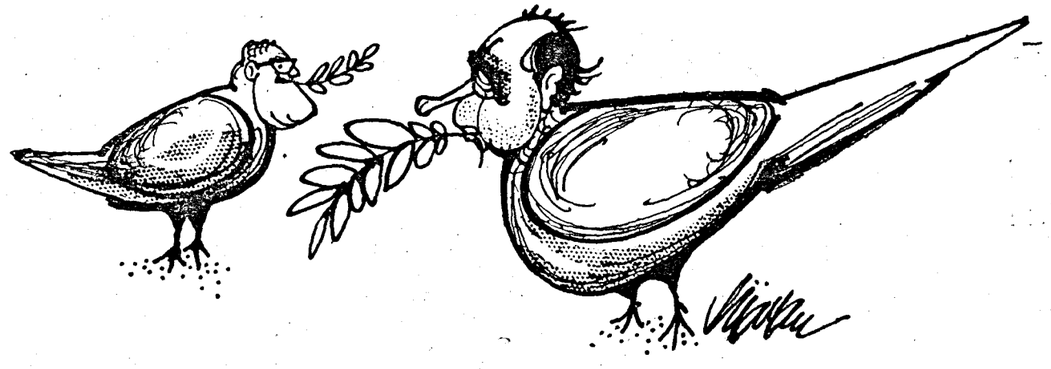
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"The question, Henry, is if we can risk a conventional peace."

what uncertain though, since the other contender city, Jalgaon, is the home base of the state's finance minister, who was also in charge of education for a long time.

But the threat of yet another agitation, in Poona against the vice-chancellor of the local university, has finally persuaded the government to accept his resignation last week (see April 29, p 861). Since there were serious allegations against the vice-chancellor and since his own executive council had expressed its lack of confidence in him, his exit was not unexpected. However, the government has, by an ordinance, not only appointed a new vice-chancellor but also reconstituted the executive council. Recently, it also removed some members from the university court. While holding no brief for the retired council and its cantankerous ways, one would like to note that there were no accusations of malpractices against it, nor had it lost the confidence of the university court, to which it is responsible. Perhaps the government wished to serve notice to the academic community of the state that they are not yet fit for democracy.

Even though the present arrangement is expected to be temporary, two aspects of the new appointments are worthy of notice. First, the government has quietly doubled its representation on the executive council by having both the director of education and a joint director on it *ex-officio*. Secondly, a majority of the new members of the council are past sixty, some of them well into their seventies. The new vice-chancellor himself is seventy-four. By appointing a team of retired people, many of whom (including two ex-ICS officials and a trade unionist) have had no previous connection with the problems of higher education, the government has ensured that, even if the new regime is free from scandals, it will accomplish little or nothing on the campus. Once again the government has shown that it has neither any understanding of the basic problems facing our institutes of higher education, nor any will to tackle them.

Indo-Thailand Trade

The Other Avenue

EFFORTS are under way to explore the scope for more intensive economic and trade relations between India and Thailand. Although there has been a trade agreement between the two countries, little expansion or diversification of trade has taken place.

India's imports from Thailand have consisted mostly of primary products like rice, rubber, copra, kneaf (jute), and tin. Thailand's imports from India have comprised mainly traditional items such as textile yarn and fabrics. During the past three years, trade between India and Thailand has shown no improvement. Thailand's imports from India worth Rs 7.4 crores in 1968-69 were still only Rs 7.5 crores in 1969-70 and 1970-71. Against this, India's imports from Thailand, at Rs 35.1 crores in 1968-69, declined to Rs 15.2 crores in 1969-70 and further to Rs 9.45 crores in 1970-71.

In recent years, India has made a beginning in exporting to Thailand non-traditional items, like machinery and accessories, base metals and manufactures, chemicals, drugs and medicines. But it provides only a very marginal portion of the total import of these items into Thailand which relies mainly on the US, the UK, West Germany and Japan.

The industrial and trade delegation to South East Asian countries, sponsored in 1970 by the All-India Manufacturers' Organisation, saw prospects in Thailand for export of Indian machinery, iron and steel products, steel files, electric household appliances, electric lamps, paper and paper products, radio-receivers, air-conditioners, water-coolers and refrigerators, passenger bus and truck chassis, automobile ancillaries, weighing machines, etc. Thailand is also known to need more railway wagons. It has been pointed out that a major hurdle to such export is that India's ability to supply this range of manufactured goods is simply not known to the Thai market. This capability has, therefore, to be brought to the notice of Thai buyers.

Another lucrative source may be the setting up of joint ventures in Thailand. The industries in which India can undertake turnkey projects, offer knowhow, or supply part machinery for joint ventures in Thailand are: sugar, cement, sulphuric acid, power, industrial boilers, power plant equipment, transformers, diesel engines, textiles, etc. There are even today some joint ventures between India and Thailand in that country, such as Thai India Steel, and Thai India Synthetic. Industries based on local raw materials which can produce for home demand or for export and in which India could help, are: batteries, sheet glass, carpets, canned foods, etc.

Businessmen from Malaysia, Singapore, and Hong Kong, have a record of setting up industrial enterprises in Thailand—either alone or jointly with local entrepreneurs. Thailand is attractive for foreign investors. The terms for transfer of profits and repatriation of capital are favourable, foreign ownership and control is not discriminated against and is given equal treatment with domestic enterprises and freedom from detailed or burdensome regulations. Thailand also offers approved investors facilities such as guarantee against expropriation or nationalisation, guarantee against the setting up of enterprises in competition with 'promoted' industries, income-tax holiday for five years after income or sales commence, remittances of investment capital and profit dividend, exemption from import duty and business taxes on machinery and raw materials, and import of materials needed for setting up factories. Indian entrepreneurs, however, have not seemed so keen to take advantage of these business opportunities and one of the tasks of the sponsored delegations could be to encourage them towards this end.

Investment Priorities

No Beer Famine

EAST Coast Breweries and Distilleries, yet another aspirant for a share in the beer boom in the country, is entering the market with an issue of equity capital of Rs 63.75 lakhs of which Rs 29.50 lakhs are being offered to the public. The project is noteworthy mainly for the munificent support it appears to have received from the Orissa government and the government-owned Industrial Development Corporation of Orissa (IDCO). The company's authorised capital is Rs 75 lakhs of which Rs 11.25 lakhs have been already issued and subscribed to. Of the Rs 11.25 lakhs, Rs 1 lakh has been put in by the Orissa government and Rs 2.75 lakhs by the IDCO. Shares worth Rs 5.08 lakhs have been allotted to the Managing Director and promoter of the Company, N K Mohapatra, and his associates for consideration other than cash. The directors of the company and their associates have subscribed in cash for shares worth Rs 2.42 lakhs which represents their total direct financial stake in the company's issued capital of Rs 75 lakhs. As against this, the government of Orissa is subscribing to shares worth Rs 32 lakhs out of the public issue of Rs 63.75 lakhs and the IDCO to shares worth Rs 2.25 lakhs. Thus out of the total issued capital of Rs 75 lakhs, the Orissa government's and the IDCO's contribution would be Rs 48 lakhs, or 64 per cent. This is no-cost finance for the company till such time as it chooses to declare a dividend. The IDCO is also underwriting shares worth Rs 24 lakhs out of the Rs 29.50 lakhs proposed to be issued to the public. In addition it is likely that the project has received loan assistance from state government agencies. On the whole, this is a good example of the irrational lengths to which state governments are prepared to go supposedly to foster industries within their borders. The Orissa government can hardly claim to be flush with funds. Parts of the state are currently in the grip of a famine and the government has itself complained that famine relief work has suffered for want of money. In the circumstances, how can it justify putting up most of the funds required for the setting up of a brewery?

LETTER TO EDITOR

Who Won in West Bengal?

AS a matter of principle I never reply to personal attacks. But I cannot follow the rule with respect to the one made by A K Dasgupta (April 22, p 822). My regard for him makes me look into his letter for points that are not merely personal comments on my conduct and disposition and which might have wide social validity.

(1) Surely professors as a social category in India are among the most privileged sections of the population. Their earnings ought not to be treated as "wages". The rate of return they enjoy on the social investments made on them during their student days and during their days of active professorship are indeed very high. I shall say more. I shall say most professors in India take from their society much more than they give back to it. As such professors do not deserve to escape the wrath of an armed revolution if indeed one takes place.

(2) A K Dasgupta frowns upon me as one who would "talk about 'armed insurrection' so long as he is sheltered and nourished by the society which he wants others to destroy". This is an insinuation and is based upon a whole lot of presumptions. But what is the ethical basis for this condemnation? If a person is sheltered and nourished by society, as all members of all privileged sections of the society are, does A K Dasgupta's ethics demand that he should for that reason not seek change or destruction of the social order if change or destruction would be his recommendation if he could carry out an impersonal social analysis? Would he not by that token reveal himself as an opportunist, a time-server, a self-seeker, one who supports the social order just because he is nourished and sheltered by it, irrespective of the fact that millions of others are jobless and starving?

(3) I cannot contest A K Dasgupta's feelings about what I feel in my bones. He thinks I feel secure and safe because I do not really believe that there will be an insurrection whereas he warns me that I and my class will have to pay a penalty. But is personal safety endangered only by insurrections? We in West Bengal have passed through and are still passing through some very difficult times. The 'law and order situation', to use the bland phrase of government spokesmen, has been far from good. We who live in West Bengal have to constantly rub shoulders with assassins in various disguises including that of the police. A K Dasgupta thinks that it is a hobby and a private entertainment for persons in my situation to indulge in literary exhortations to armed revolution. But if he knew conditions in West Bengal better, he would know that such a hobby and such entertainment cannot at all be free of dangers. Guerillas of the extreme Left are often notoriously intolerant of differences of opinion and have often been too ready to mistake friends for foes. As to the paramilitary youth organisations of the Congress that are today ensuring "law and order" in different parts of West Bengal, if Dasgupta does not know about their depredations he has only to visit such areas as Baranagar, where after the systematic and organised killing of more than a hundred Naxalites in one single day, CPM supporters and active cadres are being forced to evacuate their areas in hundreds. Living amongst such terrors, intellectual luxury does not consist in holding strong political views of any kind, let alone the view that the social order deserves to be destroyed. Intellectuals are called upon by these circumstances to become non-committal, to lower their criticism of the social order or of the ruling power, to become implicitly if not explicitly supporters of the *status quo* that shelters them and nurtures them.

(4) Why, after all, spend so much valuable EPW printing space by discussing hobbies of any individual professor, whether dangerous or otherwise? Why does A K Dasgupta not pay attention to the basic premise of my arguments? Let him ridicule literary exhortations to revolutions; but what does he say about my premise, namely, that nothing can be done to remove poverty and unemployment in the country in general and in West Bengal in particular through any legislation measures that the Parliament or the Assemblies can adopt? One has heard a lot about poverty and unemployment being finally abolished by the brave and progressive Indira Gandhi; but one has not seen any set of economic calculations that show how and by using what policy instruments or plan strategy this result will be brought about. To be remembered in this connection is that the policy instruments, plan strategy, etc, must be such as to be acceptable to the class interests that are supporting the power structure of Indira Gandhi. The faithful and the professional optimists keep on saying that she must be allowed some more time to consolidate her powers so that she can bring about a major social revolution in the country without a political revolution. But the open eyed non-faithful cannot fail to notice that even after her massive electoral victory the state Chief Ministers did not have any difficulty in scuttling the proposal to lower wheat prices; and that crucial conference was marked by the conspicuous failure of the Prime Minister to show up.

Anyway, this is an empirical matter, and I would claim that I have not sacrificed rational thought processes at the altar of any dogmas. If indeed it can be demonstrated by any economist — A K Dasgupta knows that no such demonstration has been made up till now — that poverty and unemployment can be abolished by the use of some sort of measures which the government can implement, or if Dasgupta can point out to me such measures getting actually implemented, I undertake once for all to give up making literary exhortations for revolution. But if it does not, if Dasgupta cannot show me any blueprint as to what can be done to stop this process of the rich getting richer and the poor getting poorer, or point out to any changes actually taking place that promise a human factor to the millions of this country, what would he, as a liberal intellectual, exhort fellow intellectuals to do?

ASHOK RUDRA

Unemployment in the Fourth Plan

Some Estimates

K L Bagal

THE Fourth Plan, ostensibly on the advice of the Committee of Experts on Unemployment (known as the Dantwala Committee), refrained from giving any estimate of the back-log of unemployment. The Planning Commission's decision to block whatever crude information on unemployment that was so far available through the Plan documents was questionable, even after conceding that the presence of self-employment and under-employment in a predominantly agricultural society does make a simple uni-dimensional definition of unemployment rather difficult. Nevertheless, in the absence of refined data, the cruder unemployment estimates furnished by the Planning Commission were serving a useful purpose of highlighting the magnitude of the unemployment problem.

It is against this background that an attempt is made here to estimate the magnitude of unemployment in the Fourth Plan, on the basis of available official statistics. Sectoral investment-employment ratios, which could have a bearing on policies for alleviating unemployment, are also estimated for the Fourth Plan. The magnitude of unemployment and the estimate of creation of new job opportunities in each of the three Plan periods and during the three annual plans from 1966 to 1969 are available from official statistics and are given in Table 1.

It is of interest to relate the official estimates of unemployment given in Table 1 to the investment effort made in each successive Plan period. The total fixed investment, in the public and private sectors, nearly trebled from Rs 3,100 crores in the First Plan to about Rs 10,400 crores in the Third Plan. Assuming that the proposed investment of Rs 22,635 crores in the Fourth Plan materialises by 1974, the total fixed investment in the economy would increase by about eight times in 1974 as compared to 1951.

Table 2 gives the estimates of investment-employment ratios for the economy and for organised industry and mining in each Plan period. It is evident from the data that the investment required to employ an additional person has risen steeply from Plan to Plan. The investment cost of employing one more person in the economy had gone up in the Third Plan by about 62 per cent as compared to that in the First Plan. One reason for this state of affairs was the general rise in prices which raised the cost of investment in terms of money. Secondly, the deliberate pursuit of a Plan strategy with a bias for heavy industries, requiring larger doses of capital investment, raised the proportion of investment needed for employing an additional person in each Plan.

The proportion of total fixed investment in organised industry and mining — in the public and the private sectors — to total investment in the Five-Year Plans has progressively risen from about 11 per cent in the First Plan to about 25 per cent in the Third Plan. The employment potential of investment in organised industry and mining has, however, remained relatively poor over these years, principally because of the capital-intensive nature of the projects. The total additional employment generated in organised industry and mining aggregates just about 1.94 million in the first three Plans.

In this context, it is argued that the growth of the tertiary sector, comprising such activities as construction, transport, roads and services, depends on the expansion of organised industry and, therefore, employment creation in this sector is partly the result of investment made in organised industry. Data relating to employment generated in the tertiary sector is available only for the Third Plan (for the organised units in this sector). These are presented in Table 3. The data suggest that additional employment to nearly 2.70 million persons was provided by investment in the tertiary sector during the Third Plan, giving an investment-employment ratio 1:19437 for this sector.

Assuming that there would be no significant structural change in the investment in the different sectors, the investment-employment ratio can be assumed to increase by nearly 30 per cent in the Fourth Plan over the Third Plan to allow for the increase in the general price level. Thus, it can be estimated that investment required to employ an additional person would be Rs 9,324 in the Fourth Plan, which is about 110 per cent higher than in the First Plan. Applying this ratio to the total investment in the Fourth Plan, it is possible to estimate the total employment generation in the Fourth Plan,

TABLE 1

(million)

	First Plan	Second Plan	Third Plan	Annual Plans (1966-69)
(1) New entrants to the labour force, including back-log	12.3	17.1	24.1	21.6
(2) Additional employment likely to have been generated	7.0	10.0	14.5	11.0
(3) Back-log of unemployment at the end of each Plan (1)—(2)	5.3	7.1	9.6	10.6

Source: (i) "Trends in Employment Growth in the Factory Sector in India: 1951-68", *RBI Bulletin*, July 1971.
(ii) Report of the Study Group on Employment and Training, National Commission on Labour, New Delhi, 1969.

TABLE 2

	First Plan (1951-56)	Second Plan (1956-61)	Third Plan (1961-66)	Annual Plans (1966-69)
(1) Investment-employment ratio in the economy	1:4429	1:6750	1:7172	1:6023
(2) Investment-employment ratio in organised industry and mining	1:13625	1:21316	1:27340	—

Sources: (1) Trends in Employment Growth in the Factory Sector in India: 1951-68, *RBI Bulletin*, July 1971.
(2) Report of the Study Group on Employment and Training, National Commission on Labour, New Delhi.
(3) Second Five-Year Plan, Third Five-Year Plan.
(4) Economic Survey, Government of India, 1970-71.

TABLE 3

	Third Plan (1961-66)	Fourth Plan (1969-74)
(1) Primary Sector		
(a) Investment (Rs million)	23830	51590
(b) Additional employment (million)	10.90	18.14
(c) Investment-employment ratio	1:2186	1:2842
(2) Secondary Sector		
(a) Investment (Rs million)	27700	56980
(b) Additional employment* (million)	0.94	1.48
(c) Investment-employment ratio	1:29468	1:38308
(3) Tertiary Sector		
(a) Investment (Rs million)	52480	117780
(b) Additional employment* (million)	1.70	4.66
(c) Investment-employment ratio	1:19437	1:25268
(4) Total		
(a) Investment (Rs million)	104000	226350
(b) Additional employment (million)	14.50	24.28
(c) Investment-employment ratio	1:7172	1:9324

* Figures under these heads relate to only organised sector, i e, all establishments in the public sector and non-agricultural establishments in the private sector employing 25 or more workers upto 1966 and 10 or more workers thereafter. Figures under primary sector would thus cover employment in agriculture, household establishments, and the self-employed.

Sources: (i) Third and Fourth Five-Year Plans.
(ii) Indian Labour Statistics, 1970, Table 2.14.
(iii) Report of the Study Group on Employment and Training, National Commission on Labour, New Delhi, 1969.

which amounts to roughly 24 million as shown in Table 3. In a similar fashion investment-employment ratios for various sectors could be estimated for the Fourth Plan and thus the likely employment opportunities generated in these sectors. The estimates worked in Table 3 show that the organised units in the secondary and tertiary sectors would generate about 6 million new jobs in the Fourth Plan.

Another way of estimating total employment or unemployment in the Fourth Plan is through projections of the items given in Table 1. Table 4 gives the estimates of employment generation and unemployment in the Fourth Plan by this method. The Expert Committee set up by the Planning Commission for population projections under the chairmanship of the Registrar-General has assumed that the labour force is likely to grow at the rate of 5.5 million per year during 1971-76.

TABLE 4

(in million)

	Fourth Plan (1969-1974)
(1) New entrants to the labour force including back-log	38.2
(2) Additional employment likely to be generated	20.9
(3) Back-log of unemployment at the end of the Plan (1—2)	17.3

Taking this assumption to hold true for the Fourth Plan period, the total labour force seeking employment in the Fourth Plan would amount to nearly 38 million (including 10.6 million back-log of unemployed from the previous three Annual Plans). Assuming again that the pace of generation of new employment opportunities will be the same as that between the First Plan-Second Plan and Second Plan-Third Plan, it is reasonable to expect that fresh employment opportunities of about 21 million will be generated in the Fourth Plan. According to this estimate, at the end of the Fourth Plan as many as 17 million people are likely to remain unemployed.

It is interesting to find a close agreement between the figures of total unemployment and unemployment creation in the Fourth Plan derived by two different methods. It, therefore, appears that employment would increase by about 21-24 million in the Fourth Plan, organised units in the secondary and tertiary sectors contributing only 6 million new jobs. By the end of the Fourth Plan about 14-17 million people are likely to be unemployed. However, our underlying assumption, that the Fourth Plan investment targets will be fulfilled, appears unrealistic from the experience of the first two years of the Plan. It is not unlikely that only about 75 per cent of the planned investment would take place during the Plan. If this comes about, the investment-employment ratio for the Plan gives us a figure of only about 18 million new job opportunities, emphasising the poor employment potential of the Plan.

There is not much scope for re-allocation of investment among various sectors in such a way as to enhance the employment potential of the Fourth Plan. Only if a major chunk of Plan investment is diverted to the primary sector, where it appears that the investment-cost of employing an additional person is relatively low, can enough jobs be created within a five-year period to absorb the work-seeking labour force. Such a Plan, where there is investment only in the primary sector at the cost of investment in the secondary and tertiary sectors, is an unrealistic proposition if along with employment other economic goals are also to be simultaneously achieved.

If the tempo of industrialisation is to maintained, it is obvious that each Plan will have to apportion an increasing segment of total available investible resources to industry. Thus, the proportion of investible resources devoted to organised industry and mining aggregate roughly around 25 per cent of the total investible resources in the Third and the Fourth Plans. Any reduction in the proportion of resources devoted to this sector and the tertiary sector is likely to lead to distortions in industrial progress, with its repercussion in the form of slowing down of the growth of the economy. It is, therefore, reasonable to suggest that in a five-year Plan there is not much scope for re-allocation of resources between the various sectors so as to increase the employment-potential of the overall Plan.

Thus, despite employment being a major objective of planning, the back-log of unemployment at the end of each each Plan had progressively swelled from 5-7 million at the end of the First and Second Plans to around 10 million at the end of the Third. Our estimates for the Fourth Plan once again show that at the end of the Fourth Plan unemployment is likely to increase to a staggering figure of nearly 20 million (assuming that only 75 per cent of the planned investment materialises). This brings into sharp focus the inadequacy of the instrument of short-term development plans for achieving one of the principal objectives of economic development, namely, provision of employment opportunities for all those seeking work. The problem of unemployment can be tackled only through a long-term perspective plan with specific schemes designed to create additional employment opportunities.

CAPITAL VIEW

The Ceiling Is the Sky

Romesh Thapar

THE new *mantra* of the Indian revolution is the word 'ceiling', not nationalisation. Commitments to ceilings is a commitment to all that is pure and enlightened in progressivism. The whole concept began to crystallise with the persistent demand from the affluent for a ceiling on babies. Playing our traditional tit-for-tat games, we have now unleashed a nation-wide scramble for ceilings of all description. By the time we finish the exercise, we'll all be content to do nothing for fear of infringing one ceiling or another.

The young Turks, the old Turks, the soft-headed and the hard-headed, the *badmashes*, the new radicals, the sold-out Left and the violent Left, the revivalists, the Council of Ministers, the puerile planners, the cup-bearers and the Prime Minister herself, surrounded by her experts, are on the brink of a collective achievement which was once thought quite impossible — a contented society, under 'ceilings', with a near-zero rate of growth.

The only way to avoid this rather depressing end-result is to take over the whole system, lock, stock and and barrel, and put everyone on fixed wages — or . . .

But seriously, wherever one goes in the Capital the debate is earnestly joined on ceilings. Surprisingly, there is a fair degree of understanding in middle class circles about the pressures which are building for a more egalitarian way of life. Apart from a few dunderheads who seem to think that the old master-helot relationship could have continued were it not for "that woman", the main thrust of the debate is to understand how in a free-for-all democracy and a very mixed-up economy one should operate, ceilings *et al*.

A total view is needed. We cannot play with the question of land and submit to manipulation from lobbies. The concept of an optimum size farm, personally irrigated or otherwise, increasingly brought under machines specially designed to serve the specific size and specific soil, supported by seed, fertiliser and marketing services, is nowhere near being worked out. Continentally, there will be the inevitable variations, but the yardsticks of measurement have to be settled. At the moment, to cite only one example, we have the spectacle of farms getting smaller and tractors getting bigger — and no tractor stations for servicing. Probably, the optimum is lower than the 10-18 acres envisaged, but the work-out has not been done.

Haphazard or pressurised thinking on land ceilings and procurement prices, which changes from day to day, could create the kind of uncertainties in rural India which might disrupt the agricultural revolution on which so much of our present day political bombast is based. These critical issues are sought to be settled at hurriedly called one-hour meetings of sub-committees of the Cabinet. It's an unnerving thought that we are at the mercy of this sort of insant thinking, particularly at a time when casual or off-the-cuff comments by the Prime Minister become gospel for her team of ministers.

The whole point of the ceilings demand is to get at surplus land for the landless. Judging from the way the debate sways to and fro, we have lost sight of our objective. Bits and pieces of surplus land here and there will become available, but the resettling of this surplus will present massive problems — even though the conviction persists that the loopholes will be many, what with double-cropping hardly practised and village records in utter confusion. The truth is that no one has done a total exercise. As for the old war cry, "Land to the Tiller", it is not heard.

The response of the rural rich to the ceiling threat was to demand a similar ceiling on urban property. Here, too, the same kind of muddled thinking prevails. There is no attempt to differentiate between those who occupy their own living space and those who rent out space. The blanket ceiling concept obsesses, although suitably graded taxes would compel a surrender of property by landlords. Even black-money deals could be curbed by actions to take over properties at registered values. We talk a great deal, but seldom act. It's an old *deshi* custom.

There are so many easier ways to get at the extraordinary profiteering in land values. Because we do not adopt them, suspicion spreads that the ceilings rumpus is a convenient radical cover for a measure which it will be possible to side-track by bribery and corruption. Once again, the honest will suffer and the crooked prosper. This is the fatal hallmark of Congress progressivism during these last 25 years. How long will the people be content with this brand of radicalism.

And now some enthusiastic politicians, with an eye on *gharibi hataoism*, that infallible compass of present-day thinking in the Capital, have decided to push for a ceiling on incomes. Probably, they've been impressed by our ministers, forgetting that they have tiny incomes but elaborate free services. There's nothing wrong in legislating the base and summit of income in an egalitarian society, but the conviction must exist that there are no hidden benefits available to those in power or on the side of those in power. What's more, a clean-up of black-money, and its sources, is a prerequisite.

Anyone viewing the national scene cannot be unaware of the parallel black money economy at every level of society; indeed, it is believed by most economists that in quantum the black money is equal to the white. It is also clear that where black money is active corruption is also assertive. Seldom have we known corruption on the scale at which it flourishes today. Flourishes, did I say? Yes, it flourishes, because it is patronised — and very often by the most powerful in the land, within government and outside. And there is no ceiling on it.

And, by the way, what's going to happen to the prosperous owners of industrial and commercial units? Are we thinking of ceilings for them, too? They might be persuaded. After all ceilings is an easier pill to swallow than nationalisation, particularly if conversion to commercial purposes is permitted. Or is the entire exercise on ceilings, a subtle stratagem to push all resources into uncontrolled commerce and industry, the Monopoly Commission notwithstanding?

The present euphoria which has succeeded in making "ceilings the sky" will have to be disciplined by the Prime Minister herself in her own interest. Irrelevant economics can topple the most stable of the State Governments. Tragically, radical solutions will fail and retreat because those who espoused them refused to do their homework. Lazy louts cannot lead revolutions. And that goes for the Indian revolution.

Indira Gandhi has played her cards without adequate préparation. More thought was called for. The attempt to salvage the play will be complex and costly, but it will have to be made. A mass line is urgently needed. It will have to be sought in a more prepared and thorough manner. We have the expertise, but it has to be mobilised — hopefully at a reorganised Planning Commission, and soon.

May 8

COMPANIES

Multi-Pronged Expansion

Hansavivek

DHARAMSI MORARJI CHEMICAL has secured 'letters of intent' for annual production of 1,750 tonnes of sodium silico fluoride, 1,550 tonnes of aluminium fluoride, 700 tonnes of sodium fluoride, 550 tonnes of activated silica, 16,500 tonnes of stabilised sulphur trioxide and 8,250 tonnes of liquid sulphur dioxide. The proposal to increase capaciity of the alumina sulphate plant at the Kumhari works from 16,764 tonnes to 33,528 tonnes per annum has also been approved by government. Steps are being taken to implement all these projects expeditiously. Industrial licence for the di-ammonium phosphate project was received in August, but much headway could not be made owing to certain objections raised by the City and Industrial Development Corporation of Maharashtra (CIDCO) in regard to its location at Sheva on grounds of the pollution potential of the project. This project is to be implemented under a separate public company. The sulfamic acid plant and the expanded chlorosulphonic acid plant at Ambernath went into commercial production last year.

Last year, DMC produced 2.04 lakh tonnes of fertilisers and 2.15 lakh tonnes of inorganic chemicals against the licensed capacities of 1.75 lakh tonnes and 2.43 lakh tonnes, respectively. Production rose by over 24 per cent to reach a new peak in the company's 52-year career. Turnover advanced by 27 per cent and gross profit by as much as 75 per cent. The cover for the maintained dividend of 20 per cent more than doubled at 3.48 times. DMC is one of the largest exporters of inorganic chemicals in the country. It is now striving to penetrate into the developed countries. Pratapsinh R Morarji, chairman, is confident that the company will be able to make a successful beginning with its sulfamic acid, the quality of which is comparable to international standards. As a result of the studies undertaken by the research and development wing, DMC has been able to work out a recovery system to extract fluorine from the tail gases of its fertiliser plant and convert them into cryolite and aluminium fluoride, both of which are of importance to the aluminium industry. The company has also been issued a 'letter of intent' to manufacture these products on a commercial scale as also sulphur dioxide and stabilised sulphur tri-oxide, for which too processes have been developed. Research facilities have been expanded to cater to assist genuine entrepreneurs in developing new product-lines on a laboratory scale.

With the relaxation in government policy, permitting some 54 industries to step up production to the extent of 100 per cent of their licensed capacities, DMC will be able to increase production in some of its major products. The company has not sought any registration under the MRTP Act as it believes that it does not come within the definition of a 'dominant undertaking'.

CEAT TYRES OF INDIA takes pride in having completed its expansion earlier than all the other tyre manufacturers who were granted 'letters of intent' in 1968. The company had completed expansion of capacity from 4 lakh automobile tyres and tubes each to 6.48 lakh tyres and tubes each by June last and the expanded plant had begun to operate at full capacity by the last quarter of 1971. During 1971 production of automotive tyres and tubes was 7.25 lakhs and 6.23 lakhs against 3.70 lakhs and 3.45 lakhs, respectively, in the previous year when not only was the plant operated at its old capacity but the company had also to contend with a 4-month strike. The company is now seeking a new industrial licence for the manufacture of 4 lakh tyres and tubes each at a new plant intended to be located in an underdeveloped area. Meanwhile, satisfactory progress is being made in implementing the bicycle tyre plant at Nasik, which is expected to go on stream by the last quarter of this year.

The company complains that the renewal of the technical assistance agreement with CEAT International has still not been approved by government, although the matter has been pending since 1969. The collaborators, however, continue to provide the Indian company with the benefits of the latest technological developments in the tyre industry. CEAT's 1971 results show substantial all-round advance over the preceding year. Dividend stepped up 4 points to 15 per cent is covered 2.24 times against 1.21 times. Exports reached a new peak of over Rs 209 lakhs from the previous year's Rs 83 lakhs and the company maintained its position as the second largest exporter in the automotive tyre industry. It has more than fulfilled the export obligation imposed by government at the time of granting the expansion licence.

BHARAT COMMERCE has had a very poor year to December last, when its gross profit was halved though net sales declined by only 2.5 per cent. This outcome is ascribed to shortage of raw materials, particularly staple fibre, slack offtake of blended yarns and increase in cost of production. All the four plants worked below capacity following stoppage of supplies of staple fibre because of the closure of the wood pulp plant of the largest manufacturer on account of a prolonged strike. About half of the spindles of the Rajpura unit were switched to cotton. For the first time in several years, a certain degree of consumer resistance developed for blended fabrics because of its high cost. While the cost of polyester fibre is only about Rs 20 per kg, it has to bear an excise burden ranging from Rs 28 to Rs 34 per kg (depending upon deniers) and furthermore a duty ranging from Rs 8-14 per kg on blended yarns. Last year, excise duty was imposed at 10 per cent *ad valorem* at the stage of processing of blended fabrics, and this year the burden has been increased still further. The company intends to take up aerial spraying work, and is making an application for importing two helicopters and one fixed-wing aircraft. Last year, helicopter operations were limited to patrolling Oil India's Assam pipeline. The agreement with Oil India has been extended for another two years. The engineering establishment at Dumdum airport was shifted to Gauhati. The company's request to shift the registered office from West Bengal to Delhi has been rejected by the Calcutta High

Court. An appeal has been filed and the result is awaited.

INDIAN VEGETABLE PRODUCTS experienced a sharp contraction of margins during the 15 months ended December last owing mainly to "substantial losses" incurred in the vanaspati division as a result of increasing costs of oil and tin containers and processing charges, which could not be recovered under the "unrealistic" price formula fixed by government. The directors complain that representations were made and that although certain recommendations have been made by the tariff commission, government has not taken any decision in the matter. In the meantime, the industry is obliged to continue supply of vanaspati at prices "that do not cover actual costs". In these conditions what has helped the company is the production of chemical and chemical products. It is hoped that in the coming years these divisions will become more firmly established and bring increasing returns. The position in regard to vanaspati has further deteriorated. As a result of the government's policy of de-licensing, a number of new vanaspati factories have come into existence and the overall productive capacity has become "far in excess" of the actual demand. This has created very competitive conditions in the market and rendered price control "unnecessary".

AMAR DYE-CHEM is holding 'letters of intent' for the manufacture of rubber chemicals, toluene di isocyanate (TDI), hydrogen peroxide, etc, but finds it difficult to undertake the projects owing to the imposition of export obligations by government — ranging between 10 and 40 per cent. Some of the company's expansion programmes for reactive dyes, pigments and optical brighteners have also been delayed for the same reason. A K Doshi, chairman, considers it "hazardous" to undertake any long-range export obligations, for, according to him, conditions in the international market are constantly changing and consumers in the advanced countries are using more and more sophisticated items. The company's proposed collaborators for the rubber chemicals project have also refused to accept "several conditions" imposed by government. The company would therefore further negotiate with government before undertaking any of the projects. Owing to slackness of demand in the home market, however, ADC preferred last year to step up exports from Rs 29 lakhs to Rs 56 lakhs.

Documentation Centre

THE Documentation Centre-cum-Reference Library of the Vaikunthbhai Mehta Smarak Trust has been publishing a quarterly Documentation Bulletin since October 1970. The Centre aspires to help existing and potential entrepreneurs, village craftsmen, artisans, small businessmen and industrialists and various organisations and associations all over India, research scholars and students in pursuance of their specialised study of the small-scale industries sector by functioning as a central bureau where factual, economic, commercial, technical and historical information on the decentralised sector would be available. The Documentation Bulletin seeks to bring together information on small-scale industries from a wide range of sources. The latest issue of the Bulletin, that for April 1972, contains information collected from such diverse sources as the Ministry of International Trade and Industry, Japan, the Organisation of Economic Co-operation and Development, Paris, the United Nations International Development Organisation, the Regional Research Laboratory, Jorhat, and the Small Industries Service Institute, Hyderabad. The topics covered range from materials testing, workshop practice and packaging and despatch and a large number of specific industries. For convenience of reference each issue of the Bulletin has an index listing the contents by both title and author.

The Week's Companies

(Rs in Lakhs)

	Dharamsi Chemical		Ceat Tyres		Bharat Commerce		IVP	
	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 31-12-71	Last Year 31-12-70	Latest Year° 31-12-71	Last Year 30-9-70
Paid-up capital	127	127	304	304	200	200	29	29
Reserves	290	224	408	304	147	157	34	33
Borrowings	8	17	436	436	284	242	71	36
of which Term borrowings	8	17	212	144	8	3	—	—
Gross fixed assets	480	455	826	502	814	759	79	61
Net fixed assets	182	187	508	394	422	413	39	31
Investments	36	36	—	—	2	2	—	1
Current liabilities	212	270	458	303	231	276	46	47
Current assets	419	417	1097	952	438	459	141	113
Stocks	264	242	433	502	296	264	74	44
Book debts	151	168	481	327	125	180	64	57
Net sales	1082	851	2228	1215	1699	1742	709	583
Other income	33	23	47	27	50	52	1	1
Raw material costs	482	404	1477	828	1180	1179	537	454
Wages	108	96	208	130	261	262	34	27
Interest	12	15	41	21	42	30	9	4
Gross profit(+)/loss(—)	236	135	329	118	64	127	16	24
Depreciation provision	35	35	65	32	53	54	7	4
Tax provision	110	54	127	41	—	37	5	12
Net profit(+)/loss(—)	91	46	137	45	11	36	4	8
Development rebate provision	4	3	34	5	5	4	1	1
Transfer to reserves	62	18	57	7	—17	12	—	2
Dividend								
Amount	25	25	46	33	E 18 P 5	E 15 P 5	5	5
Rate (per cent)	20	20	15	11	E 12 P 9&9.3	E 12 P 9&9.3	13.23	17
Cover (times)	3.48	1.72	2.24	1.21	—	1.80	0.60	1.40
Ratios (per cent)								
Gross profit/sales	21.81	15.86	14.76	9.72	3.76	7.29	2.26	4.12
Net profit/capital employed	21.42	12.50	11.06	4.31	1.76	6.01	3.00	8.16
Inventories/sales	24.39	28.43	19.43	41.35	17.42	15.15	10.43	7.55
Wages/sales	9.98	11.28	9.33	10.71	15.36	15.04	4.79	4.63

° 15 months.

FROM OUR CORRESPONDENTS

NEW DELHI

Land Ceiling Talked Out

THE kulak lobby has proved to be stronger and tougher than had been anticipated. It was widely believed, when the meeting of the Central Land Reforms Committee was convened to clarify the position in regard to the application of the ceiling on lands irrigated from private sources, that it would be persuaded to agree to the inclusion of such land within the scope of the ceiling. This was seen as the only way out because of the clear commitment to lowering the land ceiling in the ruling party's election manifesto and the strong objections raised by the radicals in the party to any dilution of this commitment. Indeed, the idea was given currency that the issue had been settled by the central leadership even before the committee had met and that the committee would meet merely to endorse this decision. The absence of the Tamil Nadu Minister from the meeting, on the ground that the Union Government had already taken a decision on the issue before the committee had even met, strengthened this impression. But this was not how things worked out.

Same Party

The two-day meeting of the committee which, in the absence of the Tamil Nadu Minister, was composed entirely of Chief Ministers belonging to the Congress party ended with the decision to refer the controversial question of ceiling on lands irrigated from private sources to a fuller meeting of the Chief Ministers at the time of the National Development Council towards the end of this month. Whatever the upshot of the proposed consideration of the issue at the full meeting of Chief Ministers, it is clear that anything like a radical land reform which will result in a substantial area of land being declared surplus and its acquisition by government and redistribution among the landless and the very small landowners has already been scuttled.

As at the time of consideration of the Agricultural Prices Commission's report on Rabi prices, the Union Agriculture Minister once again let the initiative pass entirely into the hands of the Chief Ministers. His principal anxiety in convening the meeting of the committee appeared to have been to get a certificate from it absolving him and his Ministry of the charge of distorting the committee's recommendations with regard to different categories of irrigated land. He did not seem to be concerned with a decision on any of the substantive issues in dispute. He was readily granted the whitewashing he sought and the Chief Ministers graciously accepted that the consensus among them was in accordance with the wording of the annual report of the Ministry which made a pointed distinction between irrigation from government sources and that from private sources. Having obtained this certificate, he did not ask for more.

That no serious lowering of the ceiling and acquisition of a significant amount of surplus land was in view was clear from the way the issues were posed. Besides the question of the uncalled for distinction between land irrigated from government sources and from private sources, on which much of the controversy had been raging, the other major issue on which the Chief Ministers could give their judgment later this month relates to the date from which the new ceiling law should have retrospective effect. Meanwhile, hints were dropped that prevention of transfers and sales would not be easy and that the question was still a subject of consultation between the Agriculture Ministry and the Law Ministry. In a Press briefing after the meeting of the Committee a spokesman of the Agriculture Ministry emphasised the complexity of the problem of irrigated land and its proper definition. After all, he argued, it would be wrong to say that all the different private sources of irrigation, which include tube-wells, ordinary wells, tanks and lift irrigation, could be treated as uniform. In alluvial soils, irrigation from private sources could raise two crops whereas this was not possible in desert and rocky regions. Thus the definition of perennial irrigation and the stipulation about irrigation capable of growing two crops will leave sufficient room for manoeuvre to get round any set ceiling concept.

Tailpiece: In the midst of the controversy over land ceiling, reports on the Indo-Soviet Trade protocol gave much prominence to the import of 5,000 heavy tractors from the Soviet Union during the current year. For whose benefit are these tractors if a ceiling ranging between 10 and 18 acres is really intended to be imposed?

*

Import Substitution in Reverse

POWERFUL pressures are being built up in support of import of power generating plant and equipment. Coming on the heels of larger imports of steel, because of shortfalls in production, and the recent decision to increase import of petroleum products because of the lags in development of refinery capacity and the increases in the prices of crude imported by the foreign oil companies for their refineries, the demand for liberalising import of plant and equipment for the power programme in the Fifth Plan is significant. If import requirements get pushed up in this manner, the Planning Commission's estimate in the Mid-Term Appraisal of the Fourth Plan that in fact the Plan would need larger foreign aid than was stipulated at the beginning might turn out to have been accurate. It will be recalled that the Planning Commission had come in for strong criticism for what was termed a defeatist attitude to the prospects of self-reliance.

The campaign for import of plant and equipment for power generation has been launched by the Irrigation and Power Ministry's outline of the power development programme for 1972-77 which will more or else coincide with the Fifth Plan. Apart from the Ministry, the main proponents of the plea for import of plant and equipment for implementing the proposed power programme are the State Electricity Boards. The contention put forward is that installed generating capacity had reached only 17.7 mn KW by March 1972 whereas the target for March 1974 set in the Fourth Plan is 23 mn KW. It is estimated that generation capacity actually built in the Fourth Plan will be lower than this target by about 2 mn KW. The proposed five-year programme for 1972-77 envisages expansion of generating capacity to 35 mn KW by 1975 or a net addition of 17.3 mn KW during the five years. This is considered the absolute minimum if a power famine is to be avoided in the coming years.

The present power shortages in several parts of the country are enough to underscore the need for an accele-



rated power generation programme. In this context, doubts have been raised about the capability of indigenous manufacturers, principally HE(I)L and BHEL, to supply the required plant and equipment. Taking their cue from this, State Electricity Boards and other interested parties have begun to argue that quite apart from the inability of the indigenous manufacturers to provide the generators within the stipulated time, their costs were also higher compared to those of imported sets. In any case, it is argued, the foreign exchange outgo will not be very large since the import content of the indigenous sets is insignificant. Further, since there is a buyers' market in plant and equipment for electricity generation, they can be imported on very advantageous price and credit terms. The managements of HE(I)L and BHEL have protested against the proposal to import generators which they are in a position to supply. But how far their objections will prevail it is difficult to say.

An important point in the controversy, which is likely to gather momentum in the coming months, is that at no stage has the power programme shown shortfalls because of shortage of funds or non-availability of plant and equipment, be it indigenous or imported. The shortfalls can be traced primarily to the absence of necessary advance preparation of projects and, following from that, to delays in their execution by the project authorities, mainly the Electricity Boards. To raise a controversy between indigenous and imported generators would thus appear to be misplaced.

MINERALS

Flashes of Enthusiasm

Magnus

LARGE parts of the text of the latest annual report of the Department of Mines are lifted bodily from last year's report, with only the figures changed as required. Nonetheless, the report is not as drearily pedestrian as might be feared. There are flashes of enthusiasm, an awareness (in words, if not in action) of the importance of minerals and metals to the national economy, and even some pieces of good news. The introduction discloses that the contribution of the mineral sector to national income increased from Rs 470 crores in the first Plan to Rs 969 crores in the Third. This is probably an underestimate.

The Department's main preoccupations are coal and iron ore. Coal has been the despair of our industrial scene for many years. It represents, as it were, both the cause and the effect of the poor performance in many other areas. During 1971-72 coal output declined for the second successive year, from 74 to 68 mn tonnes. Poor wagon availability is blamed for this. The National Coal Development Corporation produced 14 mn tonnes (against a target of 16.3 mn tonnes) and suffered a loss. Its collieries have probably the longest gestation periods ever heard of in the mining industry: for Sudamdih and Monidih, completion dates are still a comfortable 5 to 7 years ahead, and the Corporation has not even bothered to change its achievement percentage figures from last year. At Silewara, in the Kamptee coalfield, production is expected in 1976-77 and the Maharashtra State Electricity Board is known to be worried because its new thermal plants will be ready much earlier. NCDC's coal washeries at Gidi, Kathara and Swang can only be described as misconceived, for while the last two work at 25 per cent capacity, the first had to discontinue even its trial runs because there is no market for the washed product. Surely some thought was given to marketing before building all this (3.8 mm tonnes) capacity, and surely it is not too late to find markets for a perfectly usable commodity?

Iron ore exports and the NMDC are not doing too badly. Due to delays in commissioning Bokaro, all mining at Kiriburu was suspended in December 1971, because it had completed its export commitments. It is hoped that Kiriburu, as well as the other major projects, will reach full production in the next few months. A good deal of attention seems at last to be given to pelletising plants in various areas to utilise ore-fines which are otherwise lost permanently.

Brave Words

Copper and aluminium in the public sector continue their slow creep towards production. Bharat Aluminium's progress is in very sharp contrast to that of the private sector companies; if the practice of cancelling industrial licences for insufficient progress in a given number of years were to apply to the public sector, Bharat Aluminium and Hindustan Copper would have been dead long ago. A peculiar point about the Khetri project is that, according to figures given in the Departmen's report, the two main shafts are further away from completion than they were last year! Khetri's financial estimates have gone up from Rs 94 crores to Rs 120 crores, including a foreign exchange component equivalent of Rs 24 crores. Hindustan Copper has been entrusted with the management of the recently-acquired Indian Copper Corporation. In identical paragraphs in two parts of the report, this is hailed as "very significant step (which) will enable step up of production on a priority basis". Brave words.

The Kolar Gold Mines were transferred from the Ministry of Finance to the Ministry of Steel and Mines in 1971 and have been registered as Bharat Gold Mines. Apart from the gratuitous change of a time-hallowed name, it is doubtful if much can be changed in these mines in their final few years. Pyrites, Phosphates and Chemicals Ltd was transferred from this Ministry to the Ministry of Petroleum and Chemicals. Since the company produced only a little pyrites, no phosphates and no chemicals, this, again, makes little difference. The recent change in its top management may have some effect, however.

Hindustan Zinc and Manganese Ore India are two companies which show a refreshing contrast from others in their reports. Instead of giving a long list of excuses, they show a positive, action-oriented attitude. Both have sensible expansion schemes in hand and are performing much better in 1972 than in previous years. Hindustan Zinc recently announced that it would stop import of zinc concentrates from September, while Manganese Ore has sold all its production forward till June 1973. Both, incidentally were nationalised in the 1960s.

While the Geological Survey and Indian Bureau of Mines occupy several pages of the report with routine matters, there is strangely no mention of the proposed Mineral Exploration Corporation, which caused such excitement in geological circles last year. This body is to undertake all ore exploration from this year on a commercial basis, and its Chief, as well as its structure, were decided upon some time ago. The report is also silent on the significant expansion of rock-phosphate production, which has been saving considerable foreign exchange from 1971.

A noticeable change in the report is the reticence in giving financial results. It would not be out of place to give summarised annual accounts for each public corporation, but at least some figures should be mentioned in the Ministry's annual report. Reading between the lines one gathers that Neyveli, Singareni, NCDC and Hindustan Zinc made substantial losses, while MOIL made a profit. But one would like to know, for example, how the NMDC fared after it started charging ex-mine prices instead of f o b, what happened to NCDC's scandalously large stores inventories, and why Bharat Coking Coal made losses in 6 months when the same mines had showed a profit during the previous 6 months, as indicated in Parliament a week ago.

A matter which government should look into is that of public sector bodies blaming each other for their failures. Thus NCDC blames the railways for poor offtake, and Bharat Earth Movers and MAMC for delays in supply of equipment. (It also blames the market and the rains.) NMDC blames the railways, Heavy Engineering Corporation, National Projects Contruction Corporation and National Industrial Development Corporation. No doubt inter-departmental committees are set up frequently to go into these matters, but what it really amounts to is bad coordination.

A pronounced 'socialist' bias is discernible in the introduction to the report, as well as in the utterances and actions of the new Minister, Kumaramangalam. Strong links with Poland are likely to be forged in the mineral sector during the coming few months. Until performance in at least some public undertakings improves, however, it will be difficult to avoid scepticism. For an easy start, the Fuel Policy Committee could be bestirred to give its report which is already eight months overdue and which will, hopefully, decide the coal industry's future prospects.

DEFENCE

The More the Merrier

(From a Correspondent)

AN imaginatively written report on the Ministry's working should have added to the quality of this year's Lok Sabha debate on the Defence budget. Far from that, the debate produced little beyond the usual cliche thinking on the need for a higher R and D outlay and the need to keep the nuclear options open. And of course the platitudes about the "brave jawans" which like "India's teeming millions" is part of the debased political coinage.

Amidst the jingoistic rhetoric becoming only of big power chauvinism, it would have been low, if not high, treason to question the postulates of the defence budget which has steadily grown from Rs 280.94 crores in 1960-61 to Rs 1,408.36 crores in 1971-72 (revised estimates). There is so much new folk-lore being popularised by a powerful lobby in New Delhi which wants the rate of growth in defence expenditure to be not only kept up but increased so that by the end of this decade it touches the Rs 2,000-crore mark. It is even argued that the December 1971 war did not really cost the nation anything because the 1971-72 outlay of Rs 1,241.66 crores was decided upon when the Bangladesh crisis was not foreseen and the increase of Rs 169.31 crores in this year's budget represents a negligble rise in the capital account and is almost entirely in the revenue budget. The total cost of the operations in December last is computed at Rs 120-150 crores which, it is pointed out, is only a fraction of what we might have had to spend on the refugees had there been no war.

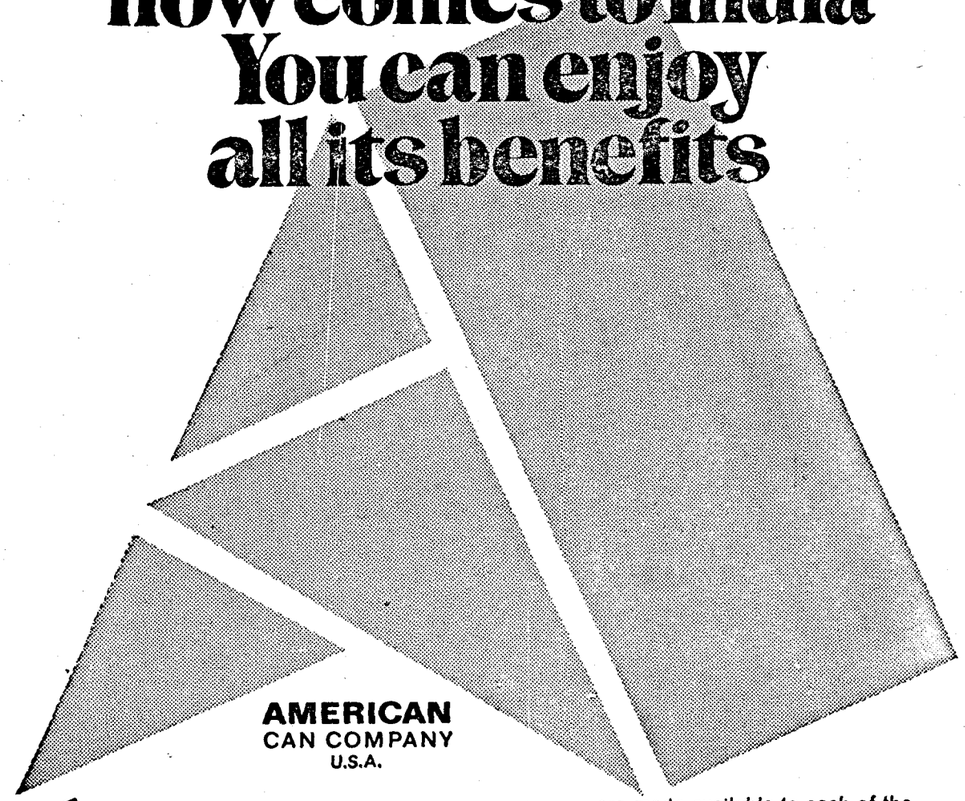
By all accounts, the framers of the Defence budget would like the nation to believe that a truncated Pakistan and the emergence of Bangladesh have not diminished the threat to India's security. Those who advocated a short and swift war to liberate Bangladesh last year were arguing, as late as October 1971, that once this was done a big part of the defence burden would be taken off India because a truncated Pakistan cannot be rearmed to its old military strength. With just China to confront, it was argued, India needed to spend much less because elimination of Pakistan as a military threat would act as a constraint on China. Since 1962 Indian defence and foreign policies proceeded on the assumption that a Sino-Pakistani collusion was a reality and the twin-threat to India was also real. China's enmity towards India was taken as an axiomatic truth though the *status quo* on the border has remained unchanged. (It would be well to remember here that while Pakistan has been in illegal occupation of 31,000 square miles since 1947, the area under Chinese occupation, according to Swaran Singh was 12,000 square miles before the 1962 war and another 2,500 square miles after that.) When the Indo-Soviet treaty was signed in August 1971, it was argued in some quarters that it would underwrite peace and stability in this subcontinent and to that extent relieve India of a good part of the defence burden.

But new-fangled theories are now advanced by the military establishment outside the government to justify a growing defence expenditure. The success of India's political model is supposed to pose an ideological challenge to countries in the neighbourhood especially in South and South-East Asia and therefore two major powers — United States and China, to wit — may try to operate against our national interests. It is also argued that the security problems of the countries around us are likely to interact with our own problems of national security. Intervention of these countries in countries within India's perimeter would pose a theat to India's security, to extend this argument.

All this assumes that India is already a big power and its defence perimeter lies one country deep beyond India's own national boundaries. The disclosure that India has begun selling arms to friendly neighbours and the implications of the Indo-Soviet treaty and the India-Bangladesh treaty makes the "big power" consciousness of the ruling elite rather obvious. The India-Bangladesh treaty, it has transpired, not only underwrites the security of Bangladesh against external threats but underwrites its internal stability, as demonstrated by the joint military operation against the Mizo and other tribal insurgents in the Chittagong Hill Tracts. The new threat perception is indeed revealing. Any threat to the left-of-centre politics of the Mujib regime or the Sirimavo Bandaranaike regime would interact with our own problems of national security. The proposal for a peace treaty with Nepal in the place of the one that lapsed in the 1960s has been revived in New Delhi as if to demonstrate that the Indo-Soviet treaty has not really aroused suspicions about India's intentions among smaller nations.

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everything short of exporting India's left-of-centre model with which the Soviet ideologues have been enchanted for a long time. Together with India's advocacy of an Asian peace plan which would include Soviet Union, claimed to be an Asian country, one of the super powers would enter the Asian peace system. All this plus India's high-profile defence posture would indeed arouse apprehensions among the neighbours. India was quick to respond to Ceylon's request for military aid and after that a Military Adviser has been permanently posted in the Ceylon High Commission in New Delhi. Nevertheless, Ceylon has felt it necessary to reappraise its stand on keeping the Indian Ocean a peace zone following the Indo-Soviet treaty and the Indo-Pakistan war.

In the next few years, the accent will shift from a quantitative expansion of the armed forces to sophistication, better mobility and better equipment. Already interested countries are busy putting across plans for the sale of submarines and for the manufacture of a strike aircraft for the 1980s. Meantime, the bogey of a joint Sino-Pakistani adventure, and of super-powers remilitarising Pakistan have to be kept alive to justify the huge defence budget which accounts for about a third of the total Central budget.

ASSAM

Historical Dispute

NAGALAND's claims to certain border forest reserves of Assam are currently being looked into by a senior Union Home Ministry official. The official is due to submit his recommendations this month. Till then, the *status quo* along the border is likely to be maintained. Presently, the official is engaged in studying the memoranda submitted by the governments of Assam and Nagaland. Both sides are awaiting his recommendations, probably hoping for the best. He is reported to be examining the issue from all angles — historical, constitutional, demographic and geopolitical. It is a difficult and delicate mission. Compromise is difficult too, especially as the Assam Government considers the Naga claims absurd. Sinha, Assam's Chief Minister, has openly declared that he will fight to the last for Assam's rights. The Union Home Ministry, however, has wide powers and, strengthened by the constitutional and political developments of the last few years, the Centre can impose its decision, if it so wishes.

The Centre intervened after serious clashes between Assam and Nagaland police including one in the Geleki reserve, where the Nagaland government had constructed a road and started preliminary work on a paper and pulp project. The Assam government initially lodged protests as it considered the reserve to be within the Sibsagar district of Assam. But the protests proved ineffective, and the Assam government ordered its police to resist Nagaland's encroachments. This led to a clash in which several policemen were injured and one Assam policeman lost his life. The Home Ministry's intervention eased the confrontation by persuading the two police forces to withdraw to safer distances on either side of the border.

Efforts to settle the problem on a bilateral basis between the Assam and Nagaland governments were made, some of them at the instance of their common Governor, B K Nehru. The Assam government feels that these efforts failed entirely due to Nagaland's uncompromising stand. But the Nagas say that about 5,000 square miles of the territory of Assam (which totals 47,094 square miles) should really belong to them. This demand was first put forth by the Naga People's Convention prior to the passing of the Nagaland State Act. In support of its claim, Nagaland puts forward the following arguments. At the time of constituting the district of Naga Hills (Kohima subdivision) in 1866, the valley of Dhansiri and the Mikir Hills were included in it. Later on when the Hukokchung sub-division was added to the district of Naga Hills in 1889, Mikir Hills and Dhansiri were given away to the districts of Sibsagar and Nowgong. Since the Mikir Hills and Dhansiri were once part of the Naga Hills district, the Nagas claim that they are a part of Nagaland. To reinforce its claims the Nagaland government has not acknowledged the present border and, according to the Assam government, 20,000 acres of Assamese land have been encroached upon and 16 'illegal' posts have been established. Further, various measures like setting up new villages, harvesting wet lands, levying taxes, felling trees and starting building activities, have been resorted to.

Assam's position is that both Ahom and British records clearly show that Assam at no time ceded any territory to the Nagas. The Dhansiri valley, and other territories claimed by the Nagas were Ahom territory. The British also conceded that these were non-Naga areas. The Mikir and North Cachar Hills too belonged to the Mikirs and the Cacharis.

A review of the history of annexation of the Angami, Sema, Ao and other Naga areas during the period between 1839-1905 shows that prior to that period the Nagas lived in either isolated units or villages. The Ahoms controlled the frontier trade gates, punished offenders and raiders and allowed some of the friendly Nagas to enjoy rights over some *Khats* or lands, but never ceded territorial rights. The British continued this policy between 1839 and 1846. From 1847 to 1850, they tried to control the tribal raiders by establishing outposts inside the Naga Hills. From 1850 to 1866 the policy of non-interference advocated by Lord Dalhousie was followed. But vexed by the raids, the then Lieutenant-Governor opined that "were this policy generally adopted, then Assam would soon be divided amongst the Bhutias, Adis, Nagas, Garos, Mishimis and other wild tribes with which it is surrounded which would quickly take advantage of any signs of weakness in the Central Government."

Further, the 1905 Survey of India map shows all the disputed forest reserves to be within the Sibsagar and Nowgong districts. The 1905 District Gazetteer mentions that the Naga Hills have no forest reserves at all except one, but that too "to all intents and purposes" belongs to the Sibsagar District. The Naga Hills district in 1905 "contained one town, if town it can be called, and 202 villages". None of these villages were within Assam or even in the foothills. The northern boundary was hilly with a range of average 2,000 to 3,000 feet height. The Naga peasants were not, and still are not, used to wet cultivation. Therefore it is impossible to think that they had any interests in plains lands. The 1925 notification finally settled the boundary of the district after a survey. In fact, the Naga Hills district was entirely a British creation. Before this the Nagas were not united on one territory.

The Assam Government therefore considers Nagaland's claims to be chauvinistic and politically motivated. Neither leasing out nor the further whittling away of Assam's territory will be to the liking of the people of Assam. It is also felt that this could encourage Meghalaya and Arunachal to follow in Nagaland's footsteps.

BONN

High Drama in Parliament

Aswini K Ray

JUST as the East German chief, Honecker, was announcing a series of new benefits for workers and a fresh new deal for the socially handicapped, people across the border were witness to one of those periodic spectacles of parliamentary democracy which goaded Nietzsche into making the jibe that the system has "a mania for counting human noses". It surely was a coincidence, but one that helped to highlight the varying social values that divide the German people in spite of their language.

The curtain to Bonn's drama was raised with the defeat of the Free Democrats (FDP) in the Baden-Wurttemberg state elections. The defeat of the liberal Free Democrats was not really unexpected; a political party based on nineteenth century liberal values is a luxury in the sharply polarising politics of modern West Germany. Paradoxically, the swansong of liberalism was sung in the Necker Valley — once the 'home of the liberals'.

Political Horse-trading

In the elections to the Stuttgart *Landtag* (the local legislature), the liberal Free Democrats crashed down from 14.4 per cent support in the 1968 elections to 8.9 per cent, thereby barely managing to scrape through the 5 per cent minimum vote required for representation in the legislature. The Social Democrats (SDP), hitching their wagon to the declining fortunes of the liberals, and campaigning on the basis of their *Ostpolitik*, improved upon their 1968 performance of 29 per cent, going up to 37.5 per cent. But the poor showing of the FDP, neither enabled the extension of the national coalition to the state nor was it possible to retain the remnant of the 'Grand Coalition' of the earlier era. Shortly before election day, the neo-fascist National Democrats (NPD), with 9.8 per cent backing in the last election, withdrew all their candidates in favour of the Christian Democrats (CDU), which ultimately proved to be decisive. The stigma of fascist support was an ethical liability for the CDU all right, but it also proved to be an electoral asset, which is what counts in parliamentary democracy. The CDU improved its position from 44 per cent to 53 per cent, an improvement just about equivalent to the NPD strength in the last legislature. Though Chief Minister Filbinger lost his home constituency to his SPD rival (that does not prevent him from continuing as Chief Minister), the Christian Democrats obtained the necessary absolute majority in the state assembly and also an increased majority in the *Bundesrat*, the upper house of the federal legislature.

At this first sign of distress, the FDP quietly shed off its cloak of respectability. A chain-reaction of horse-trading and the phenomenon of *aya Rams gaya Rams*, so familiar to Indian politics, followed. Helms, the farmer from north Germany, who disagreed with the government's economic politics, found the time opportune to announce his resignation from the FDP. Two other millionaire members of the party also quoted their price, and fairly soon, a chain-store owner reportedly offered six million deutschmarks to make the drift away from liberalism and respectability profitable. With many such new catalytic agents brightening up opposition leader Barzel's succession prospects, it was time for the opposition to implement its threatened "constructive" vote of no-confidence — "constructive", as, according to the opposition, it enabled the government to assess its strength before initiating the debate on the *Ostvertrage* (the treaties with the Eastern powers).

Even the most friendly pollsters had given a very low rating to the chances of the opposition in a national election on the issue of the *Ostpolitik*, and lower still when the practical benefits of the Brandt government's foreign policy were fully reaped by the West Germans. So, the timing for the no-confidence debate was scheduled for a week before the debate on the treaties. Party satrap, Helmut Kohl, smarting under his defeat by Barzel in the contest for Christian Democrat chairmanship, and Christian Social Union (CSU) leader Strauss ill-reconciled to his number-two position in the shadow cabinet, also played their role in the opposition's decisions. They succeeded in luring Barzel to expose his ambitions. More than that, they tested his strength a little sooner than it suited him. Strauss, the big leader of the small party, was conspicuous by his eloquent silence throughout the entire proceedings of the debate preceding the voting — a silence, that went neither unnoticed nor uncommented on by the Social Democratic Party tactician Herbert Wehner.

The fate of the Chancellor and of the pretender to the succession was being decided upon under the veneer of 'high falutin' principles. Chancellor Brandt quoted from the philosopher Kant, and Foreign Minister Scheel, after accusing the opposition of undermining the credibility of the government by publishing secret official documents, in a long peroration, went on to recall the glorious heritage of the FDP. The opposition demanded a quick division in the true tradition of parliamentary democracy. Underneath the veneer of principles the arithmetic of parliamentary politics was being sorted out by both the groups. The ruling coalition was filibustering to gain time to assess its strength before facing the hard reality. The opposition, having struck their deals, were keen on a quick division before the floor-crossers were bought back. Meanwhile the trade unions were busy organising "spontaneous" working class solidarity with the socialist government and other groups were demonstrating against Barzel and Strauss for trying to "repeat 1933". And almost the whole nation was glued to their TV sets. They had never before seen so many legislators on crutches and wheelchairs!

The fact that the opposition lost the division by only two short of the required 249 votes and gave a close shave to the government, left little room for complacency by either side. But in any case, the government's paper-thin majority was never in doubt. The opposition's tactics were based on its hope of doing away with this small majority. The opposition failed in this primary objective, and along with it, sank Barzel's hopes and public image. In fact the no-confidence debate boomeranged on the opposition. Hardly, if ever, has there been such a wave of public sympathy for a West German Chancellor, both at home and abroad.

Party Solidarity Compromised

But the survival of the Brandt government cost the country two casualties. One, a high principle, and the other, a hard reality — the latter following from the former. The simple principle of party solidarity — fundamental to parliamentary government — was the first casualty. Brandt appealed for "a Roy Jenkins" in the opposition; the opposition in turn, appealed to the conscience of the FDP. Some FDP members responded, but the opposition failed to retain all its own support; the sly Strauss managed to withhold just enough support to prevent Barzel from becoming the Chancellor.

On voting day in Bonn, no one trusted the other. The opposition banked

heavily upon the secrecy of the ballot as an effective agent to stir the conscience of the ruling coalition members, but this proved to be its undoing. The Social Democrats turned the secret ballot into an open one: the party whip asked members not to cast their votes and remain seated in full view of the TV cameras. This meant that even if some SDP members wanted to help overthrow the government, they could not. One cannot reconcile party government with mere appeals to conscience!

Having failed in parliament, Barzel, who had been claiming that the Chancellor did not have a majority in the legislature, corrected himself and added "neither I nor the Chancellor". The result is that backdoor consultations to evolve some sort of joint foreign policy declaration have now begun in the committees representing the various political parties. Meanwhile the Bahr-Kohl negotiations for a long-term regulation of Berlin traffic have reportedly reached their final stage. But, according to the East Germans, these regulations can only be implemented after the ratification of Bonn's treaties with Moscow and Warsaw. But *ad hoc* arrangements, similar to those during Easter, for West Germans and West Berliners to visit East Germany are being made for the coming Whitsuntide holiday — another demonstration by the East Germans of the practical benefits of Brandt's foreign policy.

The Russians have meanwhile told the West Germans that there can be no question of any revision of their treaty with Bonn. A Soviet aversion for any negotiations with a future non-socialist West German government, though to be taken with a pinch of salt, has also been hinted at. The Soviet Union has also made it quite clear that the final four-power agreement on Berlin will depend upon the ratification of the treaties. But at the same time, Soviet Ambassador Fallin has informed the West German Chancellor about the Russian acceptance of one of the major opposition demands — the acceptance, as part of the treaty, of a *Bundestag* resolution endorsing the ideal of German unification.

While negotiations with the opposition are on, the government is playing down its *Ostpolitik* and diverting public attention to its complement, *Westpolitik*. While the expert committees work out the agreed joint declaration on foreign policy, the *Bundestag* is kept occupied with debating, rather endorsing, the enlargement of the Common Market. Brandt's recent visit to Britain was a success. In London, the Chancellor announced that the two countries had no points of disagreement between them. They even agreed upon the location of the European Secretariat in Brussels, and not in Paris, as Pompidou would have it. Unlike on other similar occasions, this time Pompidou did not come out with any unsolicited, but useful, support for the West German *Ostpolitik* while the Chancellor was in distress. However, it is now clear that West German foreign policy is on the brink of realising the major policy objectives of the Brandt-Scheel government, which is to make West Germany the fulcrum of an East-West *detente* and to help the process of multi-polarisation in politics.

Narrowed Choices

At this juncture, time is a crucial factor for the government as well as for the opposition. In the resultant conflict it is least likely that any quarter will be asked for or granted by either of the groups. But it must be said that after the failure of its no-confidence motion, the opposition's choices have narrowed down further. It has little chance of winning a national election on the issue of *Ostpolitik*. It can prevent the dissolution of parliament, but with the determined support of the Western and the Eastern powers for the Chancellor's *Weltpolitik*, it cannot for long continue to deprive the West Germans, and the West Berliners, of the practical benefits of the new foreign policies. On the other hand, if its obduracy facilitates further Soviet concessions, the credit for these will merely go to the ruling coalition in next year's elections. Already, the damage to Barzel's prestige due to the no-confidence vote has rekindled ambitions inside his party and in its sister party. In a prolonged crisis situation no one can really be taken for granted, particularly with fewer crumbs to pass around in the opposition ranks. The ruling coalition has little scope for complacency either. Till now, in terms of concrete achievements, it has very little to show. It may not be in its best interests to face the West German electorate for the second successive occasion only with great promises.

INSTITUTE FOR SOCIAL AND ECONOMIC CHANGE

Bangalore

The Institute for Social and Economic Change or ISEC is an All-India inter-disciplinary institution for research and training in the social sciences, which will start functioning in Bangalore from June-July this year. It will have centres in Economics, Sociology, Demography, Education, Organisation and Administration, Research Methodology and Statistics, and Human Geography and Ecology.

Economics will include agricultural, industrial, quantitative and public sector economics, public finance, credit utilisation, and economic planning and policy. Sociology will deal with the different aspects of the Sociology of Development and include Social Psychology and Social Stratification. Demography will include regional, urban-rural and policy problems. Education will include higher education, vocationalisation, and development. Human Geography and Ecology will include regional planning, resource identification, and changing mass-environment systems. Organisation and Administration will include public administration at the grass roots level, communication and evaluation. Research Methodology will include Econometrics, Statistics and field work techniques.

Applications are invited for the posts of Senior Fellows (corresponding to University Professors), Fellows (corresponding to University Readers) and Research Associates (corresponding to University Lecturers) in all these disciplines. The salary scales for these posts will be the same as those approved by the University Grants Commission for the University of Delhi.

Applicants are requested to send their bio-data in triplicate, giving full details of their age, academic qualifications, research and teaching experience, present position, field of specialisation, list of publications and names of referees and indicate clearly the category of the post for which they would like to be considered.

Applications should be addressed to Dr. V. K. R. V. Rao, Director, Institute for Social and Economic Change, Ratna Vilas Road, Basavangudi, Bangalore-4, and reach him on or before the 31st May 1972.

V. K. R. V. Rao
Director

RHODESIA

Total Dependence on Monopolies

Africanist

"I WAS in the East End of London (a working class quarter) yesterday and attended a meeting of the unemployed. I listened to the wild speeches, which were just a cry for 'bread! bread!' and on my way home I pondered over the scene and I became more than ever convinced of the importance of imperialism... My cherished solution for the social problem, that, in order to save 40 million inhabitants of the United Kingdom from a bloody civil war, we colonial statesmen must acquire new lands to settle the surplus population, to provide new markets for the goods produced in the factory and the mines. The Empire, as I have always said, is a bread and butter question. If you want to avoid civil war, you must become imperialists." Thus did Cecil Rhodes (Lenin described Rhodes as a social chauvinist) set about to colonise the territories which came to be called Rhodesia, after his name.

Traditional African society based its existence on certain modes of agricultural production. Based on these modes, definite land and property relations and specific forms of social arrangement formed the fabric of the socio-economic setting. This pattern of life was destroyed by colonisation. As a first step towards creating a freely exploitable class, the imperialists seized control of the most arable land and created a large dispossessed peasantry which they herded into semi-arid areas officially called 'reserves'. These reserves were intended to sustain only a small part of the landless peasantry; the rest were to live as squatters and labour tenants on newly created white farms.

In Rhodesia, Rhodes' British Chartered Company expropriated land and encouraged the dispossessed African peasantry to remain as tenants, their rent being commuted for labour performed for the rising white rural bourgeoisie already in possession of the most fertile land. The entire process of dispossessing the African peasantry and giving the white farmers complete control over the land and the large black rural proletariat was further stabilised by the Land Apportionment Acts of 1936 and 1941.

By these Acts, some 50,000 square miles of unclassified, wanton wasteland was allotted to 2,630,000 Africans, whilst 75,000 square miles of fertile land, which included all mining and industrial regions and areas served by railroads and major roads, was gifted to 215,000 white settlers. What the Acts accomplished were definite limits to land Africans could occupy for permanent settlement, grazing and tilling. Concentrating millions of peasants on mostly uncultivable land ensured the rapid degeneration of the land and decreased productivity; expecting a multiplying peasantry to engage in production to meet its needs on lands which could not support even the existing numbers was murderous. The desired effect of this policy was an overall decreased productivity which could not sustain the peasants, thus forcing them into European farms. So occurred the rural proletarianisation of the African peasantry.

White Compradors

At the present time, the whites who constitute a mere six per cent of the population, control 50 per cent of the most fertile areas. Africans, 94 per cent of the population, are settled on the remaining 50 per cent of soil-eroded land allocated in the reserve areas. Of the whites who control the land, the white rural comprador bourgeoisie is in firm control of the agricultural sector and holds most of the 'white' land. Constituting just 24 per cent of the total white settler population, the white rural comprador bourgeoisie, 57,000 in number, is a powerful section of the white ruling classes.

Together with the white compradors in the industrial sector, it is the 'real' power behind the eco-political structure of the country. The two groups together serve foreign economic interests and have close connections with foreign capital. Through their activities, they help transfer the surplus from the semi-colony to the imperialists. They constitute the class that the imperialists rely on to develop the country's economy along lines complimentary to imperialist needs. Between them and their imperialist masters there is a vicious cycle binding one to the other. The imperialists give them a free hand to regulate the techniques, methods and forms that are suitable to their area, i e, they are allowed to control the relations of production best suited to imperialist exploitation. Their existence in turn depends on the continuance of imperialist exploitation. They are at once the watchdogs, the agents, the trusted servants of imperialism.

Thus, when British imperialism handed the reins of 'political power' to the white settlers, it singled out classes whose interests lay in the perpetuation of the existing relations of production. These were the white commercial compradors and the white comprador rural class. Together, these white classes acted as the agents of British imperialism's economic territory — a territory that was economically, financially and militarily dependent on the United Kingdom. Thus did Britain ensure its position in Rhodesia.

Britain's operations in Rhodesia are broadly in three categories. Firstly, through direct operations of British monopolies (Rhokana Corporation and Exchange Copper); secondly, through its South African subsidiaries (Imperial Chemical Industries of South Africa Ltd, the British South Africa Company); thirdly, through shares, holdings or equities that the British have in other companies (African Explosives, Anglo-American Corporation); and finally, through joint (collaboration) ventures (London and Rhodesia Mining and Land, Rhodesia Iron and Steel).

Together, these monopolies control every aspect of Rhodesian industry and agriculture. They have inextricable interlocked shares, holdings and equities in each other — all this ensures them complete control of Rhodesian industry. For instance, take the London and Rhodesia Mining and Land Company. This monopoly, which comes under Oppenheimer's Anglo-American Corporation, has close interlocking financial interests with many of the major monopolies of Britain and the USA and close coalescence with the major banking interests of the capitalist world. It has acquired 90 per cent of Consolidated Holdings (Pvt) Ltd, 100 per cent of Mashaba Gold Mines (Pvt) Ltd, 36 per cent of Kanyemba Gold Mines, and 51 per cent of Associated Overland Pipelines of Rhodesia (Pvt) Ltd. Again, take the British South Africa Company, one of the largest monopolies in Southern Africa. Its principal company, Cecil Holdings, was formed primarily to acquire the whole share capital of British South Africa's subsidiaries. Another formation, British South Africa Invest-

ments Ltd, acquired the greater part of the parent company's investments in 1958. Other British South Africa (SA) company's subsidiaries include: British SA Company Managment Services Ltd, British SA Citrus Products Ltd, British SA Company Holdings Ltd, Charter Properties (Pvt) Ltd, Indaba Investments (Pvt) Ltd, Beit Holdings (Pvt) Ltd, Jameson Development Holdings (Pvt) Ltd and so on.

British SA is also in close association with Oppenheimer's Anglo-American Corporation. In Rhodesia, this association is to be drawn tighter by means of a proposed share deal between them by which 1.2 million ordinary shares (ten shilling shares) of Anglo-American will be exchanged for £ 2.5 million in £ 1 shares ("the £ 1 share is the basis of British imperialism") of New Rhodesia Investments Ltd, a public company registered in Rhodesia and equally owned by Oppenheimer's Brenthurst Investment Trust (Pvt) Ltd, and British SA's tributary, Cecil Holdings.

New Rhodesia's shares in Consolidated Mines Selection Trust Ltd will be increased as a result of the current financial arrangement with Anglo-American. Further, New Rhodesia's buyings in the Diamond Corporation, Johannesburg Consolidated Investment Company Ltd and Rhodesia Anglo-American, tie up closely with Anglo-American's activities in Rhodesia and in the Congo and Portuguese territories. Johannesburg Consolidated subsidiaries include Barnato Brothers Ltd, Barnato Holdings Ltd and African Asbestos-Cement Corporation Ltd.

Large Shareholdings

Rhodesian Anglo-American, the Rhodesian version of Anglo-American's all pervading interests, has large shareholdings in the leading copper mines of Rhodesia. It is further interlocked with principal British monopolies like Rhokana Corporation Ltd in which it has 52 per cent interest. This interest in Rhokana gives it an added interest (17 per cent), in another British monopoly, Nchanga Consolidated Copper Mines Ltd in which its direct participation is 21 per cent. Further, through Rhokana it has an interest in Chibuluma Mines Ltd. It obliquely participates in Mufulira Copper Mines Ltd, has shares, stock units and holdings in Rhodes Alloys (Pvt) Ltd, (involved in the ferrochrome mining industry), Broken Hill Development Company Ltd, Bancroft Mines Ltd, Kalindini Exploration Ltd, and Kasempa Minerals Ltd. It also controls 31 per cent of the shares of Anglo-American Prospecting (Rhodesia) Ltd and a large number of the shares of Chartered Exploration Ltd.

What all this in effect means is that monopoly capitalism has complete control of the natural resources of Rhodesia. And, as can be observed, the few giant monopolies have virtual control over the smaller exploiters. "The head of the concern controls the principal company; the latter reigns over the subsidiary companies which in their turn control still other subsidiaries and so on. In this way it is possible with a comparatively small capital to dominate immense spheres of production". Thus, a few monopolies have control over the entire mineral wealth of Rhodesia. Gold, iron, steel, coal, diamonds, copper, phosphates, asbestos — all the wealth from the exploitation of these mineral resources goes to the coffers of the imperialists.

It has already been observed that London and Rhodesia Mining and Land which comes under the Oppenheimer group — which is itself a giant US-UK-South African monopoly and which has intimate connections with international banking interests — has nearly complete control over the gold mining industry. Anglo-American, together with the British South Africa Company, is a major shareholder in New Rhodesia Investments Ltd which has the greatest amount of its capital invested in mining (45.9 per cent). Rhodesia Anglo-American, as has already been observed, is involved in mining to a very large extent and has interests in all the major mining companies. Iron, steel and coal also come within its range. Lubimbi Coal Areas Ltd, which holds prospecting rights for coal over an area of approximately 130 square miles in the district of Bulawayo, also represents Rhodesia Anglo-American's interests. Rhodesian Iron and Steel Company Ltd also has close connections with Rhodesian Anglo-American. Stewards and Lloyds (UK) has a 13 per cent holding in Rhodesian Iron and Steel.

In June 1971, Johannesburg Consolidated Investment Company, in which New Rhodesia has major buyings, started a 20 million Rhodesian dollar nickel and copper mine at Shangani near Bulawayo. Production from this mine will be worth 10 million Rhodesian dollars per year. It will be the fourth biggest nickel mine in Rhodesia. African Explosives and Chemicals, with its share capital controlled by De Beers Consolidated and by Anglo-American and the South African branch of Imperial Chemical Industries Ltd, announced a $ R 3 million expansion programme, last November for Dorowa Phospate Mine and the super phosphate factory at Msasa near Salisbury. This Dorowa expansion programme pushes the total capital investment in the mine and the super phosphate factory to $ R 13.5 million.

Asbestos, of which Rhodesia is the world's largest producer, is principally under the control of Turner and Newall, a British Company. It controls 90 per cent of Rhodesia's asbestos output. Anglo-American Corporation, together with its various subsidiaries and particularly Roan Selection Trust, controls iron and steel. The group also virtually dominates coal and iron pyrites mining, the ferrochrome and cement industries.

The Linkages

"The final word in the development of banking is monopoly. As regards the close connection between the banks and industry, it is precisely in this sphere that the new role of the banks is, perhaps, most strikingly felt". Lenin continues; "At the same time a personal link-up, so to speak, is established between the banks and the biggest industrial and commercial enterprises, the merging of one with another through the acquisition of shares, through the appointment of bank directors to the Supervisory Boards (or board of directors) of industrial and commercial enterprises and vice versa. The 'personal link-up' between the banks and industry is supplemented by the 'personal link-up' between both of them and the government. The British South Africa Company, which has such an all pervading control of Rhodesian resources, had at its head (i e, the Chairman of its Board), P V Amrys-Evans. He was also a director of the Anglo-American Corporation as well as Director of Barclays Bank. He was also on the Board of Rhodesian Railways Trust Ltd — a subsidiary of British South Africa — as well as on the London Committee of Rand Selection Trust. Hanover Bank (US) is also involved with the Anglo-American Corporation. So are the Rockefellers. Hanover is also linked by financial interchanges with the American Fore Group of New York, a principal fire and casualty insurance company. Finally, the US Government gives loans at 4 per cent interest to the Anglo-American Corportation in the US which in turn loans this capital to its overseas affiliates at 6½ per cent. "This is only a single short strand of the tangled web that relates predominant banking interests in Europe and America to the industrial undertakings in Africa" (Nkrumah).

This is not the full story of imperialist monopoly control over the entire spectrum of Rhodesian resources. Anglo-American's major investments includes citrus and sugar estates, forests, clay products and financial houses. Lonrho has vast interests in the cattle industry; it also owns a pipeline. Forestal Land, Timber and Railways, one of the world's largest producers of tanning extracts, through the Rhodesian Wattle Company, owns nearly all of the wattle acreage. The British South Africa Company owns forests, agricultural estates and real estate in Rhodesia; its subsidiary, British SA Citrus Products Ltd has control over the fruit industry.

All this shows the extent of imperialist control over Rhodesian industry and agriculture. It is only within this context that Ian Smith's Unilateral Declaration of Independence can be understood. Without imperialist support, Smith and his clan would have found it impossible to declare and maintain Rhodesia's 'independence'.

THE FOURTH ESTATE

No Eye for Pictures

Nireekshak

A GOOD photograph is worth a thousand words. So goes the saying in the profession. Yet, newspapers in our country do not seem to be paying the kind of attention which this vital aspect of journalism deserves. There have been instances where a provincial newspaper — whose finances are supposed to be meagre — has agreed to subscribe to two wire services but has declined to subscribe to even one photo agency.

The reason for this apathy is often made out to be financial. To the price of photographs has to be added the cost of block-making, so would run the argument of many a small and medium newspaper editor to emphasise the high cost of photo journalism. Professionally speaking, this is not true. A photograph — good in composition, sharp in detail and time-wise topical — invariably has a greater impact than many hundred words which, incidentally, also cost money.

Poor Display

The real reason for the neglect or poor development of photo journalism in this country lies elsewhere — in the non-availability of good photo journalists, in the lack of technical knowledge about photography among our deskmen, in the distasteful picture page layouts and in bad photo editing. Layout and picture editing are considered highly technical jobs in the big newspapers of the developed countries. But not so in our country where the news editor or the chief sub-editor is supposed to do both the jobs in addition to subbing news copy. The result is evident from the poor display which some good photographs get in even our big newspapers. Not surprisingly, therefore, enterprising young photo journalists often decide to seek their fortunes abroad. A case in point is Kishore Parikh who left *Hindustan Times* some years ago to join a professionally more satisfying journal in Hong Kong.

Statesman's Raghu Rai, *Hindu*'s T S Satyan, *Panasia*'s V M Saluja and freelancer P N Sharma are among the better photo journalists this country has in terms of experience, skill and talent. They have won acclaim here and abroad. In fact it is when their work appears in well edited foreign publications that one realises how much good picture editing and layout can improve the visual impact of a photograph. Among our newspapers, *Statesman* has an eye for photographs. Its Delhi edition had two excellent photographs recently on the front page. One, published on May 1, was of buffaloes cooling themselves in the Jamuna water against the background of yachts taking part in the Northern India Yacht Regatta. The other, published the next day, was a very unusual photograph of a May Day rally in the capital. The Calcutta edition of *Statesman* too had a very good picture on its front page on May 3 showing storm clouds over the metropolis the previous evening. *Hindustan Standard* carried a similar picture but it was ruined by the inferior newsprint used by the paper.

Few provincial newspapers employ their own photographers. By and large, they depend on photographs supplied free either by the Press Information Bureau or the state governments' Directorates of Publicity. But on some special occasions they do hire a freelance photographer for an exclusive job. The fire that broke out in the UP Council House recently provided one such occasion to Lucknow newspapers. *Pioneer* carried three photographs of the fire-fighting operations on its front page the next day. So did its rival, *National Herald*, the quality of whose pictures was slightly better. *Amrita Bazar Patrika* of Calcutta has a good photographer in Panna Sen whose study "summer hits countryside" was featured on the front page of the newspaper of May 5. The photo showed a large tract of parched field in Bankura district, a village girl trekking in search of water and vultures on a tree-top eyeing the carcass of a cow that had apparently died of thirst. In its issue of May 2 *Tribune* of Chandigarh carried a gruesome photograph, released by some foreign photo agency. It showed two polar bears attacking the head and arm of an unidentified man who had fallen into the bear pit of the zoo in Perth, Australia. According to the caption, "the man was dead by the time rescuers, using ignited gasoline-soaked rags, distracted the bears and pulled him out of the pit".

Oh, for the Bomb!

The Pakistani offensive in the Tithwal area of Kashmir produced sharp comments in our newspapers, which tried to explore the motives behind the action. Was it a local aberration or a planned move? Was it a deliberate attempt to induct third parties into the situation? According to *Hindustan Times*, none of these questions were relevant. "Which leaves only the possibility of someone in Pakistan being intent on queering the pitch for the proposed [Indo-Pak] talks: the military, at least some sections of it, in Pakistan is mentioned in some circles in this connection. If this were so, then Mr Bhutto must assert himself quickly and effectively so that his own capacity to speak for Pakistan is not thrown into doubt."

However, according to *Hindustan Standard*, "it will be scarcely prudent to dismiss the episode as a local breach of the peace caused by the rashness of some overzealous minor

fry . . . Islamabad can scarcely be given a clean bill in the affair. It is rather unlikely that a day long bitter engagement involving a full battalion would take place without the approval of the highest military command and the knowledge of the civilian chief . . . Apparently Mr Bhutto is attempting to blow hot and cold at the same time. He is keeping his diplomatic options open by opening up a channel of communication with Mrs Indira Gandhi. He however has not abandoned his other option. If he can grab some territory by force in the border area in Kashmir he is not averse to such a course . . . ".

Defence Minister Jagjivan Ram's announcement in the Lok Sabha on May 2 that the Atomic Energy Commission was studying the technology of underground nuclear explosions was commented upon editorially by most newspapers. Some hailed it, others found the announcement rather intriguing, while still others felt that it had come 15 years too late — had the decision come in the late fifties, they felt, there would have been no Chinese aggression in 1962. The most sensible and informative editorial on the Defence Minister's statement came from *Statesman* which patted the government for rightly "resisting ill-considered pressure for a change in India's nuclear policy" and went on to explain what was behind the AEC's studies on nuclear explosions. All that had happened, *Statesman* said, was that with the setting up of a plutonium plant at Trombay, "a relatively small-scale facility had been created for separating plutonium from used reactor fuel. Plutonium is fissible material and, given a sufficient amount, it may indeed be more difficult to prevent an explosion than to cause one." All that AEC was proposing to do was to check this "uncontrolled explosion" by a device that would explode "in a predetermined manner . . . to fulfil a predetermined purpose".

As for making the nuclear bomb, *Statesman* pointed out, India just would not do it for the simple reason that our "plutonium-yielding reactors have been built with foreign assistance with specific safeguards against use of the plant and its products for any military purpose". Americans have assisted us in building the Tarapur plant; Rana Pratap Sagar plant is being set up with Canadian help as also the isotope-producing reactor at Trombay. According to *Statesman*, "India will have an independent plutonium source only when the Kalpakkam nuclear power station is completed, provided of course the plant is built without such foreign assistance as is likely to attract safeguards". And "until this is done, all talk about a bomb programme is largely academic", said *Statesman*, adding: "but New Delhi apparently prefers not to explain this when rejecting demands for an immediate nuclear weapons programme."

Indira Gandhi's newspaper, *National Herald*, made a significant comment in this regard while generally welcoming the government of India's "no change" nuclear policy. It said: "Admittedly, nuclear energy is a product of science and technology. There are areas of nuclear development which are common to civil and military use. These areas can be and are being explored to the farthest limits within the ambit of our policy." *Hindustan Standard* and Jan Sangh's *Motherland* were the strongest protagonists of India making the nuclear bomb. *Hindustan Standard* said: "The self-imposed nuclear abstinence India is practising does not make much sense in a world where possession of nuclear arms grants the super power status to a nation." And *Motherland*: "A nuclear arsenal, howsoever modest, is of utmost importance for India from every point of view. It will make a qualitative change in our defence capability and deter all our enemies, present and prospective, for good. It will provide jobs for all our educated unemployed. It will lay the foundation for a billion dollar business in nuclear materials in the twentyfirst century. And it will elevate us to the status of one of the Big Four powers of the world."

Twelve years ago, Dr Joseph, a young scientist at the Indian Agricultural Research Institute, had been driven to suicide by professional frustration. The tragedy had sparked off inquiries and reforms were supposed to have been initiated at the Institute to set things right. But the recent death by suicide of Vinod H Shah, an agronomist at the IARI, has revealed that at the Institute things stand where they were 12 years ago. Newspapers in all parts of the country highlighted the causes that led the young scientist to commit suicide and focused attention on the prevailing frustration among our brilliant scientists. They demanded a thorough probe into the hierarchically structured system of our research establishments which have become breeding grounds of frustration among the talented and have encouraged mediocre sycophants. Two very good editorials on the subject appeared in *Hindustan Standard* and *Hindustan Times*.

The impact of government's newsprint policy is gradually being felt in the profession. New recruitment in the big newspapers has come almost to a standstill, annual increments to existing staff are being delayed and those reaching retirement age are being hastily sent away. *Statesman's* managing director, C R Irani, has said that if the 22 per cent cut in his paper's newsprint allocation continued, his newspaper may suffer a loss of about Rs 96 lakhs. The *Times of India* management has also unleashed similar propaganda, claiming that the paper may be in the red as a result of loss of revenue of Rs 1 crore.

Some of the big newspapers are also thinking in terms of getting themselves reclassified into lower categories. According to the recommendations of the Wage Board for Working Journalists, newspapers are classified into seven categories on the basis of their advertising revenue and circulation. The higher the category of the newspaper, the higher are the employees' wage and dearness allowance scales. Reclassification into lower categories may not affect the existing wage scales of employees but might block future increments, etc. Reclassification will also have a side effect on the news agencies. Their revenue from big newspapers will fall as they will pay for agency services at the rates prescribed for the lower category of newspapers. As a way out, the representatives of some big newspapers, who sit on the boards of both the national news agencies, PTI and UNI, have suggested merger of the two wire services. If this happens, it will be unfortunate for competition between the two agencies is at present one of the safeguards against news management.

Hindustan Lever

HINDUSTAN LEVER's sales increased from Rs 119 crores in 1970 to Rs 134 crores in 1971. Distributable profits, which had suffered a setback in 1970 owing to substantial increases in raw material costs, recovered from Rs 2.39 crores to Rs 2.75 crores after tax, capital expenditure on scientific research and net transfer to development rebate reserve. According to the company, results for the current year will depend significantly upon the outcome of discussions with government in regard to prices of products which are subject to price control. The company's exports rose by Rs 74 lakhs to Rs 5.52 crores. Included in these are increased exports of synthetic detergents to the USSR.

Black Is Not Beautiful

Contributed

Direct Taxes Enquiry Committee, Final Report, Ministry of Finance, Government of India, December 1971; pp ix + 314.

THE Final Report of the Direct Taxes Enquiry Committee traverses ground extending from estimates of "black" money to tax policy to the departmental working of tax administration. The departmental representation in its composition made it certain that the Committee would be concerned with the trivia of tax administration rather than with principles of tax policy. The terms of reference are, moreover, taken *seriatum* so that the Report undulates between policy and administrative matters.

The Report can be divided into four parts: estimates of black income, tax policy, dealings with tax-payers and internal organisation of tax administration. These matters are covered at different points, but their organised examination helps to bring out the full flavour of the Report.

Estimate of Black Money

The existence of black money has a profound impact on the economic and social policies of government. Almost all government measures — ranging from price control and exercise of administrative discretion in matters such as issue of various permits and licences, to fiscal and social policy measures aimed at achieving equity in income distribution — apply to the formal economic system. Not only do these measures not reach the parallel black money economy but the parallel economy, by forcing policy changes, tends to pervert the impact of these measures, For example, the whole direct tax structure has little relevance to equity when people have unequal access to black market resources.

In a controlled economy — and India has had one since 1939 — official discretion becomes a purchasable commodity, or a price mechanism for official favours emerges. Price controls lead to dealings involving both official and unofficial money. High taxes lead to payments outside the tax system, concealment of income and false cost information. Agriculture is today a means of legalising black income; when the income-tax system is extended to agriculture, it will become one more source of generating black money. Thus the parallel economy extends to the bureaucracy, to trade and manufacture, and to professionals. The Committee is excessively coy about tax evasion in the medical and legal professions and the role that the legal profession plays in facilitating black transactions. How can one accept that in the early sixties there were only 9 doctors in the country earning more than Rs 1 lakh per year (much of even this declared income, incidentally, came out of other sources like property and the 'medical income' element was smaller)?

By its nature it is difficult to make estimates of black money. It is not only a stock but a flow as well; moreover, it enters and goes out of the official system at various times and points. Yet the estimates given by the Committee, let alone those given in the Minute of Dissent, are staggering. The Committee, following the Kaldor method, estimates a generation of Rs 1,400 crores of black money in 1968-69 (Ch 2.17); D K Rangnekar estimates the amount at almost double the figure.

The Committee recommends the setting up of another committee to find out what controls need be maintained (Ch 2.58); it also suggests removal of rent control on non-residential premises (Ch 2.205). It considers political donations as an element in the tax evasion system, and suggests government financing of political parties, exemption of individual donations to political parties and audit of accounts of political parties (Ch 2.60, 2.61).

The generation of black money and the distribution of spoils are distinct problems. Black money is generated through transactions (selling of goods at higher than controlled prices) or tax evasion (as in the case of receivers of black money or non-declared incomes of professionals). Such black money gets divided in various ways, as through bribes for import licences (which get paid ultimately out of transactions in the commodities produced with the help of imported goods). All estimates of the loading of black money in transactions or through tax evasion must remain notional. What is damaging to the social fabric is the pervasiveness of such deals, its manifestation in conspicuous living, the acceptance of its existence as a normal part of individual or business behaviour, and the feeling of unequal treatment it generates among people outside the parallel economic system.

Tax Policy Measures

Of the recommendations of the Committee, those which have attracted the most attention relate to direct tax measures. The Committee attributes tax evasion to high tax rates, and recommends a lowering of the personal tax rates to a maximum of 75 per cent. The Committee's arguments for reducing tax rates (Ch 2.44 to 2.55) are the oddest one has heard — including one like "the country has to leave some tax potential in reserve for an emergency" (Ch 2.51) or that whatever the level of income a tax-payer must be left with 25 per cent of income. The Committee suggests that lowering the tax rates would boost the economy, as it is supposed to have done in Japan, West Germany and the United States (Ch 2.53) — an unthinking reiteration of N A Palkhivala's argument which has little economic meaning or logic.

As regards corporate taxation, the Committee recommends the abolition of priority status for some activities (Ch 5.43) and the removal of the "closely-held" company distinction (Ch 5.85 to 5.87). The Committee recommends more generous treatment of companies in respect of entertainment allowances and guest houses (Ch 2.69, 2.70). On the other hand, it favours a tax on the capital of companies (Ch 5.89).

The Committee recommends rebate on tax payable by labour-oriented industrial units (Ch 5.75), an investment reserve scheme for economic stabilisation through a Reconstruction and Stabilisation Reserve Fund (Ch 5.78), and a tax rebate for higher capacity utilisation (Ch 5.80) — proposals which are vague or not relevant to the economic conditions of the country.

The Committee does not favour treating a family (husband, wife and minor children) as a unit of assessment (Ch 3.34), though it makes provision for clubbing incomes where the division of income is of a tax-avoidance nature (Ch 3.39). Nor does the Committee accept the suggestion regarding treatment of a Hindu Undivided Family as a firm or a company (Ch 3.29). It suggests that where a member of a Hindu Undivided Family has independent income, the Hindu Undivided Family should be

taxed at special rates (Ch 3.30). Given its bias in favour of professionals, the Committee recommends removal of the tax on professional firms (Ch 3.43), though one fails to see how this is relevant to the Committee's terms of reference.

The Committee recommends levy and collection of agricultural tax by the Centre, with an additional exemption limit of Rs 5,000, making a total exemption of Rs 10,000 (Ch 2.129, 2.127). It, however, shows poor economic logic in measuring the impact of the present tax system on the agricultural sector (Ch 2.123). The Committee also recommends levy of excise duty in lieu of sales tax (Ch 2.134).

The Committee does not recommend revival of the expenditure tax (Ch 2.186), though it argues that the requirement of an expenditure statement (Ch 2.184) would "be quite effective in checking evasion" (Ch 2.186). It is against the issue of bearer bonds or numbered accounts (Ch 2.36, 2.37).

The Committee, looking at the system partially, could hardly have arrived at sensible conclusions. What is the extent of disclosure or non-evasion that is expected when the maximum tax rate is reduced to 75 per cent — particularly given the fact that the Committee's own estimates of the tax-rate on tax-evaded income is low? And would those who earn black incomes through transactions (official favours, deals at above-controlled prices) disclose these incomes because the tax rates are lower? Where income is hidden, as in the professions and trade, lower tax rates might have some relevance. But where transactions are illegal, the incomes arising out of them are insensitive to tax rates. Clearly these areas form part of the total economic system, and the Committee's recommendations hardly touch the system as such.

Moreover, the Committee makes recommendations which detract from the economic objectives of the tax system — without in any way reducing tax evasion. For instance, the existence of priority status for some industries hardly leads to much tax evasion through transfers, but it does help to provide an incentive to invest in the priority industries.

Yet in the fiscal field itself, there are ways of dealing with the problem. Firstly, given the propensity to evade taxes, it is desirable to have lower rates on a wider tax base — instead of the present system of high tax rates on a narrow base. Thus tax should be imposed on all forms of income and transactions — on interest paid no less than on profits earned, on capital no less than on income. Secondly, an automatic surcharge must be levied on discretionary income — that is, incomes other than salaries, interest, dividend and rent as also incomes which are professional or trading incomes. Thirdly, given the size of the tertiary sector, there is a strong case for replacing the sales tax by a value added tax, purely as a device to bring all transactions to book and to prevent tax evasion. Unfortunately, none of these ideas figure in the 468 paragraphs of observations and recommendations of the Committee.

Dealings with Taxpayers

The description of the office-keeping practices of the Department given by the Committee must cause despair not only to those who work in the Department but also to those who deal with the Department. There is not enough office space (Ch 6.91) or filing space (Ch 6.107); files get regularly lost; office equipment (such as desk calculators) is not provided to the required extent; facilities for checking tax evasion (for example, transport, *vide* Ch 4.21) are not adequate.

The Committee opposes further "voluntary disclosure" schemes (Ch 2.31) and in the process exposes the corruptness of the present regime: "Much of the income disclosed . . . had been . . . earlier already detected . . ." (Ch 2.28). Those who wonder how income "already detected" becomes a "voluntary disclosure" might consult some of the better known film actresses for the knowhow!

The Committee is "not in favour of introducing a comprehensive return form" (Ch 2.183), though an integrated return, prescribed also by Kaldor, would be an important administrative reform to curb evasion. The Committee recommends payments through bank bills of exchange (Ch 219), and suggests that banks report unusual or suspicious transactions to the Reserve Bank (Ch 2.181). The Committee makes various recommendations on blank transfers (Ch 2.229), denial of credit facilities to tax evaders (Ch 2.232), tax treaties with other countries for exchange of information (Ch 2.213), tightening the provisions of the Stamp Act, checking under-valuation of immovable property, and rousing of public conscience against tax evaders. The Committee suggests that the valuation of immovable properties, once adopted, should be maintained for five years (Ch 3.71).

The Committee recommends that minors should not be admitted to the benefits of partnerships (Ch 3.40), and that *benamidar* partnerships should not be recognised (Ch 3.42). All trusts seeking tax exemption are required to register themselves with the tax authorities (Ch 3.52). The Committee also recommends tightening of the tax law on exemptions for trust income. A gift by mere book entry (without transfer of actual cash) should not be recognised (Ch 3.75). The Committee also recommends aggregation of gifts (Ch 3.75). It recommends compulsory maintenance of accounts by professionals and businessmen with income about Rs 25,000 a year (Ch 2.140) and compulsory audit of accounts above specified limits (Ch 2.148).

The Committee recommends that the intelligence and investigation work of the Department is strengthened (Ch 2.97 onwards). It recommends greater use of powers of search and seizure (Ch 2.40). In many cases (for example, where property is found on search), the Committee makes suggestions for changes in law so as to place the onus of proof on the tax-payers or to widen the powers of tax officers. Given the extent to which tax-payers have tried to use legal machinery to avoid taxes or to frustrate tax collection, these changes are justified. The Committee makes many suggestions regarding prosecution of tax cases (Ch 2.93 onwards) and regarding penalties for concealment of income (Ch 2.71 onwards).

It is, however, difficult to appreciate the Committee's sensitivities: while most searches made were successful (Ch 2.39), the Committee refers to complaints of "arbitrary and high-handed manner" (Ch 2.41) in which searches are conducted. The Supreme Court has even ruled that "penalty for concealment of income cannot be imposed merely because the explanation given by an assessee is found to be false" (Ch 2.76). One fails to understand the reason for this sympathy for tax-dodgers which, reflecting a class bias, leads to treatment of tax-doging as a different (and more respectable) category of offence.

Ultimately the efficiency of administrative practices and the sophistication of the office aids available to the Department must keep up with the practices of the tax-payers and with modern times. To some extent, inadequate office aids generate slovenly office habits; the Committee refers to cases where files of assessees, called for interview, are not traceable when they call on officers ("papers get misplaced, and and are often not available when the tax-payer appears . . . ", *vide* Ch 6.107). If the tax system is to serve a social

purpose, it has to be organised efficiently to perform its functions. This is one area where the Committee's recommendations deserve clear support.

The Greatest Boondoggle

The Committee reports in detail on the administrative structure of the Department and the requirements for its efficient organisation, even though it admits that "procedures are incidental to the primary terms of reference" (Ch 6.1). To an outsider the organisation of the Department makes strange reading. At the highest level, the Central Board of Direct Taxes has almost no corporate existence or decision-making powers and acts only through its individual members. The charges under the Commissioners are very large, ranging upto 100 income-tax officers (Ch 6.36). The jurisdiction of income-tax officers is not clearly defined. Targets and workloads are set arbitrarily ("output quotas have been arbitrarily stretched", *vide* Ch 6.32 also "work norms have been fixed, and performance standards laid down, without any scientific study of the workload or the manpower requirements", *vide* Ch 6.49).

The demands raised in the month of March are almost three times those raised in February (Ch 4.78). It is not surprising that taxes in arrears more than doubled in four years from Rs 381.83 crores at March-end 1966 to Rs 840.70 crores at March-end 1970 (Ch 4.2) — though the Finance Minister has recently stated that arrears have been brought down by Rs 250 crores. One of the arguments advanced by the Committee for this state of affairs is that "unrealistic assessments have led to large accumulations of arrears of tax for which the Department is frequently blamed" (Ch 4.7). The question is: who else can be blamed for it? The Department also does not close irrecoverable accounts (Ch 4.28), thus keeping arrears high. Apparently also taxes paid are not credited (Ch 4.38), again inflating arrears!

As regards work distribution, the Committee mentions that "as on 1.4.1971 [there were] 104 officers attending to collection as against 963 officers on assessment duty" (Ch 4.17), and the Department generally conducts work in the form of special drives. Gradation and promotion have an arbitrary element in them. The whole set-up must appear as a nightmare to any efficiency expert.

Given its composition, the Committee opts for two major changes: organisation of the Department as a Board on the ground it will give the Department greater financial autonomy; the present Central Board of Direct Taxes "does not have the same independent status as the Railway or the P & T Board has" (Ch 6.7). Secondly, an equivalence in gradation and pay-scales with the administrative service.

The recommendation regarding an independent Board — despite examples of practices in other countries cited by the Committee and despite recent moves in the UK in the same direction — raises various issues. The Committee refers to political interference in the Department's work (Ch 6.12), but independence comes out of service conditions and character: a person, amenable to corruption (financial or political) is hardly likely to be different when forming part of a Board. The Department does need to think out its problems more clearly.

This is all the more necessary since one notices running through the Report the deep commitment of the Department to improving the salary conditions of its officers. The devices through which this is sought to be achieved boggles one's imagination — by revising scales, by creating junior and senior categories within the same scale (Ch 6.45 and Ch 6.59), by grant of special allowances (Ch 6.69) or additional perquisites (Ch 6.96), by upgrading various categories (Ch 6.71 to 6.74) and by creating new categories (Ch 6.67). The Department does not miss the chance to ask for an increase in car allowance to take advantage of the tax exemption (Ch 5.26). There is also an attempt to help officers of the Department in other respects (for example, the demand for extension to all civil servants of exemption from estate duty granted to the Border Security Force in case of death in action, *vide* Ch 5.60; or for deputation of Department staff to public sector units, *vide* Ch 6.75, though this is against government policy).

At the same time, the Department is particularly keen to maintain its own private preserve and comes out clearly against recruitment of outsiders to high posts and in favour of denying promotions to outsiders above specific positions (Ch 6.51). Apparently, the Committee's emphasis on "merit and merit alone [as] the criterion for appointment to higher posts" (Ch 6.56) is to apply within its inbred hierarchy.

Given these mores of the administration, one can only wonder about its standards of integrity. Significantly, the Committee refers to the existence of a few black sheep, but is coy about the role of retired Department men who, in the guise of tax "consultants", operate as contact men and help to subvert the morale and integrity of the Department. The Committee only indirectly refers to the role of tax advisers in assisting tax-dodging (Ch 2.20) but, given its departmental bias, unabashedly recommends (incidentally, in a section entitled "Assessee's Representatives") that the bar on retired tax officials practising tax consultancy for two years after retirement or resignation should be removed, on the ground that it is "an unreasonable restriction on the exercise of a profession" (Ch 6.161). So also the proposal to allow fees paid to authorised representatives as a deductible item (Ch 5.35) is intended to benefit retired tax officers.

It is unfortunate that the Department should devote so much energy to improving its own working conditions and that the Committee should have allowed itself to be used as a vehicle for ventilating departmental demands. In essence these are matters internal to the governmental organisation and could have been covered by general recommendations with a detailed internal note. This is particularly relevant as evidently the Department has been pleading the same briefs to various bodies (e g, the Direct Taxes Administration Enquiry Committee and the Administrative Reforms Commission) and is building up a case for improvement in emoluments and status through endorsement by these bodies. Whatever the shortcomings of the Department in its organisation and administrative practices, it seems to have been its full-time activity in the sixties to seek an improvement in its working conditions and emoluments.

Summing Up

There are five minutes of dissent covering various points, particularly the Committee's recommendations on expenditure tax and on treating the family as the unit of assessment. Some of the Committee's recommendations, like those for giving a permanent account number (Ch 2.154), for deduction from payments to contractors (Ch 4.51), and taxation of casual income (Ch 3.15) have already been accepted.

The Committee's recommendations bristle with inconsistencies. The Committee is against allowing film artistes to spread income over years (Ch 2.215), though it endorses the suggestion that an artiste is taxed only on the annuity if an irrevocable annuity policy is taken

out in his name (Ch 2.216) — the only difference between the two being the intervention of the LIC. The Committee, on the one hand, wants dividends to be distributed (Ch 5.82) to let the market determine where such funds should be invested, and, at the same time, recommends tax exemption for corporate savings (Ch 5.78). So also, while it wants investments in the National Development Fund to be blocked and made not withdrawable for seven years (Ch 5.64), in the very next paragraph it suggests credit facilities against such deposits (Ch 5.65). And while at one point the Committee asserts that "the scope for tax evasion or avoidance exists irrespective of the source of income" (Ch 6.109), it later states that "a well-defined class of assessment work involving definitely lower responsibilities... has emerged" (Ch 6.111) and that "we have... rejected the notion that all assessment work is identical" (Ch 6.112).

The whole Report lacks draftmanship. At an early stage, the Committee makes a profound literary statement: "... black is a colour generally associated with evil" (Ch 2.1); later: "... a person lives for many years but dies only once ..." (Ch 3.76). Much later, arguing for an independent Board status for the Department, the Committee brings in colonialism as a cause of the Department's present status and states: "the supremacy of the administrative services in our country is a hangover of the old colonial and imperialistic days . . . economic development should now have priority over general administration" (Ch 6.50) — a thought and phrase with which it falls so much in love that it is repeated verbatim later (Ch 6.67).

It is significant that the interim Report presented by the Committee (by which it still stands, *vide* Ch 2.26) has not been released. Judging from the Final Report, it appears that the Committee has failed to deal with the substantive problems involved in its terms of reference, and has been content to get itself lost in the trivia of departmental organisation and conditions of work.

REVIEW

Bureaucracy and Politics

V A Pai Panandikar

Bureaucracy and Politics in India by C P Bhambri; Vikas Publications, 1971; pp 349; Rs 36.

THE relationship between the bureaucracy and politics has always been recognised for its cruciality both by students and practitioners of government. In recent years, this relationship, especially the role of bureaucracy, has evoked widespread political interest in India. In the Bombay session of the AICC in 1969, after the split in the Congress party, Jagjivan Ram, then President of the Congress, raised questions regarding the suitability of the concept of neutrality of the civil servants and asked whether it was an appropriate concept in a developing economy.

C P Bhambri of Jaipur University has focused his attention on investigating the interaction between bureaucracy and politics, especially at the national level. He provides in the first three chapters a descriptive background of the political and the administrative system as it exists in India. In the next five chapters, Bhambri takes up five case studies from real life situations in which the relationship between the bureaucracy and politics, specially with political leaders, became national issues. In the last chapter he presents his conclusions.

Bhambri takes the theoretical standpoint that in a developing society an informal institutional set-up is not enough to control the bureaucracy. He feels that "unless political parties have established their legitimacy and hegemony over the bureaucracy, the latter tends to arrogate to itself more authority than it is permitted under a democratic political system".

Obviously, the book was written between the split in the Congress party in 1969 and the 1971 parliamentary elections which changed the political scenario in India. Aptly the book reflects the political uncertainties and anxieties as well as the failures of the Indian bureaucracy to respond to the changes due. Nonetheless, Bhambri has attempted valiantly to keep to his theme. He offers us a good understanding of the party structures in India, especially that of the Congress party, the manner in which it operated from time to time, and the changes in its character and position since the 1967 elections. Bhambri almost decries the dangers of coalition politics which could, according to him, put Indian politics back under bureaucratic hegemony. We also get from the book a useful commentary on the organisation of the bureaucracy, the forms of institutional control and several episodes on the minister-civil service relationship at the Centre, going back to the Mundhra Case involving the LIC's investments.

Too Impressionistic

While the book is a useful addition to the literature in the area, Bhambri has not been able to develop an effective theoretical framework or to answer the critical questions pertaining to bureaucracy and politics. From both these points of view, it would have been particularly important to examine the nature and processes of the interaction between bureaucracy and politics. The criticisms about bureaucratic hegemony are too impressionistic and represent popular images. The relationship between the bureaucracy and the political system has certainly evolved a great deal since independence. No doubt incidents like the Mundhra case have influenced the relationships, or at least the images, a great deal. But whatever may have been the policy domination of the bureaucrats in 1947, the situation has changed vastly since. Indeed several ministers have held policy positions much longer than the civil servants and have become virtually "technocrat-administrators" themselves.

Besides crucial policies whether regarding planning or development programmes, or in socio-economic areas like land reforms, nationalisation of banks, abolition of privy purses, etc, have emerged not from the bureaucracy but from the political institutions and personalities.

This is not to deny that the bureaucracy plays an important role in subsidiary policy-making or even a critical role in policy execution during which the basic policy gets altered, modified or sometimes even subverted.

Bhambri regrettably does not go sufficiently into these areas. Because of a lack of a rigorous framework of analysis, sometimes the book appears journalistic, weak in analysis and unduly impressionistic. However, he has served a useful purpose in focusing academic attention on a critical area and in taking the first step towards researching this important field.

Studies in Planning Techniques

II—The Development Strategy

R M Sundrum

In the first part of these studies, published last week, it was argued that the planning process would be greatly facilitated by the deliberate choice of a development strategy to indicate the broad directions in which it is proposed that the economy should move over a fairly long period. The present part is concerned with a definition of this concept in more detail. In particular, the strategy concept will be distinguished from the sort of perspective planning that is now carried on in India.

The concept of development strategy cannot be laid down in terms of specific decisions, but it can be formulated in terms of decision-making rules, which can then be applied to make the actual decisions as new data become available. This approach will then help to ensure that a long-term point of view is taken into account in dealing with practical decisions, so that they are not overwhelmed by narrower short-term considerations.

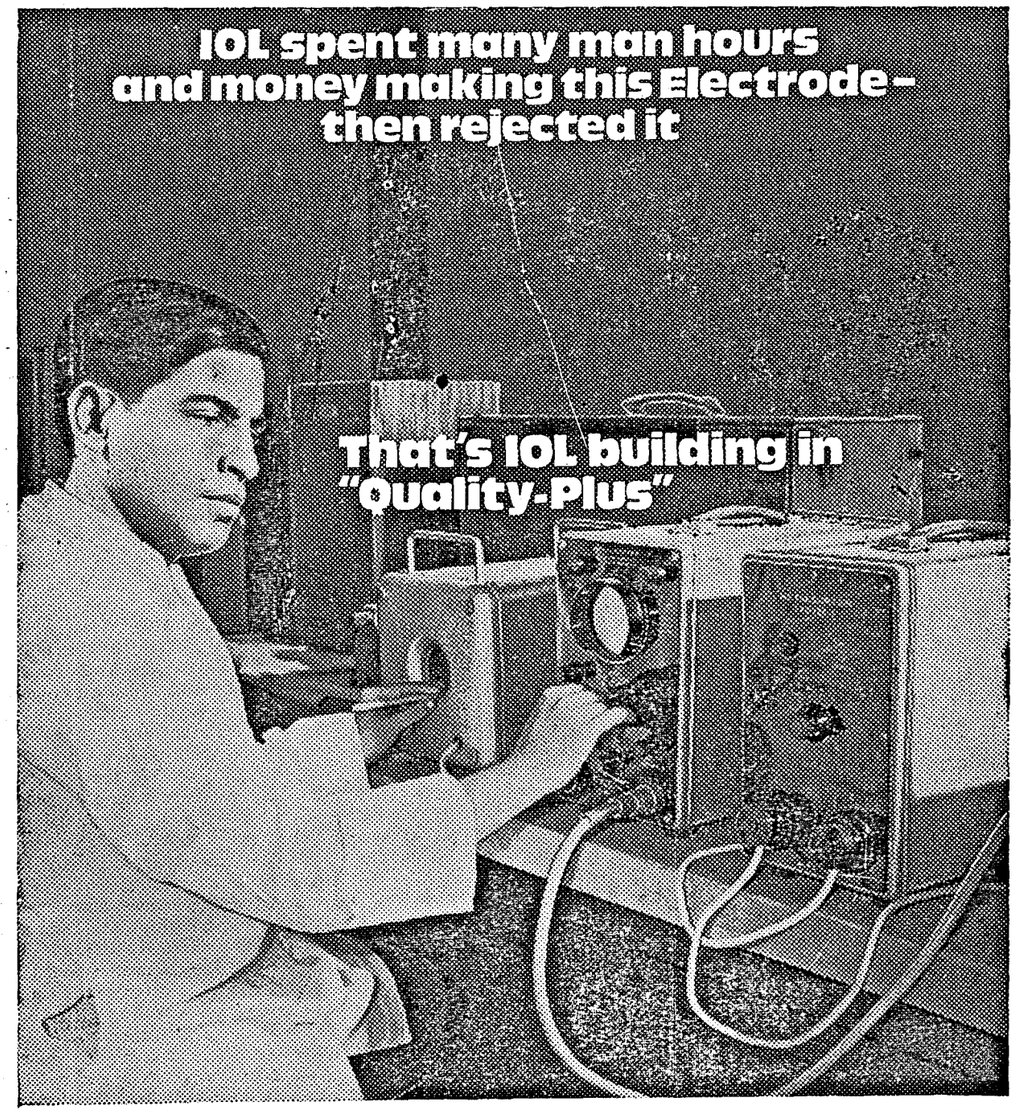
Only a few broad aspects of a development strategy have been discussed above to illustrate the contrast between the real issues and the numerical exercises we tend to indulge in. In particular, an attempt has been made to distinguish areas of planning where the optimum period of advance decision-making is long from those where it is short.

IN the first part of these studies, published last week, it was argued that the planning process would be greatly facilitated by the deliberate choice of a development strategy to indicate the broad directions in which it is proposed that the economy should move over a fairly long period. The present part is concerned with a definition of this concept in more detail. In particular, the strategy concept will be distinguished from the sort of perspective planning that is now carried on in India.

Let us first consider why we need such a concept. If, for instance, we had a sufficiently reliable idea of the working of the economy, and of the external circumstances influencing its development, then we could lay down a long-term plan for the entire economy, in the sense of firm decisions according to a definite time schedule. But we do not have this knowledge. External factors fluctuate far too much and we do not know enough about how the large private sector of the economy behaves, particularly in response to the policies of the government. It is because of this lack of reliable knowledge that the alternative approach suggested in the earlier part restricts long-term planning to a few sectors only. But even if we do not have the knowledge to specify a long-term programme of action, we have some ideas of the problem, of future possibilities in meeting the problem, and of our preferences in choosing among these possibilities. These ideas in fact, constitute our diagnosis of underdevelopment and our general approach to dealing with it. It is an attempt to view the development problem in its totality. Such a concept of development cannot be laid down in terms of specific decisions, but it can be formulated in terms of decision-making rules, which can then be applied to make the actual decisions as new data become available. This approach will then help to ensure that a long-term point of view is taken into account in dealing with practical decisions, so that they are not overwhelmed by narrower short-term considerations.

The first task in defining a development strategy is to lay down its ultimate objective. The definitions discussed in the literature can be classified under two headings, which may be broadly described as Growth and Development respectively. Both concepts are concerned with raising the standard of living of the people, but there are significant differences. The basic distinction has been stated by Kindleberger thus: "Economic growth means more output and economic development implies both more output and changes in the technical and institutional arrangements by which it is produced."[1] In fact, it is useful to think of growth as the process, characteristic of the developed countries, by which the national product is continuously increased by investment and technological progress. For this to occur on a continuous basis, the engine of growth has to be internalised, in the words of Arthur Lewis. This requires a certain type of institutional and technological structure of the economy, essentially based on modern science and technology, which has already been established in the developed countries over a long period of time. In contrast, development is the process by which this institutional and technological framework is built up in a less developed country, where the prevailing institutions and techniques of production are based on a different, and older, technology.

For the less developed country, there may therefore be an important advantage in distinguishing between a development phase and a growth phase. During the development phase, the emphasis is on the structural transformation of the economy; growth is not neglected in this phase, but it is not the principal criterion for judging performance. Once this phase is completed, the economy will enter the phase of self-sustaining growth, characteristic of the developed countries. This, in turn, does not mean that the maximisation of the growth rate is the principal object of policy in the growth phase; it only means that the economy has become capable of sustained growth, and particularly that the actual rate of growth becomes amenable to policy, especially in the short term. The way the two phases have been distinguished has a close analogy with Rostow's theory of the take-off, but the analogy is not a complete one. Unlike Rostow's stages of growth approach, it is not here assumed



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that there is any innate tendency for one stage to lead to the next; economies can persist in a pre-take-off state for long periods of time in the manner studied in theories of the low-level equilibrium trap. Further, Rostow lays great emphasis on an acceleration of the growth rate and achievement of a high rate of investment as factors leading to a take-off, whereas in our approach, greater emphasis is placed on a structural transformation. The process of economic growth, as it occurs in the developed countries, has been the subject of intensive study, but we do not yet have a complete theory of development as it occurs under present conditions. Therefore, many aspects of development policy have to be determined on the basis of political judgments. This is specially true of the social aspects of the development process, such as income distribution.

The broad distinction between the growth objective and the development objective is quite familiar to Indian economists, but it is surprising that the planning techniques generally used are related so much to the growth objective, i e, to the current and continuous growth of such aggregates as the national income. This is well illustrated by the techniques of perspective planning in India.[2] Three basic features of the procedure used may be noted: (1) The perspective plan gives only one line of development of the economy over periods of fifteen years, rather than a number of alternatives; (2) During this period, the structure of the economy is projected by extrapolation of the trends observed in the Indian economy in the past; and (3) The projection is largely based on a target for the growth of the national product.

The 1964 exercise in perspective planning starts off with the objective of assuring by 1976 a minimum monthly consumption of Rs 20 per capita (in 1960-61 prices). From this, it is deduced that the national income in 1975-76 should be of the order of Rs 370 billions; this gives an annual average private consumption in that year of Rs 480 per capita. Assuming that the pattern of inequality of consumption remained constant, according to which minimum consumption was about half the average, this would ensure reaching the minimum standard. This approach is again explicitly used in the 1970 exercise (p 34).

Having thus established a national income figure as the target of the perspective plan, the study then goes on to phase the growth of the national income at annual rates of 5 per cent in 1960-65; 7.7 per cent in 1965-70; and 7.5 per cent in 1970-75. As the study was finished in 1964, the growth rate of 5 per cent in the first five years was mostly past history by then; from this, it is pure arithmetic to deduce the rate of growth required in the remaining period to achieve the final target. The study proposes a slightly lower rate of growth in 1970-75 than in 1965-70, based on a rate of capital formation rising sharply from 16 per cent in 1965-66 to 21 per cent in 1970-71 and remaining constant thereafter. There is no explanation for this particular sequence of events; the only basis seems to be a desire to promise a growth rate of per capita consumption at 5 per cent in the period 1970-75 to compensate for growth at only 4 per cent in 1965-70. The slackening in the growth of investment after 1970-71 may also be due to a desire to be independent of foreign aid by 1975-76.

Table 1: Annual Rates of Growth of Output, Productivity and Employment: 1960/61-1975/76

(per cent)

Sector	1960/61-1970/71			1970/71-1975/76		
	Output	Productivity	Employment	Output	Productivity	Employment
A	3.6	2.5	1.1	4.3	3.5	0.8
B	10.4	3.6	6.6	9.7	4.2	5.3
C	6.7	2.6	4.0	8.4	4.1	4.1
Total	6.3	3.8	2.4	7.4	5.0	2.3

Starting with this projection of the national income, the programme then lays down increases in production of various goods on the basis of the demand arising from planned investment, the growth of population, and of per capita consumption on the basis of expenditure elasticities observed in the past. Some targets were based on social norms; enrolment in primary education was to reach 100 per cent of the corresponding age group in 1976, and 90 per cent at lower secondary level. In later studies, the enrolments at higher levels were based on an estimate of manpower requirements, themselves based on the targeted growth rates of national income and its principal components.

It was also expected that the economy would reach a full employment state by 1975-76. The rates of growth of employment were derived for three broad sectors, agriculture (A); organised mining, manufacturing and transport sectors (B); and other sectors, such as small enterprises, construction, commerce and the professions (C). The results are summarised in Table 1. The assumed growth of employment was based on the growth of net output and the increase of productivity. On this basis, it was expected that, of a projected increase in the labour force of 70 million, 50 million would be absorbed in the non-agricultural sector. To the extent that productivity increases more slowly than expected, employment growth will be faster, but if productivity does not increase as fast, the growth of output may also be slower.

The stock of capital is expected to increase by Rs 665 billion from Rs 322 billion in 1960/61 to Rs 987 billion in 1975/76. Of the addition to the capital stock 46.5 per cent is to be in the mining, manufacturing and transport (MMT) sectors, raising the proportion of the capital employed there from 26 per cent to 40 per cent. Also 65 per cent of the additional capital is to be in the public sector, raising its share of the capital stock from 26 per cent to 52 per cent. Thus, the allocation of the new investment will be such as to strengthen the MMT sectors and also the public sector. The high level of investment in the public sector is expected to be financed by current surpluses of the government sector, deficit financing, external resources (for part of the period), and absorption of private savings, as shown in Table 2. The assumptions about financing are rather optimistic; the revenue surplus increasing at 23 per cent annually; the surpluses of public enterprises at 26 per cent, and domestic borrowing at 10 per cent. Further, the proportion of private savings to be

Table 2: Financing of Public Sector Investments

(Mn Rs)

Source	1960/61	1975/76
Revenue surpluses	850	19,100
Surpluses of public enterprises	500	16,300
External resources	4,900	—
Deficit financing	—1,100	3,250
Domestic borrowing	3,050	13,350
Total	8,200	52,000

borrowed for public sector investments is expected to double from 20 per cent in 1960-61 to 40 per cent from 1965-66 onwards.

It will thus be seen that the perspective plan depends crucially on the projection of the national income and the possibility of financing the plan. The assumptions about future growth represent a sharp break from past trends, and cannot be fulfilled without extensive policy changes designed to bring about a greater momentum of development. But the work done in perspective planning does not indicate the nature of the required policy changes. To that extent, this sort of exercise does not provide much strategic guidance. Instead, it is heavily based on estimating levels of investment and its allocation to various sectors required to achieve the target rate of growth. In addition to this, the perspective plan derives estimates of required capacity in various sectors and industries in considerable detail, but as these are in turn based on the target rate of growth, their value for detailed planning is doubtful. In all, it seems as if the perspective plan does the same basic calculations for a fifteen year period that the medium term operational plans do for five years at a time; the difference is that it is not expected that the perspective plan will be implemented as drawn up, but will be modified as time goes on. Under these conditions, the perspective plan is of little use in formulating the medium-term plan or in focusing attention on the basic issues of longer-term development policy. The point may be seen more clearly by discussing some of the issues that might be considered in an alternative formulation of development strategy.

(1) The Relative Roles of Capital and Labour

In spite of all the arguments that have been waged in the last twenty years, there can be no question that the development phase of a less developed country is one of investment in capital on a major and, for these countries, an unprecedented, scale. These countries cannot afford to slacken their efforts to provide for capital accumulation by every means in their power. This is partly because they begin their development phase with such a low level of capital. It is also because many of the institutional and even social changes that they aspire to are facilitated by the process of investment on a large scale. The rest of development policy is only concerned with making such investment possible. The real issues concern the problem of making the best use of the maximum amount of investment they can undertake. Some of the disenchantment with the key role assigned to capital is really due to the manner in which new investments have been allocated and utilised in the past. To this extent, the primary concern with the appropriate *level* of investment in some of the earlier theoretical and in even recent planning discussions is misplaced and tends to bypass the real issues of development.

Even if the less developed countries achieve investment at the maximum rate possible, capital will remain scarce relative to labour for a long time to come. It follows, therefore, and is widely agreed that during this period we should adopt a labour-intensive strategy. This means that, wherever possible, the economy should be moved to use labour-intensive goods in preference to capital-intensive goods, and labour-intensive techniques in preference to capital-intensive techniques. In turn, all obstacles to such a strategy, such as labour indiscipline, wage demands, cheap imports of capital goods, etc, should be watched and overcome, consistent with other policies. However, this needs some important qualifications. First, this does not mean that a labour-using technique is to be preferred at all costs. The idea of a labour-intensive approach is to get a higher return from our scarce capital. Hence, when a labour-using technique actually gives a lower return to capital also, the capital-intensive technique may have to be chosen. For example, Dhar and Lydall have raised some doubts about the advantages of some small-scale industries from this point of view.[3] Also, public administration is very labour-intensive but it is not to be expanded on that account, for already its labour-intensity may be a factor leading to serious inefficiency. The second qualification to note is that the present labour-surplus condition will not last forever. The very process of development will lead to increasing labour-scarcity in a long, but finite, period of time. This should also be taken into account in planning.

Once it is accepted that our development strategy should be biased towards a labour-intensive approach, how is this strategy to be incorporated in our planning? This requires intensive study about the factors which affect the substitution of capital for labour in the economy and the influence of the various instruments of public policy on these factors. Planning cannot wait for the results of a full study; while such a study is going on, various policy measures can be tried in an experimental way, thereby influencing current developments on the one hand, and also providing additional data for a fuller understanding of the process, on the other. For example, measures can be taken straightaway to raise the prices of capital-intensive goods so as to shift demand towards labour-intensive goods. Also the use of capital-intensive techniques can be discouraged, and that of labour-intensive techniques encouraged, by suitable taxes on capital, and tax reliefs or subsidies on the employment of labour. In doing this, an effort must be made to ensure that the discouragement of the use of capital must not be carried so far as to underutilise our existing capacity in capital-goods industries or to reduce the output of the using industries either. The fiscal measures to influence choice of industries and of techniques can be supported by other measures, such as industrial licensing, import entitlements, credit policy, industrial location policy, etc. The supply of capital can also be influenced by policies; a great deal of the capacity in capital-goods industries is in the public sector; therefore, the supply of capital-goods industries can be regulated by investment decisions in the public sector itself. An important question is the extent to which the government and entrepreneurs have any degree of freedom in the choice of techniques. They may be restricted to such techniques as they can borrow from the capital-abundant labour-scarce countries. A large domestic capital-goods industry can therefore play a part in extending these options, and some weight must be given to this consideration in making decisions about the industry.

A major factor influencing the relative roles of capital and labour is the level and rate of increase in wages. This is an area where governmental regulation is likely to be weak, but the government sector itself is a large employer of labour, and it should use all its influence in restraining the growth of wages in the public sector, to prevent a sympathetic rise in wages in the rest of the economy. Even so, it may not achieve a perceptible effect on wage levels; further, the policy towards actual wages may have to take account of other social and political considerations. But even if actual wages cannot be adjusted sufficiently, an attempt must be made to see that investment decisions, definitely in the public sector,

and as far as possible, in the private sector, are not based on the actual wage rates, but on some shadow wage rates and shadow interest rates designed to move the economy towards the chosen strategy. Such shadow prices cannot be derived in the text-book manner from optimising exercises, because we do not have enough information to build such models; they have to be chosen by the exercise of informed judgment. In fact, the shadow prices of factors determined in this way may be taken as the parameters of an overall strategy.

(2) Relative Roles of Physical and Human Capital

Investment in both physical and human capital is needed to promote economic development; both types of investment involve costs at present, while yielding their benefits at a later time. This leads to the question of the relative emphasis to be placed on each. Present conditions and the nature of her future development justify placing considerable emphasis on investment in human capital in India. One reason is that India has a long way to go in incorporating modern science and technology in her productive process, and this requires strengthening of the human factor. Another reason is that human capital may be cheaper than physical capital in India, because education is one of the most labour-intensive industries. In fact, it may be said that Indian strategy should aim to substitute human capital for physical capital, wherever possible. The scope for such substitution is quite large, as shown by recent developments in the developed countries themselves.

In fact, great emphasis has been placed on educational development in India, especially at the higher levels. There may be a variety of factors, some of them social and political, which underlie this emphasis, but insofar as this is based on economic considerations, such development must be planned much more carefully than seems to be done at present. One objective of such planning should be concerned with the quality of education. There is abundant evidence that the great quantitative expansion of education that occurred in the past, has been at the expense of quality, especially at the higher levels. Mark Blaug has argued that this is inevitable, that under Indian conditions "more means worse".[4] A K Sen has suggested that this has been due to the failure of academic salaries to rise sufficiently to attract the required number of adequately qualified persons to the teaching profession.[5] These are matters to be studied in detail, and the further expansion of education should be planned so that a high quality is maintained.

A second important consideration is that educational development can assist the process of overall development only to the extent that the graduates are employed in the production process. Even in the developed countries, a large proportion of the more educated workers is employed in the public sector, but in the typical underdeveloped country, the proportion is very high, apart from some self-employed professional people. Various factors have tended to inhibit the employment of educated workers in the private sector, such as the small scale of most enterprises, the high salary expectations of educated workers, the quality of education in schools and universities, etc. These factors have to be studied and modified as far as possible to raise the employment of the increasing supply of educated workers, to promote the greater use of modern science and technology in production.

Then we come to the question of the magnitude of educational expansion to aim at. The two considerations mentioned above, the improvement of quality and the absorption of educated workers, impose an upper limit to the rate of expansion. Apart from this, there are two dominant approaches to the quantitative planning of education — namely the manpower requirements approach and the rate of return approach. The manpower requirements approach has been adopted by the Education Commission for planning the higher levels of education. Under this approach, the national income is projected over a decade or two; from this, the growth of various sectors is derived by various elasticities observed in the country or in international comparisons; this is then translated to occupational categories by using a matrix of co-efficients and finally into a projection of requirements of workers at various educational levels, again on the basis of another set of co-efficients. Although this method, developed in the OECD Mediterranean Regional Project, is widely used in practice, the method has serious shortcomings, essentially due to the assumptions that the various co-efficients observed in the past will remain constant in the future. The estimates derived by this method also depend on the degree of optimism with which the national income is projected. Further, the method suffers from its almost complete neglect of the economic factors of the costs and benefits of education.

In contrast, the alternative approach in terms of the rate of return is dominated by economic considerations. In this approach, the costs and benefits are calculated explicitly and expressed as a rate of return on investment in education. Typically, the benefits to the individual over his lifetime are estimated from the observed earnings differentials of workers of different educational attainments at various ages. For certain countries, such as the United States, it has been shown that such calculations do explain the nature of the private demand for education. In fact, on the basis of such data as are available, Blaug *et al* have shown that such private rates of return do provide the rationale of the behaviour of private individuals in India, such as the great demand for higher education and the continuing demand for a general and academic education. However, to be useful for public policy, the relevant rates of return have to be adjusted for a social point of view. Here the rate of return approach is on much weaker ground. It relies heavily on observed income differentials, which may not quite represent differences in social benefits. It assumes that these differentials will persist over the lifetime of persons making their educational decisions at present, and therefore does not take account of changes in these differentials that may occur in the future, or even the changes likely to result from the process of expansion itself. Finally, the rule that education at various levels should be extended to equalise the rates of return among themselves and with the return to be expected from other types of investment, does not give guidance to the extent of expansion needed in any period, or the ultimate goal to which the procedure would lead.

There is a lively controversy going on between proponents of the two approaches, especially as they often get divergent policy conclusions — the manpower requirements approach favouring large expansion at the higher levels, and the rate of return approach favouring expansion at the lower level. But in a sense, both approaches are similar in that educational expansion is obtained as a derived demand, a demand derived from the actual or projected growth of the rest of the system. Although both approaches, and especially the manpower requirements approach, are applied over a long period of time, their basic assumptions, such as constancy of observed co-



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efficients and income differentials, limit their applicability to a rather short period, quite inadequate for the planning of educational development. These approaches leave out of account the role that educational development can play in influencing the rate and pattern of overall development. If it is at all expected that educational development will be a factor in influencing a break from past trends in economic development, then we have to start with a prior determination of educational goals, and persevere with policies to ensure that the rest of the economy derives the maximum benefit from progressing towards these educational goals. Thus, instead of starting with certain sectors which are likely to expand or to be developed, and then calculating the manpower requirements, new industries have to be developed to utilise the availability of new skills in the labour force. Instead of deriving the directions of educational expansion from rates of return based on present income differentials, these differentials have to be adjusted to promote the full utilisation of a growing output of graduates. It is along these lines that Arthur Lewis has argued that "one ought to produce more educated people than can be absorbed at current prices, because the alteration in current prices which this forces is a necessary part of the process of economic development. On the other hand, this adjustment is painful and fraught with political dangers".[6] The role of planning is to minimise these dangers. This approach depends on setting the long-term goals of educational expansion. Ultimately, these goals have to be fixed on the basis of the requirements for a modern, growing economy. Here, the analogy with the present developed, industrial, countries becomes more applicable. Once the long-term goals are held down, then economic criteria based on current developments may be used to choose from among alternative routes to these goals.

On the approach suggested here, educational development becomes a subject for long-term planning, not just in the sense of a broad strategy for dealing with changing circumstances as they arise or in the sense of perspective planning to provide the background for current decisions itself being periodically revised, but in the sense of firm decisions on a definite long-term time schedule. It would then have all the advantages claimed for long-term planning in the first part of these studies — reduction of uncertainty for the private sector, more systematic project planning, more effective balancing over different regions, and clearer definition of supporting policies. In particular, it would help in maintaining the quality of education in a period of expansion, and lay the basis for salary reforms in the public and private sectors.

Once it is decided to apply long-term planning to education, the task of formulating such a plan may be done by a National Educational Planning Commission. This would be preferable to doing it in the present Planning Commission. An Educational Planning Commission would include India's leaders in the educational field and would be able to delve deeper into the educational aspects and spend more time at it, than the Planning Commission with its preoccupation with five-year plans. Such an Educational Planning Commission would also function differently from the Education Commission of the type which met in 1964; for one thing, the Educational Planning Commission would aim to arrive at firm commitments to action rather than be confined to analysis and broad policy recommendations. But more importantly, the Educational Planning Commission would investigate deeply the interaction between educational development and the progress of the rest of the economy. Such an Educational Planning Commission does not have to be a permanent body; after having formulated a long-term plan, the further planning tasks may be left to the present planning agencies and the educational authorities.

(3) Investment in Infrastructure

The strength of the infrastructure in India, as in other less-developed countries, is very inadequate for the functioning of a modern economy, and for the integration of all parts of the country. This has, of course, been recognised in Indian planning and a considerable portion of investment has gone into infrastructure. As the most urgent needs get filled, it becomes necessary to approach future policy in this field with a more deliberate choice of a suitable strategy.

Two possible approaches may be distinguished. One approach, which may be loosely described as the World Bank approach is to make an investment when the demand for it can be foreseen clearly enough to yield a rate of return above some estimate of the cost of capital. The other approach is that of building infrastructure ahead of demand — in fact, to stimulate the demand. The case for building infrastructure ahead of demand in the less developed countries has been forcefully argued by the late Ragnar Nurkse,[7] who, in other respects, was a balanced growth theorist. The distinction has been described in relation to transportation by Wilfred Owen thus: "Traffic projections are too often based on what may be expected to happen rather than what can be made to happen. The first approach is guessing the future, while the second is planning it."[8] It would help the planning process to make a clear choice between these two approaches, at least as a broad principle. There are indications that Indian planning seems to have taken the first approach in principle but to have followed the second in practice. One result of this is that, for capital already invested, the whole burden of securing an adequate rate of return falls on the prices charged to consumers. It would be better to determine these prices on the basis of what the traffic will bear, and in the interests of resource mobilisation, consistent with other development policies.

The divergence between the two approaches is similar to that noticed in the alternative approaches to educational development, which may itself be considered as an element of social infrastructure. There is, however, the difference that educated workers are much more versatile and also more mobile than physical infrastructure. Hence, educational development can be determined on a more aggregative basis, and therefore, is more amenable to long-term planning than most physical infrastructure. Scale and location decisions are likely to be more important for physical infrastructure, and have to be considered more closely in relation to the development prospects to be served by each investment.

A strategy for infrastructural investment may be drawn up by first specifying certain long-term targets in rather broad terms such as energy output, ton-mile capacity, etc, without advance choice of the specific means — hydro, diesel or thermal, road, rail or water, etc. These long-term goals may also be broken up into regional goals — to ensure some sort of regional balance and fair distribution. The second element of a strategy would be the continuous search for feasible projects. This may also be undertaken as a long-term assignment, so that suitable expertise and organisation can be built up all over the country. Then, a shelf of fully researched projects will always be available. This will avoid the danger that, when infrastructural investment is to be stepped up for any

reason, the number of technically sound projects available will be inadequate. This may be one of the problems facing the rural works programme, whose expansion was recently attempted as a measure to deal with rural unemployment and underemployment problems.

Given these long-run preparations, actual investments may be decided in the medium term on a variety of considerations. An investment may be made as soon as it becomes clear that a shortage has occurred or is likely to occur. Faced with such a need, a decision can be made about the particular type of investment to meet the shortage of infrastructural facility, i e, the choice of hydro or thermal source of power, or road or rail means of transport. Such a choice can be made on strictly economic grounds. It will be easier to make these choices if there is a shelf of projects to choose from.

Apart from the cases where shortages are clearly foreseen, other investment decisions may also be made in order to stimulate economic activity. While every effort should be made to see that there are good chances that economic activity will, in fact, be stimulated, some speculative element will enter in some cases. To deal with such cases, an economic choice may be made on the basis of a projected rate of return, but a lower cut-off point may be used. In other cases, the infrastructural investments may be directed towards specific economic activities to be stimulated, as e g, in the construction of industrial estates.

One of the most important possibilities opened up by using infrastructural investment to stimulate particular directions of economic activity is the application to deliberate urbanisation. For example, the proportion of urban population living in small towns has been steadily falling in India. Infrastructural investment may be directed to promote the growth of small towns, in contrast to concentration in the bigger towns and cities. The development of smaller towns would prevent an excessive rate of migration from rural areas to the big cities, creating problems of congestion in those cities, calling in turn for more infrastructural investment. At the same time, the small towns might more directly serve the urban needs of their rural hinterland, and thus promote its agricultural development as well.

(4) Agricultural Development

Some of the uncertainties regarding long-term planning facing other sectors of the economy are absent in the case of agriculture. There is a general consensus that the country should be self-sufficient with regard to most of its agricultural requirements. There is also widespread agreement that this is technically feasible. On this basis, the perspective plan exercise done for the Fourth Plan has derived a target of a 5 per cent rate of growth of agricultural production up to 1985-86. The problem of achieving this growth has also been studied intensively, and the broad lines of solution are clear. The gross irrigated area has to increase from about 31 million hectares in 1964-65 to about 67 million hectares in 1985-86. The intensity of fertiliser use has to increase fivefold from about 10 kg per hectare in 1968-69 to about 50 kg per hectare in 1985-86. This has to be combined with efficient water management and improved cultivation practices. All this has to be supported by continuous research effort in the search for new varieties and the adaptation of varieties, water management, fertiliser use and other agricultural practices to suit local areas.

While these technical aspects of agricultural development have been studied and by now are well known, at the national level, there is still a great deal of work to be done at the local level. In this connection, there has been great concern about agricultural planning as it is done at present. Among the factors which need to be re-examined is the question whether the essentially long-term tasks involved here have suffered from the five-year planning approach followed so far, with its heavy emphasis on the financial aspects of planning. Another is the question whether the present distribution of the planning function between the centre and the states has weakened the implementation of agreed programmes, a role now largely assigned to the states. A third factor is the question whether the economic policies of the government have been adequately adjusted to the predominant role that the private sector plays in this field.

A satisfactory solution of these problems requires a long-term horizon. It involves essentially the long-term process of building up new organisations and institutions to serve the agricultural sector. It also requires a considerable expansion of the research effort spread all over the country to improve our knowledge of the conditions prevailing in local areas, in addition to the basic research in search of new varieties, more suitable to local conditions of soil, water availabilities, of disease, and of demand peculiarities and needs. The extension service has to be greatly expanded to provide a two-way communication of research results to producers and of local problems to research agencies and policy makers. An appropriate institutional basis has to be built up to exploit fully the opportunities opened up by nationalised banking to meet the credit needs of agricultural development. A long-term approach to agricultural policy has to be evolved to balance the competing aims of providing an adequate incentive to producers on the one hand and of keeping down the cost of living of the weaker sections of consumers. A basic decision is also needed in connection with agricultural mechanisation to ensure that agriculture provides maximum opportunities for employment, as output and productivity are increased. Above all, an approach to land reform should be defined over the long term.

The fact that the long-term goal of agricultural development is fairly clear and the fact that the principal means of achieving this goal involve so many long-term processes suggest that this is another area which is eminently suitable for long-term planning. The essential prerequisite for this is a decision to pre-empt a certain part of furture development expenditures for the agricultural sector. This does not mean that all expenditures for agriculture have to be pre-empted in this way but only the part that corresponds to clearly foreseeable needs. Once such a decision is made, then the task of planning on this basis can be entrusted to a National Agricultural Planning Commission, on the same principles as that proposed for education. In practice, this might be done by a suitable re-definition of the terms of reference of the present Agricultural Commission. When so re-defined, the Commission could take full account of the needs within agriculture itself, and at the same time, take full account of the interrelations between agriculture and the rest of the economy. It could consider not only the questions of financial allocation for various purposes, but also the question of the policies to promote these objectives.

(5) Industrial Development

From the beginning, the main route to economic development was assigned to industrialisation, i e, the steady increase in the labour force employed in, and the national product originating from, the industrial sector. Within this broad objective, there have also been some basic decisions about the pattern of industrialisation. From the Second Plan onwards, greater emphasis was

given to capital-goods industries. In other industries, a certain role was reserved for small-scale enterprises. Regarding the ownership and control of industry, the basic policy was enunciated in the Industrial Policy Resolutions of 1948 and 1956. The public sector was to play the major role in the organised sector; further, the private sector was to be closely regulated by a system of licensing and other controls to guide industrial development according to detailed targets laid down by planners, and with a view to preventing excessive concentration. Subject to licensing, private sector industry was to be promoted by a number of financial agencies and by various programmes of technical assistance.

After two decades of planned industrial development, Indian industry is facing serious problems. While there has been an emphasis on the capital-goods sector to lay the foundations for long-term growth, following the Mahalanobis model, there has been less emphasis on corresponding action to match savings to this shift towards investment goods on the physical side. As a result, there are indications that inadequate savings in the economy has led to underutilisation of capacity in the capital goods sector, and a demand for consumer goods beyond the existing capacity, leading to inflation of consumer-goods prices, simultaneously with signs of industrial recession.[9] At the same time, as a number of recent investigations have shown, the system of licensing and related controls has not had any systematic economic basis, and has failed to achieve some of its major objectives, such as prevention of concentration. While the machinery of controls could be relied on to choke off excessive demand for investment resources, the corresponding machinery of financial institutions and technical assistance has failed to raise the demand when it fell too low, as shown by the protracted industrial recession of the past few years.

In the light light of this experience, the planning of industrial development needs a basic reconsideration. Essentially the present weakness of industrial planning may be traced to our ignorance about the factors affecting the private sector of Indian industry, and hence, to the lack of an adequate theoretical basis on which to plan industrial development. This can be seen from the variety of theories that have been advanced to explain the industrial recession. A part of the industrial recession has been attributed to the slackening of public sector investment; on this explanation, industrial expansion has not yet been sufficiently geared to the rest of the economy. To meet this difficulty, a greater part of industry must be re-oriented to serve the private sector demand, and at the same time, more resources must be mobilised to maintain a high level of public sector investment. According to another line of explanation, an excessive capacity has been built up in the capital goods sector, beyond the increase in the rate of savings generated in the economy. If a large capital goods sector is desired in the interests of long-term growth, this again requires more action on the savings front. Yet another explanation is based on the shortage of essential inputs, such as the shortage of steel and the shortfall in raw cotton; in the case of such short-term and temporary difficulties, speedy action is needed to import the materials in short supply. An interesting line of explanation relates the industrial situation to agricultural conditions. It has been argued that a bad agricultural season, by raising food prices, reduces demand for industrial goods, because a higher proportion of disposable incomes is spent on food. On the other hand, it has also been argued that high agricultural prices only inflate the incomes of traders and money lenders, whose demand for industrial goods rises to a smaller extent. It has also been argued that the expansion of Indian industry was so largely based on import substitution of relatively luxury goods, and that this demand having been sated, the industrial expansion has proved to be a once-over affair, incapable of continuous expansion, in the absence of a significant change in income distribution. Finally, it has also been argued that the promotional efforts of the government in the field of industry have been too weak to stimulate industrial investments, especially in the small-scale sector and that the various financial institutions have only acted passively to serve existing demand, rather than to promote new demand. This requires a more active policy on the part of the financial institutions, and a more active use of credit planning.

All this shows that our knowledge of the mainsprings of industrial expansion is quite meagre. One of the first tasks is to undertake intensive research on these issues. Our present approach is heavily based on rather over-simplified macro-economic models. They need to be greatly elaborated and supplemented by micro-economic studies. While this research gets under way, some tentative conclusions may be drawn about the directions of future progress. Over the long term, the pattern of industrialisation has to be related to the progressive changes in the distribution of income. Also, the success of the government in guiding industrial development depends not only on the negative aspects of regulation by licensing and controls but also by the positive aspects of active promotion by programmes of financial and technical assistance. At the same time, industry must be guided towards the absorption of the growing labour force at the maximum possible rate, and to this end, all instruments at the control of government, including price policies, have to be actively used. Apart from these essentially long-term measures, the actual rate of industrial expansion in the short run has to be related to the maximum resources that can be mobilised for investment in this sector.

In the past, industrial investments in the private sector were subject to detailed "planning" in the sense that certain capacity targets were laid down and the system of licensing and controls operated to ensure that these targets were not exceeded. In view of the many uncertainties involved in our understanding of this sector, the economic basis of laying down such targets has become suspect. Further, the control mechanism has failed to ensure that these targets are attained and also to promote its other objectives. At the same time, the government has to exercise some influence over the rate and direction of industrial investment. It has also to allocate some essential scarce materials and scarce foreign exchange among various industries and various applicants. To do this, a more flexible system of planning over a short term has to be used, and its operation modified on the basis of continuous monitoring. For this purpose, the French system of indicative planning provides a useful model. In this system, the instrument of credit planning can be used with greater effect. There will, of course, be some basic industries of high priority for which future requirements can be forecast more reliably; in these cases, a strict type of planning over the long term can be applied.

(6) Resource Mobilisation

In spite of the great progress that has been achieved in the past twenty years, there is still need for further increases in the rate of resource mobilisation for development. As the needs for investment over the long run in infrastructure, education and various economic sectors become better defined in terms of pro-

jects, the need for more resources will outstrip the present rate of resource mobilisation. This will be specially true of the public sector which bears a special responsibility for the development effort. Therefore, the strategy for resource mobilisation has to be re-examined in order to step up the pace of development.

So far the size of the plan has been debated on the issue of the amount of resources that can be mobilised, leaving the question of the use of these resources for secondary consideration. This procedure threatens to slow down the possible rate of progress. Instead, the first task is the spelling out of the tasks to be performed, for which the technical, administrative and institutional preparations have been made. A basic principle of resource mobilisation should be that financial resources should not be a constraint on the development process in these critical years. To adopt such a principle, of course, the projects to be undertaken must be of the highest priority for development. This principle has in fact been stated in Indian planning documents. For example, a memorandum of the Perspective Planning Division states that "the right approach is to investigate closely the nature of the problem to be tackled, the nature of solution to be sought, the concrete tasks to be carried out, the physical resources, skills and organisational effort to be mobilised for the purpose. If these appear to be operationally feasible, it should be possible to devise policies by which the finance can be found to facilitate the process of mobilisation of the real resources."[10]

While it is desirable that the pace of development should be limited only by the extent to which the practical tasks are defined and judged to be most conducive to development, rather than by a prior judgment about the financial constraints, the pace of development can be accelerated only when adequate financial resources are, in fact, raised. This means that, for following this approach, the whole apparatus of resource mobilisation must be streamlined so that the resources will be forthcoming as they are needed. There are, first, the obvious lines in which past efforts must be expanded. The tax administration must be strengthened to control the present high rates of evasion or the tax system must be revised to make its administration more effective. The tax system must be extended to mobilise more resources out of the rising agricultural incomes. As already stated in the Second Plan, "there should be discriminating, but prompt, use of the instrument of taxation to prevent excessive increases in consumption in certain lines and to mop up the excess profits or windfall gains that deficit financing tends to generate" (p 86).

Out of its revenues, the government must exercise the utmost economy in the cost of the general administration. After having complained bitterly of the cost of the administration in the old British days, the country has been landed with an expensive administration of its own, mainly because of the hangover of so many administrative ideas from those days. The poor financial performance of the public sector enterprises has been held as an argument against having these enterprises in the public sector at all. Their management has to be improved so that they begin to contribute towards the development effort.

Break from Past Trends

Two important elements that enter into the decision about the size of a plan are the expected volume of savings and the permissible amount of deficit financing. Elaborate calculations are made about these magnitudes. In the case of private savings, these are essentially based on the past experience with the marginal rate of savings. In the perspective plan exercise of the Fourth Plan, for example, this is held constant at 12 per cent. However, an effective policy of resource mobilisation requires a break from past trends. This requires an intensive study of the incentives to private savings, especially the effect of the present rate of inflation on the real rate of interest earned by savers. A basic problem in the projection of savings from past data is that these data only reflect *ex post* savings, while what is needed is to attain the highest level to which *ex ante* savings can be pushed. Another important question is the extent to which these savings are available to the public sector. Under present conditions, the hopes included in the perspective plan of doubling the proportion of private savings that can be borrowed by the government seem over-optimistic. Given the relatively slow growth in private savings, the prospect of raising sufficient resources for the proposed perspective plan rest mainly on a great increase in public savings. While this is essential to any argument, it requires basic long-term changes in fiscal policy, which have not been spelt out.

The approach to deficit financing appears to be based on a sort of quantity theory of money. The Third Plan "proposed to limit deficit financing ... to the minimum warranted by the genuine monetary needs of the economy, ... in view of the rise in prices that has occurred during the Second Plan period" (p 99). The estimate for the Fourth Plan was based on the required expansion of the money supply corresponding to the planned growth in real income, but it is also said that "the annual amount of deficit financing will have to be determined in the light of emerging trends" (p 83). The policy towards deficit financing has thus been based on a presumed close-connection between the amount of deficit financing and the danger of inflation. In fact, we do not know enough about this connection in Indian conditions. In spite of the planners' concern with deficit financing, price inflation has gone on steadily in the past. Much more research needs to be done on the role of other variables, such as food supply and wage rises.[11] Further, the hopes of maintaining monetary stability during a period of development are too optimistic. As Joan Robinson says, "If there is to be development, there must be a stage when investment increases relatively to consumption. There must be an increase in effective demand and a tendency towards inflation. The problem is how to keep it within bounds."[12] It is all too easy to let inflationary forces get out of control, as the experiences of so many less-developed countries have shown; however, the goal of monetary stability may involve too high a cost in terms of growth and may, even then, be unattainable. The objective should be to squeeze as much investment as possible out of the economy, consistent with retaining control of the monetary situation. This requires a combination of long-term and short-term measures. We need a much better idea of the working of the monetary system and of price trends. We need a great strengthening of financial institutions to mobilise resources from all sources. Given this long-term preparation, the actual amounts to be raised by various sources can be kept flexible, and determined on short term, or even annual bases. To the extent that inflation is inevitable, its most undesirable consequences should be contained by a return to the approach stated in the Second Plan of what may be called 'selective inflation' (p 86).

The specification of a development strategy involves many other factors. Only a few broad aspects have been discussed above to illustrate the contrast between the real issues and the numerical exercises we tend to indulge in. In particular, an attempt has been made to distinguish areas of planning where the optimum period of advance decision-making is long from those where it is short.

(To be continued)

Notes

1 C P Kindleberger, "Economic Development", (McGraw-Hill, 1965) p 3.
2 See, e g, Planning Commission, "Notes on Perspective of Development—India: 1960-61 to 1975-76", (New Delhi, 1964); also Planning Commission, "Fourth Five-Year Plan 1969-74", (New Delhi, 1970), Chapter 2.
3 P N Dhar and H F Lydall, "The Role of Small Enterprise in Indian Economic Development", (Delhi, Asia Publishing House, 1961).
4 M Blaug, R G Layard and M Woodhall, "The Causes of Graduate Unemployment in India", (Allen Lane, Penguin Press, 1969) p 37.
5 A K Sen, "The Crisis in Indian Education" (Shastri Memorial Lectures, 1970).
6 W A Lewis, 'Education and Economic Development', in UNESCO, "Readings in the Economics of Education", (Paris, 1968) p 137.
7 See, e g, R Nurkse, "Comments on P N Rosenstein-Rodan's 'Notes on the Theory of the Big Push'", in H S Ellis (ed), "Economic Development in Latin America" (Macmillan, 1961) pp 75-77.
8 W Owen, "Strategy for Mobility", (Brookings, 1964) p 53.
9 H Ezekiel, "Capacity Utilisation, Investment Patterns and Income Growth", *Economic and Political Weekly*, June 12, 1971, pp 1183-85.
10 Planning Commission, "Notes on Perspective of Development — India: 1960-61 to 1975-76" (New Delhi, 1964, preliminary draft) p 26.
11 See, e g, S Weintraub, "Growth without Inflation" (Delhi, National Council of Applied Economic Research, 1965).
12 J Robinson, "Economic Philosophy", (Pelican Books, 1964) p 113.

Rent Control and Low Income Housing

Abhijit Datta

This note seeks to bring out the irrelevance of rent control to solving the housing problem of the poor and advocates a positive policy on the part of the government in this direction.

Such a policy would consist of increasing the subsidised housing programmes in a substantial manner and adopting a more general income guarantee scheme for the poor. Only by attacking on both these fronts we can tackle the problem of housing the poor.

ONE of the prevailing myths about rent controls in our urban areas is that these benefit low-income tenants in the face of rising house rents. Any suggestion for relaxing the rigidities of rent control, let alone its abolition, is viewed with suspicion by well-meaning public leaders. Here we propose to examine the efficacy of rent control as an instrument of affecting income distribution and the alternative means to achieve the same goal more efficiently. An attempt will be made to indicate the broad lines of public policy towards low income housing.

Mechanics of Distribution

Any redistribution scheme, in order to be equitable, must ensure that the two tests of capacity and needs are taken care of. The most widely accepted index of capacity is income, while needs may be measured in terms of family characteristics. Both these factors must be weighed in order to determine the eligibility conditions of redistribution. Rent control measures, although assumed to be redistributive in nature, fail to apply these basic tests of eligibility and, therefore, tend to distort the distributive pattern in a most haphazard way. We shall illustrate this in terms of both vertical and horizontal redistribution or equity.

Vertical equity : Since there is no means test applied either to the tenants or the landlords before rents are frozen, it is not clear who benefits or loses because of rent control. It is quite conceivable that a landlord may be poorer than the tenant. Even if he is not, it is not clear why a poor tenant should be subsidised by his landlord, instead of by the state. If it is the intention of the government to make the rich pay for the upkeep of the poor, why should only landlords be picked for this noble role?

Horizontal equity : Among the tenants who benefit also there is no classification in terms of relative needs based on the number of family members, age and sex composition of families, occupational needs, etc, so that single-member family units are treated exactly in the same way as multi-member families. The occupational needs are simply ignored.

Rent control, therefore, violates the basic norms of distributional equity either in vertical or in horizontal terms. The only way rent control distinguishes tenancies or properties is in terms of (a) date of tenancy, or (b) date of completion of the property. Both these can be extremely inequitable. First, old settlers are protected at the cost of recent migrants, newly married couples and mobile tenants. Second, insofar as old buildings are discriminated against, the problem of maintenance of existing property is ignored and such property is made obsolescent sooner than necessary.

Distortion of Consumer Budget

From the point of view of the beneficiaries of rent control, the tying-in of the subsidy with the existing housing space distorts the consumption choice of the tenants so protected. It is quite conceivable that the relative preference of many of the protected tenants might lie away from housing space and in favour of some other needed commodity or service. But rent control compels the tenant to have more of housing than he would have if he had the choice to spend the subsidy as he wished. Therefore, the marginal utility of the rental subsidy to the tenants is less than that of an equivalent cash subsidy. There is thus a strong built-in incentive for the tenant in a rent controlled property to misuse the allotted house space through sub-letting, non-residential use, etc, or in extreme cases to sell off his occupancy rights to the landlord in return for a compensation.

A partial redistributive device, such as rent control where the subsidy is tied to the consumption of a specific commodity — housing space —, is always less efficient in welfare terms. Either such a subsidy scheme has to be operated in close concert with similar subsidy schemes for other essential

commodities, such as food, clothing, etc, or the subsidy must be worked out in terms of the income of the recipients, i e, a maintenance allowance.

Alternative Distribution Methods

If we reject rent control as a means of enabling the low-income population to enjoy housing at 'normal' rents, we must examine the alternative methods of doing so and see which of these alternatives should be pursued by the government. In this context, we would define the low-income group to mean the non-amortisable group of the population whose housing needs are to be met, either partially or wholly, from public funds. We discuss the various subsidy arrangements broadly under two categories (i) subsidised housing, and (ii) subsidised income.

Subsidised housing: Public subsidy schemes for housing low-income groups have tended to take the form of capital or cost subsidy rather than subsidised rental in the urban areas, with the result that fewer families are benefited each year from the plan programmes. Administratively, this is a simpler operation, but it is also a slow method of making an impact on the housing situation. On the other hand, public house construction and a matching subsidy take care of both the supply and demand aspects of low-income housing. Perhaps a better method would be to utilise the subsidy to reduce the annual debt charges of the construction agency, as suggested by Ford Foundation experts.*

The second disquieting feature of subsidised public housing schemes is that only a small proportion of the total public investment in housing is really subsidised — during the Third Plan period this was only about a quarter. It might be preferable to induce the organised financial institutions to supply the loan funds for housing, while government funds could be devoted exclusively to the subsidised programmes. In this context, the revolving fund approach of the public housing agencies may be questioned. Why should these agencies invest funds to cater to the needs of the affluent, rather than devoting their energies exclusively to the needs of the poor? If at all, financial institutions could try the revolving fund approach and not public development agencies.

The third criticism of the subsidised programmes would be the government's approach to solving the slum problem. It would be better to concentrate on improving the environmental facilities of existing slums than to try to pull these down. Where it is necessary to clear the slums, the approach should be first the rehabilitation of slum dwellers and only secondarily to put the vacant land to more efficient use. The vacant land may well be converted into open recreational area, in view of the lack of open spaces in our major urban centres.

In order to make any worthwhile impact on the existing housing shortage, it is imperative that a massive shelter programme is undertaken by the government. Without such a determined effort on the part of the state to solve the problem of low-income housing, it is not possible to fight poverty on the housing front.

Subsidised income: An income subsidy to ease the housing problem of the low-income groups may be thought of in either *specific* or *general* terms. A specific subsidy would include a rental subsidy upto a ceiling of the rent actually paid. So far this has been tried out with public employees and also some of those in organised private employment. Unless the low-income groups are made the exclusive beneficiaries of this type of specific subsidy, the relative income distribution pattern would not be affected. Moreover, organised employment being smaller compared to that in the unorganised and self-employed sectors, this would cover only a fraction of the low-income families.

A general income subsidy to the low-income group in the form of a comprehensive social security programme is perhaps an ideal, but presently an impossible, solution. This would respect consumer choice and tie up all the basic necessities of life in an integrated manner. But obviously this has to be thought of in terms of the country as a whole, covering both urban and rural areas. Even a token effort in this direction would perhaps go a long way in our fight against poverty, which is really the main evil — and not its consequence in poor housing conditions.

Conclusions

We have tried above to indicate the irrelevance of rent control in solving the housing problem of the poor and advocated a positive policy on the part of the government in this direction. Through increasing the subsidised housing programmes in a substantial manner and adopting a more general income guarantee scheme for the poor. Only by attacking on both the fronts — housing construction as well as income of the dweller — can we tackle the problem of housing the poor.

* Report on India's Urban Housing Part II, Government of India (Ministry of Works and Housing), 1965, p 58, mimeographed.

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Farm Mechanisation in a Labour-Abundant Economy

A Comment

A S Kahlon

S S Grewal

INDIAN AGRICULTURE, which was caught in a vicious circle of low productivity and low investment, has shown some resilience since the mid-sixties. The recent technological change was fostered through the introduction of high-yielding crop varieties and intensive use of non-conventional inputs such as fertilisers, pesticides and mechanisation in various forms.

Mechanisation of irrigation was necessitated by the high-yielding varieties programme, which demanded timely irrigation as a prerequisite for its profitable adoption. Electric motors and oil engines provided assured irrigation to meet this need.

Even after irrigation was mechanised, farmers realised that they could not efficiently manage their lands and further increase cropping intensity, without adding substantially to the energy input through the introduction of tractors and allied farm machinery. To meet this pressing need, Punjab farmers purchased tractors from all over the country and in most cases at exorbitant black market prices, with the result that the number of tractors in the state expanded to about 25,000 in 1970,[1] the highest for any state in the country.

Factors Affecting Mechanisation

Rapid growth of use of tractors and other farm machinery in a labour-abundant economy seems to be paradoxical. It was argued by C H Hanumantha Rao[2] that this would happen in a developing economy where the biological sources of energy, *viz*, human and bullock labour became costlier relative to machinery, thereby necessitating the use of mechanical energy. Bullock prices, wage rates and foodgrain prices were reported to have risen proportionately more than the rise in the prices of tractors. The latter were stated to have been made artificially cheap through a liberal import policy and through extension of institutional credit for the purchase of tractors. A closer examination of the problem will, however, show that this line of argument does not explain the way the situation has developed in Punjab.

The rise in prices of tractors and bullocks over time is shown in the Table. The figures show that during the period 1961-68, bullock prices more than doubled, while the increase in tractor prices (Eischer 27 HP and Massey Ferguson 35 HP) was about 50 per cent. But it is not just the relative increase in the price of machinery *vis-a-vis* other factors (as argued by Rao), which clinched the issue in the favour of farmers buying tractors. The absolute increase in prices could not be ignored. Between 1961-1968, the price per bullock increased by about Rs 600, but the increase in tractor prices during the same period for Massey Ferguson 35 HP and Eischer 27 HP tractor was of the order of Rs 7,000 and Rs 5,500, respectively. The difference in absolute increase was widened when tractor prices were raised in the beginning of 1971. For example, the prices of International 35 HP and Hindustan 35 HP tractors showed an increase of Rs 10,670 and Rs 14,500 over their respective cost during 1965.

Again, it is not just the fixed cost (as overemphasised by Rao) but total operational cost which becomes relevant for decision making by the farmers. If the farmers' decision to switch over to tractors resulted from higher cost of bullocks (as argued by Rao), then the farmers who took up tractor cultivation should have dispensed with bullocks altogether. A recent study[3] conducted in Punjab showed that whereas the actual utilisation of bullocks on tractor farms decreased by 85 per cent compared to bullock farms, the presence of bullocks on tractor farms decreased by only 39.7 per cent.

Reasons for Mechanisation

Thus, the compelling reasons for mechanisation seem to be varied and different. The recent technological change and positive interaction of food prices have motivated the farmers to expand their production programme. The high-yielding seed varieties have required more water, fertilisers, pesticides and intensive methods of cultivation. There has been a rapid increase in irrigated area as well as overall cropped area. Land shaping and grading have become major operations in areas brought under tube-well irrigation. Because of their power requirement, these operations have to be done entirely with machines. Timeliness[4] in operations has gained added importance in the context of the new agricultural strategy. This has placed a heavy demand on human and bullock labour.

Table : Bullock and Tractor Prices

Year	Bullock Prices (I Grade Bullocks) Rupees/Bullock	Tractor Prices (Rs)				
		Eischer 27 HP	Escort 37 HP	Hindustan 35 HP	International 35 HP	Massey Ferguson 35 HP
1961	515	11900	—	—	—	—
1962	650	—	—	—	—	14450
1963	750	—	—	—	—	—
1964	850	—	—	—	—	—
1965	875	—	—	12500	16830	—
1966	875	—	15400	—	—	—
1967	900	—	—	—	—	—
1968	1135	17480	17910	15710	19570	21140
1969	1335	—	—	—	—	—
1970	—	—	—	—	—	—
1971	—	19460	19930	17470	—	—
1971	(Actual prices in the market)	—	—	27000	27500	35000

Note : Tractor prices are listed against :
(a) the year in which the production of particular tractor was started,
(b) the year 1968 which denotes the prices fixed in the middle of 1968.
(c) the year 1971, which denotes the prices fixed in early 1971.
(d) the year 1971 which denotes the prices at which tractors were available in black market. This is based on survey data.

Source : (i) Government of India, Report on the Fixation of Prices of Agricultural Tractors, Manager, Government of India Publications, Delhi, 1970.
(ii) Patiala Commission, New Delhi.

The biological sources of energy, especially bullocks, could not cope with the requirements of the changed situation during the critical periods of workload. Therefore, the farmers, particularly the large ones, were compelled to switch over to the use of tractors. Here the cost of maintaining bullocks also weighs with the farmers. The large farmers have to choose between keeping a certain number of bullock pairs and a tractor. And it is the overall benefit of cultivation with bullocks versus tractors, rather than their relative prices, which is more meaningful from the standpoint of the farmers.

Again, tractor-operated farms have higher land and labour productivity. This is reflected in higher net income on tractor farms. A study[5] relating to Punjab showed that net income per hectare in canal irrigated areas was Rs 458.95 on bullock farms but as high as Rs 922.56 on tractor farms.

Impact on Employment

It is bullock and not human labour which has been affected the most owing to the introduction of tractors. This is understandable, because tractors were introduced mostly to meet the expanded energy input requirements, which the bullocks could not meet. The average reduction in bullock labour utilisation on tractor farms compared to bullock farms was about 85 per cent.

In the case of human labour, it was replaced by tractors only to the extent of 4.25[6] man-days per acre per year. This loss, if one chooses to call it a loss, should be judged against the gain of the much higher productivity of land on tractor operated holdings and off-farm employment generated in agro-industries. The additional income per acre on tractor operated farms compared to bullock farms was Rs 388. It is due to this and several other gains and not just the relative price of human labour and tractor as suggested by Rao, that the introduction of tractors has become a necessity in Punjab agriculture.

Notes

1 B S Pathak, "Some Problems of Mechanisation of Agriculture in Punjab", Punjab Agricultural University, Study No 2.

2 C H Hanumantha Rao, "Farm Mechanisation in a Labour-Abundant Economy", *Economic and Political Weekly*, Annual Number, February 1972.

3 S S Grewal, "Impact of Mechanisation on Labour Employment and Labour Productivity in Punjab", Ph D dissertation, unpublished, Punjab Agricultural University, Ludhiana.

4 Sarkar and Prahladachar in their study "Mechanisation as a Technological Change" published in the *Indian Journal of Agricultural Economics* found that as much as 61.5 per cent of the farmers reported timeliness of operations as a motive for the purchase of tractors.

5 A S Kahlon, S S Miglani and S K Mehta, "Studies in the Economics of Farm Management, Ferozepore District (Punjab)", Ministry of Agriculture, Government of India, New Delhi.

6 S S Grewal, *ibid*, p 4.

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Indian Overseas Bank

Directors' Report: 1971

1. The performance of the banking system during the year 1971 was characterised by accelerated growth in deposits, a slowing down in credit extension and a continued active phase of branch expansion. New deposit accretion crossed the Rs. 1000 crore mark, for the first time in the history of Indian banking, and the rate of deposit growth at 18.6% bettered the previous year's 16.6%. Credit outstandings rose by 9.3%. This was reflected in a drop in the credit-deposit ratio from 78.6% in 1970 to 72.4% in 1971. The year saw commercial banks opening as many as 1805 new branches, of which 1073 were in hitherto unbanked centres. The spectacular programme of branch expansion executed by the banks since nationalisation has brought down the average size of population served per bank office from 65,000 in June 1969 to 42,000 in December 1971.

2. IOB's progress during the year was satisfactory. Profits after tax, but before provision for bonus to staff amounted to Rs. 39.42 lacs in 1971 as against Rs. 37.44 lacs in the previous year. The profits for 1971, together with a sum of Rs. 2.75 lacs transferred from Development Rebate Reserve, have been appropriated as follows :

	Rs lacs
Transfer to reserve fund	8.00
Provision for bonus to staff	25.72
Transfer to Government of India	8.45

3. The Bank's deposits and other accounts in India and abroad stood at Rs. 131.60 crores at the end of 1971, recording an increase of Rs. 23.37 crores or 21.6% during the year. For purposes of comparison, it would be more appropriate to look at the trend in the Bank's deposits in India exclusive of inter-bank deposits, sundry creditors and margins—termed as 'aggregate deposits' in official statistics. The rate of growth in aggregate deposits of the Bank in India was as high as 25.4% during 1971 which compares favourably with that of the banking system at 18.6% and the Bank's own previous year's performance (23.1%).

4. Success on the deposit front was the result of a multi-faced strategy. The Bank initiated what could be described as 'a total marketing concept'—a cohesive integrated employment of all available marketing tools for business promotion with particular reference to mobilisation of deposits. The new strategy was reflected in the introduction of new customer satisfying schemes, reorientation in the approach to publicity, adoption of direct marketing techniques and implementation of a programme to secure effective staff participation in business growth.

5. The Bank's overall advances were up by Rs. 10.23 crores (or 15.7%) touching Rs. 75.25 crores at the end of December 1971. Investments rose by Rs. 13.71 crores (or 47.5%) to reach a level of Rs. 42.58 crores at the end of the year.

6. In India, the Bank's credit portfolio recorded an increase of 20% exceeding Rs. 67 crores at the end of the year. The priority sectors comprising agriculture, small-scale industry, road transport operators and special categories like retail traders, artisans and self-employed persons, continued to claim a sizeable share of the advances. As of end-December 1971, IOB's involvement in the priority sectors was around 38% of its total advances in India.

7. Agriculture absorbed 13% of the Bank's lendings in India. A noteworthy feature is the predominance of small farmers. The Bank had 53,282 farmer-loan accounts on its books at the close of 1971. Approximately 85% of these accounts related to farmers with holdings of 5 acres or less. The total number of such accounts increased by over 12,600 or 31.3% during 1971. The greater emphasis placed on meeting the small farmers' requirements is reflected in the average size of farm loan (outstandings) which dropped from Rs. 1300 in 1970 to Rs. 1100 in 1971.

8. The machinery for appraisal, sanctioning and post-advance supervision in respect of agricultural credit has been further strengthened. Regional workshops and training programmes organised in various districts for the benefit of rural branch agents have helped build up expertise in farm financing. The field staff—there are over 60 qualified agricultural graduates on our rolls—keep in close touch with the farming community, study their problems, evaluate their financial needs, provide guidance, supervise loan utilisation and assist in recovery operations

9. Credit to small-scale industrial units, including road transport operators, rose by 33% to Rs. 12.73 crores during 1971. This sector accounts for about 20% of the Bank's total lendings in India. The number of small industrial borrowing accounts exceed 4000. About one-fifth of credit to small industrial units is absorbed by cashew industry. Units producing engineering goods make up a sixth and chemical products one-twelfth. Manufacture of fire-works, cotton textiles, silk and synthetic textiles, rubber goods, plastic goods, leather and leather products, coir yarn and goods, paper and paper products, printing and publishing industries are other principal beneficiaries in the small industrial sector.

10. A credit scheme was introduced early last year for qualified engineers who have viable propositions for—setting up small-scale units. Finance is extended to them on very concessionary terms. 54 technocrats came forward with concrete proposals and the Bank sanctioned loans to all of them totalling Rs. 154 lacs.

11. The Bank has actively involved itself in providing finance for self-employment (including retail trade). In the context of heavy incidence of unemployment in India this sector offers immense scope for generation of employment opportunities. We have been endeavouring to give adequate support to the viable productive needs of the self-employed sector both in rural and urban areas. As at the end of 1971 the Bank had over 7000 borrowing accounts of persons belonging to the self-employed sector with total outstandings at Rs. 267 lacs.

12. Export finance continued to receive a measure of preference in IOB's credit programming. As of end-1971, total advances to the export sector in India amounted to Rs. 786 lacs. At the height of the busy season, export lendings touched a peak of Rs. 1000 lacs.

13. Thirty-two new branches were opened during the year—18 in Tamil Nadu, 4 in Mysore, 2 each in Delhi, Pondicherry, Kerala and Orissa and one each in Uttar Pradesh and Chandigarh. Since nationalisation upto end-1971, 90 new branches have been opened—58 in rural areas, 12 in semi-urban centres and 20 in urban and metropolitan locations. 61 of the 90 new branches were in hitherto unbanked centres. The Table below illustrates the distribution by population size of the Bank's 285 branches in India at the end of December, 1971 :

Population-Size	*No of Centres*	*No of Branches*
Upto 10,000	83	83
Over 10,000 and upto 25,000	50	50
Over 25,000 and upto 50,000	15	16
Over 50,000 and upto 1 lac	17	17
Over 1 lac but less than 10 lacs	40	59
10 lacs and over	7	60
	212	285

Apart from full-fledged branches, 'extension counters' were set up in four educational institutions (one during 1971 and three subsequently) to inculcate saving habit in the younger generation. Extension counters handle purely deposit transactions.

14. The Bank has taken positive steps to fulfil its role in the lead districts allotted to it. A Development Office has been set up at Madurai for effectively administering the Lead Bank Scheme in the districts of Kanyakumari, Ramanathapuram and Tirunelveli. We have plans to initiate an action-oriented programme for the total development of the lead districts. This would mean identification of credit gaps and formulation of specific developmental projects. A beginning is being made in Ramanathapuram district—the most backward of the lead districts allotted to us—where we have, with the co-operation of the Agricultural Finance Corporation, identified specific projects for the development of agriculture and fisheries.

15. The Bank is devoting attention to the streamlining and simplification of procedures and forms and in taking all steps towards improving customer service. We have a nucleus of an Organisation & Methods Department which is being strengthened.

16. In conclusion, the Directors wish to thank the members of the staff at all levels for their sincere and devoted service to the Bank.

For and on behalf of the Board of Directors

Madras, 18th April, 1972.

R. N. CHETTUR
Custodian

Indian Overseas Bank

Balance-Sheet as at 31st December, 1971

CAPITAL AND LIABILITIES	Rs. P.	PROPERTY AND ASSETS	Rs. P.
1. Capital	1,00,00,000.00	1. Cash	9,06,56,118.68
2. Reserve Fund and Other Reserves	1,33,83,831.68	2. Balances with Other Banks	7,08,79,864.63
3. Deposits and Other Accounts	1,31,60,07,390.69	3. Money at Call and Short Notice	1,76,87,050.00
4. Borrowings from Other Banking Companies, Agents, etc.	3,02,86,784.54	4. Investments	42,58,08,752.02
5. Bills Payable	1,57,90,711.01	5. Advances	75,25,14,415.15
6. Bills for Collection Being Bills Receivable—As per Contra	14,08,74,787.16	6. Bills Receivable Being Bills for Collection—As per Contra	14,08,74,787.16
7. Other Liabilities	1,26,04,820.37	7. Constituents' Liabilities For Acceptances, Endorsements and Other Obligations—Per Contra	20,71,35,935.24
8. Acceptances, Endorsements and Other Obligations—As per Contra	20,71,35,935.24	8. Premises	92,19,760.03
9. Profit and Loss Account	8,45,292.82	9. Furniture and Fixtures	78,27,684.80
		10. Other Assets	2,42,50,020.15
		11. Non-Banking Assets acquired in satisfaction of claims	75,165.65
		12. Profit and Loss Account	Nil
	1,74,69,29,553.51		1,74,69,29,553.51

Guest Keen Williams Limited

Statement by the Chairman, Mr K C Maitra

THE following is the Statement by the Chairman, Mr K C Maitra, on the occasion of the forty-second annual general meeting of Guest Keen Williams Limited held in Calcutta on May 5, 1972:

It is my pleasant task to welcome you to this 42nd Annual General Meeting of your Company. The Annual Accounts and Directors' Report have been circulated and with your permission I shall take them as read.

Board of Directors

Mr A H Sethna who joined the Board on 12th June, 1964 has resigned from it on 30th December, 1971 on his retirement. I must add, however, that his association with the Sankey Electrical Stampings part of the Company is longer, going back to April 1961. Throughout this time, his knowledge and experience of the Steel Industry were of great assistance to the Board, and on your behalf and mine I would like to place on record our great appreciation of the services rendered by him during his long association with us.

I have also to report to you the resignation of Sir Henry Wilson Smith, KCB, KBE, Deputy Chairman of our associated company in UK — Guest Keen & Nettlefolds Ltd. Although Sir Henry only joined our Board in June 1970, his interest in our affairs has been continuous throughout his service with GKN, and we have greatly benefited from his mature counsel and experience. Again on your behalf and mine I would like to place on record our great appreciation.

It gives me pleasure to welcome to our Board Mr S K Nanavati, whose appointment as a Director from 4th February, 1972 is noted in the Directors' Report. I am also glad to tell you that Mr H S Killick, MC, TD, one of the Executive Vice-Chairmen of Guest Keen & Nettlefolds Ltd, joined the Board of Directors from 30th March, 1972. Your Company is indeed fortunate in obtaining the services of men of this calibre and distinction.

Operations during 1971

The Directors' Report circulated to you has already covered the salient features of the 1971 results, and I need not repeat them here. But I cannot let the achievement, for the first time, of Rs 50 crores turnover pass without a special mention. I shall at the end of my statement, as is customary, thank the members of the GKW team at all levels for its contribution during the year; but I think you would wish me to make special reference to this landmark — such figures are only achieved when the whole of our strength is pulling in the same direction. As it happens, achievement of Rs 50 crores comes almost exactly 50 years after Henry Williams (India) Ltd set up its first manufacturing activity in Calcutta in 1922. This Private Company later grew and became associated with Guest Keen & Nettlefolds Ltd, UK in 1934 leading eventually to the public company of Guest Keen Williams Ltd, in 1956. The contribution to the Indian economy, to employment, and to indigenous availability of needed materials and products, brought about by this combination of private enterprise and association with one of the world's great international companies, is obvious. It is our earnest hope that it can long continue to thrive and to grow.

The area where we are most disappointed with our performance is export. I am glad to be able to tell you that we have booked some good orders already in 1972, although price competition in export markets is, if anything, fiercer than last year. We should be able to hold our position, but we have much further work to do in order to get our exports back on to a growth track.

I would also like to comment on the apparently high liquid resources we are maintaining. I do not think it is sufficiently realised how the combination of inflation, high tax rates, and growing volume of business, place heavy demands on resources. For example, the book value of our stocks at 1st January, 1972 was Rs 14.26 crores. If this year we hold merely unchanged volume, but suffer 5 per cent inflation, the value of stocks will rise by Rs 71 lakhs. To finance this from internally-generated resources requires a pre-tax profit of about Rs 2.1 crores. If one couples this purely inflationary impact, with the need to achieve expansion in real volume and re-equipment of our fixed capital base, the pressure on funds is obvious.

Bonus Issue

Before I begin to speak on 1972 and the future, I must give the shareholders a piece of disconcerting news. You will recall that, at an Extraordinary General Meeting held in November 1971, it was decided that an application should be made to government to permit a 1 for 2 issue of Bonus Shares by capitalising the entire amount standing to the credit of the Share Premium Account, and some of the General Reserve. By an Order received shortly after the Directors had signed their Report, the government has turned down the request for bonus issue on the ground that Rs 1.11 crores of total Share Premium Account was "created by consideration other than cash", which they do not permit to be capitalised. This policy of government raises important points which affect both our Company and yourselves as shareholders, for it effectively freezes a part of our Share Premium Account for many years to come. We are carefully examining the matter and, for the moment, I would request you to bear with us till we come to some definite conclusions. I couple this with an assurance that it is still our wish to effect a bonus issue on the best basis we can devise consistent with government policy.

Current Prospects

Looking back, the recession of 1966-67 affected all industry. Your Company had to go out of the dividend lists in respect of its operations in 1967 and 1968: although we traded at a profit, it was all wiped out by the heavy interest charges on borrowings at that time. In 1969 and 1970 we came back into profitability, coupled with rigid control on assets to restore the healthy liquid position I have already referred to. Last year we moved forward again and we were able to support the higher activity levels with internally-generated funds.

In 1972, we expect further turnover increase (and indeed, sales in the first four months ahead of the equivalent period of last year although not as much as we would have liked). But costs are also rising; in particular, in the Emergency Budget last December increases in excise duties and regulatory duties were announced. In view of the general economic situation, and the gov-

ernment's wish to maintain the price line, we decided to absorb these extra costs at that time. The main budget in March further increased the same duties, and whilst on certain products we have been obliged to raise our prices, we are still absorbing a substantial portion of the combined impact.

Meanwhile, it is common knowledge that the rate of growth in industrial production has markedly slowed down over the last 12 months, although one must hope that the increased Plan expenditure also included in the Central Budget will help to stimulate a faster rate. If we are to make a contribution to holding the price line against inflationary cost pressures, an expanding economy is vital — particularly in a company like ours, supplying materials and components to the manufacturing industry. Equally vital is the need to ensure that expansion is not disrupted by industrial strife — certain of our major customers are currently suffering from this canker, and it has materially affected our sales to date.

Against this background, the problem of 1972 may be summarised by saying that we have to run quite fast just to stay where we are, and maintain the 1971 profit figures. I believe this to be possible; but to achieve further profit improvement we need very substantial increase in our turnover, and that in turn would require a marked surge forward in the economy as a whole.

The Economic Climate

At this point, I would like to make some of the more general observations which Chairmen are customarily permitted on these occasions. They tend to display a certain sameness, one to another, and to repeat the words of leader-writers, politicians, and other pundits. This year, more than ever, it is difficult to avoid this repetition. National events in the last twelve months have been so total in their impact upon the life of the country, so demanding of effort from its people and its institutions, and have wrought such a drastic change both in our present situation and our possible future, that comment on other matters runs the risk of triviality by comparison.

When I last addressed you, the most massive popular vote in a free democracy had installed a Central Government with overwhelming strength in the Lok Sabha. Within days of its installation it was faced with a crisis on our Eastern border which, although external in its source, was immediately internal in its impact through one of the greatest refugee movements ever seen. For nearly nine months we vainly sought the peaceful solution we would have so much preferred: but circumstances imposed on us military action, carried out by our armed forces with surgical precision. A new nation was born, essentially out of its own strength — particularly strength of national purpose, and therefore looking to us not as a parent but more as a godfather. We gladly accept the role, cherishing and supporting the independence of Bangladesh by giving political, moral and economic support insofar as that country itself determines what it would wish to have. Finally, in March the electorate gave a further mandate in the States to the leadership which has seen us through such a difficult year.

These are great events in the life of a nation. They have given rise to a sense of unity and purpose which, if constructively put to work in the national interest, can yield a rich harvest within the framework of a stable government. The ways in which we seek to use this new-found strength in pursuit of our national objectives, are commonly expressed in certain slogans which, by constant repetition, attain the status of inviolable truth. But the danger of adopting a slogan as an inviolable truth is that we cease to think. It is always easier to repeat a cliche, parrot fashion, than it is to think about problems more fundamentally; this easy road is a luxury which no nation, and particularly its leaders, can afford. As Bernard Shaw said "The golden rule is that there are no golden rules". Moreover, there is also a tendency that, where a rule has been devised in pursuance of a particular policy objective, it becomes sacred even though in a particular application the rule may achieve results quite opposite to the policy it was intended to support. This is a characteristic of bureaucracy everywhere — it "works to rule" in a quite literal sense, for this is the way the elected political authority seeks to exercise its political will through the administrative machine.

Let us examine for a moment one of the most popular ideas of the day, namely the need for self-reliance. As a target to be set in front of the country, it is in many ways eminently desirable. There is no reason why we should depend on others for what can be achieved by our own material and human resources. We must resist the tendency to rush for outside help at the slightest provocation and to ignore or condemn whatever can be done indigenously. However, it would be wise to remember that in this century technological developments have been taking place (and still continue to take place) at such a rapid pace that no country, however advanced, is or will ever be completely self-reliant in the absolute sense. Even countries like America, Great Britain and France have all in the last five years had balance of payments crises leading to devaluation: in our struggle to raise our exports and control our imports, we keep company with the most developed of countries.

Thus self-reliance is not an absolute goal, it is relative to the standards of living which we wish to secure for our people. We could be self-reliant today: there is no absolutely essential requirement — essential, that is, for supporting life for our people — which is not either already indigenously produced or obtainable within the limits of our existing foreign exchange earnings. But a self-reliant India on this basis would also be a poorer India — self-reliance under these terms means quite simply "cutting our coat according to our cloth". Surely, we should aim higher than this!

I believe it would be particularly misleading to take self-reliance as an overriding objective in the sphere of fixed capital formation. The capital needs of India are probably greater than those of any other nation in the world. It has been said that if we achieve 6 per cent per annum compound economic growth rate, allowing for the expected growth in population, it will take us 20 years to double the per capita income of our people. Twenty years from now, that will still condemn many to grinding poverty by any standards, and many more to poverty by the standards which will then exist in most of the rest of the world.

The cure does not lie wholly within our borders. To what extent can we honestly ask millions of people, who have so little, nevertheless to save — to forgo marginal improvement in their current condition in return for future benefit? Yet if the State generates revenue surplus to fund State Capital Investment, this is financed by savings of the people; even if private industry generates its own surplus, it comes ultimately from the prices paid for its products, paid by the people as ultimate users of the goods they make. India currently has a low rate of capital formation as a percentage of Gross National Product, and although politicians and economists are fond of saying it should be raised they rarely draw attention to the consequence of such a policy — that we should spend less on current consumption!

This is indeed a cruel dilemma — more investment we must have to achieve 'Garibi Hatao' in the future, but if the cost is less consumption now, that is 'Garibi Bachao'. Surely, one solution — in this context, a good socialist solution — would be to attract to this country capital from those people and nations that have far higher margins between current wealth and current need; who have, therefore, both a greater propensity and a greater ability to save and invest. The rich nations of the world have a huge capital market, India has a huge capital need. Surely our policy should be such as to encourage world capital to invest in India.

Assistance from the outside world can take two forms. The first is official aid from governments and from institutions such as the World Bank. Here, the cliche is "aid without strings", which carries the implicit assumption that no aid carries no strings. In practice, no aid would carry the string of unabated poverty. But all means we should reject strings which defeat our national objectives, debilitate our attitude to hard work, or violate our international conscience; on the other hand why should not we continue to welcome, as we have done in the past, development assistance the fruits of which have been so obviously not to our detriment.

The aid contribution from official sources is comparatively well known. It is perhaps less well known that the flow of funds from private sources in the developed countries to the developing is almost as great as the total official aid. In 1970, according to provisional World Bank figures, the net flow of private funds was $6.4 bn compared to the official flow of $8.3 bn. This huge source of wealth is one from which India should seek at least her fair share. It is sad that by a combination of tax structure, specific restrictions, and interminable procedures making a mountain of every molehill, India presents to the world capital market one of the least attractive investment propositions.

Finally, let me make one comment on the ideal of distributive justice. I use the world ideal deliberately, because I genuinely believe that we must aim for it. It is taken to mean *inter alia* that the proportion of total production resources held in the State Sector, or in the Small-Scale Sector, should grow as compared to the proportion held by established companies like ourselves. If we are allowed to grow at the maximum rate which we can achieve, in support of the objectives of increased employment and attack on poverty, and if the State Sector and the Small-Scale Sector grow faster, we would wholeheartedly applaud. But if the rate of growth in the State and Small-Scale Sectors is inadequate, and re-distribution is achieved by holding down companies like us to a still more inadequate rate of growth, this will merely re-distribute stagnation! The percentages may look better on paper, but will the people really benefit?

All our social objectives, however well meant they may be and however appalling are the problems they are designed to cure, fail if there are not economic resources to carry them out. I am well aware that there are problems and difficulties in the course I have been advocating, particularly the need to ensure that we do not leave to future generations a burden of debts which they cannot support. But I believe most sincerely that alternative policies to those currently in favour must be constantly reviewed, otherwise they go by default. More than anything else, what I am pleading for is a result-oriented pragmatic approach to our economy, and a rejection of unthinking adherence to cliches or slogans. In such a result-oriented pragmatic approach, we would eagerly wish to join; for we believe that in the future, as in the past, we can echo the proud words of Othello — "We have done the State some service, and they know it".

Our Associates

A highlight of the year to date has been the visit in February of Sir Raymond P Brookes, Group Chairman, and Mr J F Insch, Deputy Chairman of Guest Keen & Nettlefolds Ltd, UK. This visit gave concrete evidence of the importance which our associates attach to our affairs, and their presence with their charming ladies was a great pleasure to us. We are currently fortunate in having in our midst Mr H S Killick, whose appointment to our Board I have already referred to. In the opposite direction, GKN continue to receive our people for training in their Works in UK, as well as rendering valuable technological assistance.

Conclusion

It remains for me to thank our employees for their continued co-operation. All of them have had to work under somewhat difficult conditions, particularly during the last war with Pakistan. It is to their efforts that we owe the improved working of the company already achieved, and I am quite sure we will not be lacking in their support for our plans to move ahead in the years to come.

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

Family Planning

THE birth rate in Kerala, Tamil Nadu and Maharashtra has fallen below 32 per thousand, the target of the Fourth Plan. According to the Report of the Ministry of Health and Family Planning for 1971-72, it is also declining steadily in Mysore, Punjab, Andhra Pradesh and Orissa, and, if present trend continues, it should reach the Fourth Plan target next year. Over 12.4 million couples, out of 98 million couples, in the reproductive age group have been protected against unwanted children. 8.6 million people have preferred sterilisation, 1.5 million have had IUCDs inserted and 2.2 million have preferred conventional contraceptives. Had it not been for the family planning programme, there would have been 9.4 million more mouths to feed in the country.

Mass vasectomy campaigns are the most conspicuous feature in the last year's family planning activities. Following the successful vasectomy campaign in Ernakulam District in November last year, 25 vasectomy camps have been held in the country.

The Central Drug Research Institute has been perfecting an oral contraceptive "Cent Chrome" which showed a hundred per cent contraceptive effect in animals, when fed to females within 4 days of coitus. Clinical trials are now being carried out. The Institute also developed an intra-vaginal contraceptive device "Cent Square". The Central Council of Medical Research for Indian Medicine and homoeopathy have taken up three Ayurvedic and Unani contraceptive recipes for evaluation. Chemical and pharmaceutical screening of single drugs used in selective recipes is in progress.

Over 41 lakh IUCD Insertions have been done since the inception of the programme. The IUCD programme revived in 1970-71 (.47 million) after a period of slump. A total of 15,62,136 sterilisations have been done between April and December 71 adding up to a cumulative total of 10,221,213 and a coverage of 18.7 per thousand of population.

Industrial Capacity and Production, 1970 and 1971

Sl No	Industry	Unit	1970 No of Units	1970 Installed Capacity	1970 Production	1971 No of Units	1971 Installed Capacity	1971 Production
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Ceramics, Glassware and Allied Industries								
(1)	Refractories	Tonnes	43	10.96 Lakhs	7.45 Lakhs	43	10.96 Lakhs	7.85 Lakhs
(2)	Glazed tiles	,,	4	8,240	19,639	4	21,120	20,642
(3)	Insulators H T	,,	7	16,200	17,865	7	20,560	13,640
(4)	Insulators L T	,,	13	10,832	2,259	13	8,500	1,420
(5)	Sanitaryware	,,	12	17,970	12,762	9	17,060	14,361
(6)	Stoneware pipes	,,	11	63,000	19,790	13	76,464	34,612
(7)	Stoneware jars	,,	9	8,290	4,728	8	6,290	5,885
(8)	Crockery	,,	17	25,825	17,459	15	25,344	8,036
(9)	Enamelware	Th pcs	6	30,000	16,500	7	30,030	20,747
(10)	Synthetic stones	Kg	1	21,600	22,225	1	21,600	24,217
(11)	Glass and glassware	Tonnes	47	4,25,000	2,60,000	48	4,29,000	2,90,000
Paper Industry								
(1)	Paper and paper board	,,	57	7,68,000	7,59,258	59	8,82,000	7,74,759
(2)	Newsprint	,,	1	75,000	37,341	1	75,000	40,081
(3)	Pulp	,,	2	87,000	78,738	2	87,000	53,994
(4)	Paper grade pulp	,,	1	21,500	23,316	1	21,500	22,230
Timber Industry								
(1)	Plywood	Mn sq metres	28	23,650		30	26,123	
	(i) Teachests				3.172			6.000
	(ii) Commercial				15.704			22.000
(2)	Hardboard	M tons	3	34,500	22,166	3	34,500	20,000
(3)	Insulation board	,,	1	6,000	1,635	1	6,000	2,100
(4)	Particle board	,,	8	44,900	7,689	8	44,900	9,000
(5)	Safety matches	Mn gross boxes of 50 stk	6	29,770	33,034	6	29,770	32,000
(6)	Cork products :							
	(a) Stoppers	Mn gross	2	1,380	1,772	2	1,380	1,500
	(b) Discs	Nos	2	4,500	9,366	2	4,500	6,500
	(c) Sheets	Mn sq metres	2	1,305	1,142	2	1,305	1,400
Leather Industry								
(1)	Vegetable tanning of hides	Lakh hides	9	21.66	9.69	9	21.66	9.93
(2)	Chrome tanning of hides	,,	9	21.40	13.15	9	21.40	11.49
(3)	Western type of leather footwear	Lakh pairs	8	87.55	77.11	8	13 8.47	81.10
(4)	Indian type of leather footwear	,,	8	NA	77.39	8	NA	78.34
(5)	Picking bands	Kgs	5	501360	120680	5	501360	123678
(6)	Leather beltings	,,	5	210000	79363	5	210000	60686
(7)	Glue	,,	3	2820000	2160078	3	2820000	2721285
(8)	Myrobalan extracts	Tonnes	2	7404	613	2	7404	1077
(9)	Cotton and hair beltings	,,	2	216	40.61	2	216	47.08
Rubber Goods								
(1)	Giant tyres	Nos	8	20,35,000	2092631	8	22,00,000	2290582
(2)	Giant tubes	,,	8	20,35,000	1706741	8	22,00,000	2038778
(3)	Aero tyres	,,	1	12,000	7002	1	12,000	12186
(4)	Aero tubes	,,	1	5,000	968	1	5,000	3450
(5)	Motor cycle tyres	,,	7	2,00,000	165891	7	2,00,000	179257
(6)	Motor cycle tubes	,,	5	2,00,000	194419	5	2,00,000	207140
(7)	Scooter tyres	,,	8	4,50,000	437289	8	4,50,000	475261
(8)	Scooter tubes	,,	6	4,50,000	326314	6	4,50,000	385599
(9)	Cycle tyres	,,	11	2,43,86,000	20988524	11	2,43,86,000	19188628
(10)	Cycle tubes	,,	11	2,22,00,000	15840564	13	2,22,00,000	12419003
(11)	ADV tyres	,,	7	1,62,000	176386	7	1,75,000	195761
(12)	ADV tubes	,,	6	1,80,000	190670	6	2,00,000	227911
(13)	Tractor tyres	,,	6	1,60,000	186466	6	1,60,000	212387
(14)	Tractor tubes	,,	5	1,65,000	181236	5	1,65,000	204892
(15)	Camel back	Tonnes	11	13,330	13643	11	13,330	14502
(16)	Motor tyres	Nos	8	10,00,000	965571	8	10,00,000	1201760
(17)	Motor tubes	,,	7	10,00,000	1019118	7	10,00,000	1250431
(18)	Dipped rubber goods	Lakh nos	3	2,216	902	3	2,216	1,770
(19)	Contraceptives	Mn pcs	2	325	55.3	2	325	98.6
(20)	Cab tyres	Metres	2	20,000	5,602	2	20,000	3,531
(21)	Radiator hoses	Nos	7	5,23,000	4,70,279	7	5,23,000	4,99,762
(22)	Fan belts	,,	6	52,60,000	23,41,287	6	52,60,000	22,93,023
(23)	Springs and compound	,,	6	6,90,000	1,21,401	6	6,90,000	1,23,661
(24)	V B hoses	,,	8	11,50,000	7,73,336	8	11,50,000	10,56,036
(25)	All type of hoses	Metres	16	78,40,000	52,10,696	16	78,40,000	5,19,608
(26)	Industrial V belts	Nos	5	*	24,43,774	5	*	32,19,351

* Combined capacity for Fan and V Belts.

(Continued)

Industrial Capacity and Production, 1970 and 1971 (continued)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(27)	Off-the-road tyres	,,	3	13,500	9,710	3	13,500	13,751
(28)	Off-the-road tubes	,,	3	13,500	9,551	3	13,500	10,924
(29)	Sponge rubber	M T	4	1,022	1,125	4	1,022	998
(30)	Ebonite sheets, rods and tubes	Kgs	7	37,400	7,759	7	37,400	2,394
(31)	Proofed fabrics	Metres	10	29,00,000	23,02,418	10	49,00,000	30,05,025
(32)	Footwear	M pairs	14	55	44.8	14	55	42.57
(33)	Rubber conveyor belting	M tons	4	3,100	2,276.97	4	3,100	2,659.95
(34)	Transmission belting	,,	5	4,200	2,818.94	5	4,200	2,815.77
Cosmetics and Toilet Preparations								
(1)	Soap	Tonnes	44	2,17,822	2,32,400	44	2,17,822	2,70,813
(2)	Glycerine	,,	20	18,236	9,841	20	18,236	9,606
(3)	Metallic stearates	,,	5	1,125	282	6	1,125	208
(4)	Fatty acids	,,	10	37,050	19,156	10	37,050	20,270
(5)	Synthetic detergents	,,	5	47,580	31,386	5	47,580	50,000
(6)	Carboxy methyl cellulose	,,	2	3,900	4,388	2	3,900	4,433
(7)	Textile auxiliaries	,,	13	30,759	18,620	13	31,749	22,625
(8)	Resin finishes	,,	7	9,236	8,267	8	9,836	8,564
(9)	Tooth powder	Kgs	5	10,58,900	4,88,000	5	10,58,900	8,15,000
(10)	Tooth paste	,,	8	40,50,860	48,64,000	8	40,50,860	50,33,000
(11)	Talcum powder	,,	16	64,28,000	34,91,798	11	64,28,000	35,43,000
(12)	Face powder	,,	11		14,202	12		53,098
(13)	Face cream	,,	13	11,33,000	7,53,000	14	11,33,000	8,48,000
Food Processing Industries								
(1)	Biscuits	M Ts	30	77,700	62,440	31	94,200	63,823
(2)	Confectionery	,,	24	42,300	15,655	22	37,152	16,567
(3)	Flour Milling	,,	140	43,26,432	24,29,000	143	44,11,956	23,12,032
(4)	Cigarettes	M Pcs	13	57,688	62,200	13	57,688	65,801
(5)	Breakfast foods							
	(a) Corn and wheat flakes	M Ts	1	900	384	1	900	375
	(b) Processed pearl barley	,,	3	5,328	2,308	3	5,328	1,800
	(c) Processed and rolled oats	,,	1	2,100	360	1	2,100	350
(6)	Malt extract	,,	2	4,800	2,650	2	2,800	3,550
(7)	Guar gum	,,	5	26,100	18,901	5	26,100	16,216
(8)	Fruit and vegetable preservation	,,	22	78,107	23,31,10	22	78,107	24,433
(9)	Meat products	,,	4	1,600	499	4	1,600	525
(10)	Filter rods for cigarettes	,,	1	720	786	1	900	900
(11)	Aerated water	Mn Botls	35	1,790	1,048	35	1,790	1,054
(12)	Protein isolates	Mn tonnes	1	1,500	168	1	1,500	219
(13)	Open top sanitary cans	,,	8	49,151	20,339	8	49,151	25,461
(14)	Liquid glucose	,,	5	41,450	20,213	5	54,500	20,110
(15)	Dextrose powder	,,	2	24,658	10,820	2	30,600	11,237
(16)	Chocolate/cocoa powder							
	(a) Chocolate	,,	3	1,608	1,001	3	1,608	801
	(b) Drinking chocolate	,,	3	—	1,011	3	—	1,348
	(c) Cocoa powder	,,	3	642	66	3	642	40
(17)	Sweetened condensed milk	,,	4	10,800	5,206	4	12,200	8,350
(18)	Infant milk powder	,,	5	19,233	15,677	8	20,983	16,591
(19)	Milk powder	,,	9	17,610	6,677	10	20,318	11,768
(20)	Malted milk food	,,	7	10,667	10,603	8	13,667	12,030
(21)	Starch	,,	8	2,05,500	78,802	9	1,68,690	93,213
(22)	Weaning foods	,,	2	620	679	2	810	1,005
(23)	Instant tea	,,	2	512	306	2	512	259
(24)	Instant coffee	,,	2	1,664	1,200	2	1,664	1,586
(25)	Modified milk for infants	,,	2	546	789	2	852	764
(26)	Industrial enzymes	,,	1	7,300	1,141	1	7,300	533
(27)	Ice cream	1000 litres	6	7,995	3,146	6	7,995	3,364
(28)	Sorbitol/mannitol	Tonnes	1	1,200	742	1	1,200	1,036
Miscellaneous Chemicals								
I	*Basic electroplating salts*							
	(1) Nickel Sulphate	,,	8	1,660	630	8	1,660	470
	(2) Nickel Carbonate	,,	4	58	22	4	58	5
	(3) Nickel Chloride	,,	7	223	95	7	223	73
	(4) Chromic Acid	,,	5	1,125	578	5	1,125	550
II	*Heat treatment salts*							
	(1) Cyanide Type	,,	3	1,800	720	3	2,760	820
	(2) Non-Cyanide Type	,,	4	900	879	3	2,460	660
	(3) Tempering Salts	,,	1	100	73	1	100	36
III	*Water treatment salts*							
	(1) Sodium hexameta-phosphate	,,	1	720	487	1	720	403
	(2) Alfloc powder	,,	1	608	506	1	608	450
	(3) Sodium tri-poly-phosphate	,,	1	12,500	9,136	1	12,500	13,432
	(4) Sodium aluminate	,,	2	1,620	796	2	1,620	860

(Continued)

Industrial Capacity and Production, 1970 and 1971 (concluded)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
IV	*Foundry chemicals*							
(1)	Fluxes	Tonnes	1	1,680	806	1	1,680	780
(2)	Binders	,,	4	9,080	2,550	4	4,480	3,210
(3)	Dressings	,,	2	500	565	2	500	620
(4)	Exothermics	,,	1	1,410	363	1	3,400	900
(5)	Misc compounds	,,	1	120	280	1	480	350
V	*Fluxes*							
(1)	Gas welding	,,	3	408	16	3	408	70
(2)	Submerged arc welding	,,	2	460	204	2	850	197
VI	*Barium solts*							
(1)	Barium nitrate	,,	3	1,740	554	3	1,740	1,430
(2)	Barium carbonate	,,	2	1,800	797	4	6,120	2,640
VII	*Misc chemicals*							
(1)	Activated bleaching earth	,,	1	3,648	2,809	1	3,648	2,450
(2)	Rare earth chloride	,,	1	4,200	3,734	1	4,200	4,000
(3)	Potassium permanganate	,,	2	1,950	1,211	2	1,920	940
(4)	Galex sulphite dye	,,	1	7,200	9,281	1	10,200	9,200
(5)	Calcium carbonate	,,	4	11,620	14,805	4	16,620	13,618
(6)	Potassium chlorate	,,	3	5,574	5,325	3	5,574	5,634
(7)	Sodium chlorate	,,	1	1,000	910	1	1,400	766
(8)	Hydrogen peroxide	,,	1	3,800	3,600	2	4,550	3,212
(9)	Sodium perborate	,,	1	600	550	1	625	567
(10)	Borax	,,	1	17,000	12,314	1	17,000	10,164
(11)	Boric acid	,,	1	3,000	1,318	1	3,000	2,295
(12)	Fluorocarbon	,,	1	1,200	740	2	2,700	1,047
(13)	Sodium thio-sulphate	,,	6	3,000	2,200	6	3,084	1,860
(14)	Sodium sulphite	,,	5	2,200	1,400	5	2,200	1,100
(15)	Sodium bisulphite	,,	5	2,180	1,800	5	2,180	1,500
(16)	Sodium meta-bisulphite	,,	3	203	181	3	181	200
(17)	Potassium meta-bisulphite	,,	2	20	22	2	15	11
(18)	Sodium sulphide (iron free grade)	,,	2	3,750	1,100	2	3,200	1,138
(19)	Bromine	,,	1	324	256	1	380	244
(20)	Bromides (inorganic)	,,	1	432	269	1	400	193
(21)	Phosphorous trichloride	,,	2	600	768	2	1,100	882
(22)	Aluminium chloride	,,	2	5,000	7,885	2	8,200	8,430
(23)	Synthetic cryolite	,,	2	4,790	3,728	2	4,790	3,168
(24)	Aluminium fluoride	,,	1	1,500	2,178	2	2,490	2,372
(25)	Sodium fluoride	,,	1	500	Nil	1	500	70
(26)	Hydrofluoric acid	,,	1	4,500	4,040	2	6,158	3,962
(27)	Chloro methenes (ethylene dichloride, chloroform, carbon tetrachloride, etc)	,,	3	8,350	5,102	3	8,350	5,728
(28)	Sodium silico fluoride	,,	3	2,264	400	3	524	413
(29)	Plasticizers	,,	5	16,200	11,898	7	33,750	15,997
(30)	PVC resins	,,	4	43,700	38,678	4	44,800	41,658
(31)	Polyethylene (low density)	,,	2	19,000	23,316	2	19,000	26,283
Agro-Industries								
(1)	Agriculture tractors	Nos	5	25,000	19,931	6	32,200	16,443
(2)	Power tillers	,,	1	1,000	361	1	1,000	146
(3)	Petrol dispensing pumps	,,	1	2,400	2,427	1	2,400	1,875
(4)	Agricultural discs	,,	2	3,00,000	79,699	3	4,00,000	1,06,242
(5)	Combine harvestors, power harro fertiliser distributor	,,	1	600 600 600	13 205 65	1	600 600 600	265 Nil Nil
(6)	Petrol kerosene oil engines	,,	5	61,600	20,755	6	86,600	26,748
Construction Equipment								
(1)	Loco/diesel shunters	,,	1	148	32	1	148	11
(2)	Road rollers	,,	6	1,520	335	6	1,520	338
(3)	Forklift trucks	,,	7	—	543	7	—	847
(4)	Mobile cranes	,,	1	188	70	1	188	60
(5)	Shovels/excavators	,,	2	100	90	2	150	96
(6)	Crawler tractors	,,	3	600	249	3	600	238
(7)	Dumpers	,,	2	150	68	3	250	68
(8)	Scrapers	,,	2	50	33	2	75	47
(9)	Air compressors	,,	11	7,734	6,793	11	8,668	5,061
Industrial Explosives								
(1)	Blasting explosives	Tonnes	2	43,000	28,530	2	47,000	32,319.4
(2)	Safety fuse	M. coils	2	15.09	14.07	2	14.10	8.1
(3)	Detonators	M. nos	2	168	97.25	2	168	106.74
(4)	Detonating fuse	M. metres	1	6.1	6.76	1	9 M. metres	5.4

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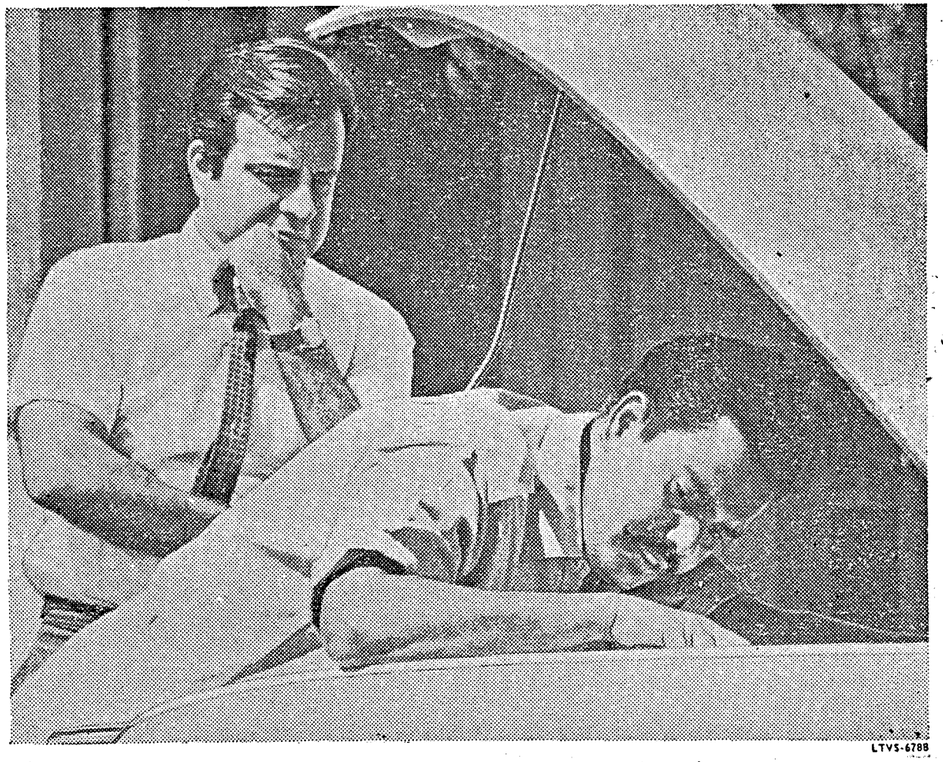
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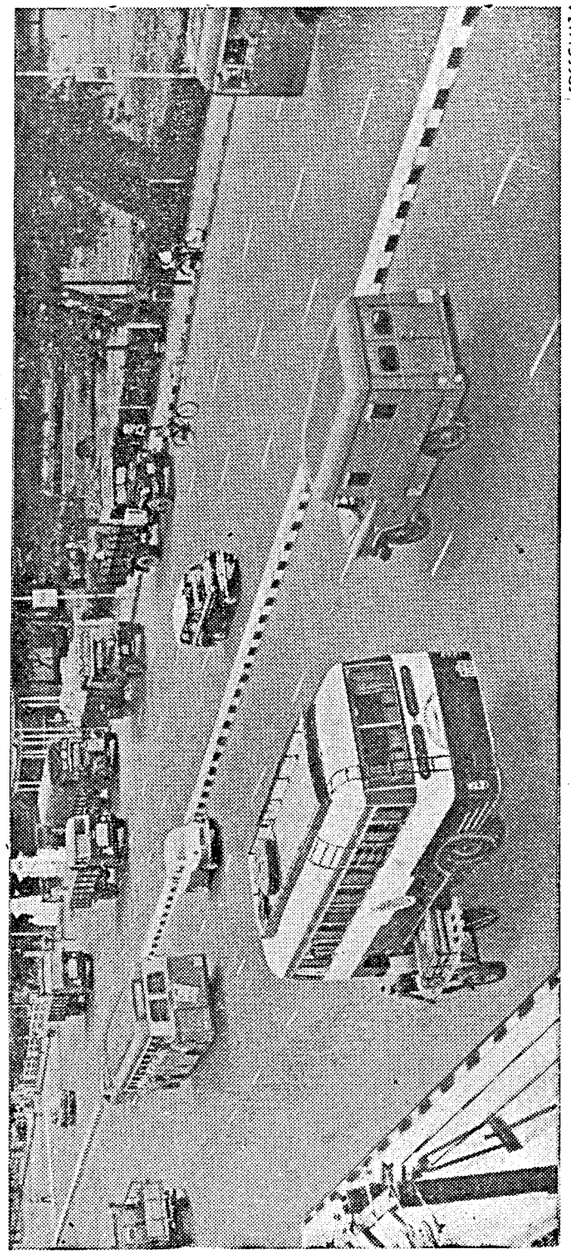
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Editor
KRISHNA RAJ
Assistant Editors
Rajani X Desai, Jawid Laiq
Business Manager: A Fernandes
Circulation Manager: Shiv Patil
Editorial Staff
Colin de Souza, Haresh M Advani
Shireen Heerjee, Ashok Rao

The Show Goes On

SO the chickens are coming home to roost and, one after the other, the Congress party's radical pretensions are getting exposed. When, last month, the Chief Ministers of Punjab, Haryana and UP managed to have their way on the question of the procurement price of wheat, it was still possible to suggest that the Central Government had given in without a fight for tactical reasons. Procurement prices affect all farmers — large, medium and small — with foodgrains to sell, whereas the ceiling on land holdings or a tax on agricultural income and wealth would touch only the larger farmers. By choosing to tackle the latter two issues before returning to the first, the Central Government was seeking to isolate the larger farmers from the mass of cultivators in dealing with them. The argument may have been plausible a month ago. But it is no longer so after last weekend's palavers on land ceilings among Congress party big-wigs.

The confabulations were notable, among other things, for the reported statement of the Prime Minister, calling upon her partymen to stop the competition in radicalism and to appreciate the "tremendous difficulties" that the Chief Ministers would have to face in implementing the ceiling laws. Indeed, it is time that Congressmen called off their sham radical talk and came clean; but unfortunately the Prime Minister's advice on this point went abegging. For, the very next day at the same conference the party leaders resolved in all seriousness to provide house sites for the *entire* rural population by August 15, 1973, the Planning Minister held out the assurance that the problem of rural unemployed would be solved by the end of the Fifth Plan, and the Education Minister promised to wipe out illiteracy among the 16-25 age group by 1980! The Prime Minister herself — even as she ruled out-of-court any talk of drastic reduction in the land ceiling on the ground of the difficulties that the Chief Ministers would face — continued to speak of the proposed changes in the ceiling laws benefiting 90 per cent of the rural population.

More important, it surely deserves some notice that the Prime Minister should have sought to emphasise the "tremendous difficulties" in the way of lowering the land ceiling and not the problems that may be created by *not* lowering the ceiling. While this is, no doubt, a curious position for the leader of the *garibi hatao* party to take, it is nevertheless a very sensible one in the given political situation. After all, who are the proponents of land reform and land redistribution among the landless? In the Congress party itself, it is a small group of people who count for little politically and a number of whom, besides, espouse radical causes mainly to further their own personal political fortunes. This is not a political force that either the Prime Minister or the Chief Ministers have to worry overmuch about. And do any pressures exist for radical policies and programmes outside the Congress party? True, the two communist parties and, of course, the SSP are capable of generating a certain amount of heat and commotion in the two houses of parliament and in some of the state assemblies. But nowhere else. Otherwise how can one explain the fact that the government in Punjab — where, according to data collected by the National Sample Survey, 62 per cent of the rural households had either no land or had less than 2.5 acres — has been able with no fuss or pother to introduce a new bill under which for the bulk of the landowning families in the state the new ceiling will work out to 35 acres — or almost double what the Congress party's election manifesto had promised? There are no reports of the landless and the small peasants holding mass demonstrations or marching to the state assembly to protest against this. And, of course, the CPI(M), the CPI, and all the rest of them, are nowhere on the scene.

No apologies need be offered for viewing the land ceiling issue in such crass political terms. The politics is all that is material; the finer economic points are irrelevant. For, as long as land reform and other radical programmes merely remain the subject of passing excitement in the halls of legislatures or a matter of playing to the gallery at party conferences, the shadow-boxing in the ruling party between the radicals and the conservatives, between the Young Turks and the Chief Ministers, can go on and on like some Gilbert and Sullivan show.

possible default in repayment of principal also. The news caused a flutter in Dalal Street. Reports have it that the Reserve Bank was under pressure to direct the bankers to the newspaper group to relent and extend some accommodation to it — such as against advertisement dues from government. The Reserve Bank did not concede. However, the newspaper group seems to have managed to get fresh funds from non-banking sources — mainly trusts — to tide over its 'temporary' difficulties.

The newspaper group's borrowings from the public were said to be worth about Rs eight crores. Of course, the precise amount is not known — not even to the Reserve Bank which is supposed to have its finger on the pulse of such financial flows. In any case, the statistics on public deposits with companies available at the Reserve Bank are at least three years old. And this, after deposits from the public have been consciously sought to be brought under the purview of the Reserve Bank.

Until the sixties there was no restriction on companies obtaining deposits from the public. Companies in fact borrowed to the hilt from the banks and then went on to obtain deposits from the public. Then the Reserve Bank intervened to prevent 'over-acceptance' of public deposits. Companies which had borrowed in excess of the permissible limit were given time to repay that amount. To evade the rules on 'deposits', companies began to 'borrow' from the public against the signatures of the directors of borrowing companies. The loophole has now been plugged, and the companies given time to settle the borrowings.

Clearly, however, no amount of 'regulations' are enough without the will and the energy to enforce them with the public interest in view. How alert is the Reserve Bank to the financial goings-on of companies — at least the more obvious ones? The newspaper group referred to — or rather its controlling interest — is known to have burnt its fingers speculating in steel shares and is still saddled with steel shares of the face value of at least Rs three crores which are unsellable except at a considerable loss. It is also widely known that the group spent a sizeable amount on the recent state elections in Madhya Pradesh. Finally, like any major holder of wealth, it has large tax commitments.

Yet, in spite of all these obvious factors meriting its attention, the Reserve Bank was caught unawares as it has no system for keeping track of and adequately regulating company deposits. It does not have any clear idea of the number of companies with excess deposits (and borrowings). Nor does it have selective statistics of the large companies with excess deposit borrowings. Even more beyond its pale, in the circumstances, will be the complicated problem that will now arise with the newspaper group's fresh borrowings from non-banking sources to tide over its existing debt servicing difficulties. Having allowed additional borrowings when even the existing debt is in excess of the permissible limit, how will the fresh borrowing be fitted into the regulations concerning the repayment schedule for excess deposits-borrowings?

It is high time the RBI accepted responsibility for a stricter and more systematic regulation of the unsecured deposits or borrowings from the public at attractive rates of interest. This is by no means the first case when the absence of its control has become apparent. Only a few months ago a reputed city family concern which had accepted deposits worth approximately Rs five crores was reported to have failed to honour its interest and repayment liability to the public.

Gold

Rush

GOLD prices seem to be on the way up and at an unprecedented rate. At the end of 1970, they were around US $ 38 an ounce, a level which was officially accepted a year later in the Smithsonian agreement. However, by then international uncertainties, economic as well as political, had sent prices soaring upto around $ 43, a 15 per cent premium on the new official price — a premium rate which was normal in the sixties. Since then prices have risen another 25 per cent during the last five months, taking gold to an unheard of $ 54.55. And prices are still going up.

The gold market is subject to peculiar forces. Gold production in the non-communist countries remains steady, but supply fluctuates with the amounts of gold that the Russians choose to put into the international market. In recent years, Russia (in shrewd capitalist style) has been cashing in on rising prices. Gold demand emanates from industry and from speculators and hoarders and is, therefore, highly volatile. Demand from industry accounts for more than half of the non-communist countries' output of gold and has been rising steadily. Some studies made in London, which is both a major entrepot for gold and the headquarters of many gold mining companies, indicate that within a decade industrial demand for gold will exceed current output. However, industrial demand is a stable, derived demand, and is hardly responsible for the present instability in prices, which arises out of the speculative and hoarding demand.

Apart from gold, hoarders' needs are equally well met by numbered accounts in Swiss banks. The Arab oil states and tax evaders all over the world are major users of these accounts. Such bank liquidity leads to a speculative demand for currencies, moving from weak currencies (sterling, US dollars) towards strong currencies (D-marks, yen). In recent times such speculative movements have led to foreign exchange curbs and currency revaluations. It was expected that the December accord would lead to a period of foreign exchange stability. However, the accord was doomed to failure from the beginning. It became obvious almost immediately that the par values would not hold for long. Talk about yen revaluation, for instance, has persisted even after the December accord. The economic forces making for price and currency instability during the last five years have hardly changed at all. Except perhaps in the US, in most other countries prices and wages are on their hound-and-hare round again. And the gold speculators continue to make many a fast buck. But this bubble could easily burst. An end to the Vietnam War could remove a major element in US financial difficulties and dollar weakness and, along with the increasing integration of EEC currencies and a revaluation of the yen, could severely lessen speculative opportunities.

However, since the international situation is still quite uncertain, a second revaluation of gold is on the cards. Such a revaluation would benefit gold producers (mostly, South Africa and the Soviet Union) and gold holders (most of the advanced countries). In the past when a price rise in gold was not considered feasible, South Africa had offered to share with the developing countries a part of the gains it would make on a gold price rise. But now that a price rise is a distinct possibility, there is less talk of such sharing.

A Ceiling on Ceilings

Romesh Thapar

YES, somewhat reluctantly, it's been decided to put a ceiling on ceilings talk, at least until the "thinkers" of the Congress party get their many confusions sorted out. A wise decision. Indeed, even the most radical agitator would come to this conclusion after following the proceedings of the two-day brainstorming on ceilings organised under the all-powerful chairmanship of the Prime Minister herself. Seldom has a demonstration of political-economic confusion been more powerfully and vividly presented.

There's little point in recapitulating the viewpoints of the various lobbyists. Suffice it to say that one intervention cancelled out the other. The total impact was of an essentially leaderless mass, trying desperately to link with the promises pledged to the people but unable to find the unifying *mantra*. Simple solutions were scorned, not even considered. The tortuous, self-deluding, meanderings of the essentially Hindu mind of the ruling party succeeded in befuddling even the apparently clear — and here I am not referring to those who attempted a competition in radicalism with the Prime Minister, from Subramaniam to Chandrasekhar.

The fundamental flaw in the reasoning of the Congress leadership is the attempt to tie up the concept of ceilings with dispossession. The two objectives are different and should be sought at different levels. To attempt a single formula to serve two objectives — or to kill two birds with one stone! — is not possible in the mixed-up muddle that is the Congress party. The tackling of one objective is impossible enough in democratic conditions, but no one seems to think so.

The opportunism which parades as radicalism in the shadow of the Prime Minister will have to be disciplined by the detailing of certain principles which should underpin economic activity in our democratic society. Let us define afresh what we understand by self-cultivation in rural areas. Let us sketch for the first time our understanding of self-occupation in urban areas. Then, let us ask ourselves whether we are going to allow rural and urban landlordism — and, if so, to what extent.

The surplus land and building should be sold in the open market during the financial year with government retaining the right to take over agricultural land and urban property at registered values against special six or seven per cent bonds. The wider and gaping loopholes of allowing commercial and industrial assets to escape ceilings will come under attack. It will have to be blocked in much the same way or else there will be a howl from those already under ceilings.

I have deliberately stated the case for ceilings in these cold terms, because the logic is precisely that willy-nilly one ceiling will follow another. The way the debate is proceeding at the moment convinces even the enthusiasts that the whole business of ceilings is shot through with contradictions. Even the ceilings that are being imposed — in the Punjab, for example — are so generous as not to make any impact. It is not unlikely that when ceilings are finally enforced, they will be of a kind which do not really disturb property-owners in rural and urban areas — and that would be as bad as the present confusion.

Something of the uncertainty should be cleared by the time the AICC meets in the first week of June. Until then, we can only keep our fingers crossed and hope that those entrusted with the job of preparing background papers and policy statements do their work thoroughly and without an opportunist eye on the competition in irrelevant radicalism which is infecting all and sundry, even Jan Sangh leader Vajpayee. Under the slogans of radicalism a host of urban and rural vested interests are hiding, determined to destroy a genuine radical thrust. Only a bold and realistic exercise on ceilings, related to the objectives of a new economic policy, can now save the ruling party from plunging along a path strewn with evasion, corruption, double-cross, frustration and bitterness.

Messy operations have never served egalitarian ends. Surely, our khadi-clad gentry have digested this basic lesson of 25 years of freedom. If not, they had better start chewing on the facts before it is too late.

May 15

LETTER TO EDITOR

Mode of Production in Indian Agriculture

ANDRE BETEILLE, while charging me with distorting his views (April 22, p 822) has, in fact, himself distorted them.

In his original paper he discusses the question of applicability of the concept of class in an "agrarian society" "of the Indian kind". But in the letter he refers to the question of the applicability of the same concept to the study of "rural India". I doubt that Beteille is so naive as to think that the study of India as an "agrarian society" and the study of "rural India" are equivalent.

In his original paper, again, Beteille makes two crucial statements: (a) "the nature of social divisions is *different* in agrarian as *opposed* to industrial societies" (our emphasis), and (b) the concept of class "was formulated, shaped and refined in the context of *industrial* society" (our emphasis). Assuming the validity of these statements does it not follow that such a concept of class is unworkable in agrarian societies including those "of the Indian kind"? How, indeed, could I have distorted his position?

Let me add a more important point. "Agrarian society" and "industrial society" are categories that have been brandished by some bourgeois social scientists in order to hide the reality of classes and class struggles in the contemporary world. Acceptance of these categories as valid implies the rejection of Marxism, whatever be the verbal jugglery (through words like "difficulties", "caution", etc) to cover up this truth.

I am grateful to Beteille for drawing my attention to K N Raj's "extensive writings on the Marxist approach" but I am sorry I cannot oblige him by entering into a polemic with Raj at this point. Serious controversies preclude surrogate functions.

In fine, concerning Beteille's *argumentum ad hominem* against me, I, in my turn, understand perfectly that, given the contemporary political reality of India, people like Beteille do gain *materially* by projecting a 'left' image of themselves while peddling, in fact, ideas alien to Marxism in Marxist fancy dress.

PARESH CHATTOPADHYAY

Calcutta

A Better Cover, For All That

Hansavivek

HINDUSTAN LEVER had the advantage last year of a record crop of oilseeds and higher imports of oils. It now apprehends a scarcity of soap-making oils if the imports of oils and fats are reduced following the cut in foreign aid. The company continues to encourage production and use of forest crop oils, rice bran oil, etc, as indigenous alternatives, but it warns that margins will fall and production suffer "unless the industry is permitted to recover at least the increased cost resulting from the shortage of imported oils". HL hopes that adequate reliefs will be provided under the informal price control system following the study by the Costs and Prices Bureau, to meet the considerable inflation in manufacturing and distribution cost of soap. The company also complains that Government has not yet announced its decision on the Tariff Commission's report and that, in the meantime, margins on vanaspati have deteriorated. It says the current pricing formula does not allow for the sharp rise in the cost of processing and distributing vanaspati that has taken place over several years. Margins on baby food have also been steadily eroded, as the "small increase" in price allowed by government has not sufficiently compensated for "rapidly rising costs". Sales of convenience foods have continued to fall "below expectations".

However, HL experienced further growth in sales of poultry and cattle-feed. It introduced special feeds for small animals and dispersed production facilities to service the expanding market economically. Production of nickel catalyst for hydrogenating vegetable oils was increased further. The fine chemicals unit at Andheri used processes developed by the research unit to produce chemicals hitherto imported. The major emphasis in the factories was also on import substitution and cost reduction. The management is still discussing with government the proposals for expanding production facilities in some of its existing businesses and the feasibility of a project in the 'core' industry referred to by the chairman last year. The company has produced better results with increases in turnover and margins. Dividend, stepped up by a point to 15 per cent, finds a better cover than last year's.

ATUL PRODUCTS has obtained a 'letter of intent' for manufacture of betanaphthol, but government has imposed certain conditions on which discussions are going on. The company has also applied for licences to expand capacities of the caustic soda/chlorine plant and of some intermediates, but its application for undertaking manufacture of nylon filament yarn has not been granted, because the government has decided on a regionwise distribution of such plants. Last year, Atul increased exports by Rs 5 lakhs to Rs 56 lakhs in spite of some restrictions imposed by government towards the year-end. The company is now exporting dyes and intermediates to a large number of countries, and is well on its way to setting up a "reasonably strong" export base. Despite the slackness in the textiles industry, general credit squeeze and unsettled conditions towards the year-end on account of war, Atul was able to increase its sales modestly. Owing to a "substantial loss" incurred on sale of dyes purchased from Atic Industries, coupled with the lower quantam of dividend from Atic (Rs 17 lakhs against the normal payment of Rs 28 lakhs), and the increase in manufacturing costs, however, profit was lower compared to in the preceding year. Some of the plants could not be utilised fully, and the fast colour bases and sulphur black plants had to be closed temporarily because of unfavourable market conditions. The intermediates plant also could not be run to full capacity. Lower sales from the production of these plants, however, were compensated by higher sales of chemicals and pharmaceuticals. The phosgene plant has now started production. Plans are afoot for making some of the phosgene-based materials. A new situation has arisen in regard to benzidine which is one of the main raw materials for direct dyes, an important group of dyes made by Atul. Most of the countries in the world have stopped production of benzidine, because it is considered carcinogonic. Atul is making research and development effort to substitute benzidine as a raw material and has succeeded to some extent. As the market for vast dyes is now steadily improving and prospects for reactive dyes also appear to be "much better". Atic Industries is expected to run its plants satisfactorily this year. Cibatual made a profit of Rs 57 lakhs and wiped out all the past accumulated losses. The scheme to manufacture formaldehyde is being implemented; the plant is likely to be commissioned next year. Cibatual has also obtained a licence for the manufacture of pyrazole base, and this plant is expected to go on stream by the end of this year.

PFIZER stepped up its net sales by 20.9 per cent, but its gross profit could rise by only 16 per cent during the year to November last. The ratio of gross profit to sales thus declined from 28.1 per cent to 27.15 per cent, but that of net profit to capital employed increased from 14.89 per cent to 15.46 per cent. Commenting on the controversy as to whether the return for the pharmaceutical industry should be based on its sales turnover or capital employed. S V Pillai, charman and managing director, advocates that the objective should be more intensive utilisation of the limited resources and maximum growth in production. This, he says, will encourage increased production and sales with minimum additional investment. In fact, Pillai deprecates the reported move of fresh amendments to the Drugs (Prices Control) Order, aimed at affecting the present pattern of pricing and profit ratio in the pharmaceutical industry. The new prices came into operation only from mid-January 1971. The first year after the introduction of a "drastic measure", according to him, will be a period of readjustment to the new operating pattern and a period of stability will be reached only in the second year. He is of the view that the quantum of return should be determined only after proper evaluation of factors such as the "peculiar character of the industry, the future national role to be played by it and the financial needs dictated on the basis of these". The decline in Pfizer's profitability is attributed to the "drastic" price reductions and the "continually rising manufacturing costs". Last year, the company had the advantage of inventory of imported raw materials held by it prior to the enforcement of the Pooled Prices Scheme, procured at comparatively lower prices. This was a temporary benefit, and the full effect of the high pooled prices will be, it is stated, felt in the current year. Also, it is feared that the impact of the Drugs (Prices Control) Order will become more pronounced in the current year. During 1970-71, Pfizer's exports aggregated around Rs 62 lakhs. The company had applied in 1969 for permission to increase the licensed capacity for the manufacture of 'chlorpropamide'. Government approval is expected this year.

BARODA RAYON has secured 'letters of intent' for stepping up capacity for rayon from 3,000 to 6,380 tonnes per annum and for a plant to manufacture soda ash with an annual capacity of 1,44,000 tonnes. It also expects to receive 'letters of intent' for establishing plants to produce cellophane paper and nylon tyre cord. But the directors appear to be in two minds and say that all these schemes will be examined "in their proper perspective before arriving at a final decision about the schemes to be implemented". During its 13th year ended December last, BRC increased its sales and gross profit. Net profit, however, turned out to be lower because of increased tax liability. And dividend, stepped up 4 points to 12 per cent including 2 per cent by way of additional payment, is not fully covered by earnings. The allocation of foreign exchange for the import of wood pulp, being made through STC, has recently been reduced. But production is expected to be maintained by using indigenous pulp. The directors point out that profit margins are continually being eroded by higher costs. In accordance with a fresh agreement between weavers and spinners, BRC would have to supply 57.62 per cent of its production (against 50 per cent upto the end of December last) at a concessional price. In addition, 10 per cent of the production will have to be continued to be supplied at a "highly concessional rate" as before against export of art silk fabrics.

EAST COAST BREWERIES AND DISTILLERIES is setting up a project at Paradeep in Orissa for the annual production of 50,000 hecto litres of beer with technical knowhow from Desmet (India) whose offer includes installation and commissioning of the brewery under supervision of Anton Steineckers of West Germany. The plant is expected to start production in the first quarter of 1973, and the directors hope that the company will be able to pay a maiden dividend of 12 per cent for 1974. At present there is only one unit producing beer in the Eastern India region where shortage of beer is often experienced. Demand, moreover, is likely to grow fast. Being located at a port head, ECBD will have the advantage of competing in the export market too. The project, estimated to cost Rs 1.5 crores, is proposed to be financed with equity capital and borrowings in equal proportion. Of the present subscribed capital of Rs 11.25 lakhs, Orissa government has put in Rs one lakh and Industrial Development Corporation of Orissa Rs 2.75 lakhs. Equity shares worth Rs 32 lakhs have been reserved for subscription by the state government and Rs 2.25 lakhs for IDCO. The public is being offered the balance equity capital of Rs 29.50 lakhs. The subscription list will open on May 22 and close on June 1 or earlier, but not before May 25. The entire public issue is fully underwritten — Rs 24 lakhs by IDCO and Rs 5.50 lakhs by a Calcutta firm of stockbrokers. N K Mohapatra is the managing director of the company. Other directors include Maharaj Prithviraj of Jaipur, K K Dutt and F R Bhesania.

The Week's Companies

(Rs in Lakhs)

	Hindustan Lever		Atul Products		Pfizer		Baroda Rayon	
	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 30-11-71	Last Year 30-11-70	Latest Year 31-12-71	Last Year 31-12-70
Paid-up capital	1445	1445	410	410	399	399	478	478
Reserves	609	539	366	321	720	648	311	309
Borrowings	258	259	1038	1016	—	—	108	142
of which Term borrowings	258	259	461	506	—	—	31	33
Gross fixed assets	1977	1832	1839	1761	690	642	1076	1030
Net fixed assets	897	868	813	837	512	533	527	551
Investments	8	8	338	338	1	1	89	20
Current liabilities	2144	1683	266	204	462	330	73	112
Current assets	3558	3056	929	811	1069	843	354	460
Stocks	2765	2347	554	532	503	478	246	222
Book debts	688	655	371	274	374	291	102	156
Net sales	12462	11159	1349	1267	1967	1627	596	559
Other income	30	29	110	114	25	27	20	8
Raw material costs	9469	8635	429	408	736	623	120	107
Wages	897	841	103	82	338	315	115	105
Interest	74	39	87	80	2	7	8	6
Gross profit(+)/loss(—)	853	645	236	261	534	459	232	204
Depreciation provision	109	103	103	106	52	39	68	66
Tax provision	458	296	50	28	309	264	113	78
Net profit(+)/loss(—)	286	246	83	127	173	156	51	60
Development rebate provision	15	13	7	38	6	3	5	5
Transfer to reserves	59	36	15	31	27	53	—11	17
Dividend								
Amount	217	202	61	58	140	100	57	38
Rate (per cent)	15	14	15	14	27	25	12	8
Cover (times)	1.27	1.18	1.24	1.53	1.19	1.53	0.80	1.44
Ratios (per cent)								
Gross profit/sales	6.84	5.78	17.49	20.60	27.15	28.21	21.55	19.80
Net profit/capital employed	12.35	10.95	4.59	7.27	15.46	14.89	5.68	6.46
Inventories/sales	22.18	21.03	41.06	41.99	25.57	29.38	22.85	21.55
Wages/sales	7.19	7.53	7.63	6.47	17.19	19.36	10.69	10.19

FROM OUR CORRESPONDENTS

NEW DELHI

Granting the Politics

THE two-day conference of the leaders of the ruling party convened by Indira Gandhi last week, ostensibly with a view to working out an action programme to carry out commitments made to the people and implement the party's election manifesto, has on the contrary highlighted some of the characteristics and constraints of the Congress in its newly re-established hegemony. So long as radical slogans were serving the immediate electoral purposes of the party, they were voiced in unison. But their implemention now required of the Congress party is quite another thing, and has brought to the fore differences in outlook and approach and precipitated an indirect acknowledgement of the party's limitations by the high command. The two-day conference provided occasion for this in the wake of the controversy on land ceilings. Interesting to watch was the role the Prime Minister played and the Centrist positions she was obliged to adopt in the clash between what are now called the 'ultra-radicals' in the party and the more 'cautious' sections in charge of government administration.

Almost the entire time of the conference was taken up by the ceiling question. It was inevitable that the issue of agricultural land ceiling should figure in the deliberations. Those who demure on this issue had prepared their counterblast in the form of an insistence on a corresponding urban ceiling. The discussions failed to lead to any firm decisions on either the urban or the rural ceiling proposals. A nine-man committee was appointed instead to deal with the problem of agricultural land ceiling, which was to present its report within a day so that final decisions could be taken by the conference; but it did not do so. It is now expected that the committee will present its report for the coming sessions of the National Development Council in the last two days of this month and of the AICC early next month. The problem of urban ceiling and a uniform all-India policy on it was also referred to a 10-member committee.

The Crux of Land Ceilings

It was rather disconcerting for some of the radicals in the party to see Planning Minister C Subramaniam emerge as the spokesman of the ultra-radical trend. He spoke strongly and with his usual ability about the need for imposing a ceiling on land at a level that would give enough surplus for purposes of restriction. This is, after all, the heart of the matter; and not whether the ceiling should be between 10 to 18 standard acres, or how exactly the standard acre should be defined, or whether irrigation facilities to be taken into account are from government sources or privately owned — though controversy has raged on these subjects over the past few weeks. If the lowering of ceilings by legislation fails to provide any substantial surplus for redistribution — as is likely under the laws being enacted by the state governments — the essential aim of the proposed radical reforms obviously cannot be realised. That the author of the new agricultural strategy had taken up this position was a matter of considerable surprise and people wondered whether Subramaniam would have upheld his present views if he were still in charge of the Food and Agriculture Ministry instead of being Planning Minister.

Ultra-Radicals

However, the ultra-radicals do not appear to have reckoned with the possibility of Indira Gandhi snubbing them as sharply as she did at the conference. Claiming that she was the best judge of what the people really wanted — and there is no contesting that claim within the Congress party at present — she squarely joined issue with the ultra-radical pleas. In reply to the demand that, land reform being essentially a political issue, it was for the top political leadership to give a lead in the matter, she sided with the state Chief Ministers and made it quite clear that their difficulties in carrying out such measures as land reforms would have to be given due consideration. The difficulties she had in mind were quite understandably political. "Where is the organisational structure and the administrative set-up to implement a more radical policy", she pointedly asked. Chiding the ultra-radicals for vying with each other to advocate radical measures, she commended a practical approach — suggesting, by implication, that radical slogan-mongering had no further useful purpose to serve.

Coming Clean

A similar problem arose during the discussion on the ceiling on urban property. Once again, C Subramaniam spoke proposing that the purpose of the urban ceiling should be to take over urban property, regardless of its value, if it had been constructed by private owners with the purpose of renting out to others. The cautious element, which predominates in the party was more articulate and questioned the 'practicality' of such proposals. Again, a remark revealing of the thinking of the Prime Minister came later in the course of the discussions when she said that the intention should not be to expropriate the rich: all that was necessary was that the poor should be helped by the government. She also clarified that the burden of taxation should fall on the rich and that the Centre and the states should ensure that there was no additional burden on the middle classes. These remarks hardly square with the earlier professions of an impending frontal attack on poverty, encompassing redistribution of wealth and incomes and distinct from the publicly discredited philosophy of a trickling down of the benefits of growth as part of the process of general economic development.

It would appear that the manner in which the controversy on land reforms has developed and sharpened in recent weeks has alerted the Prime Minister to the risks of radical rhetoric and posturing, and that she is now moving to impose a measure of curb on these tendencies. She must realise that, unless this is done, there is every possibility of the prevailing balance of social and political forces within the country getting disturbed with far-reaching consequences for her. The change in the political landscape of the country, which has come about between the 1969 Congress split and the 1972 electoral victory with which the Congress party under Indira Gandhi re-established its complete hegemony, is the resultant of many factors. A major factor has been the resentment against the urban big business which was charged with having cornered all the fruits of the first phase of economic development in the fifties and early sixties. The sentiment was most forcefully articulated by the middle classes, the educated unemployed, and the people with fixed incomes, who suffered the most during the prolonged stagnation of the mid and late sixties. Indira Gandhi fully exploited this sentiment and reaped rich political dividends from it. Clearly she has no intention of moving further away from this position.

No Damage to Supports

Meanwhile, the only growth point in the economy has been the rich farmer who responded to the new agricultural strategy and enormously increased his economic and political power over the last five years. Indira Gandhi very well realises that the setback suffered by the Congress at the 1967 elections was in large part due to the frustration of the urban middle classes and the defection to Opposition parties of its rich farmer base in the rural areas. Blunting the edge of discontent of the middle classes in the urban areas and active assistance to the rich farmer in the countryside helped her to regain the lost ground and won her the impressive electoral victories of 1971 and 1972. She can have no use for the ultra-radicals and their slogans now, which may erode the Congress electoral base. She is quite willing to place curbs on the small group of big business which enjoys little social influence. But she cannot possibly alienate the middle classes by implementing urban property ceilings, nor contend with the rich peasant by carrying out the land reforms however necessary they may be on other grounds.

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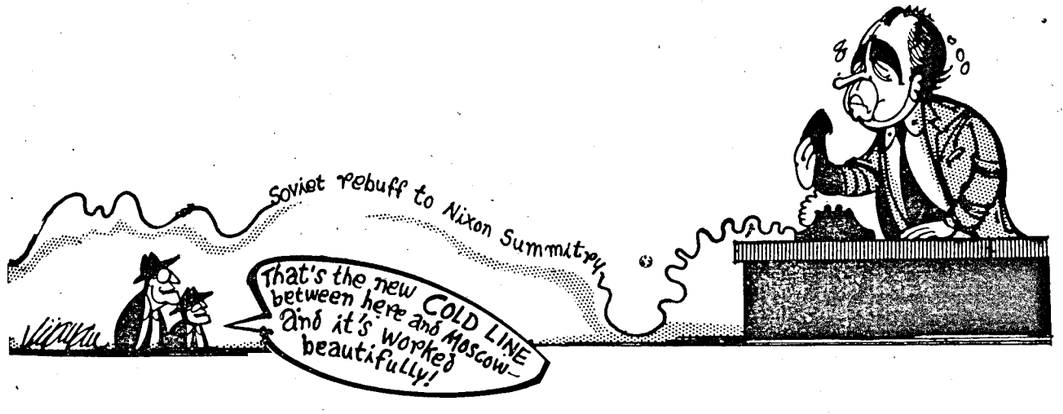
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NORTH

A Nice Balance

BY simultaneously introducing the Punjab Land Reforms Bill and the Urban Property (Ceiling) Bill in the state Assembly on May 12, Chief Minister Zail Singh was countering criticism about 'discrimination' between the rural and urban sectors. At the same time, the large landowners have been pacified, as several of the provisions of the Land Reforms Bill have left room for evasion.

A ceiling of 7 hectares (17.5 acres) is proposed for land under assured irrigation from a government source enabling at least two crops annually. For 'barani' (unirrigated) land, the ceiling is to be 18 hectares (45 acres). For land of intermediate classes, the area will be determined by the intensity of irrigation from any government source and by the productivity — subject to a ceiling of 11 hectares. One hectare of additional land is to be allowed for each member of a family exceeding five, but not for more than three such members. The holdings are to be further increased by two hectares for each adult son or daughter who does not own any land. For orchards, an additional area of two hectares will be allowed.

The principles for determining compensation are liberal enough: 75 per cent of the market value for the first seven hectares, 50 per cent for the next 7 hectares, and 25 per cent for the remainder. Retrospective effect is sought to be given to this legislation through the provision that all deals and transfers made after September 26, 1970, will not be considered. Though other exemptions have been withdrawn, landowners are greatly relieved to find that numerous loopholes are available, particularly in the case of lands irrigated by tubewells. Moreover, it is the amendments proposed to be introduced later that will determine the character of the land reform. In Punjab, 51 per cent of the net area is irrigated by wells, tubewells, and pumping sets. Not all of it would be covered by this ceiling law. In fact, on present calculations, the net surplus area available for redistribution will be quite small.

The ceiling on urban property is along expected lines too. In the case of an individual and a family of not more than five members, the ceiling, in terms of value, is to be Rs 2.5 lakhs. An increase of Rs 50,000 will be allowed for every member in excess of five, the total not exceeding Rs 4 lakhs. Three years after the commencement of this Act, the government may acquire **the excess urban** property with a view to utilising it for a public purpose. The compensation for such excess property is to be determined by agreement or according to specified principles. These provide for 75 per cent of the market value in the case of property worth Rs 2.5 lakhs or less. For property above Rs 2.5 lakhs, the scale is 75 per cent for the first Rs 2.5-lakh slab and 60 per cent for the remainder. The compensation is to be paid through 12-year bonds carrying interest at 5.75 per cent.

When the Time Comes

Haryana, too, is determined to lower land ceilings and the Chief Minister has declared that he will implement the Congress policy in letter and spirit. Of course, positive action has been deferred until Central directives are clearly made known.

In a bid to take full advantage of the governments' dithering on the issue of ceilings, several landowners in Punjab and Haryana have effected fake deals and transfers in recent weeks. Such break-up of the large holdings had started even earlier, in the last quarter of 1970, in order to evade the wealth tax. In fact, many landlords in undivided Punjab had already split up their holdings in the fifties, when ceilings were imposed for the first time. As a result of the manoeuvres comprising transfers and 'sales' most of the landowners had managed to retain their possessions. They were helped along in this by the many loopholes and exemptions in the Land Ceilings Act. Consequently, newcomers in the field and others who had not arranged transfers on the earlier occasion became alert this year when in March the Congress — coming to power after years of Akali rule — announced its intention to lower the ceilings.

The more popular method of transfer has been the filing of suits for possession of land (or their 'share' of it) by sons or other legal heirs of the elderly heads of families. Through allegations of extravagance, moral turpitude, and malicious intentions (all, of course, in complicity) against the owners, the 'heirs' have secured their 'rightful' share of the land. Since this was done through court orders in uncontested cases, the village patwari was quite helpless. Bribes were common enough. At many centres, the fee was said to be about Rs 250 for the lawyer, a comparable amount to other court dignitaries; and a 'good tip' to the patwari, for speedy execution of the orders for splitting land.

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Of the many recommendations of the Punjab Taxation Enquiry and Resources Committee to augment the state's revenues and to effect economy, perhaps the most interesting concerns Ministers' salaries. In a 514-page report, which was presented to the Assembly on May 4, the Committee indicated that the Ministers actually cost the state five times their salary. On an average, government spends about Rs 5,200 per month on each Minister by way of salary, TA, DA, etc — the expenditure being much greater on the Chief Minister. At present, Ministers draw Rs 1,000 as salary, but get rather more by way of perquisites such as free furnished house, electricity, and water, etc. The Committee has recommended a consolidated salary — Rs 3,500 to the Chief Minister and Rs 3,000 to his colleagues; and all charges, including income-tax, house rent, and electricity, water, and telephone bills, to be paid by the Ministers themselves. The Committee has also recommended a ceiling on the size of the state ministry at one-tenth of the total membership of the legislature.

If its recommendations are implemented, the Committee expects about Rs 18 crores to be set free for other purposes. However, the Committee is opposed to an agricultural income-tax because of the 'practical difficulties' involved. On the other hand, it has recommended complete nationalisation of bus transport within a period of five years, increase in electricity duty, increase in school and college fees, levy of a commercial crop cess, and increase in stamp duty. The Committee has urged exemption from additional taxes for the people living in the border areas.

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Meanwhile, an Industrial Development Bank team, which recently surveyed Himachal Pradesh, has stated that the principal factors responsible for the state being one of the least industrialised in the country are its topography, inadequate transport facilities, and lack of entrepreneurial skill. For tapping the state's rich industrial potential — including its forests and minerals — the team has made several proposals, in particular an integrated pulp-cum-paper project with a capacity of 100 tonnes per day, certain electronic industries, and a fertiliser unit.

MIZORAM

Harbingers of Change

Dipak B R Chaudhuri

MIZORAM, which recently became a Union Territory, has a population of about 325,000 — the majority being Christians — and covers an area of 21,000 square kilometres. In the elections held only a short while back the Mizo Union won most of the seats in the local assembly. The Union seems to consist of stable elements with a consistent and honest leadership. Mizoram's sole representative in the Lok Sabha, former headmaster of the Aijal Government School, is also from the Mizo Union. The Mizo Labour Party, which includes a number of former Mizo National Front (MNF) secessionists, is likely to serve as a useful opposition pressure group of young people to keep the new ministry and leaders on their toes.

The Congress did badly in the elections and has only a few seats in the assembly. Its unpopularity is party due to its line of encouraging the Laldenga-led faction of the MNF to harass the Mizo Union in order to win support for itself. This policy of short-sighted opportunism has backfired and the Congress has paid a heavy price for its manoeuvrings.

De-grouping the Centres

Among its first few measures, the new ministry has announced its intention to 'de-group' the 102 're-grouped' centres as a first step to normalcy. These centres were set up by the army during the MNF insurrection to prevent MNF fighters from seeking supplies or recruits from Mizo villages and also in order to offer protection to 'loyal' Mizos. De-grouping will now be made easier as Mizoram has secured the services of several dedicated development administrators. If these administrators and the politicians in the new Union Territory work in harmony and trust with each other, much could be achieved to accelerate the economic development of this fertile region of valleys and hills. Economic development would also be the best adhesive for integrating Mizoram with the rest of India.

Another feature which is likely to be of advantage to Mizoram is the establishment of Bangladesh. Chittagong is the natural port for Mizoram and could be used to advantage. The Kaptai dam on the Karnafuli river is close to the Mizoram border with Bangladesh and Dacca has already agreed to provide hydro-electric power to Mizoram as well as Tripura.

The first priority in Mizoram's economic development will have to be the setting up of several pilot projects in the rural areas. These projects would serve as focal points for modernising agricultural practices and encouraging agro-based industries like fruit processing and pulp making. The tradition of *hnathlang* or voluntary labour for community service could be usefully mobilised so that Mizo villagers could develop their own economy. Some other traditional Mizo practices, like *jhum* or shifting cultivation, will have to be discouraged. This practice has eroded much land and is not conducive to increasing crop production. Grants have been disbursed for terracing of fields, but the money, it seems, has been used for other purposes. Only paddy and chillies have been traditionally grown in the Mizo hills, but now it is planned to diversify agriculture and to branch out into pineapple and ginger cultivation.

Popular State Farm

In this field of encouraging new forms of agricultural development and diversification, the farms run by the (Central) State Farms Corporation are doing pioneering work. The state farm at Lokichera, which I visited, is very popular among the local population. Apart from being an agricultural showpiece it supplies electricity to the village of Lokichera and serves other useful functions. (It may be of some significance that one of the six successful Congress candidates to the assembly of 30 members is from this area.) The state farms have had a visible — and audible — effect on the lives and way of thinking of the people around. The local folks have composed a song, which looses its rhythm in translation, but its content is "... the bulldozer is the most important member of the Central State Farm. Without the help of the bulldozer there can be no neat and clean road to travel on! Without the help of Pathaua the mechanic no tractor or motorcar can run!"

One of the side benefits of Lokichera is a film projector. On the evening I was there, I saw a propaganda film called "Mizo Memoirs" produced by Pramod Pati of the Films Division. The film purported to show the Mizo people that they were a part of India and that places like Bombay and Calcutta were also theirs. The dialogue and commentary were in Lushai (the local language) and the film was about 17 Mizo citizens of India, of different ages and backgrounds, who do a 'Bharat Darshan' tour of the country. For all its technical flaws and poor planning, the film seems to have made an impact in Mizoram.

Unpopular Army Protection

I saw the film again the next night at 'V', an army-protected settlement. A large crowd turned up to see the film at the community centre hall and the showing had to be given up half-way due to overcrowding. In contrast to Lokichera, re-grouped centres like 'V' do not seem to have inspired much enthusiasm. Farmers find it difficult to carry on cultivation under these 'protected' conditions and there has not been much attempt at discouraging wasteful practices like burning of natural vegetation to clear the land and random sowing of seeds. It would be wrong to describe the re-grouped villages or centres as slums, but it would not be inaccurate to say that this form of habitation is less than popular.

It is particularly unpopular among the educated young. And it must be stressed that Mizoram has a high literacy rate of 50 per cent. This has created the problem of Mizoram having a high proportion of white-collar job-seekers. In a situation where there is no population pressure on land and where plenty of cultivable land is available, young people still insist on seeking jobs in towns. This is one of the problems the new ministry will have to deal with tactfully to prevent the sort of discontent that led to the formation of the Mizo National Front and its quest for independence in 1966. The signs are that the Mizo Union with the help of the group of development administrators will be able to tackle Mizoram's problems — which are minor when compared to those in some other states of India — and bring about an era in which the 1966 insurrection will only be a faded memory.

Co-operatives as Employers

K K Taimni

BOTH the trade union movement and the co-operative movement began as movements of dissent and protest against a system which enables capital to exploit labour. However, while the trade union movement over the years has consolidated its position and been generally instrumental in protecting and promoting the interests of the workers, the same cannot be said of the co-operative movement in this country — especially after the emergence of the sugar co-operatives.

Although the co-operative idea was formulated with a view to breaking the hold of capital over industry and labour, co-operatives have never quite worked that way. The distinctive characteristics of the co-operative organisation are that co-operatives are essentially associations of human beings and that the power of capital can be eliminated by limiting the return on capital to the minimum. The co-operatives were even expected to bring about a highly satisfied community of individuals.

Uneasy Equilibrium

Co-operatives were started in India by the British with the limited purpose of providing agricultural credit to cultivators. After Independence, there was a perceptible shift, with the State providing massive assistance under various developmental plans to build a strong and viable co-operative sector, particularly in the rural areas. Many successful co-operatives did emerge; but these emerged under a particular kind of leadership which perceived co-operative organisations as instruments for strengthening their hold on the community and as potential vote banks. There has thus resulted an uneasy equilibrium in the relationship between the co-operative leadership and the workers. Exploitation of labour and industrial unrest are consequently not unusual in co-operative organisations.

It is against this backdrop that the Vaikunth Mehta National Institute of Co-operative Management, Poona, recently organised a two-day national seminar to assess and to focus attention on the current state of industrial relations in the co-operative sector.

In his inaugural address, P B Gajendragadkar, Chairman of the National Commission on Labour, stressed the participative character of the movement which "arose as a protest against capitalist enterprise which exploited labour". The co-operative movement "gives to the social structure and national economy a direction, a purpose, and a sense of reality". He, therefore, deprecated the feudalistic attitude of the co-operative leadership towards the employees. "Paternalism has no scope in co-operative movement, it is utterly untrue of the basic philosophy of the co-operative movement", he said. Industrial harmony meant non-paternalistic, brotherly, and participative management of the industrial sector. The co-operative movement was intended to be a shield for the weak but "it has become a sword of the strong".

Appropriate Start

The discussions started appropriately with the 'Place of an Employee in a Co-operative Organisation'. Not many participants saw any special place for employees in a co-operative organisation different from under any other form of economic organisation. Exploitation of labour, poor working conditions, and feudalistic attitude of the managements towards employees, were rampant among the larger co-operatives in the country. N G Goray, an MP, actually questioned the relevance of the topic under discussion. The relationship between the co-operative management and the worker was purely economic, he said, and so long as workers were denied their legitimate rights, it hardly mattered whether it was done by the capitalist, the State, or the co-operative leadership. Given the pattern of co-operative leadership, the social background of the managerial personnel, and the prevailing socio-cultural conditions, how could one hope that a special place would be accorded to an employee in the co-operative organisation?

Prabhakar Kunte bemoaned the shifting nature of the centres of authority in the co-operative organisations. "It has always been difficult to negotiate with the co-operative employers and even more to unmask them." Co-operatives, according to him, are the worst exploiters of labour.

Bawa, of the Union Ministry of Co-operation, stressed the need for making a distinction between the elected co-operative leaders, the senior managerial personnel, and the workers, if the true impact of the power structure in co-operative organisations on industrial relations was to be evaluated. The relationship between the elected leaders and the senior managerial personnel held the key; and so long as these relationships were not evolved on healthy lines, the whole climate of industrial relations would continue to be disturbed.

Thus, although historically an employee in a co-operative organisation enjoyed a different status by virtue of his position as a co-operator and a member, prevailing socio-economic environments in the country do not give an employee in a co-operative organisation any status or privilege different from what employees elsewhere obtain.

That such indeed was the case, was confirmed during the discussion on 'Personnel Management Practices in the Co-operative Sector'. Field studies were quoted to emphasise the point that labour had been as much exploited by the co-operative as by any other capitalist enterprise. Indeed, Ogale, who is connected with several trade unions of the sugar co-operative employees, commented that since the co-operatives did not even have the enlightened self-interest of the capitalists they were by far the worst employers. He pointed out that, in spite of lip-service to the principles of democracy and co-operation, the entire leadership of the sugar co-operatives came from the richest segment of the rural society which did not look kindly on the workers. Their outlook was exceedingly feudal.

More Human Approach

Ironically, the consensus that emerged was that, if industrial relations were to be improved, management personnel would also have to display a more human approach while dealing with workers and their grievances. Stress was also laid on the need to develop better communication systems in place of the present ones where memoranda are used by the managements to communicate.

It is interesting that personnel management practices are found to be better in co-operatives located in the urban areas than those located in the rural areas. Evidently, unionisation and exposure to the labour movement had induced the urban co-operative worker to fight for his rights.

The oft-quoted scheme of creating 'staff cadres' for co-operatives was written off at the seminar. It was felt that these would merely lead to proliferation of the bureaucracy.

Although the co-operative leadership were, by and large, chary of the trade union movement and had always discouraged its formation, the few management representatives at the seminar seemed to appreciate the need for trade unions in modern economic organisations. The trade union leadership, however, had no illusions: "The trade union is considered by the co-operative leadership a nuisance, not even a necessary evil".

It was hardly surprising, then, that there was a sharp divergence of opinion on workers' participation in co-operative management. Arun Joshi of the Shri Ram Centre for Industrial Relations, felt that the term 'participative management' was unclear and needed elaboration, especially in the prevailing socio-economic environment in the country. Whereas some felt that, it was the inherent right of the worker to become a member of the co-operative and thus participate in the process of management, others felt that this was not desirable. In fact, a few diehards questioned the relevance of a worker joining a sugar co-operative as a member and influencing the decision-making process, especially when he had little or no stake in the co-operative, whereas the cultivators had contributed "millions of rupees". To this, a leading trade union leader angrily retorted: "Why do you want State assistance? Why do you call yourself 'co-operative'? Why do you seek State protection? Whom are you deceiving? Call yourself co-operative capitalists and give hell to the workers."

The majority, however, favoured workers' representation on the Board, a built-in mechanism for consultation with the workers, and their participation in the process of decision-making especially in areas immediately affecting them. By and large, the right of an employee to become a member of a co-operative was favoured — though it was suggested this right should lead to some positive results for workers —; or else disenchantment and dissatisfaction would soon follow among them.

It was generally acknowledged that industrial relations in the co-operative sector were taut and uneasy. Such equilibrium as there was had been achieved largely at the cost of the workers, who were weak in terms of resources and organisational strength.

R K Khadilkar, in his valedictory address, stated: To expect employer-employee relations in these co-operative organisations would somehow be qualitatively different from those in private industry would be wishful, unless some special efforts are made to bring about such a happy development". The seminar was one such effort, for, it was for the first time that the subject had been discussed in its entirety at a meeting of this nature.

LUCKNOW

Fifty Years to be Answered For

THE Golden Jubilee year of Lucknow University was recently inaugurated by the President of India. It has been a peaceful year for the university — both in the conduct of examinations and for teaching. Only the floods caused some havoc. The atmosphere of peace in the university is generally attributed to the new Vice-Chancellor.

The 50 years of the university have to be reviewed in the context of the social, cultural and political aspirations of its people, and an outline has to be given of the university's future programme of development.

Towards this end, the university has set up an editorial committee to prepare a volume called "Fifty Years of Lucknow University". The committee is collecting data to test the hypotheses that: (1) University education has no relevance either to national needs or to requirements of students; (2) The university's development has been an unplanned one and to the detriment of excellence; (3) The university is a place for distribution of social opportunities, and only incidentally prepares one for a job; (4) Dissemination of knowledge, rather than its advancement, has been the main function of the university; (5) The university is a repository of tradition, and consequently opposed to innovation; (6) Development of the university has been inhibited by the paucity of funds; (7) University autonomy has never existed, and whatever there was of it has been eroded in the post-War era.

Documents are being examined which demonstrate that the successive amendments to the Lucknow University Act since the fifties have been in the interests of the politician-academician. They have consequently led to the following negative results: (1) a unitary, teaching university has degenerated into an affiliating one — extending its jurisdiction as far as Kanpur; (2) the residential university has been converted into a day-scholars university with scant residential facilities; (3) the government has enlarged its powers — too frequently — for framing statutes, ordinances and regulations; appointing teachers, officers and authorities of the university; controlling finances; and constituting academic bodies, visitations and inquiries; (4) decreasing participation and control by teachers has been accompanied by increasing growth of non-academic and political control over decision-making at the university. In short, an educational zamindari has been sought to be created and perpetuated. It is against this background that the growth of the campus, its facilities, libraries, sports, and staff and students and their organisations, have to be evaluated. Also, a perspective for the future has to be presented.

In preparing a blue-print for its future development, the university is making efforts to include an institute of technology and engineering that will concentrate on courses and training for self-employment in small-scale industries, an institute of management, a Hindi institute of scientific works, an institute of agricultural economics, an institute of industrial relations and economic development, a school of fine arts and music, a reorganisation of the faculty of Arts to create a faculty of Social Sciences, an institute of Eugenics, and new subjects like geography, library science, and journalism. To meet the problem of physical accommodation, the programme envisages that 500 acres of new campus area would be needed. Also required would be a new administrative block, five hostels for boys and three for girls, residential facilities for 250 teachers and 250 non-teachers, an auditorium, a swimming tank and a day-scholars' home, an alumni home, a guest house, a staff club, and a post-graduate library. Slum clearance, improvement of amenities, and beautification of existing buildings, are also part of the programme. For this purpose, schemes have been prepared to collect over Rs one crore. The university is banking on the good offices of its ex-students, members of staff, and members of Parliament and of the planning bodies of the state and Central government, to help it in its programme.

All these programmes of expansion, however, leave two fundamental ques-

tions, which still need to be answered satisfactorily: what has the university done to promote the various academic disciplines during the past 50 years? and what does it propose to do to solve contemporary problems?

CEYLON

At the Cross-Roads

Urmila Phadnis

WITH a great deal of justification, historians have considered India to be both the curse and the salvation of Ceylon. For instance, the Trotskyites, who were the first organised party in the island to agitate on a mass basis for freedom, were convinced that the socialist revolution in Ceylon could not take place without a similar one in India and some of the Trotskyite leaders presently in government spent part of their political lives participating in the Indian nationalist movement.

More recently, it was immediate and effective Indian assistance which enabled Ceylon's Prime Minister, Sirimavo Bandaranaike, to survive the challenge to authority posed by the so-called 'Che Guevarist' insurgency movement. By the same token, the Ceylon government feels itself compelled to be gratified by Indira Gandhi's recent assurances that India has no designs on Ceylon. This gratification reflects relief from a fear of India's emergence as a domineering unit in the South Asian power structure. More than that, the Ceylon government's anxieties stem from the troubled internal situation in the island.

Perhaps at no time in the quarter century of Ceylon's independence has its democratic parliamentary system been confronted with so many simultaneous and cumulative crises as today. An influential segment of its million-strong Ceylon Tamil community in the north is threatening to rise in revolt against 'Sinhalese chauvinism' and there is much talk of an independent 'Yala Desh' (Country of Tamils) in the Jaffna peninsula. In the plantation sector (in central and southern Ceylon), which is the mainstay of the island's economy, a general strike for better wages and employment facilities by the estate labourers, most of whom are Tamils, seems to be imminent.

The law and order situation is far from satisfactory. Tourists are still 'advised' to drop many' sites from their itinerary. In the last few months, there has been a spurt in cases of robbery and arson. It is alleged that these are the doings of the young insurgents and there is fear in the atmosphere of a sudden outburst of armed activity by the People's Liberation Front (known in common parlance as the JVP or the Che Guevarists).

The government's fears of renewed insurgent activity are evident from the army's movements. Security measures have been tightened, army leave cancelled, volunteers recruited last year called back to service. Strategic points are heavily guarded and the houses of important political dignitaries are barricaded.

The attitudes of the various partners of the United Front (UF) government —the Sri Lanka Freedom Party (SLFP), the Trotskyite Lanka Sama Samaj Party (LSSP) and the Moscow-oriented Community Party (CP) — towards the insurgency and to the subsequent army actions, indicate that all is not well with Sirimavo Bandaranaike's government. To begin with, there is a viewpoint cutting across party lines which believes that the rightist segment of the army and the police is making use of some sporadic insurgent activity to further entrench itself in the power structure and to make the political leadership more and more subservient to it. They also maintain that if this is allowed to continue, it is bound to be at the cost of democratic values and norms.

On the economic front, Ceylon continues to live a ship-to-mouth existence. Its foreign exchange gap rose to Rs 1,433 million in the 1971-72 budget, with the grim prospect of lower foreign exchange earnings because of a fall in international prices of the commodities exported by Ceylon, increased debt repayment liabilities and a rising import bill necessitated partly by the abnormal security conditions and partly by shortfalls in the domestic availability of, and growing demand for, some commodities.

The budget left a deficit of Rs 1,925 million which was sought to be partly covered by reducing the subsidy on food. The government's commitment to provide subsidised rice costs the exchequer Rs 430 million or roughly 10 per cent of recurrent revenue expenditure. In addition, the government subsidises the paddy producers which, together with the rice subsidy, adds up to Rs 807 million.

These budgetary constraints compelled the government to dilute the welfare part of the budget which accounts for nearly 45 per cent of expenditure. As it happened, while cuts were proposed on welfare subsidies (these were ultimately restored under the pressure of coalition backbenchers), the government did not apply itself with equal vigour to its socialist objectives of a ceiling on ownership of land and houses, higher taxes on upper income groups and nationalisation of key sectors of the economy.

The 1971-72 budget thus brought in higher prices of flour and sugar, but did not propose any specific measures on land and house ceilings. Further, the government fixed an upper limit for salaries, but exempted ministers' perquisites like entertainment allowance. In the explosive situation this stood out as far more inequitous than it would have been under normal circumstances. Even worse for public morals was the behaviour of the left political elites which continued to live in an affluent style while exhorting the public to live austerely.

It is noteworthy that while the conspicuous consumption pattern of the Ceylonese elites is of a much lower order than, say, in India, where the consumption gap between the rich and the poor is phenomenal, the credibility gap between the masses and the left establishment in Ceylon is much wider. In Ceylon, the crisis of the left is not merely due to its limited success in translating policy into performance but also because of its tarnished image in a situation where its 'left' moorings were seriously and dramatically challenged by the insurgents.

The detention without trial of about 15,000 young, alleged insurgents in the 15 to 30 age group (including girls and Buddhist monks) during the past year is a continual reminder to most people that the government has yet to win the battle against the JVP. The JVP struggle's intensity may be gauged from the fact that every home or two lost a young man or has one under detention in 'Her Majesty's Boarding Houses', as the detention camps are grimly referred to. There is demonstrable evidence of widespread public sympathy for the detained insurrectionaries. *Trastavada* (Sinhala for insurrectionary) has become a common term. Children play games, with *Trastavada* outwitting the police. Angry mothers call their children *Trastavada*.

In this situation, the comment of a Ceylonese left leader is very apt: "When a movement becomes unsuccessful, it is called terrorism. When it succeeds, it becomes a liberation movement, a revolution." The only paper which has succeeded in pushing such statements through at times has been *Attha* (Truth) published by the Communist Party, which is one of the constituent partners of the UF. The paper entitles itself "the daily of the United Front' but manages to maintain more than a critical stance towards the UF government's performance. This has earned it the approval of the 'radicals' of the CP, while the 'power elite' of the party considers its views to be too 'far-fetched'.

The parliamentary vote on the occasion of the Criminal Justice Commissions Bill on April 6 (which gives sweeping powers to the Commission to try the detailed insurgents), brought intra-CP differences into the open Notwithstanding the directive of the central committee of the party asking its parliamentary group to vote against the Bill, B Y Tudawe, a junior minister for education, supported the Bill, while two other CP members abstained. Tudawe was promptly relieved of his membership of the central committee of the party and as things stand, a showdown within the party may lead to its breakup, with MPs like S A Wickramasinghe, the founding father of the CP, and the youthful Sarath Muttetuwagama either walking out or being forced out of the UF.

In such a situation, a new pattern of alignment might emerge with the CP attempting ot secure the leadership of the 'insurgent' elements. This new alignment might also evoke a favourable response from the unemployed, disgruntled and restive Tamil youth who seem to be losing faith in the ageing Tamil leadership.

In this context, a pertinent question may be asked. If there is an uprising again, with a section of the Communist Party (Soviet-wing) aspiring for its leadership, will Indira Gandhi come to Sirimavo Bandaranaike's aid once more? If such a situation does arise, it is bound to have international repercussions. With a Peking-Washington axis becoming more than obvious in the region and with India's close relationship with Moscow becoming more pronounced, any Indian decision concerning an 'insurrectional' or revolutionary situation in Ceylon will have to reckon with the regional realities as much as the fast changing patterns of global alignments. But in view of the necessity for 'stability' in the region and with the possibility of a section of the Moscow-oriented Communist Party remaining in the ruling Front, Indira Gandhi may not be averse to staging a 'rescue' operation in Ceylon once again.

A more significant question, therefore, is whether Sirimavo Bandaranaike will seek Indian assistance in such an eventuality or will prefer to choose another power to come to her rescue? It needs to be recalled that during the crisis, last April, she sought diversified military assistance which worked like a model of 'collective security'. Following the same trend, she has currently had talks not only with the US Pacific Ocean Naval Commander, Admiral John McCain, but also with a Soviet Admiral, Nicolai Smirnov. Sirimavo Bandaranaike, it would thus seem, is averse to military dependence on Ceylon's colossus neighbour and would prefer assistance from diverse sources.

THE FOURTH ESTATE

Little Investigation, Loud Comment

Nireekshak

A NEWSPAPER's function is not only to record — but to reveal. Those which shirk this social duty become merely a record-sheet of arranged happenings, parliamentary and court proceedings, formal functions and handouts and rarely make interesting reading. On the other hand, newspapers alive to their social responsibility and role as public watchdogs, investigate happenings to uncover unknown facts and probe beneath the surface to reveal what someone may have liked to conceal — in professional jargon known as 'investigative reporting'.

Fear of dirty washing coming out, "don't-let's-cause-a-scandal" attitude and more often simple sloth comes in the way of our newspapers making use of this effective technique to expose nepotism, graft, inefficiency and the many *effete* systems prevalent in our society. Small newspapers regard investigative reporting as very risky and time consuming because they seldom have the required trained staff at their disposal. Big newspapers, out of self-imposed restraint, discourage such investigation of the sensitive spheres of public life.

A case in point is last year's Rs 60 lakh State Bank of India fraud case, also known as the Nagarwala case. Few newspapers conducted their own investigation of the case, while the general pattern was to report what was stated by the police, said by MPs on the floor of parliament and, of course, the court proceedings. *Motherland* of New Delhi was an outstanding exception. Its exposures were in many ways responsible in getting the case reopened after sentence had been passed on the main accused involved in the fraud. It was the newspaper's misfortune that the chief accused died of a heart attack just about the time the retrial proceedings were to commence and, perhaps, confirm what it had been reporting for weeks.

The recent death by suicide of Vinod H Shah, a senior agronomist at the Indian Agricultural Research Institute (IARI), provided another opportunity to newspapers to investigate, but few seized it. There were editorials galore on the subject as also lengthy parliamentary proceedings but few reports revealing more than what met the eye. *Motherland* again scored. It exposed the nepotism and malpractices rampant at the IARI. Shah had committed suicide because he was superseded in his job by a less competent person. Now *Motherland* has revealed that M S Swaminathan, "himself has superseded more experienced men in becoming the Director of the IARI in 1966 and Director-General of Indian Council of Agricultural Research in January this year."

Easy Promotions

According to *Motherland*, "he [Swaminathan] shot above Dr A B Joshi who, till 1966, had been officiating. He [Joshi] was by all standards the obvious choice for the very posts Dr Swaminathan now holds. The reason for the latter's meteoric rise to the top-most rung in the national ladder of agriculture, and his subsequent stranglehold on the post, is put down to the fact that he has had (and still has) the backing of Shri S Boothalingam, former Finance Secretary, and Planning Minister C Subramaniam. (Shri Subramaniam was the Food and Agriculture Minister in 1966 when he backed him for the directorship of IARI.) Dr Swaminathan is the son-in-law of Shri

Boothalingam!" What goes on at other levels has also been revealed by *Motherland*'s staff reporter. "Dr H K Das, though a Pool Officer drawing only Rs 400 a month, was inexplicably selected as a senior bio-chemist in the scale of Rs 1,100 to 1,400, superseding some much more experienced men who were in higher categories in the Pool, and drawing higher salaries. Similarly, Dr S L Mehta was selected as a senior bio-chemist (Rs 1,100 to 1,400) though he had only 2½ years experience in the institute. The rules very specifically lay down that 10 years experience is required. Dr Y P Gupta, a bio-chemist with 21 years experience at the institute, has been superseded thrice — first by Dr N S Naik, then by Dr H K Das and lately by Dr S L Mehta. Dr Naik, in fact, went from Rs 350 to head of the bio-chemistry division within three years and is now in the Rs 1,300-1,600 grade."

Nixon's Blunders

The American blockade of North Vietnam ports was a subject of editorial comment in most newspapers. Centrist *Hindu* of Madras thought: "Mr Nixon's calculation is that if this supply route is shut off, it would at least blunt the communist drive and save what is left of South Vietnam being run over militarily". Leftist *Patriot* of New Delhi ruefully said: "...at least those Americans who are not permanently afflicted with hallucination of affluence should be asking themselves where the international gangsters in the White House are taking them". And Rightist *Motherland* conceded: "The irony is that while Shri Nixon pushes the world towards Armageddon, his intransigence is not likely to secure his objectives in Vietnam".

Among the other newspapers, *Mail* of Madras and *National Herald* of Lucknow stand out in making the most caustic comments on the Vietnam situation. *Mail*: "All the Americans who have died there will have died in vain, and all the billion dollars poured into that country to prop up a corrupt regime will have flowed down the drain." *National Herald*: "Little does President Nixon realise that his actions can lead to a world war, obliterating not only Vietnam but even the mighty United States. He has taken a mad course, mainly because the United States and South Vietnam are losing the war."

The last word on land reforms is yet to be said but disillusionment has begun to set in among those who had radical hopes. The pro-Congress Calcutta daily, *Amrita Bazar Patrika*, commented on the situation thus. "The Central Land Reforms Committee has clearly shirked its responsibility and almost proved its uselessness by referring back the controversy over its own recommendations to the State Chief Ministers who are constantly under pressure of the farm lobby... its failure to specify whether its definition of 'perennially irrigated land' also includes 'privately irrigated land' leaves a big loophole, the exploitation of which by vested interests — who, as things stand, also exercise considerable influence over Chief Ministers — might make a mockery of land reforms." *National Herald* dubbed the CLRC's decision of passing the buck to the Chief Ministers as a "subtle exercise in evasion" and indicated that "at this rate it appears that the Kulak lobby will have its way."

Candour on Steel

Union Steel Minister Mohan Kumaramangalam's announcement in the Lok Sabha that "a fairly serious loss" was expected in Hindustan Steel Limited (HSL) this year did not come as a surprise to parliament or the press. It was more or less anticipated as HSL year after year has been known to be losing heavily. This year's loss was estimated to be about Rs 20 crores but the cumulative losses since the inception of HSL in 1954 to March last year were more than Rs 178 crores. The Minister explained that 65 per cent of the losses were due to the poor performance of Durgapur, where labour troubles and maintenance problems were rampant, and the remaining 35 per cent of the losses were due to technological mistakes and incompetent management. These problems were being gradually overcome but it would take some time before things took a turn for the better, said Kumaramangalam, whose interventions in the steel debate, *Hindustan Times* conceded, "had at least the virtue of well-calculated candour." *Tribune* of Chandigarh was nearer the truth in its editorial comment when it said that "the crisis in HSL is essentially a crisis of management, and no measures and guidelines in government memoranda can be of much help unless this basic factor is recognised." *National Herald* generally approved of the government's measures to set things right in the HSL and tried to equate the problems of the public sector with the private sector — "poor industrial relations, sub-standard management, over-staffing." *Deccan Herald* of Bangalore, however, felt that "until the men incharge of the steel plants change their attitude from being merely officers entitled to privileges to those of facing the responsibility of making a success of the factories entrusted to their care, it will be impossible to present a favourable image of the sector to the public."

Trade Union Talks

The unity talks between the three major trade unions of the country, INTUC, AITUC and HMS, got wide coverage in the press all over the country. Their failure to come together earned editorial comments like, "...once again the Prime Minister's diagnosis of the malady stands vindicated that the trade union movement in India has been suffering from competitive militancy among rival unions for earning cheap popularity" (*Amrita Bazar Patrika*). "Disruptive political parties masquerading under trade union garb cannot be allowed to imperil national survival" (*Hindu*), and "The implicit refusal of the labour leaders to put the national interests above their own is indeed a pity" (*Tribune*). More than anything else the fear of INTUC's ultimate domination over the other two trade unions was responsible for the breakdown of unity talks. With this the ball has been passed into the court of the Union Labour Minister who has been urged by many newspapers to order a thorough review of the Trade Union Act to ensure industrial peace in the country.

The so-called press ownership diffusion bill is not likely to be introduced in the current session of Parliament. Though the panel of ministers, which examined all the aspects of diffusion of newspaper ownership, has completed its work, the recommendations are yet to be discussed by the Union Cabinet. The Prime Minister's non-committal attitude on the Bill has perplexed the Indian Federation of Working Journalists which has once again intensified its lobbying in Delhi. A victim of their campaign has been H Y Sharda Prasad, Director of Information in the Prime Minister's Secretariat, who, it is said, is against the diffusion of press ownership and has so advised the Prime Minister. When this allegation was repeated in the Rajya Sabha recently, all that the Prime Minister said was: "There is a rule in this House that we do not mention names of officials, who are unable to answer for themselves here". That she did not contradict the allegation — even when she was provided the opportunity — has made many newspaper trade unionists sit up and think.

Socialism at the Grassroots

M L Dantwala

THE hot wind of radicalism which is blowing this summer is almost unprecedented in India's political history. Hardly a day passes without a fresh round of radical salvoes being let off, all from the arsenal of the Congress election manifesto. The Prime Minister's belated attempt to counsel moderation is not likely to be of much avail. Only when the whirlwind blows over will the dust settle down and clear the vision.

Only Pertinent Issue

In all conscience, we do need very radical measures to make an impact on the problem of poverty and unemployment. The only pertinent issue is what is a relevant radicalism in the Indian context? Take the case of land ceilings. The more excited the debate on the question grows, the more sterile it becomes. Irrespective of the area of 'surplus' land that the ceiling may release — and I still adhere to my oft-repeated view that it is unlikely to be significant for mitigating land hunger — let us agree that equity demands imposition of ceiling on land ownership. In regard to the level of the ceiling, the pertinent point is not the source of irrigation or its perenniality, but the quantum of maximum socially permissible income which a farmer may be allowed to earn from (self) cultivation of land. Once the income-ceiling is determined, conversion ratios could be worked out to arrive at its land equivalent based on the average productivity of each type of land — dry or seasonally or perennially irrigated. When the question of land ceiling was first mooted, this was the ultimate criterion which was thought of for the determination of the ceiling level. To the best of my knowledge, this point has hardly been mentioned in the shrill debate raging on the issue. Should an honest, hard working, progressive, enterprising farmer who cultivates his own land be allowed a *net* income equivalent, say, to the salary of the custodian of a nationalised bank inclusive of all the perquisites or that of a deputy secretary to the government or a head clerk in a commercial firm? Should the income be adequate to permit investment in land improvement, say, for digging a well and installing a pumpset? If no substantial private investments in land is to be permitted, responsibility for it will have to be assumed by the State. There need be no objection to this, provided all its financial and organisational implications are fully grasped. But is this necessarily the most radical and the prior-most programme under the prevailing agrarian situation? If one's radicalism emanates from concern for the poor rather than from a desire to deprive the better off, there are at least half a dozen equally, if not more, relevant and urgent items of land reform which need to be undertaken: protection of tenants and share-croppers from evictions — as a step preceding transfer of ownership of the leased land —, social control of exploitation of ground water which at present is almost an exclusive preserve of the rich farmer, not to speak of wealth tax and progressive income-tax on agricultural incomes, which ironically is being opposed even by the *nouveau* radicals. And what about the persistent advocacy of high procurement prices for foodgrains? I have characterised lower food prices as instant socialism, inasmuch as it enables the poor to purchase a little more food at the same price and at the same time it curtails the income on the farmer with a large marketable surplus. It should also be remembered that nearly half the foodgrain consumption of rural households is purchased. Perhaps this type of radicalism is either too complex to comprehend or is just not glamorous enough.

Moreover, while our ear lobes turn crimson while talking of monopoly houses, our reaction to the dismal performance of the half a dozen programmes for the weaker sections of the population evokes no more than a cynical shrug of the shoulder.

Empathy for the Poor

Only the other day, the Prime Minister while referring to the importance of reducing concentration of economic power, emphasised that "all these are merely the means to give a better life to our people". Development goals must be defined, she added, "in terms of progressive reduction and eventual elimination of squalor and inequality, of malnutrition, disease, of illiteracy and unemployment". What proportion of our radical thought is being devoted to these issues? Do we seriously believe that lower land ceilings will provide a "better life" to landless labourers or, for that matter, to share-croppers and tenants-at-will? Or that the nationalisation of big monopoly houses in the country will reduce the number of people living below the poverty line? There may be some tenuous link between the demolition of the peaks and the strengthening of the foundation. But will the foundation be strengthened by planting the public sector on the peaks? It is not the demolition to which one is objecting, but to the scant attention paid to the problems directly relevant to poverty and unemployment.

It can be legitimately argued that in the absence of an egalitarian institutional framework within which property is owned and incomes are earned, gains from all development, however broad-based, will somehow be garnered by the privileged few. Even so, it would be naive to assume that once economic concentration is broken, gains from development will automatically flow to the weaker sections. If "high growth rate has been, and is, no guarantee against worsening poverty and economic explosions", should we take it for granted that the break-up of monopoly power will provide such a guarantee. No land legislation, however drastic, will provide even an acre of land to a handful of landless labourers, and even nationalisation of all the monopoly houses will not give additional employment to the unemployed and the underemployed in the rural areas. But in the meantime, one can surely try to make the life of the poor more bearable: to begin with, by providing in each village clean drinking water, a dispensary and free primary education. Radicals may dismiss this as petty welfare, but surely this is not what the election manifesto suggests. Are we satisfied that political thought and action devoted to the problem of eradicating poverty and unemployment are adequate? As a first step would it be legitimate to suggest that every person elected to the Parliament, the State Assemblies and the Panchayats on the slogan of *Garibi Hatao* should adopt at least ten villages from his constituency and ensure that land reform legislation is effectively implemented in his adopted villages? and, more importantly, consider himself accountable for the performance of all schemes introduced for the benefit of the weaker sections

of the population: crash programme for rural employment, minimum wage guarantee schemes, scheme for the small farmers, marginal farmers and landless labourers, for soil and water conservation, for custom service needed for the *new technology* and for credit and input supply? This would be more genuine evidence of one's socialist faith than merely trampling on the monopoly houses. There is no need to 'stand *economic theory* on it head' for reduction of poverty. It is more a question of economic workmanship, ideological orientation and, above all, empathy for the *poor*, which the Father of the Nation vainly tried to instil in our political leadership.

PERSPECTIVES—II

Is There a Choice?

D Ghosh

THE Government of India is behaving like a person who has been standing too long at one spot; as the latter has a tendency to shift the weight of his body *alternately from* one foot to the other, the former is at intervals changings the emphasis in planning from quicker progress to better distribution and conversely. Recently the stress has been on better distribution. Incidentally, the GNP has come in for some rough handling as if the deficiencies *in its measurement* are responsible for the slow growth of our economy!

Little Choice

But the hard fact is that in a poor non-socialist economy like ours there is little choice between the two objectives of planning. On the one hand, any measurable attempt to distribute the national income more equitably will reduce *its size*, so that as the exponents of capitalism correctly point out, we may, in the end, redistribute poverty rather than prosperity. On the other hand, the standard of living of the masses is so low that any endeavour to depress it in the interests of rapid advance would be criminal. Finally, there is no indication that left to itself capitalist development will some day eliminate inequality or poverty. "Let us suppose", says Richard Titmus, "that we are back in the Census year 1951... How many of us would have then dared to suggest that in 1966 one child in four would be regarded as living in poverty and three elderly persons in ten would also be living in poverty, that American Society would be moving towards a more unequal distribution of income and wealth, that many grey areas would have become ghettos..." (p 161, "Issues of Redistribution in Social Policy" in "Commitment to Welfare", London, 1968).

But these are limitations peculiar to the capitalist economy in which unequal *incomes are the source* of saving, the spring of enterprise and the precondition of progress. The source will dry up and the spring become inactive if there is heavy taxation or extensive public interference. One cannot reach the Socialist State *via* the Welfare State; for the former is not just a modified, humanised version of the Capitalist State. It is a fundamentally different set-up in which production relations are so organised as to reduce inequality in income distribution *ab initio*, the differences that still persist being further cut down by differential taxes on consumption. The socialist society has no need to adopt relatively inefficient labour-intensive methods of production in order to promote equality of *incomes* nor to put clamps on the expansion of capital-intensive techniques with a view to restrain monopoly. It almost bypasses the problems of capitalist public finance; under it incomes do not accrue in the first instance to private persons and organisations to be then transferred to public fisc by a costly, painful system of taxation. All incomes accrue to the State in the first instance and the requirements of public expenditure, including public investment, are met in part directly out of resources at its disposal, in part out of the proceeds of a comprehensive system of turnover taxes.

All this is of course made possible by the socialisation of production, the keystone on which the socialist economy rests. In practice and in theory there is no other route to the socialist Society — and only in such society will the poor cease to be with us eternally.

DAVID VITAL

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Muslim Rule in Kashmir

V C Bhutani

A History of Muslim Rule in Kashmir 1320-1819 by R K Parmu; People's Publishing House; pp xiv+461, appendices, bibliography, glossary, index and map; Rs 40.

AFTER 25 years of sustained research *into the original sources of the* history of Kashmir the author of this book has succeeded in presenting a heavily documented, full length study of Kashmir under the rule of Muslim sultans and governors for a period of five hundred years. Tara Chand says in his foreword, "The work is not likely to be superseded for many years". This view will be readily endorsed by most readers. The sources of the mediaeval history of Kashmir are in Sanskrit, Persian and Kashmiri for the most part but there are also inscriptions and coins and relatively recent western travelogues and British records. From beginning to end the work is the result of monumental hard work and conscientious evaluation. Parmu has excelled in reconstructing his study from variegated sources which he has used with skill and confidence. Students of history have passed under a lasting debt for this remarkable framework of the history of Kashmir on which it will be possible to base many more studies into each single subject and aspect.

Historian's Business

Starting with a very useful introduction to the sources, the early history and the geography of Kashmir, the study has had of necessity to be woven round the political history which occupies by far the greater part of the work. This is not to suggest that Parmu has neglected the religious, social and economic life of the people of Kashmir. About one tenth of the space is devoted to those aspects. This may have been inevitable because it appears that even the chronology of Kashmir during the period under study was not generally agreed. The book is strewn with numismatic and epigraphic minutiae which Parmu uses to establish his views and conclusions about chronology and other matters. He often joins issue with those whose views have, in the author's opinion, wrongly held the ground so far and whom he coolly proceeds to correct.

Before offering comment on some aspects of the study I beg to request Parmu's attention to some aspects of the practice of the historian's craft. It is a historian's business to stay close to his subject and not stray away from it. He must constantly keep his focus sharp and clear. He should form his judgment about men and matters under review on the basis of evidence before him and be strictly historical and not didactic. Then, the historian writes history and offers evaluation according to his best lights but he must remember that it is not open to him to write with an eye on the present or an objective for the future. The moment he takes the present or the future into account he ceases to be free or impartial even as much as it is possible to be free and impartial. Objective history is probably never written because a historian's personal predilections, proclivities and prejudices must necessarily affect both his judgment and writing. But that does not entitle a historian to enunciate and establish for his guidance some specific directions or biases. History subjected to opinionated ideas ceases to be history and becomes propaganda. It is not a historian's duty to subserve even what he himself believes to be the best interests of his country or nation. The historian's personal regrets and happinesses with characters and events of which he writes, even when based on strictly historical evidence, have no interest for students of history and constitute no valid observations that could be considered comments or views. Nor is it necessary for him to relate his history to the present or offer suggestions for the future. He must keep his eye firmly on the past of which he writes, although he may rightly take advantage of hindsight which he obtains by being removed a century or two or more from the period of his study.

As it is Parmu goes out of the way to record his approval or dissatisfaction with the action of this sultan or that governor. He often allows himself the luxury of delivering a moral judgment. For instance Sukhjewanmal comes in for a com ent like this, "A great catastrophe assuredly overtook him finally *as it had to* and he met the fate *which he deserved*" (p 358, emphasis added). Ahmed Shah Abdali's first governor of Kashmir had to leave Kashmir because he had oppressed the people with his tyrannical rule driving them almost to the brink of rebellion. His deputy fell victim to the machinations of Sukhjewanmal who then proceeded to rule Kashmir for the betterment of the lot of the people. He crushed all persons who were either Abdali's agents or in his favour and repudiated Abdali altogether, acknowledging the titular Mughal emperor of Delhi as the sovereign. He defeated the forces which Abdali sent against him. By changing his religious policy of toleration he provoked Muslims of Kashmir to unsuccessful revolt. Abdali returned shortly thereafter with the victory of Panipat and liquidated Sukhjewanmal, defeating him, blinding him and killing him under an elephant. Historians may form different views about Sukhjewanmal's conduct during his nine years' rule but it is hardly possible or permissible to say, as Parmu says in effect, that it served him right. It is obvious from the remark quoted that Parmu subscribes to some theory of historical inevitability and political morality.

Military Strategy

Parmu offers advice on military strategy and says that Kashmir is open to attack by the Ladakh-Zojila, Gurez-Burzel and Domel-Baramulla routes, specially the last. "In anticipation of any enemy attack from this side it is most essential to render the Uri bulge militarily invulnerable" (p 214). 1965 notwithstanding, it is naive to suggest defence strategy when all that Parmu has before him is the invasion of Kashmir by the Kashgharis in 1532-33 by the Ladakh-Zojila route. Parmu as a historian would have done well to leave these matters to the general staff and concentrate on history.

There are numerous other instances of such comments which are entirely uncalled for. Parmu hardly ever loses an opportunity which he can use to offer advice or to suggest correlation or comparison to modern usage (e g, p 356, fn 12). Consider: "In 1946 the government controlled price of salt in Srinagar was only a rupee for five seers, while in 1947-48, owing to the aggression of Pakistani raiders, the local stocks of salt and tea were depleted to the extent that both these commodities became as precious as silver and gold" (p 423). Parmu, however, only meant

to emphasise Kashmir's dependence on external supply of salt.

Discussing the economic conditions in Kashmir he tells us, "Throughout the middle ages every government was judged by one simple test, the price of *shali*". *Shali*, or unhusked rice, was the staple food of the people and it was rightly the standard of judgment. Parmu mentions the prices from the reign of Avantivarman (855-883) to 1946 but fails to tell us what it was worth in the contemporary economic conditions. How are we to understand anything when we are not told about the varying value of *dinar* from the time of Avantivarman to the time of Shahjahan? One looks in vain for an explanation of the remarkable phenomenon by which the price of *shali* per *kharwar* (literally, an ass load, equivalent to 177-129/175 lbs, *vide* author's glossary) rose from 200 *dinars* in the time of Avantivarman to 300 *dinars* in the time of Zain-ul-Abiden (1420-1470), 2,900 *dinars* in 1587, 2,400 *dinars* in the reign of Shahjahan (1628-1658) and finally 28,000 *dinars* in 1946 (not taking into account prices in years of famine). (4,000 *dinars* appear to have been equivalent to a rupee in 1946, *vide* p 422.)

Finally, although it is minor matter that footnotes end without their terminal full-stops, the production of the book is marred by a proof-reading which is generally indifferent and often incompetent (which may not be entirely the author's fault). But the author himself shows an admirable ease in dispensing with all considerations of grammatical accuracy, not to speak of syntax, punctuation and malapropism. He often literally translates an idiom or phrase taken from an Indian language without considering its effect in the language which he is writing. The *monstra horrenda* of the author's composition is the use of words which mean anything but that which he appears to understand them to mean (e g, 'appraised', p 231, line 7). Besides, the author has a style which makes the book extremely unreadable. We often find long passages or long sentences where it was possible to convey the meaning more precisely with fewer words.

Parmu appears to be at pains to emphasise one aspect of the life and thinking of the people of Kashmir (by which he means the valley only, though), namely, the golden spectacle of tolerance, peace and good-neighbourliness among Muslims and Hindus and among Sunnis and Shias. He remembers, whenever the context permits, to remind his readers what he believes to be the instances of Hindu-Muslim inter-socialisation, including intermarriage (which is remarkable). One piece of evidence over which he expatiates with obvious pride and relish relates to the conversion of what were probably once Hindu temples into shrines of Muslims (pp 433-35). These temples-cum-*ziarats* were held in high respect by both the communities. He uses modern political phraseology which denotes concepts or connotations which did not exist in the mediaeval ages, e g, secularism, communal, etc. The book, however, is replete with instances of forcible conversions of Hindus to Islam and the persecution of Hindus by most of the sultans and governors. Greatly to the relief of the readers and to his own credit, an occasional Zain-ul-Abiden or Akbar (1586-1605) governed with exemplary impartiality and even-handed justice. Against these two great names must be set down the far too numerous fanatics like Mirza Haidar Dughlat (1540-1550), the Chaks (1550-1586) and the Mughals after Akbar. Barring the golden ages of Zain-ul-Abiden and Akbar whom the author extols as apostles of peace, prosperity and rectitude, the history of Kashmir during the greater part of the period under review was indeed witness to the activities of many a Muslim missionary, e g, Saiyid Ali Hamadani who was a remarkable mystic and a *Sufi* and believed in peaceful propagation of Islam, his less tolerant son Saiyid Muhammad Hamadani and Mir Shams-ud-din Iraqi of the Nurbakhshiya order who laid the foundations of the Shia sect in Kashmir and sowed the seeds of lasting Shia-Sunni discord which went on increasing after Akbar and under the Later Mughals. The Afghan kings sent trusted Muslim lieutenants as governors most of whom were fanatical and bigoted. Under Afghan governors there was hardly even the possibility of communal peace in the valley.

To contend in the face of such overwhelming evidence that Hindus and Muslims lived happily together is to ignore the historical truth. Parmu, however, is only following the philosophy of his mentor, the famous and senior historian Tara Chand who will be remembered for fifty years of historical research beginning with his classic "Influence of Islam on Indian Culture" (Allahabad, Indian Press, 1936), originally written in 1922 in the era of Hindu-Muslim fraternisation over the sinking cause of the *khilafat* under the leadership of Gandhi who is now acknowledged to have failed in this respect. Tara Chand's theory of the synthetic or composite nature of Indian culture is faithfully continued and re-echoed by Parmu when he seeks to highlight those aspects of the history of Kashmir which appear to him to show Hindu-Muslim amity and harmony and to play down those that militate against that view. The two communities, in Kashmir as elsewhere in India, had their distinct social, religious and cultural personalities and conflict was inherent in the cultural and regional variety to be found in the subcontinent. It is ahistorical to seek to put a gloss over the division and differences which indeed existed. The whole object of the proponents of the unity-in-diversity idea had been to promote intercommunal cohesion in India in order to rouse them to a singleness of purpose for the withdrawal of British rule from India and to counter the movement for the division of India on the basis of the two nation theory. It may be possible for some people to sympathise with that object, although many others may be opposed to it, but in spite of being understandable it is now an unnecessary and futile exercise in wishful thinking. The theory of composite culture, like its counterpart of the two nation theory, has outlived its utility and should be laid to rest. Even so it speaks volumes for the lasting appeal of the popular theory of composite culture that Parmu emphasises cultural variety and compatibility while making no secret of his pride in and admiration for the cultural distinctiveness and achievement of Kashmir. Compositeness is probably now only a euphemism or camouflage for regional assertiveness. When a historian allows himself to keep this constantly in view how far indeed must he have travelled from his legitimate function of history writing?

Parmu is also the author of a chapter on Kashmir under the independent Muslim sultans from Rinchan Sadruddin to annexation by Akbar in "A Comprehensive History of India", Volume V, "The Delhi Sultanat (A D 1206-1526)" (New Delhi, People's Publishing House, 1970). The scholarship of the editors, Mohammad Habib and Khaliq Ahmad Nizami, has made up for Parmu's proneness to disregard elegance of expression, to relate history to modern usage and to preach Hindu-Muslim unity, in spite of occasional lapses into these areas. Dealing with the political history of Kashmir (pp 733-781), this chapter is a noticeable improvement on Parmu's more detailed book reviewed here.

Eurocentric Security by Omission

(Contributed)

International Security—Reflections on Survival and Stability, edited by Kenneth J Twitchett; Oxford Paperbacks, London, 1971; pp 148; £ 1.

THE book is a collection of four essays on contemporary problems of international security. As the preface itself suggests, the essays are designed to offer an introduction to, and analysis of, international security problems and to examine the prospects for developing greater stability in the world of tomorrow.

The opening chapter, "Strategies for Security: Some Theoretical Considerations", is contributed by Twitchett. He discusses the popularly accepted concepts of security arrangements, the interplay of super powers and their relations with smaller states. In doing this, he treads on familiar ground but the analysis, nevertheless, is balanced. Economic security and insecurity are acknowledged as an integral part of the problem of military security. It is accepted that the poor, non-white peoples of the world, perhaps, could and do see the world through different kinds of lenses from those of the rich white world.

The stated models for security are: security by collaboration, the unilateralist approach, collective security as evinced by the United Nations and the efforts to have a European security arrangement guaranteed by the US and the USSR. In describing these, Twitchett makes two remarkable observations which are both open to challenge and criticism. Firstly, he writes of "China's forbearance" with regard to what he calls "American activities in Indochina" and secondly, he states that the Afro-Asian countries as a whole, and individually, are too bogged down by their problems to carry any weight in the international arena. As regards the Chinese forbearance and role in Indochina, how long will Western governments and intellectuals delude themselves of the realities in Vietnam? Will they ever admit that the patriotism and nationalism of the Vietnamese people is not dependent on any outside power and that it is the sacrifices and heroism of an entire people which have defeated the Americans in Vietnam. It is no use pretending that China or the Soviet Union are fighting in Vietnam; they are not. It is the nationalism of an Asian country that has defeated Yankee imperialism. The sooner this is understood, and grasped, and admitted, the better it will be for the Western nations, so that they could then adjust their plans and policies and come to terms with reality.

Nixon went to China, perhaps, with the hope that he could return and tell his people that the key to Vietnam lay in Peking and that he had made progress in extricating with honour his countrymen from Vietnam. This probably carried weight with his 'silent majority' and was also swallowed by many Western theorists. But such simplistic theories and conjectures have been proved wrong again by the facts of Vietnam. Alas for Nixon and his gaming theory experts, the world has changed qualitatively. If Vietnam is a reality that has defeated and humbled the 'mightiest' nation of the world, might it not be possible that other Vietnams could spring up in Asia, Africa and Latin America? How would the nicely interwoven and 'sophisticated' — but essentially simplistic — balance of power and other theories be peddled then?

The essay, "Towards a More Dangerous World" by Neville Brown, is an attempt at surveying the current nuclear balance between the US and the USSR. In this, the interaction between the arms race and the problems of development in the have-not countries are briefly discussed. The author rightly points out that most studies concentrate on visualising what the world will look like in AD 2000 and projecting that advances in science and technology will somehow solve all the world's problems. However, his own concern is the 1970s and 1980s.

In describing the state of nuclear weaponry, there are some errors of fact. In discussing the drawbacks of the Polaris/Poseidon submarine as a strategic delivery platform when compared to the land-based Minuteman it is not individual missile costs that are relevant but the total system's costs. The system's cost of the land-based ICBM is more than that of the Polaris/Poseidon submarine, particularly when compared in terms of military effectiveness and vulnerability. Secondly, he states that by firing one missile the submarine betrays the position of the other 15 missiles that it carries. Betrays how? How can the enemy hit back accurately when the submarine has moved away at 30 knots in a multi-dimensional plane after firing one of its missiles? This, perhaps, is not a major point in an analysis which on the whole is well done.

The security functions of the United Nations are discussed by Alan James. The role of the UN, the constraints on its working and its apparent limitations are examined. As such what the UN offers is a marginal contribution towards security, an increment which in itself is small but which may be invested in specific circumstances with considerable and perhaps crucial significance.

In writing on the "Problems of Security in Europe", Peter Nailor is really joining the ever growing band of intellectuals who are obsessed and preoccupied with the over-magnified problems of European security. In this sense the book as a whole is Eurocentric, focusing on the problems of the two super powers and the states of Europe. For the well-informed reader the essay merely covers all too familiar ground. Issues facing NATO and the proposed European Security Conference have been endlessly discussed. After all, the prosperity of Europe is central to any discussion by the have nations, particularly in the context of the challenge of a Japan, a China and perhaps an India!

Insofar as this book is an attempt to link together four essays with a view to discussing the problems of international security it succeeds in presenting an essentially European view of the world. The thesis is that the Soviet Union, the United States and Europe, grudgingly, perhaps, Japan and maybe even China, are the fulcrums around which international security hinges. This is another far too simplistic view which has been over-subscribed to and over-stated.

This book does not fail to mention that since World War II almost all the wars and conflicts have been fought on the soil of the have-not nations. But the book fails — deliberately, perhaps — to mention the view that these conflicts and tensions were, and have been, engineered so that the rich of the world can keep the poor where they are. What has been the role of the big interventionist powers and of Western capitalism since the last World War in creating instability and tensions amongst the have-not nations? Has 'stability' for the have nations not always meant the preservation and increase of their affluence at the cost of the have-not nations? The book deserves to be read, partly because of its refusal to ask many significant questions. An Asian, African or Latin American would read it with many reservations. Indeed, until the basic fundamentals of the situation are recognised among the have nations and acted upon, there is very little chance of greater stability in the world of tomorrow.



Mid-term Poll in a Working Class Constituency in Tamilnadu

E A Ramaswamy

This study of an election in a working class constituency shows that the voting behaviour in this constituency, consisting primarily of highly unionised textile workers and their dependents, was significantly influenced by the union and political affiliations of the workers.

Elections here were just one more arena where the leaders of bitterly hostile unions, leading equally hostile political parties, could test their strength. Traditional allegiances, such as to one's caste, village and kin group, seemed to have no more than marginal relevance in this context.

[*The data for this paper were collected as part of the research project on the Mid-term Poll undertaken by the Department of Sociology, University of Delhi, under a grant provided by the Indian Council of Social Science Research. The project was directed and the paper edited by A M Shah and Anand Chakravarti.*]

Introduction

THE present study of the electoral process in Singanallur Assembly constituency in Tamilnadu in the Mid-term Poll of March 1971 is essentially a continuation of my study of the electoral process here in 1967 (Ramaswamy: 1971).[1] My main task then was to show that voting behaviour in this constituency, consisting primarily of highly unionised textile workers and their dependents, was significantly influenced by the union and political affiliations of the workers. Elections were just one more arena where the leaders of bitterly hostile unions, leading equally hostile political parties could test their strength. Traditional allegiances, such as to one's caste, village, and kin group, seemed to have no more than marginal relevance in this context.

The Singanallur Assembly constituency comprised the highly industrialised municipal area of Singanallur and the villages in the *firca of Circar* Samakulam, a primarily agricultural region. Nearly 70 per cent of the 100,939 voters in the constituency were resident in the municipality. Singanallur was part of Coimbatore Lok Sabha constituency. As in the previous elections, my primary focus of interest was the electoral process among the industrial workers in Singanallur municipal area.

The trade union scene in Singanallur had not undergone any radical change between 1967 and 1971. The balance of power between the unions remained unaltered. The Coimbatore District Textile Workers' Union (TWU), which owed allegiance to the Praja Socialist Party (PSP), continued to be the most powerful union with about 10,000 members. The faction fight within the TWU had caused the supporters of the Samyukta Socialist Party (SSP) to establish their own union. The membership of this union, however, came mostly from mills outside Singanallur. The National Workers' Union (NWU), which owed allegiance to the Congress Party, also managed to retain its identity, in spite of the split in the Congress. It was now identified with the Old Congress. Some disgruntled leaders of NWU had crossed over to the New Congress with a handful of members and started a rival union. The Communists continued to be divided into two camps, each with its union. The Dravida Panchalai Thozhilalar Munnetra Sangam (DPM), controlled by the Dravida Munnetra Kazhagam (DMK), continued to be a weak union in spite of four years of DMK rule and sustained attempts by the party to bolster it up.

Political alignments in the constituency had, however, changed considerably. The DMK-led alliance, which routed Congress in 1967, turned out to be just an electoral pact. Once the elections were over, the DMK with its massive majority in the Legislative Assembly, had no need for the support of its allies. Disillusioned with the DMK, the Swatantra Party and the Communist Party of India-Marxist (CPI-M) formally quit the alliance. With the announcement of the Mid-term Poll, the DMK was once again after an electoral pact. The major parties in the new alliance, now called the Progressive Front, were the DMK, the Communist Party of India (CPI), the PSP, and the New Congress. The Old Congress, still a major force in Tamilnadu, joined hands with the Swatantra Party and the SSP to form the Democratic Front. The Mid-term Poll in Tamilnadu was essentially a contest between these two rival fronts.

In Coimbatore district an additional force on the election scene was the Coimbatore Agriculturists' Association, an interest group formed in 1970 to resist a proposed raise in agricultural power rates. Led by a former Congress minister, and clearly anti-DMK, the Association fielded ten candidates for the Legislative Assembly and supported Democratic Front candidates in constituencies where it did not contest.

The Candidates

In Singanallur the main contest, as in 1967, was between top-ranking trade union leaders. The PSP, representing the Progressive Front, fielded Subramaniam, Secretary of TWU. A Brahmin from Kerala, Subramaniam had taken over the leadership of TWU in 1963 when the old guard was expelled for lack of commitment to the PSP (Ramaswamy: 1969). Subramaniam was a powerful leader of the PSP and his loyalty to the party was beyond question. The choice of a Brahmin to lead the largest union in an industry where Brahmins are hard to find is extremely significant. It underscores the close links between trade unions and political parties, as well as the irrelevance of traditional loyalties in the trade union context.

The Old Congress, representing the Democratic Front, nominated Subbaiyan, Secretary of the NWU. A soft-spoken man opposed to fire-brand unionism, Subbaiyan had risen in the union hierarchy because of the patron-

age he received from a prominent mill-owner. There was widespread pessimism in the union as well as district party organisation about his vote-catching ability. Subbaiyan's nomination was calculated to prevent the New Congress from gaining a foothold among organised labour in the district. Never in the past had the Congress nominated a trade unionist to contest from this constituency. The NWU leaders, sore at their claims being ignored, had been lukewarm in their support for the Congress candidates. The Old Congress hoped to retain its hold over NWU by nominating a leader of the union. Further, in the past the Congress candidates in this constituency had always been from the indigenous Tamil-speaking caste of Gounders, which controlled the district party organisation. The Telugu-speaking Naidus, who predominate in the region and constitute a substantial proportion of the leadership and rank and file of the NWU, had tried for the Congress nomination in vain. Subbaiyan was a Naidu and this could help the party retain the loyalty of his castemen and seek votes for him on the grounds of caste unity.

Although the contest was primarily between the candidates of the two Fronts, there were two other candidates. One was a former mill worker contesting on the CPI(M) ticket. The other was a disgruntled DMK member who, resenting the allocation of the constituency to the PSP, filed his nomination as an Independent. He was subsequently expelled from the party for opposing the official Progressive Front candidate.

The mainstay of Subramaniam, a rank outsider to the constituency, was his position as Secretary of the TWU. His appeal was as a staunch unionist and prominent PSP leader. The TWU members, with their deep union and political commitments, could certainly be expected to stand by him. His campaign was run by the stalwarts among the second level leadership and rank and file of the union.

Subramaniam's relations with his allies were less happy. Ever since the thumping victory of DMK in 1967, its relations with TWU had been fraught with tension. The TWU leaders had never made a secret of what they thought of the DMK: to them it was the very embodiment of vulgarity in politics. While it was necessary to align with the DMK for the sake of political gain, this was no more than a marriage of convenience. The DMK, now heady with electoral success, was seeking to bolster up the DPM, its trade union wing. The TWU could not take kindly to this. Further, the DMK in its new role as the ruling party, displayed a vested interest in production and industrial peace which the militant TWU found inconvenient. What sparked off this latent tension was the controversy over the naming of the prestigious Employees' State Insurance Hospital in Singanallur. The DMK government made known its intention to name it after the late C N Annadurai, founder of the party. The TWU, incensed by this, contended that the DMK leader counted for nothing among mill workers. It demanded that the hospital be named after N G Ramaswamy, founder of the TWU and the doyen of trade unionism in the district. The DMK, willing for a compromise, offered to name the building after Ramaswamy and the hospital after Annadurai, and instal statues of both at state expense. Unable to accept this, the TWU called an industrywide strike. The TWU leaders (including Subramaniam) and about a thousand workers were arrested by the police. They were subsequently released, and the hospital remains to be named.

Relations between the TWU and the DMK were further estranged when the SSP extended its support to an agitation by agriculturists in Coimbatore district against a proposed raise in power rates. The DMK's refusal to concede this demand triggered off violence all over the district. The police opened fire at a number of places and several agitators, including Subramaniam, were arrested.

Subramaniam's relations with the New Congress were also somewhat strained. Sometime in 1969, elections were held to the Singanallur municipality. The undivided Congress annexed 18 of the 31 seats, while the PSP secured eight, the DMK five, and the CPI(M) one. One of the Congress councillors was elected Chairman of the municipality. Later, six of the Congress councillors, including the Chairman, crossed over to the New Congress, and the rest owed allegiance to Old Congress. Following this, the PSP attempted, although without success, to unseat the Chairman.

Subbaiyan, like Subramaniam, counted primarily on the support of his unionists. He could also depend on the organisational strength of the Old Congress whose councillors had done exceedingly well in the Singanallur municipal elections. The SSP promised him complete support. Many leaders of the SSP-led union were active in his campaign, more to spite Subramaniam and the PSP than out of any loyalty to Old Congress. This support, however, did not mean much since the union had little following in the area. Nor could Subbaiyan benefit from the support of the Swatantra Party or the Agriculturists' Association.

The Campaign

Much of the expense and effort in campaigning was incurred to build up a favourable image of the candidate. The electorate did not take seriously the candidate whose flags and banners they did not see, whose speeches they did not hear, and whose election offices were deserted. The ingredients which went to make up a favourable image were well known. Lavish display of flags and banners, frequent street corner meetings, and at least occasional visits by the candidate to each village and ward in his constituency were essential. The number of campaign vehicles plying for a candidate was of great significance. For several weeks before the poll, conversation frequently centred round the size of the fleets of rival candidates. The drivers of campaign cars were carefully chosen. They distributed leaflets, tied banners and, in a remote village, even addressed the audience when the main speaker did not turn up. It was the ambition of every candidate to coax panchayat presidents, faction leaders, big landowners, and such other prominent men to board his campaign car. This was considered to be symbolic of their support for the candidate. People talked derisively of those who boarded the campaign cars of more than one candidate. On the day of polling, urchins, with party symbols pinned on their shirts, blocked all approaches to polling booths and mobbed every voter who turned up to exercise his franchise. Nobody believed that a voter could be influenced at this late stage; yet the absence of a candidate's supporters in front of the booths was taken to mean that he did not expect to win.

In the case of both the major candidates the campaign at this level was run mostly by prominent members and local level leaders of the respective trade unions. Unionists with deep political commitments were particularly active. Often they had little immediate gain in mind. On the contrary, campaigning implied, at the very least, loss of pay for days spent away from work.

Another important link in campaigning were the reading rooms and clubs which mushroomed in the constituency. Usually named after Tamil matinee idols, and occasionally politicians, they were to be seen almost in every street. The members were usually young men who were out of school or college and did not have very much to do. They generally spent their time playing carrom, reading magazines and party journals, or gossiping. It was the DMK which initially built its organisational network around such reading rooms. The Congress, having learnt its lesson from its defeat in the last election, had also taken to this form of organisation. The reading rooms of the DMK and Congress, named after rival matinee idols, could be seen facing each other on the opposite sides of the street. During elections these reading rooms organised campaigning in their respective localities.

A striking feature of campaigning at this level was the near total avoidance by the candidates and their supporters of personal attacks on rivals. In contrast to the earlier elections, personal animosities, inter-union hostilities, and discrediting rivals by raking up the problems of textile workers were relegated to the background. Current issues, such as bank nationalisation and abolition of privy purses, figured prominently. Attention was focused on the professed policies of the two rival fronts and the pronouncements of their leaders. Invectives were directed against Karunanidhi, Chief Minister of Tamilnadu, and Kamaraj and Rajagopalachari, the Democratic Front leaders, rather than against the candidates contesting in Singanallur. Words such as 'progressive' and 'reactionary' were freely used. The DMK and the PSP, representing the Progressive Front, sought to convince the electorate that the choice was between progressive socialist policies and reactionary conservatism which would perpetuate the privileges of a minority. The Old Congress, however, saw the choice as one between a clean and responsible government on the one hand and perpetuating the power of the corrupt DMK in the state on the other. Although, as we shall presently see, the candidates activised all the established and time-worn channels of gaining support, the elections were not fought primarily on local issues.

There was another, more personal, dimension to campaigning. It was not enough to exhort voters from party platforms. They had to be won over through channels which were meaningful to them. The point of departure for this kind of campaigning was the detailed figures of voting in the previous general elections, and any other election which may have taken place in the intervening period. Since these figures were available individually for each polling booth, comprising about 1,000 voters on the average, it was relatively easy to figure out how different aggregates of the electorate voted. These aggregates were factions, castes, local groups, groups of unionists, groups of mill workers, supporters of a political party, or kin groups. The different aggregates had to be approached differently if the candidate was to have a chance of winning them over.

The individual voter was at the same time a member of more than one aggregate and was exposed to competing pressures. Which of these proved more compelling was not a matter of individual choice. At least in the case of Singanallur it was possible to work out a rough hierarchy of loyalties which influenced voting behaviour.

The TWU member was normally expected to vote, along with the members of his household, for Subramaniam. If, in addition to being a TWU member he was also a PSP supporter, his loyalty to the candidate was further reinforced. He was then expected to take leave from the mill for a week or so and engage in campaigning. Factions within the union and rivalries between the leaders were generally relegated to the background on this occasion. Political cleavages within a union certainly surfaced during elections. But such cleavages were rare since political differences generally led to a formal split and the emergence of a rival union. Some TWU members certainly voted against Subramaniam because of a personal grudge, or because their sympathies were with a rival political party. Their numbers were, however, seldom very large.

The TWU, or any other union for that matter, was not homogeneous in terms of the caste composition of its membership. Subramaniam was a Brahmin and the number of Brahmins in TWU could be counted on fingertips. More significant, Subbaiyan was a Naidu and there were many Naidus in TWU, among the leadership as well as the rank and file. Nobody expected that the electoral behaviour of the TWU members, with minor exceptions, would be guided by their caste. Making a serious dent into a rival union's membership by appealing to caste loyalties was quite unthinkable.

Kinship, unlike caste, was widely regarded as an overriding loyalty which may cut across union and even political affiliation. It was believed that voters who were not amenable to any other influence could be pressurised through their kin. The support of close kin was expected almost as a matter of course. A close kinsman working against a candidate was considered sufficient to damn him. One could hear frequent references to this or that candidate in a particular election who was not supported even by his own mother's brother. Several prominent campaigners of both the major candidates claimed that even Rajagopalachari, the elder statesman and Swatantra leader, believed in the supremacy of kinship ties. During the 1967 elections Rajagopalachari was the sworn enemy of Congress. His son was, however, contesting as a Congress candidate. When asked why he did not oppose his son, Rajagopalachari is reported to have said, "In Indian culture it is not *dharma* to work against one's son. I did only what our culture required of me." Both Subramaniam and Subbaiyan activised their and their supporters' kinship networks. They arranged leave for several of their unionists so that they could visit villages where their close kin were living and try to win them over.

Money was believed to be an important attraction for many voters. Fears were frequently expressed that a well-to-do rival might upset all calculations by purchasing votes on the night before the poll. In Singanallur both the major candidates had collected donations from workers and millowners in order to finance their campaign. Their resources did not permit any large-scale purchase of votes. Nor could everyone's vote be bought. Only some categories of voters were susceptible to such incentives. An almost universal belief was that Harijan scavengers in the employment of the municipality responded only to direct inducements. Feeding them on the night before the poll was believed to be the only way of bagging their votes. This was expensive since entire streets, including those who did not have a vote, had to be fed. On the eve of the poll, milling crowds of Harijans could be seen near the PSP election offices in Singanallur, waiting to be fed. The feeding continued till the small hours of the morning. The Harijans were then herded straight to the polling booths and lined up for voting. The Old Congress, realising that the Harijan votes were slipping out of its hands, made a desperate attempt to win over at least a section of them. Lacking the resources

to start rival feeding centres, Old Congress supporters summoned municipal employees who supervised the scavengers and offered them bribes. Many Old Congress and SSP leaders expressed the view that Harijans would not see sense unless given a good beating.

Conclusion

Out of a total of 100,939 voters in Singanallur constituency, 72,468 (71.8 per cent) exercised their franchise. Subramaniam, polling 35,888 (49.5 per cent) votes, scored a clear victory over Subbaiyan who claimed 20,848 (28.8 per cent) votes. The CPI(M) candidate polled 8,209 (11.3 per cent) votes, and the Independent candidate, 1,653. The invalid votes amounted to 5,870.

In the absence of booth-wise polling figures, precise estimates of how different categories of voters voted are impossible. Subramaniam's victory is attributable to the strength of the TWU in the constituency. However, he could not have secured such a massive majority without the support of the DMK. This becomes evident if we take into consideration the votes polled by the DMK and the PSP in the elections to Singanallur municipality. Although the DMK secured only five seats it had polled 9,622 votes out of a total of 45,657. As against this the PSP, which claimed eight seats, had polled only 7,676 votes.

Although the DMK leaders were initially hesitant to support Subramaniam, they activity supported him in the later stages of the campaign. The expulsion of the Independent candidate from the DMK certainly helped, since his *locus standi* in the party was now in question. The PSP, for its part, had warned DMK of withdrawal of support in a neighbouring constituency from which a DMK minister was contesting. All the same, it appears that the bulk of the DMK supporters sided with Subramaniam, setting aside local squabbles. The poor performance of the Independent candidate also lends credence to this view. It was alleged that he had been bribed by the Old Congress in order to split the DMK votes which may otherwise have been polled *en bloc* for Subramaniam. If this is so, his performance highlights the risks inherent in propping up candidates in the hope of splitting votes. Vote splitters can easily be spotted as the poll approaches. They tend to drastically slow down the tempo of campaigning in the hope of cutting down expenditure and saving some money. This substantially damages their position in the eyes of the electorate and few voters take them seriously. The Independent candidate did not organise a single meeting and his election symbol was rarely seen near any polling booth. If he had been a serious contender claiming the loyalty of DMK supporters, there is no doubt that Subramaniam would have lost many votes, although he might have still won.

In conclusion, it does not seem that the bulk of the voters in Singanallur perceived the situation any differently than in 1967. Although the candidates presented their candidature in terms of wider issues, many voters cast their vote in favour of a particular candidate for much the same reasons as before. The TWU and the NWU members still voted for their leaders. Some were influenced by their kin, and food was an important factor in bagging the votes of scavengers. In spite of all this, unlike in 1967, there certainly was an attempt to momentarily set aside local frictions, serious as they were, for the sake of larger political gain. This applies particularly to the DMK and its trade union wing, as well as the New Congress and the CPI. The voters on whom they had control did extend their support to Subramaniam notwithstanding their personal hostility to him and the TWU.

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Studies in Planning Techniques

III—Decentralisation of Planning

R M Sundrum

The word 'decentralisation' has an attractive sound to it and it has become fashionable to apply it to planning. And there is no doubt that it is time for Yojana Bhavan to be relieved of some of its burdens. In fact, the case for decentralisation seems to be conceded on all hands.

But the spate of proposals for activating state planning boards, setting up planning cells in central ministries, and even planning from below at the district level do not reveal any specific programme for planning activity at these levels.

An attempt is therefore made in this paper to analyse the problem and suggest some ways of meeting it.

INDIA, as we have been told so often, is a large country. While this contributes to its strength in some ways, it also creates certain problems. When it started to plan its way to development, it was but natural to begin at the Centre. But now, two decades later, some of the purely technical difficulties of planning for such a large country from the Centre have combined with a changing political situation to demand a reconsideration. Let us review some of these difficulties.

Lack of Information

Perhaps the most serious problem, and one often cited, is the lack of information in New Delhi about the actual conditions prevailing in the rest of the country. The sheer distance between some states and the Centre and the slowness of communication over this distance has hampered the flow of information to the planners at the Centre. It may also be urged that, even if this information flowed steadily and promptly to the Centre, the sheer magnitude of the information would defeat any attempt to absorb it fully into the planning process. This is certainly a good argument against making all the planning decisions for the whole country at the Centre. However, it must also be recognised that this problem cannot be solved just by transfer of decision-making functions from the Centre to the states, for the necessary information may be lacking in the state capitals as well. On this score, the case for greater delegation of planning to the states depends on the states being able to get more of the required information. Even though the states may not have enough of this information at present, it is obvious that in principle the information for each state can be gathered more completely and analysed more fully at the state level than at the national level.

The next question relates to the making of decisions about the use of resources. While it is useful to have maximum co-ordination of decisions for planned development, it does not mean that, for this reason, all decisions have to be made at the Centre. For one thing, the amount of co-ordination that can be achieved is quite limited, and efficiency in the use of resources should not be sacrificed to any great extent in pursuit of an unattainable degree of co-ordination. The claims of co-ordination cannot, therefore, be held to deny some delegation of plan decisions to the states. Even if different agencies make decisions in different parts of the planning process, this does not preclude each agency co-ordinating its decisions with prior decisions of other agencies. What is needed is an efficient procedure for such co-ordination.

One approach is to say that there are some decisions which have a national impact and which, therefore, can best be made at the Centre while others, of more limited impact, can be made in the states. This way of posing the problem is useful for certain purposes but not quite accurate for, at least in theory, the states have a say in the making of decisions at the national level. The question then becomes one of the procedure involved, a question complicated by a number of political factors, such as whether the Indian Constitution is a federal one in the text-book sense, the role of a non-statutory body like the Planning Commission exercising such great influence in practice, and so on, which we shall bypass. Some students of Indian planning have been impressed by the efforts made in search of consensus in the planning process.[1] Our present concern will be mainly with the question of how far a decentralisation of some planning functions to the states will improve the efficiency of Indian planning as a whole, and which functions are best decentralised.

Table 1: Percentage of Public Sector Outlays Allotted to State Plans by Sector

Head of Development	III Plan	IV Plan
Agriculture	86	52
Irrigation	97	97
Power	87	78
Village and small industries	52	44
Industry and mining	5	5
Transport and communications	15	15
Social programmes	66	51
All sectors	50	42

Table 2: Allocation of Public Sector Outlays in State Plans in the Third Five-Year Plan

State	Percentage of Public Sector Outlays to Sector						
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Andhra Pradesh	14	11	46	6	4	19	100
Assam	11	10	29	8	8	33	100
Bihar	12	12	43	4	6	23	100
Gujarat	17	8	42	3	9	21	100
Jammu and Kashmir	11	7	33	12	12	25	100
Kerala	19	6	35	10	6	24	100
Madhya Pradesh	15	11	39	4	6	26	100
Maharashtra	17	9	38	4	10	22	100
Mysore	16	8	44	6	5	20	100
Orissa	11	13	43	4	6	23	100
Punjab	13	8	45	6	6	23	100
Rajasthan	10	9	51	4	6	20	100
Tamil Nadu	13	9	44	8	4	23	100
Uttar Pradesh	17	13	33	4	6	26	100
West Bengal	18	6	24	9	8	34	100
Total	14	10	40	6	6	24	100

Notes on Sectors: (1) Agriculture; (2) Community Development and Co-operation; (3) Irrigation and Power; (4) Industry and Mining; (5) Transport and Communication; (6) Social Services and Miscellaneous; (7) Total.

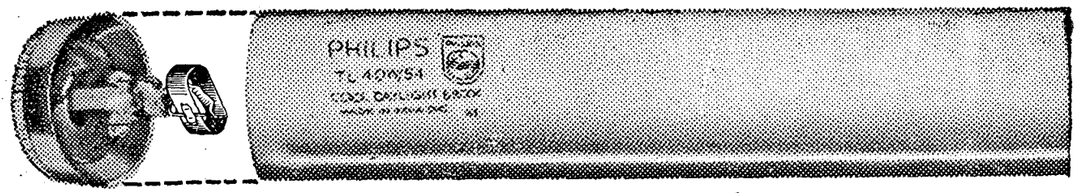
In the past record it is difficult to say which decisions were made where, except in a rather formal sense. Instead we might look at the sort of decisions which have been made in connection with the respective roles of the Centre and the states. Some light, not particularly illuminating, is thrown on this question by the classification of public sector plan outlays as belonging either to the state plans or the Central one. Table 1 shows the outlays allotted to various sectors in the state plans as a percentage of total outlays to these sectors. The decline in the states' share of agricultural outlays in the Fourth Plan was mainly due to the increase in the Centre's expenditure for new items, such as the contribution to agricultural finance institutions and the cost of the food buffer stock. The large central share in transportation and communications is understandable, but it is puzzling to see the predominance of the Centre in industry, not only in the organised sector but even in the village and small scale industry sector.

Allocation of Resources

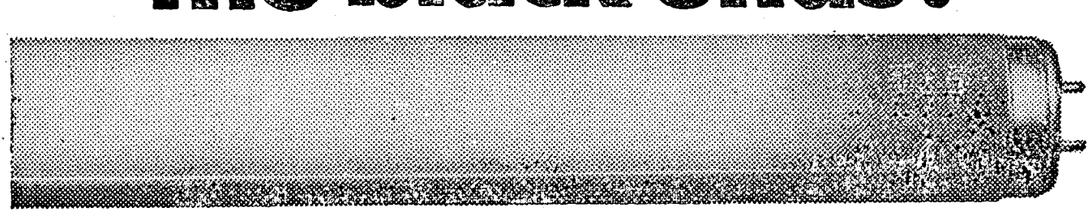
Some further idea of the nature of the decisions made in planning for the states is given by some data on the allocation of resources in the various state plans. Up to the Third plan, the state plans "had been formulated by and large in terms of standard schemes which had been approved by the Central Ministries and the Planning Commission".[2] The results are shown in Table 2. The Table shows the great similarity in the allocation among the states, as is to be expected in following the standard schemes, which the states had been induced to follow by the grant of assistance from the Centre.

In the Fourth Plan, however, "it has been decided that there will be no schematic patterns of assistance . . . to avoid adoption of standard schemes unsuited to local conditions and needs . . . states will now have much

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greater initiative in the formulation of schemes and programmes".[3] It has not been possible to see the effect of these new initiatives in full. The data in the Fourth Plan document show the allocation to some sectors and are summarised in Table 3.

At least as far as these sectors are concerned, the new initiatives do not seem to have introduced any greater variation among the states in their allocation of Plan outlays. This is because the Centre still retained its influence by earmarking funds by sectors, such as agriculture, major irrigation and power, elementary education and rural water supply, allowing switching of funds between projects in a sector but not between sectors.

TABLE 3: ALLOCATION OF PUBLIC SECTOR OUTLAYS IN STATE PLANS IN FOURTH FIVE-YEAR PLAN

State	Percentage of Public Sector Outlays to		
	Irrigation	Power	Education
Andhra Pradesh	28	32	9
Assam	21	15	10
Bihar	33	28	8
Gujarat	31	24	6
Haryana	22	36	7
Jammu and Kashmir	13	25	5
Kerala	17	30	7
Madhya Pradesh	32	20	6
Maharashtra	24	28	7
Maysore	31	25	4
Nagaland	3	5	13
Orissa	18	30	7
Punjab	17	40	7
Rajasthan	35	32	6
Tamil Nadu	14	30	11
Uttar Pradesh	20	38	7
West Bengal	16	21	11
Total	24	29	8

CENTRE-STATE FINANCIAL RELATIONS

Perhaps the biggest issue in the question of decentralisation of planning has been that of centre-state financial relations. Three major factors have affected these relations. One is the division of revenue-raising powers between the Centre and the states as governed by the Indian Constitution; it has turned out that the thinking on this subject followed the provisions of the 1935 Government of India Act formulated by the British Government for the administration of a colonial economy, vesting strong financial control in the Centre, at a time when the provinces had limited governmental functions in the economic sphere.[4] The second factor is the role of the quinquennial Finance Commissions, established as a statutory body, to determine the share of states in the Central revenues; in fact, the Finance Commissions did not frame any general principles of allocation but recommended grants by and large on the basis of the revenue deficits of the states. The third factor, which was not clearly foreseen in the constitution-making days, but which has taken on a dominating significance with the advent of planning, has been the financial role of the Planning Commission in determining the size of the state plans and making provision for Central assistance for these plans. The subject has turned out to be a complex one, involving such strange concepts as 'loans' from the Centre to the states, which have an air of unreality, especially as the proportion of loans in total assistance has not been related to the needs or ability to pay of individual states. Much has been written on this subject, and we shall not attempt to cover it in the present studies. The main outcome so far has been that the states have become heavily dependent on the Centre for financial assistance in implementing the state plans. This is important for the study of planning, because of the extent to which the Centre can influence plan decisions when supported by financial assistance. The position in the Fourth Plan is summarised in Table 4.

Table 4 shows the great variability in the extent of Central assistance to the various state plans. This is because the allocation of Central assistance is only indirectly related to the size of the state plans. In fact, in the Fourth Plan, "it was decided that after providing for the requirements of the states of Assam, Nagaland and Jammu and Kashmir, the Central assistance to the remaining states for the Fourth Plan be distributed to the extent of 60 per cent on the basis of their population, 10 per cent on their per capita income if below the national average, and 10 per cent on the basis of tax effort in relation to per capita income, and that another 10 per cent be allotted in proportion to the commitments in respect of major irrigation and power projects. The remaining 10 per cent, it was decided, should be distributed among the states so as to assist them in tackling certain special problems, like those relating to metropolitan areas, floods, chronically drought affected areas and tribal areas".[5] It is interesting to see the results of this method of financing on the size of state plan public sector outlays in relation to their populations. The position for the Fourth Plan is given in Table 5. The per capita share of Central assistance is remarkably uniform, as implied in the principle of allocation. However, the per capita share of states' own resources varies widely, and, in spite of the considerable weight given to central assistance, leads to considerable variation in the per capita share of state Plan outlays. The per capita amounts of states' resources are naturally highly correlated with per capita state income (correlation with latest available income figures comes to +0.78). So, with a weak negative correlation of per capita central assistance with per capita income (—0.22), the per capita state Plan expenditures turn out to be highly correlated with per capita incomes (+0.65).

CONCEPT OF STATE PLAN

We must, however, recognise that the concept of a state Plan is a strange one. Its basic interpretation is that it consists of that part of the national plan whose implementation is, for some reason or other, assigned to the individual states. Therefore, the great interest in the size of the state Plan and the concern with getting finance for it, are somewhat out of place. These considerations would be more relevant if the benefits of a state Plan accrued in large measure to the state. That this is not so is already apparent in the remarkable uniformity of the allocation of plan outlays in the various states, even in the Fourth Plan, despite the great diversity in the needs and potentials of the states. This can also be seen in the case of particular projects. Take, for example, the case of power investment in Kerala's Fourth Plan. Out of Rs 258 crores of total Plan outlay, the allocation to power is Rs 76 crores, or 30 per cent. During the period 1960-69, the installed capacity in Kerala increased four-

TABLE 4: CENTRAL ASSISTANCE AS PERCENTAGE OF PUBLIC SECTOR OUTLAYS IN STATE PLANS: FOURTH PLAN

State	Percentage of State Plan Covered by Central Assistance
Andhra Pradesh	57
Assam	84
Bihar	64
Gujarat	35
Haryana	37
Jammu and Kashmir	92
Kerala	68
Madhya Pradesh	68
Maharashtra	27
Mysore	49
Nagaland	88
Orissa	72
Punjab	34
Rajasthan	73
Tamil Nadu	39
Uttar Pradesh	55
West Bengal	69
Total	53

fold, compared with an increase of two and a half times in the whole country. And during the Fourth Plan period, the capacity will again increase about 60 per cent, the same as in the whole country. Kerala is unlikely to use all this power within the state in the near future. So it is stated, "The objective of power schemes in Kerala during the Fourth Plan period will, therefore, be to make use of the hydro-electric power potential to the maximum extent possible to make available the power generated to different parts within the state and also to other states in the Southern region at cheaper rates".[6] The position of power investment may be compared with that of industry in the state Plan, on which the outlay is only 30 per cent of that in power, and this in a state where a more rapid rate of industrialisation is urgently needed to meet the growing problems of unemployment. It must be stressed very strongly that this is no criticism of the decision to develop the power potential in Kerala, but only to point out that when such a substantial investment is made in one state with benefits accruing to others, the size of a state Plan as something to argue about loses some of its significance. The essential point that emerges is that individual projects serving a number of states must be located in the most suitable parts of the country, taking account of the comparative advantages, the availability of data and the expertise and organisational efficiency for implementation. In addition, the choice of investments in individual states must also be concerned with their development needs and potentials. In the face of these problems, the largely financial approach to determining the size of a state Plan, based on the resources that individual states can raise and a largely neutral allocation of Central assistance, however convenient politically, is unlikely to lead to an optimum solution. Further, it raises again at the state level the inefficiencies of planning that arise when projects are framed to fit a financial constraint rather than fitting the financial arrangements to an optimum selection of projects.

Let us now consider a different approach to the decentralisation of planning. We abstract from the purely political issues and consider the question mainly on the basis of who is the best person or agency to perform any planning function and where. For this purpose, we distinguish, as we did in earlier parts of these studies, various types of planning decisions according to a hierarchical ordering of these decisions.

To begin with, we have the question of a strategy of development. In an earlier paper, the concept of a development strategy was sharply distinguished from the sort of perspective plan exercises carried on nowadays. Instead, a development strategy is a specification in broad terms of the goal aimed at for the achievement of self-sustaining growth at the end of a development phase and the broad directions of the movement towards this goal. The period involved may be envisaged as covering two or three decades. It will be concerned with the balance between agriculture and industry, the allocation of the labour force, the pattern of urbanisation, the levels of infrastructural facilities, the role of foreign trade, etc, in the final state. It will be concerned with the relative roles of capital and labour, the emphasis on human capital both for its own contribution and as a substitute for physical capital, the broad policies of resource mobilisation, the building up of institutions for all these purposes, etc, in the approach to the desired final state. And it will be concerned with the regional distribution of the development effort and achievements. It may be unrealistic to dream of complete equality over all regions and states, but the pattern of investment shown in Table 5 does not even move very far towards equalisation. As part of the development strategy, we have to consider what are the present regional imbalances in the way of development, and which of them to seek to remove and to what extent.

In spite of the frequency with which the word is used, the concept of a strategy is an elusive one. In view of the great uncertainties facing the less-developed country, a strategy cannot be spelt out in quantitative terms about the magnitude of investment, the allocation of resources, the actual projects to be implemented or their effects on such aggregates as the national income, in the form attempted in present methods of perspective planning. But once we leave this familiar ground, there arises the danger that the concept of strategy becomes too vague or emotive to serve as a guide to practical affairs. Some way must be found to give it a sharp definition. A possible approach is to consider it as a set

TABLE 5: PER CAPITA SHARE OF STATES' RESOURCES AND CENTRAL ASSISTANCE IN STATE PLANS: FOURTH PLAN

(Rs)

State	Per Capita Share in		
	State Resources	Central Assistance	Plan Outlays
Andhra Pradesh	43.4	57.8	101.2
Assam	28.3	149.3	177.6
Bihar	35.1	61.4	96.4
Gujarat	117.9	62.7	180.6
Haryana	154.2	82.6	236.8
Jammu and Kashmir	34.0	368.0	402.0
Kerala	41.1	86.2	127.3
Madhya Pradesh	31.2	67.5	98.7
Maharashtra	136.9	51.5	188.4
Mysore	63.2	61.8	125.0
Nagaland	11.9	83.3	95.2
Orissa	30.3	77.4	107.7
Punjab	138.1	72.5	210.6
Rajasthan	33.0	88.5	121.4
Tamil Nadu	83.1	52.9	136.0
Uttar Pradesh	50.5	60.5	111.1
West Bengal	23.8	51.9	75.7
Total	60.6	68.3	128.9

of principles which determine, not what particular projects will be undertaken, but rather how decisions will be made to include or exclude individual projects that may be proposed for implementation. Thus, the strategic principle that labour-intensive projects will be preferred to capital-intensive projects may be specified more sharply by assigning the amount of preference in the estimated rate of return that will be given to labour-intensive projects as against capital-intensive projects. This may be done by assigning shadow prices to capital and various categories of labour, except for the fact that the term 'shadow price' has come to be associated with elaborate optimising models which are somewhat unrealistic under prevailing conditions of ignorance and uncertainty. In order to apply the strategic principle in this way, project selection has to be based on a more strict regimen of cost-benefit analysis. Otherwise, the labour-intensive strategy will degenerate into the promotion of all types of labour-intensive industries, irrespective of their efficiency in the use of capital. Similarly, the principle of preferring export promotion to import substitution in industrialisation strategy may be more sharply defined in terms of a premium in the rate of return that will be given to export-promoting industries. Again, the decision to stress particular types of infrastructure may be spelt out in terms of a lower cut-off point in the rate of return applicable to infrastructure projects as against directly productive investment. An important element of a development strategy would also be the choice of a social rate of time preference to determine the balance between investments yielding their benefits in the near future and those yielding their benefits in the more remote future. These strategic parameters, in the form of rates of premium to be given to various desired activities, while specified tentatively to begin with, may varied over time in the light of emerging circumstances.

We have described the strategic circumstances in terms of project selection exercises. But an important element of a development strategy is the choice of general policies to be adopted by the government, especially in a country with a large role for the private sector and such a great deal of government control and regulation of the private sector. It seems essential that there should be some basic continuity in these policies, relating to income distribution, industrialisation, monetary and fiscal policies, etc, as D R Gadgil used to emphasise so much. To some extent, the strategic parameters may help in determining such policies, but they may also need to be supplemented in other ways.

NATIONAL CONSENSUS

On this interpretation of the concept of a development strategy, it is clear that its formulation is a task to be undertaken at the national level. It is not to be thought of as something to be done at the Centre instead of the states, but rather as something to be achieved by a consensus of the political leaders and technical experts all over the country. Thus the practical initiative in preparing the discussions may be taken by the National Planning Commission but it needs the full participation of state representatives in some such forum as the National Development Council. The specification of such a development strategy is therefore a part of the planning process that is best done by 'planning from above'. At the same time, the concept of a development strategy has its counterpart at the state level. Even while subscribing to the national development strategy each state is so different from the others in its initial resource endowment and in its final objectives that it will have to tailor the national strategy to its own circumstances. Thus, states with more acute problems of unemployment may stress industrialisation, especially of a labour-intensive type, more than others; states with very low income levels may have to use higher rates of time preference in the choice of investments in their areas; states, like Kerala, with abundant undeveloped forest resources may seek to give greater emphasis to that subject, and so on. This requires a strengthening of the planning apparatus at the state level for this purpose. K N Raj has argued that the present weakness of planning at this level has been due to the weakness of the planning machinery and personnel in the states and to the present techniques of plan formulation relied on by the Planning Commission.[7] But to a considerable extent, it is also due to the practice of concentrating so heavily on the Five-Year Plan as the basic feature of Indian Planning.

In the earlier studies in this series, the concept of long-term planning, as distinct from formulating a development strategy or carrying out perspective planning exercises, was suggested for some sectors, and it was also argued that certain aspects of educational expansion and agricultural development were particularly amenable to such planning. It was there proposed that National Planning Commissions in each of these sectors would provide suitable machinery for long-term planning. While the concept of a development strategy is largely an indivisible one, requiring only adaptations to individual states, the concept of a long-term plan in any given sector has to be built up out of a large number of constituent parts, consisting of specific projects for each local area in each state of the country. The planning process would start at the national level with the laying down of broad principles for determining the goals; then these would be considered in each local area, which would then make their proposals for the nature and phasing of the projects to be undertaken in each area. This would be done by involving the various local authorities who are supposed to take on developmental functions. In the process, these local development agencies would also report on any deficiencies in the present situation affecting the particular sector in their local areas. This information and these proposals would be assembled in successive stages at the district and state levels, and then put together at the national level. The important thing is that the national plan would then be based on sufficiently detailed information from the grass roots level provided by those in closest touch with the actual conditions, and that the local authorities would recognize the part in the national plan applicable to their local areas, and the effort being made to fulfil their aspirations. Once the plan is formulated, the local authorities could also be assigned their due role in its implementation in their areas. All this is a time consuming affair of the sort that cannot be telescoped into the time available for preparing successive Five-Year Plans. In connection with these sectoral long term plans, the time required would be reduced by the concentration on a particular sector at a time, and by the fact that the financial arrangements would not have to be made to balance with a pre-assigned figure.

Even in the context of such long-term plans decision-making can be decentralised in various ways. For example, the Education Commission has suggested the adoption of "a system of priorities at different levels — national, state and local. Programmes of national significance such as provision of good and effective primary education to every child, vocationalisation of secon-

dary education, postgraduate education and research, or education for agriculture and industry may be regarded as *national priorities* in the sense that decisions regarding them would have to be taken by the Centre in consultation with the states and, once they are taken, it should be obligatory on every state to implement them effectively and vigorously. In several other matters, and these would form the bulk of the decisions to be made, a system of *state-level priorities* should be adopted i e, each state may be left to make its own best decision in view of the local conditions. These would include problems such as making secondary education free of tuition fees and, in such matters, no attempt at a national uniformity need be made. In certain other matters, as for instance, in the provision of amenities in schools, and determining the type and scale of non-teacher costs, a system of *local priorities* may be adopted. The state governments may create appropriate authorities at the district and school levels and leave them free to take decisions, within the powers delegated, and best suited to the local conditions. There should be no need to expect any uniformity in these matters between one district and another and even between one school and another. A system such as this which centralises a few essential sectors at the national level would be much better than the present trend to take more and more decisions — crucial or otherwise — at the national and state levels. This sometimes results in the curbing of local initiative and disregard of local conditions."[8]

After some of the key sectors have been catered for by long-term plans, the next stage is one in which 'planning from below' begins to be important and to involve people's participation to a greater extent. This is the preparation for medium-term planning. Planning for the medium term has to come to closer grips with the financial constraints, but it is even more important to ensure that the content of plans of this type are closely related to the realities at the local level and ensure popular support and participation in the planning process. Popular participation may be analysed into, (1) the provision of information, (2) the opportunity to take part in determining plan content, (3) raising local resources to finance at least a part of the cost of projects clearly seen to benefit the local areas, and (4) co-operation in the implementation of the plan. Great hopes have always been attached to planning from below in India but it has on the whole been unsuccessful because the local authorities have been given little initiative, and that mostly in the implementation of decisions made at higher levels, and because the planning exercise at the local level has been heavily dominated by official personnel and points of view.

Flow of Information

The flow of information from the bottom to the top is a crucial requirement for efficient planning. In spite of endless forms being filled up all over the place, there is little evidence that the information collected is particularly relevant or that it is fully absorbed into the planning process at higher levels. The present plan exercises have all the hallmarks of being fitted into a financial framework with project details being worked out in the aftermath of the financial allocations, sometimes even after a plan has been formulated. What is required instead is for the information to help build up a shelf of viable projects for development. In the past, the information sought has tended to be about projects to be included in a particular Five-Year Plan. This in turn has depended too heavily on a judgment of the amount of financial resources likely to be available from higher levels of government, so that 'planning' at the district level has become an unmanageable replica of planning at the national level. It would be highly desirable that district planning be relieved of this constraint. Instead, the information aspect of local planning should concentrate on an analysis of the economic and social problems of the local area, and the sort of measures that can be taken to solve them, without reference to the question of including all of them in the next succeeding Five-Year Plan. This is already a complex task, involving the full co-operation of the people with local officials. Many students of Indian planning have discussed administrative problems concerning the role of local officials.[9] These problems have to be met by suitable administrative reforms. Apart from providing the information in a form that leads to identification of viable projects consistent with national and state development strategies, the local development agency can also share in the decision-making process by indicating its own order of priorities among suggested projects. These priorities can be strengthened in suitable cases by indicating the possibilities of raising local resources earmarked for particular projects in the local area. Greater resources can be mobilised by bringing the taxpayer nearer to deciding what service he will get for his money. This incentive can be increased by combining it with a system of matching grants such as those already in use in some states. As Arthur Lewis argues, "this does not involve decentralising control of operations to local authorities; it involves only decentralising financial decisions".[10] However, once a decision is made on the selection of projects, the local development agency can participate in their implementation.

The flow of information from local areas upward needs a lot of processing. The projects put up have to be subject to careful cost-benefit analysis. Solutions have to be sought to meet particular problems. Inadequate information has to be supplemented by further inquiries. New ideas from some areas have to be borrowed for application to other areas. Project proposals from each area have to be tested for internal consistency. Proposals from different areas have to be adjusted for a reasonable balance among areas. Problems arising from current proposals have to be foreseen and arrangements made to meet them. Then all the proposals have to be assembled in a form suitable for consideration at the financing level. The assembled proposals have to be tested for consistency with national and state development stategies. At this stage, greater consideration can be given to the phasing of the various proposals by classifying them into those falling into the next Five-Year Plan and those falling beyond. In view of the uncertainty of resource availability, some order of priorities must be imposed on the projects being considered for the next Plan. All this constitutes one of the most important functions of the Planning Boards at the state level. To discharge this function efficiently, it would be necessary to improve the lines of communication between the State Planning Board and the agencies responsible for planning at the district level.

In addition to these, planning at the state level will have to be concerned with additional projects of state-wide interest, affecting a number of local areas and dealing with matters not particularly concerning local areas, such as transport, industrialisation, urbanisation, etc. It will also be concerned with the policies of the state government affecting economic and social development in the state. It will be particularly concerned with the question of resource mobilisation in the state. This represents yet another important function of the State Planning Boards.

The next stage in the planning process will be the assembling of proposals from the states at the national level, repeating the process already done at the state level for district proposals. At this stage, the national planning agency will also add projects and policies of nation-wide interest.

Financial Considerations

The stage will then be set for the financial considerations. In the procedure described above, this consideration comes in at a late stage, rather than at the beginning as in the present practice. How much resources to raise and how to raise them will be determined partly by what is to be done. Every effort has to be made to raise resources to finance as many of the viable projects as possible. In present practice, an attempt is made to estimate the available resources as far as five years ahead. This is fraught with great uncertainty. If the estimates are over-optimistic, it would mean that plan commitments will not be fulfilled, affecting the credibility of the whole process. To make pessimistic estimates would be to reduce the plan size and scale of investments unnecessarily. One way of meeting this problem is to base the medium-term plan on clearly foreseeable resources, but to supplement it with annual plans of investment based on additional resources as they are foreseen year by year. In this approach, the annual plans will be additional to the other plans, instead of being annual segments of them. This would be a way of keeping up continuous pressure on resource mobilisation and channelling resources continuously into development. The success of this approach depends crucially on building up a shelf of projects.

Once the scale of plan outlays is determined by the projects selected to fit the maximum resources that can be mobilised, the national plan can be divided between Central, state and local plans. At present, the division is largely based on the resources raised by the states themselves and on the amount of Central assistance allocated to the states. The 'proper shere and functions of planned economic activity of a state' were once described by Dr Gadgil thus:

> "The fields of action of the Centre and of the states are, to a large extent, distinct. The Centre builds up and maintains the overall instrumentalities of national economic life such as the credit and the monetary system, the railways and ports. It also acts in relation to the basic requirements of the long-term plan of industrialisation, with emphasis on large industry and exploitation of mineral resources. The states are concerned, on the other hand, with acting on the total life of all the people in their charge and on all the diffused, dispersed small-scale units and activities. The Centre is concerned with highly concentrated action at a few strategic points; the states must affect all areas and localities, all the relevant fields and all units. The Centre is concerned with the strategy of the long-term plan and with initiating the crucial movements; the states have to engage themselves in transmitting the forces impelling economic development to all areas and units, and with concretising for the individual units the fruits of development. The generalised objectives of a state plan are, therefore, making possible, initiating and encouraging economic development in all activities and sectors, and areas and localities, and protecting the standard of living, and improving and ameliorating the situation, social and economic, of all individuals within their territories ... Another related differentiation in the Central and state action is that certain public-sector activities, in particular, those relating to production, are mainly confined to the Centre ... The sphere of action of the state lies in the realm of conservation and better utilisation of natural resources and provision of public utilities and social services".[11]

Although Gadgil probably intended this to be a description of the actual position, it looks more like an idealistic picture, one that may, in certain respects, be the goal to aim at by the development of suitable machinery at various levels. Appleby argued that power and irrigation undertakings "should be exclusively carried on by the Centre, without control being shared by the states"; he questioned the theoretical reason for putting health, agriculture and fisheries *exclusively* in the jurisdiction of the states, while leaving mining in the national jurisdiction; he was concerned that the "nation was crucially dependent on the states for actual achievement of the chief programmatic objectives".[12]

As against these theoretical approaches based on the proper roles of the various levels of government, a more relevant criterion would be that of assigning programmes to agencies best fitted to implement them in the present, while developing suitable machinery and organisation for their 'proper' roles over the longer run. This approach would incidentally remove some of the stings from the acrimonious debates on centre-state financial relations in connection with planning.

Planning and the Ministries

An important issue that has not been considered so far is the question of decentralising some of the planning functions from the Planning Commission to the various Ministries. The Study Team of the Administrative Reforms Commission on the Machinery of Planning has recommended that 'planning cells' be established in the various ministries. This recommendation has to be looked at carefully. It is not sufficient to appoint a few people in each ministry and call them a 'planning cell'. The more basic questions are how technical experts can help to improve the efficiency of overall planning; whether there is sufficient reason for specialisation of technical experts into planning staff and other staff; and if so, whether such a specialised group of technical planners has to be located in the Ministries or in the planning agencies. The technical experts surely have an important role in contributing to the planning effort; they are the best people to collect the basic information in each sector, to analyse the information to reveal the working of the economy in that sector, to evaluate the proposals put up by people at all levels, to consider the applicability of new technologies in various areas, to compare the relative merits of alternative projects and policies, and to present to the overall planning agency a comprehensive picture of each sector in relation to others, and once decisions have been made, to implement the selected projects. But as soon as we list these ways in which the technical experts can assist the planning effort, it becomes doubtful whether there is a strong justification for a planning specialisation among them; the functions listed are all integral aspects of the whole administrative process. In particular, the planning point of view has to permeate the staff of a technical service right through the hierarchy, instead of only at the top. There is more justification in specialising planners according to the sectors than for specialisation among technical experts. If there are to be planners specialised according to sector, the next question is where they should be located. The usual argument for locating a technical planning staff in the Ministries is that the Ministries 'have' the technical experts. This is no argument, for there

should be no difficulty in transferring to the central planning agency persons who have a special competence in relating a sector to overall planning. Another reason for locating the technical planning staff in the Ministries may be a desire to keep down the staff strength of the planning agency, but this is just a way of cheating ourselves. The real question is not whether the staff of the Planning Commission is too big, but what functions they perform, and how well they are organised to perform those functions. For instance, the State Planning Boards cannot perform the functions proposed for them without more staff than assigned to them at present. Once the functions of the planning agencies are determined, the balance of advantages may well be in favour of the technical planning staff being located in these agencies themselves.

NOTES

1 E g, Appleby describes "the practice of seeking agreement in everything by everybody before anything is done". "Public Administration in India" (Cabinet Secretariat, 1953), p 13.

2 Government of India, "Fourth Five-Year Plan" (New Delhi, 1970) pp 55-56.

3 *Ibid,* p 55.

4 See B V Krishnamurti, "Centre-State Economic and Financial Relations", (Trivandrum, Development Centre, Discussion paper No 2, 1971) for a detailed analysis.

5 Government of India, Fourth Five-Year Plan 1969-74, (New Delhi, 1970) p 55.

6 Government of Kerala, State Planning Board, "Fourth Five-Year Plan 1969-74" (Trivandrum, 1970) p 105.

7 K N Raj, "'Planning from Below' with Reference to District Development and State Planning — A Note", *Economic and Political Weekly,* July 1971, pp 1611-2.

8 D S Kothari *et al,* "Education and National Development", (Report of the Education Commission) (New Delhi, National Council of Educational Research and Training, 1970) Vol IV, p 816.

9 See, e g, G Ram Reddy, "Some Aspects of Decision-making in Panchayati Raj", cited in K N Raj, *op cit.*

10 W A Lewis, "Some Aspects of Economic Development" (University of Ghana, 1969), p 50.

11 D R Gadgil, "Planning and Economic Policy in India" (Poona, Gokhale Institute of Politics and Economics, 1962), pp 182-3.

12 P H Appleby, "Public Administration in India" (Cabinet Secretariat, 1953), p 9.

Tax Performance of States

K V Nambiar
M Govinda Rao

While it would be difficult to quantify all the variables affecting the tax performance of governments, some of the major relevant variables, other than national and per capita incomes, such as, degree of urbanisation, extent of incomes originating in the industrial sector, degree of openness of the economy, etc, are capable of quantification either directly or though indirect methods. The choice of the relevant sets of variables would depend on whether one is doing inter-country comparisons or inter-regional comparisons within a country, subject of course to the general constraints of data availability.

In this paper an attempt has been made to evolve an operationally meaningful method of evaluating the tax performance of the states in India.

IN a federal system of government, proper evaluation of the tax performance of the different federating units should be a useful fiscal exercise especially in the formulation of suitable and rational criteria for the transference of resources from the federal to the regional governments. While the general and conventional technique of appraising the tax performance of governments has been on the basis of the variants of ratios of taxes to income,[1] such an approach has been found to be an unsatisfactory index of tax effort since it does not take account of other factors which are believed to affect taxable capacity, such as size distribution of income, sectoral composition of national output, patterns of governmental outlays, extent of urbanisation, degree of monetisation, etc, besides a host of other non-economic factors.

While it would be difficult to make statistical quantification of all the variables affecting the tax performance of governments, some of the major relevant variables, other than national and per capita incomes, such as, degree of urbanisation, extent of incomes originating in the industrial sector, degree of openness of the economy, etc, are capable of quantification either directly or through indirect methods. The choice of the relevant sets of variables would depend on whether one is doing inter-country comparisons or inter-regional comparisons within a country, subject of course to the general constraints of data availability. In this paper an attempt has been made to evolve an operationally meaningful method of evaluating the tax performance of the states in India.[2] Due to data constraints, our analysis has been confined to fifteen states.

METHODOLOGY

We have employed three methods: regression analysis (simple and multiple), measurement of income elasticity and incremental rates of state taxes. In the regression analysis, our dependent variable is the ratio of state's own tax revenues (T) to their net domestic product (Y). Share of Central taxes as well as receipts from inter-state sales taxes which are administered by the Central government have been excluded from the computation of state tax revenues. Our independent variables are per capita income (Yc), degree of urbanisation as measured by the ratio of urban population to total population (U), share of non-agricultural income in total state income (I) and per capita developmental expenditure (E). The period chosen is 1967-68. The ratio of urban population has been assumed to be the same as that revealed by the latest Census.

Since the regression analysis does not give a full idea about the individual performance of states over a period of time, measurement of income elasticity of state taxes and also their incremental rates for the period 1961-62 through 1967-68 has also been attempted. The states have been ranked on the basis of the results obtained under each of the three methods.

TABLE 1: SUMMARY OF REGRESSION RESULTS

	Tax Performance Measured by:	Taxing Capacity Measured by:	
(1)	T/y	= 1.979 + 0.003004 Yc (0.002504)	R^2 = .0997
(2)	T/y	= 2.000133 + 0.084203 U (.02781)*	R^2 = .4135
(3)	T/y	= 3.342121 + 0.012143 E (0.02311)	R^2 = .0208
(4)	T/y	= 1.17387 + 0.0553 I (0.0228)**	R^2 = .0321
(5)	T/y†	= 1.603272 — 0.0004912 Yc (0.002677) + 0.09476 U + 0.01882 E (0.03622)** (0.01900)	R^2 = .4801

* Significant at 1 per cent level.

** Significant at 5 per cent level.

† In the multiple regression, we have not used the variable of income originating from the non-agricultural sector inasmuch as we encountered the problem of multicollinearity with the index of urbanisation as measured by the ratio of urban population to total population. Since the latter was found to have a greater explanatory power, we have used this variable in working out the multiple regression equations. The extent of multicollinearity may be seen from the regression ranking given in Table 2 (columns 2 and 4).

TABLE 2: RANKINGS OF STATES ON THE BASIS OF VARIOUS INDICES OF TAX PERFORMANCE

States	Equations (1)	(2)	(3)	(4)	(5)
Andhra Pradesh	6	7	6	6	4
Assam	7	2	10	8	2
Bihar	14	13	14	14	10
Gujarat	9	11	7	10	12
Jammu and Kashmir	8	12	13	12	15
Kerala	1	1	1	1	1
Madhya Pradesh	11	10	11	11	11
Maharashtra	3	5	3	7	6
Mysore	4	8	4	5	8
Orissa	15	15	15	15	14
Punjab	10	6	5	2	7
Rajasthan	5	4	8	3	5
Tamil Nadu	2	3	2	4	3
Uttar Pradesh	13	9	12	9	9
West Bengal	12	14	9	13	13

REGRESSION ANALYSIS

The simple regression model is based on the least squares estimates of the co-efficients of the general equation given by:

(1) $Y_1 = a_1 + b_1 X_1 + u$

where Y_1 represents the variant of the ratio of tax revenues to state income (T/y) and X_1 the particular variable chosen. b_1 is the co-efficient of the concerned variable, a_1 is the Y intercept and u is the error term. The multiple regression model is based on the following equation:

(2) $Y_2 = a_2 + b_2X_1 + C_2X_2 + d_2X_3 + u$

where Y_2 is the variant of the tax share index (T/y), X_1, X_2, X_3, the different independent variables b_2, c_2, d_2, the values of their co-efficients and u is the error term. Table 1 summarises the results of regression analysis.

It will be evident from Table 1 that the explanatory power of the equation is much higher using the variable of urbanisation (U) as measured by the ratio of urban population to total population. The regression co-efficient is statistically quite significant (.4135) at much above 1 per cent level. This is true to a lesser degree in the case of income originating in the non-agricultural sector (I) used as the variable. Both with per capita income (Yc) and also the per capita level of development expenditures (E) as the variables, we obtain a poor fit. The R^2 in both cases is very insignificant. This contradicts a generally held hypothesis that income (in the sense of national income, and here meaning state income) and developmental expenditure are among the important determinants of tax performance of governments. At any rate, as far as the state governments are concerned, our results do not support such a hypothesis.

The results of the multiple regression analysis only help prove our earlier conclusion that degree of urbanisation is the major determinant of the taxable capacity of states. The β co-efficient value for this variable is superior in the multiple regression (.09476) to that obtained in the simple regression fit (.084203), thereby indicating a more positive slope for the curve. The regression co-efficient of 0.48012 obtained for the multiple regression test also brings out better the explanatory power of the equation. The state rankings that result from using the estimated co-efficients of tax performance are indicated in Table 2.

We may go into the rationale of the rankings after an evaluation of the income elasticities and incremental rates of taxes for individual states.

INCOME ELASTICITY AND INCREMENTAL RATES

The tax performance of states measured by regression analysis may not be a sufficient indicator of the ability and willingness of the different states to raise additional resources as it is likely to miss certain important factors. Moreover, the regression analysis presented above does not enable one to evaluate performance of individual states through a period of time. To get an idea about such factors it may be useful to analyse the income elasticity of the state tax structure and also the incremental rates of tax revenues. The term 'income elasticity' as used here is not in the sense of elasticity of a static function, but as the ratio of the percentage change in revenue to the percentage change in state income during the period 1961-62 to 1967-68. It thus takes into account the effects of both the changes in rate structure and also base structure on the productivity of taxes. Elasticity has been measured using the following equation:

$$\epsilon = \frac{\Delta T}{T} \Big/ \frac{\Delta Y}{Y} = \frac{\Delta T}{T} \cdot \frac{Y}{\Delta Y}$$

where ϵ stands for elasticity, Δ T for change in tax revenues, T for tax revenues in the base year, Y for state income in the base period, and Δ Y for change in state income.

The incremental rate is a more simple measure and relates change in tax revenues to change in incomes $\left(\frac{\Delta T}{\Delta Y}\right)$.

Though the mathematical relationship between the two is very close, the latter measurement has some advantages arising from the freedom of the incremental measure from the relationship to the size of the ratio of tax revenue

TABLE 3: RANKING OF STATES ON THE BASIS OF DIFFERENT PERFORMANCE TESTS

	Regression Rank (1)*	Income Elasticity (per cent)	Rank (2)	Incremental Rate (per cent)	Rank (3)
Andhra Pradesh	4	1.24	7	4.1	7
Assam	2	0.86	12	3.0	11
Bihar	10	0.59	15	1.8	15
Gujarat	12	1.46	5	4.3	5
Jammu and Kashmir	15	2.10	2	4.2	6
Kerala	1	1.56	4	6.8	2
Madhya Pradesh	11	0.99	10	3.0	12
Maharashtra	6	1.61	3	6.0	3
Mysore	8	1.35	6	4.7	4
Orissa	14	0.80	13	1.8	14
Punjab (pre-reorganisation)	7	1.02	9	3.9	9
Rajasthan	5	1.16	8	4.0	8
Tamil Nadu	3	2.29	1	7.6	1
Uttar Pradesh	9	0.91	11	2.8	13
West Bengal	13	0.77	14	3.3	10

* As per column 5, Table 2 above.

TABLE 4 : COMPARATIVE STATE RANKINGS ON THE BASIS OF DIFFERENT TAX PERFORMANCE CRITERIA

Rank	Regression Analysis	Elasticity	Incremental
(1)	Kerala	Tamil Nadu	Tamil Nadu
(2)	Assam	Jammu and Kashmir	Kerala
(3)	Tamil Nadu	Maharashtra	Maharashtra
(4)	Andhra Pradesh	Kerala	Mysore
(5)	Rajasthan	Gujarat	Gujarat
(6)	Maharashtra	Mysore	Jammu and Kashmir
(7)	Punjab	Andhra Pradesh	Andhra Pradesh
(8)	Mysore	Rajasthan	Rajasthan
(9)	Uttar Pradesh	Punjab	Punjab
(10)	Bihar	Madhya Pradesh	West Bengal
(11)	Madhya Pradesh	Uttar Pradesh	Assam
(12)	Gujarat	Assam	Madhya Pradesh
(13)	West Bengal	Orissa	Uttar Pradesh
(14)	Orissa	West Bengal	Orissa
(15)	Jammu and Kashmir	Bihar	Bihar

to state income. The values of the ratios obtained under these two methods and the ranking of states are indicated in Table 3. Col (1) of the Table also indicates the ranking of states on the basis of regression analysis which is based on col (5) of Table 2.

It will be seen that the pattern of states as emerging from our analysis presents an interesting picture. The rankings differ vastly in each case. The ranking on the basis of regression analysis is indicative of the gap between tax effort and the estimated tax potential. Thus, a high ranking in the regression analysis indicates that the particular state has been taxing very near to its potential. The states falling in this category are Kerala, Assam, Tamil Nadu, Andhra Pradesh and Rajasthan. Maharashtra may also be included in this group. However, their rankings on the basis of elasticity and incremental ratios happen to differ. While Kerala, Tamil Nadu and Maharashtra maintain their high positions, which indicate that their performance has been of a high order, and particularly so in the case of Kerala and Tamil Nadu, for Assam, Rajasthan and Andhra Pradesh the rankings are lower. This may be said to imply that their inadequate tax performance has been more due to their inability rather than their unwillingness to tax. The states of Punjab, Mysore, Uttar Pradesh and Bihar would come within the medium rankings on the basis of regression analysis. This would imply that compared with the former group of states, the untaxed potential in these states is more. However, the rates of exploitation in Mysore and Punjab have been much higher than those of Uttar Pradesh and Bihar which obtain low rankings in terms of elasticity and incremental rates. Then, we have an interesting cluster of states comprising of Madhya Pradesh, Orissa, Jammu Kashmir, Gujarat and West Bengal whose low regression rankings indicate a comparatively larger segment of untaxed potential. Between Madhya Pradesh and Orissa, which are relatively speaking less developed states, the performance of the former has been better as indicated by its higher elasticity and incremental ranking. It would, however, be difficult to categorically say whether their low tax effort has been either due to unwillingness or inability to tax. May be, the latter aspect is more relevant. In the case of Gujarat, while the performance of the state in recent years has been of a high order as measured by the elasticity ratio and incremental rate, its tax effort has not been able to sufficiently exploit its estimated tax potential. West Bengal provides the unique case of an industrially advanced state where the segment of untaxed potential would seem to be very high as indicated by its low regression ranking. Perhaps in this case, one could say, in a relative sense, that the state government has not been putting in adequate effort. The states may now be ranked as in Table 4 on the basis of our analysis.

NOTES

1 The US Advisory Commission on Inter-Governmental Relations, "Measures of State and Local Fiscal Capacity and Tax Effort".

2 For a general framework of relative measurement of fiscal performance of states in India, see K V Nambiar, "Fiscal Performance and Capacity of States", *The Economic Times*, August 17 and 18, 1971. While the methodology adopted by us in this paper may be described as a combination of that evolved by Jorgen R Lotz and Elliott R Morss in their paper "Measuring Tax Effort in Developing Countries" IMF Staff Papers, Vol XIV, 1967, and the one employed by Charles Montrie, Kenneth J Fedor and Harlan Davis in their article "Tax Performance within the Framework of the Alliance for Progress: A Comparative Evaluation", *National Tax Journal*, Vol XXIII, No 3, September 1970, we have also tried to introduce some modifications in their approach.

Ceat Tyres of India Limited

Statement of the Chairman, Mr P A Narielwala

THE following is the Statement of the Chairman, Mr P A Narielwala, to the Shareholders of Ceat Tyres of India Limited at the Fourteenth Annual General Meeting held in Bombay on May 18, 1972.

To the Members:

The year 1971 was a momentous year for our country. It was a year of considerable stress and strain on our economy as a result of the influx of nearly ten million refugees from East Pakistan, whom we had to house, feed and provide medical and other facilities. In December, the situation was further aggravated by the unfortunate war thrust upon us by the rulers of Pakistan which resulted in the defeat of Pakistan by our armed forces and the emergence of its eastern wing as an independent sovereign state of Bangla Desh. On the outbreak of war, the Company placed its entire production at the disposal of the Government in the Ministry of Defence. Not only were supplies under special arrangements rushed to the border areas irrespective of cost or inconvenience, but successful attempts were also made to increase the production in the sizes required by the Defence Services. We also donated a sum of Rs 1,25,000/- to the National Defence Fund, through the Prime Minister, for the welfare of jawans. Whilst congratulating our Prime Minister, Mrs Indira Gandhi, for her able and courageous leadership in steering the nation throughout the critical days of 1971, we also salute our armed forces on their brilliant victory over Pakistan.

Since the close of the year, as many as 16 of our States went to the polls last March and in most of these elections, the Congress party was returned to power with large majorities. This success is a mark of the confidence and trust our people have reposed in the Prime Minister. It is as much a personal triumph for her as it is a vote of the people to provide themselves with stable governments in their respective States.

SIGNIFICANT YEAR FOR COMPANY

For your Company, the year 1971 was also a significant year. Our expansion programme was completed in early July, somewhat ahead of my own anticipation, and before any of the other tyre companies had completed theirs; the additional plant and equipment went into production without any significant teething troubles; and we received full co-operation from labour and all other employees in the completion of the expansion and in our operations. The result has been a substantial improvement in the Company's output of automotive tyres, from 4,83,544 units in 1969 to 7,24,265 units in 1971 (the figure for 1970 was only 3,70,410 units due to the strike), and a handsome growth in its profits as the shareholders must have noticed from the Directors' Report and the Profit and Loss Account for the year 1971.

Your Board has fulfilled its pledge to the Shareholders that they would share in the Company's prosperity and it has accordingly recommended for your approval a higher dividend of Rs 15/- per share — an increase of 36 per cent above the dividend of Rs 11/- per share distributed in each of the years 1969 and 1970. The Company will be distributing a sum of Rs 45,54,000 to the shareholders by way of dividends as compared with Rs 33,39,600 disbursed in the previous two years.

With the plant continuing to run at more than its full capacity during the first four months of the current year, and a ready off take of the entire output, the shareholders may look forward to another successful and profitable year. With the constant stress that management has laid on the maintenance of quality control at every stage of production, your Company's products continue to enjoy a ready market both domestically and abroad.

BICYCLE TYRE PLANT

As mentioned in the Directors' Report, our Bicycle Tyre plant at Nasik will be ready to go into production during the second half of the current year. The civil construction work is expected to be completed before the onset of the rains. Machinery for the plant including the imported items are already at the site. If the quality of the tyres coming out from trial production is up to our satisfaction, "CEAT" bicycle tyres will be in the market during the last quarter of the year.

RAW MATERIAL SUPPLIES

Supplies of natural rubber were available during the year freely, but the rubber growers in Kerala have been bringing considerable pressure upon the Government of India to compel the automotive tyre industry to carry a larger inventory of rubber than is warranted for its requirements. Some surplus stocks had accumulated on account of reduced off take by some of the units in the industry which have suffered or continue to suffer from a drop in their tyre production from prolonged strikes and slow downs. We are of course co-operating with Government in carrying 3½ months stocks of rubber but a large inventory inevitably puts a burden on our financial resources.

The supplies of other raw materials are on the whole adequate, but the tendency on the part of the suppliers to resort to unilateral increases in prices is a matter of concern to us. We are unable to pass on to the consumers the increase in the direct material costs of our products, as the selling prices of tyres are regulated by Government and cannot be altered without consultation with them. The industry has on several occasions drawn the attention of Government, but there has been no response. We have recently seen newspaper reports that the Government of India has decided to enforce the three year old recommendation of the Tariff Commission that the rayon tyre cord manufacturers should reduce their prices, but no official communication has been received by the Tyre Industry.

EXPORTS

The exports of tyres in 1971 were a record for the automotive tyre industry amounting to Rs 706 lakhs. Your Company's exports amounted to Rs 209 lakhs. The Company has more than fulfilled the guarantee given by it to Government of exporting 10 per cent of its total production.

Although the performance of the Industry in exports is commendable, it is necessary to sound a note of caution that it may no longer be possible for the industry to maintain this tempo of progressively higher exports. This is because most of the developing countries to which we export, are establish-

ing their own tyre plants and which would lead to a reduction in the exports and secondly, because of the changes which the Government of India brings about in its export policy. From many forums and on many occasions the exporters have urged Government to follow a stable export policy and if a change is desired by Government it should have prior consultation with the exporters or the industry as the case may be. Unfortunately this advice is not heeded and when a sudden change is brought about, it only leads to disruption in exports and hardship to the exporters.

Duty Drawback

Recently Government has chosen to drastically reduce the duty drawback on nylon tyres with retrospective effect from 1st January 1972. The industry's commitments and contracts for exports are made months in advance and as the change in duty drawback was imposed without any prior consultation with the industry, the exports which have been so assiduously built up over the past few years are likely to be affected during the current year. The industry has made a suitable representation to Government against this change and has called for a review of Government's policy.

Furthermore, in the new import policy for 1972-73 announced recently, the import entitlement for nylon cord has been substantially cut, we believe, as a result of the representation of two indigenous manufacturers who have recently gone into production of nylon tyre yarn and cord. These manufacturers have claimed that they have the capacity to cater to the entire demand for nylon cord of the tyre industry. Whilst we welcome the establishment of this new industry in India, for which we have been pleading for the last few years, we doubt whether the two producers can meet the industry's needs. At present, the quality of only one manufacturer has come up to the tyre manufacturers' satisfaction after many trials and assistance from the tyre industry. The other manufacturer is still in a trial stage of production and his samples of cord have so far been found to be below the quality standards of the industry. It will be therefore hazardous for the tyre industry to depend on its requirements of nylon cord on only one manufacturer. As more than 80 per cent of the exports from India are of nylon tyres, the reduction in import entitlement of nylon cord might also lead to a further fall in the exports of tyres in the current year.

I had referred, last year, to the large number of Letters of Intent issued by the Government of India to State Industrial Development Corporations for setting up new automotive tyre factories in the country. I had expressed a fear that many of them might not fructify into industrial licences. Our fears have turned out to be true as only one letter of intent has been converted into an industrial licence so far. We do not see any tangible steps taken by the other parties to obtain industrial licences.

Whilst the present licensed capacity in the automotive tyre industry is about 5.2 million units, the capacity installed at the end of 1971 was for only about 4.8 million units. The production during 1971 reached 4.64 million units, an increase of 620,000 units over the production of 1970. Assuming that the full licensed capacity will be installed during the current year and some of the units which suffered in their production last year from labour troubles, power cuts, etc, would be able to utilise their capacities better, the production of tyres in 1972 is estimated to reach 5.5 million units. We therefore do not anticipate any shortage of tyres during the current year except in few truck tyre sizes. But the shortage is likely to arise in 1973 and will be felt more strongly in 1974, unless steps are taken to licence additional capacities.

New Tyre Factory

Our own application submitted to Government, last September, for a licence to establish a new automotive tyre factory for producing 400,000 tyres per annum in an underdeveloped area of one of the States, is still under Government's consideration. We live in hopes that it will be favourably viewed and a licence will be issued to us at an early date. As it takes anything between 24 and 30 months to install a new plant and put it into production, there is not much time left for Government to come to a decision and permit the existing units to expand and/or license new units.

At the Extraordinary General Meeting of the Company held in November last, there was a note of pessimism amongst some of the shareholders about the likelihood of a glut in the production of automotive tyres in the country and a caution to the Board about venturing into further expansion of our capacity. I had then assured the shareholders that the demand for tyres would continue to grow both in the domestic and export markets. We are also of the view that a small surplus in the licensed capacity of the industry is desirable as it will serve as a safeguard and a cushion against plant stoppages and a recurrence of shortages. If our application for a new factory is approved by Government, I can assure the shareholders that we will take urgent steps to proceed with its erection and to go into production as soon as possible to meet the growing demands of defence, road transport organisations, OE users and our other valued customers for our products.

Generous Support

The results of 1971 bear ample testimony to the confidence your directors have always had in the future of your Company. I am glad to report that our offer of 30,360 new right shares to the Indian shareholders at a premium of Rs 100/- per share was oversubscribed and we received application moneys for Rs 66.44 lakhs. We are grateful to all our shareholders for this generous support. I must however express my regrets for the delay that has taken place in completing the allotment of the new shares. This has been due to factors beyond our control; because of a prolonged strike in one of the banks in Andhra Pradesh, we could not receive from our bankers all the application forms for the new shares in time. It is only this month that we have received the final bank statements, and have taken in hand the work of completing the allotment. In the course of the next few days, the shareholders will receive their share certificates for the shares applied for by them together with the cheques for the refund of moneys received in excess of the shares available with the Company for allotment.

Before I conclude, I would like to convey on your behalf and on behalf of the Board, our appreciation to our employees at all levels for their hard work during the year under review, in completing the erection of the new plant and helping us to produce these excellent results. To our network of dealers and customers throughout the country as also to our distributors abroad, we offer our thanks for their continued and unstinted support to our products. The Board has also placed on record its warm appreciation to our Managing Director, Dr A Tealdo, whose untiring efforts have contributed in no small measure to the success of the Company's operations and to its progress from year to year. I am sure you would wish to join the Board in conveying your thanks to Dr Tealdo for his valuable services to the Company.

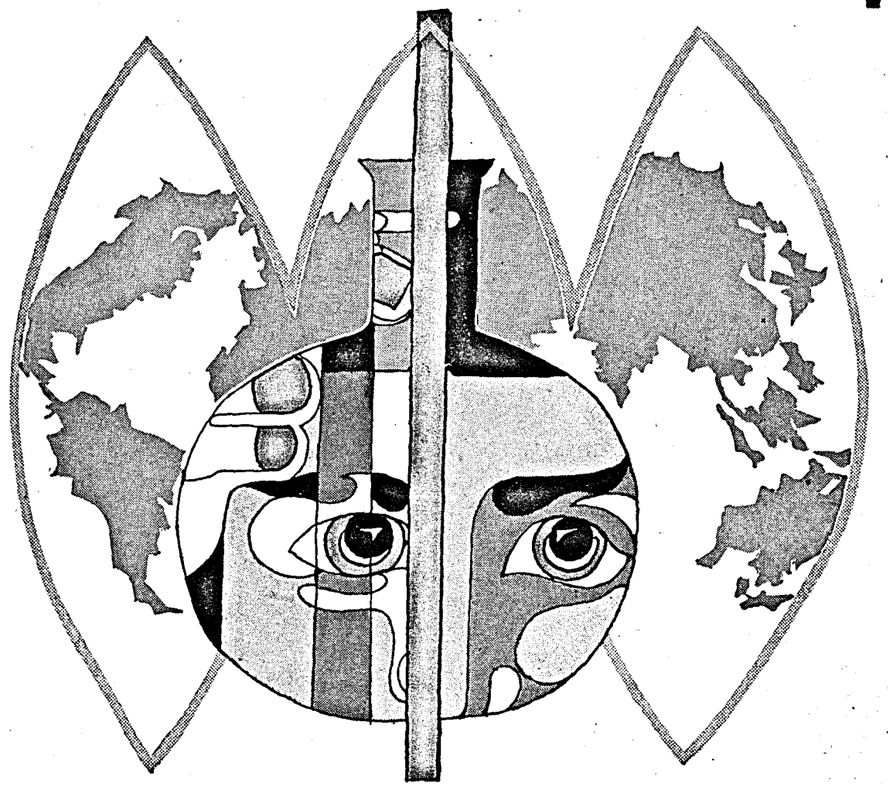
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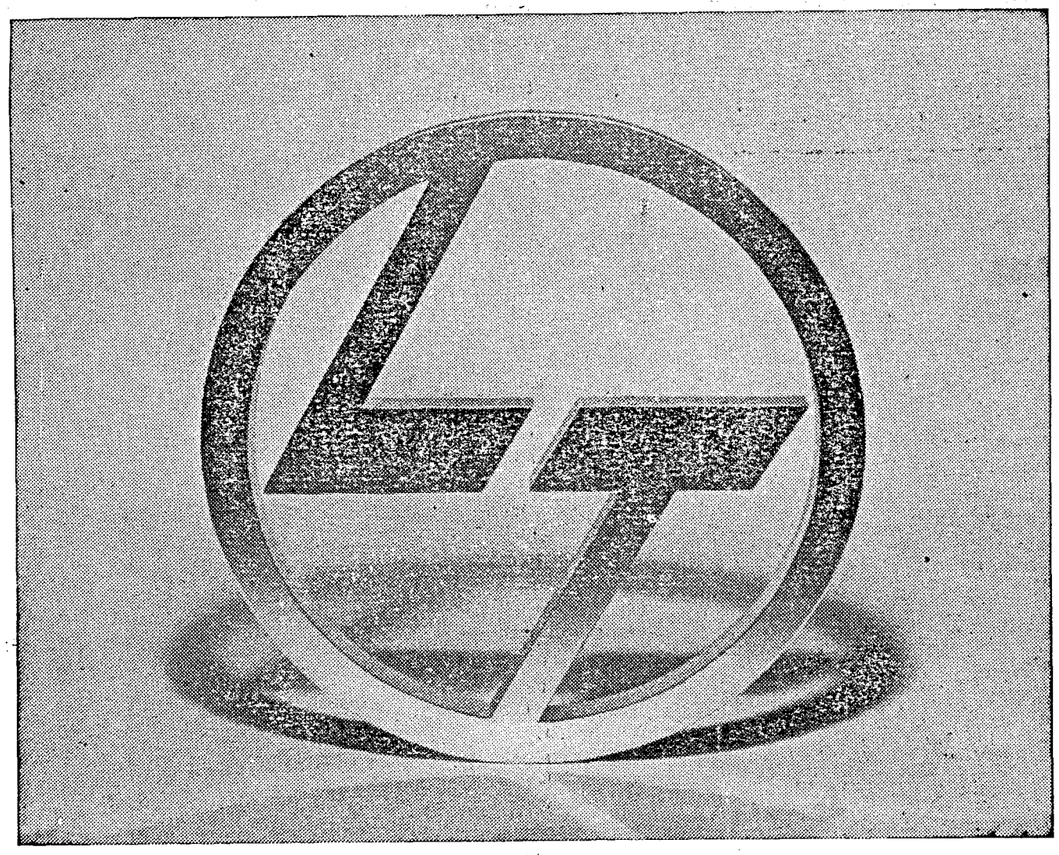
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Phones 266072, 260566, 260192

Editor
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Assistant Editors
Rajani X Desai, Jawid Laiq
Business Manager: A Fernandes
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The Apple-Cart

SO OFTEN was it said that in Vietnam the Americans and the Russians were fighting a war by proxy. This theory should now finally be put to rest with the publication of the Soviet-American communique at the end of Nixon's visit to the USSR. In it the two sides mention their respective positions on Vietnam, and at the same time state that the Vietnamese must be left alone to decide their destiny. The Russians calls for an immediate cessation of the bombing of North Vietnam and the unequivocal withdrawal of all American and allied forces from the south; the Americans re-affirm their call for the release of prisoners-of-war, an internationally-supervised cease-fire and a subsequent withdrawal of American troops within four months. But Vietnam appears to be rather a troublesome footnote to the otherwise excellent state of *rapport*, if not bliss, between the two powers. There is not even a polite divergence of world-views as there was in the separate statements issued by the Chinese and the Americans at the end of Nixon's visit to China. The rest of the Soviet-American communique and the complementary joint declaration shows a remarkable convergence of views on almost everything on earth and in space. There is little reason to think that behind this similarity of views there might be a serious difference of interests.

And what could be more symptomatic of their joint power interests than their symbolic limitation of strategic arms — which does not even pretend to limit the destructive power of their nuclear armoury but merely stipulates a numerical and therefore largely meaningless limit to the inter-continental ballistic missiles and ballistic missile carrying submarines that the two sides can possess. Although this agreement is meaningless in terms of the curbing of destructive capability, it acquires great significance if it is regarded in terms of establishing the confidence of each side in the strategic and political intentions of the other. In nuclear strategic terms the two sides have, through the agreement, ensured that each believes in the retaliatory power of the other and so each can assume that the other will not make a first strike against it. Thus by agreeing to the continued good health of each other's nuclear armouries the two have not only insured themselves against a security threat from each other, but have also tacitly agreed that they have also very little to fear from each other in the political-ideological field.

More pertinently for other countries, especially in Afrasia and Latin America, Nixon stated in his broadcast from Moscow to the Soviet people that the two major powers must ensure that small countries do not drag them into dangerous confrontations with each other. The logical corollary to this form of reasoning is either that the two countries should jointly dominate smaller nations or that they should quietly divide the small countries of the world into their respective spheres of interest. Or, perhaps, a judicious mix of the two would be wisest. This, of course, assumes that other major potential centres of military-economic power, *viz*, Peking, Tokyo, Brussels, and also some minor, but zealously independent, centres like Hanoi would allow themselves to be manipulated by a Moscow-Washington or even a foreseeable Moscow-Washington-Peking axis. It also assumes that the basic identity of interests between the United States and the Soviet Union will hold, whatever the internal political changes within the two countries. Recently, there have been some indications that the Brezhnev-Kosygin team's overtures to the Americans are not completely welcome to Defence Minister Grechko, security chief Andropov and former security chief Shelepin, who is also known to be an articulate party theoretician.

Despite all these doubts, the power position of the two countries which is undisputed as yet — though Peking is not too far behind — warrants a joint, and when necessary a jointly domineering, approach towards 'troublesome' small powers. But the apple-cart could be easily upset by any small upstart which might be willing to take much greater political-military risks because it does not have as much to lose as the obese giants.

Foreign Trade

Proliferation of Agencies

THE latest annual report of the Ministry of Foreign Trade begins defensively with a narration of "some important adverse factors beyond control" that are said to have affected export performance. In spite of the uncertainties on the international monetary scene, and the shortfalls in supplies of iron and steel and raw cotton, which are mentioned as the prominent adverse factors, exports from the country, it is claimed, fared much better during the year than in any of the post-1966 devaluation years. Unfortunately, the Ministry's figures fail to substantiate this claim — simply because the Ministry still wants to cling to its statistically inflated export figure for 1970!

The report lays stress on "a certain degree of continuity and stability" in policies so as to provide an environment conducive to growth of exports. The claim is repeated that industrial licensing policy and import policy continued to accord high priority to expansion of export-oriented production. At the same time, the import policy for 1971-72 was designed to save imports, encourage import substitution and to promote exports. There is much attachment to 'canalisation' of imports and exports through public sector agencies, though the claim that 70 per cent of imports are being canalised through the public sector appears to be exaggerated. The enthusiasm for expanding the public sector's role in exports is to be seen in the decision to canalise exports of mica through the MMTC, notwithstanding its poor performance in exporting iron ore. The Project and Equipment Corporation was registered as a wholly-owned subsidiary of the STC to promote exports of sophisticated engineering and railway equipment and also for undertaking complete turn-key projects abroad. The Tea Trading Corporation was set up a few months ago to market tea in packs as well as blended instant and green tea in India and abroad. In view of the keen competition at home and abroad and the importance of brand names and the established channels of distribution, the Tea Corporation's task can only be described as uphill — and that too with considerable optimism. The government has also expressed an interest in canalising exports of textiles. In view of government's obvious anxiety to increase the number of public sector agencies to handle foreign trade the question needs to be asked whether it has carefully considered the organisational and functional aspects of these agencies.

About the STC, the Ministry's report claims that it "has continued to play a pivotal role in diversification of India's export trade, affecting exports to the existing markets, exploring new areas, maintaining exports of traditional items, promoting long-term exports of new items and generally assisting the private trade to export difficult-to-sell items" (p 120). It is curious that this catalogue of the STC's activities should make no mention at all of its import operations, though during January-October 1971 imports accounted for nearly 70 per cent of its total business. As regards the MMTC, of the estimated turnover of Rs 280 crores during 1971-72 imports are estimated to be nearly two-thirds. Even as regards the Projects and Equipment Corporation, imports constituted nearly two-thirds of total turnover. It needs to be explained why all these public sector agencies are burdened with import activities if their primary responsibility is to promote exports. One explanation for assigning both export and import (and in respect of the STC even domestic trading) activities to public sector agencies appears to be that this enables them to offset their losses on exports with profits on sale of imported items. However, from the point of view of efficiency and motivation for minimising losses on exports it would be better perhaps to have separate state agencies for imports and exports. The losses on exports would then be clearly seen as will be the profits earned on imports.

The Ministry's report is silent on the follow-up measures that were supposed to be taken in persuance of the Export Policy Resolution presented to Lok Sabha on July 30, 1970. The Trade Development Authority set up to promote exports of a selected range of products by identifying competent production units and offering them a package of services is the single important development in export promotion during the last few years. But in spite of its ambitious objectives it is unlikely to make more than a marginal contribution to growth of exports. The other development worthy of attention is the setting up of working groups to draw up export production plans in respect of items having reasonable export potential. There are 10 such working groups which are expected to identify products with export potential, review existing capacity and production, estimate internal and foreign demand, etc. None of these has, however, submitted its report so far.

The Ministry's report takes credit for sundry reforms in many fields like minimising administrative delays in the payment of cash subsidies and duty drawbacks and efforts to make readily available indigenous as well as imported raw materials on a limited scale. It also talks of the government's efforts in the field of publicity and dissemination of what it considers to be useful information, training of personnel and sending and receiving of delegations. What impact these activities have had on promotion of exports is nowhere assessed.

It is interesting that in an important economic ministry such as the Ministry of Foreign Trade, the need for setting up a Policy Planning and Co-ordination Division to handle "work relating to export policies, export planning, co-ordination, technical assistance, management services for export, state trading and barter deals and overseas investments by Indian entrepreneurs" was felt only last year. The new division, according to the report, has been given an important role to play in the evolution of policies and their periodic evaluation and review and in maintaining co-ordination and contact with other divisions as well as other organisations which have been set up under the Ministry of Foreign Trade to assist export promotion. All this work the new division is supposed to do with a staff composed of an Economic Adviser, a Deputy Economic Adviser and two Research Officers and a small subordinate staff!

On account of printing problems, publication of this issue has been delayed. This is regreted.
— *Ed.*

Britain and Rhodesia

Muddling Back

MYOPIA or the inability to see much beyond one's nose has been a common ailment among the colonial powers and the colonist residue lording it over the natives in the colonies. Part of this lack of perception shows up in their constant underestimation of the degree of nationalist fervour in African or Asian countries. The constitutional settlement which was envisaged for Rhodesia by the British in consort with Smith's little coterie of white men, conceded the likelihood of a parity of African seats with the number of European seats in the lower house of the Rhodesian legislature in about 30 to 50 years, qualified by a liberal sprinkling of ifs and buts. The proposed settlement also conceded the possibility of African rule at some remote, indeterminate date. In fact, the fruition of these concessions admitting the existence of a majority African population were to be totally dependent on the goodwill of an avowedly white racist regime. And to top it all — this speaks volumes for the rather stupid racial arrogance of the British as well as their kith and kin in Rhodesia — the Africans were expected to be politically docile and naive enough to accept such vague eventualities.

Not surprisingly, there was a violent African reaction against these proposals when a commission 'to assess' their acceptability visited Rhodesia earlier this year. But it was still hoped the commission would provide a conveniently equivocal answer and allow the British Government enough leeway to wash its hands off the whole bothersome Rhodesian affair, including the trade sanctions.

The commission has now given a clear verdict stating that most Rhodesian Africans and, therefore, the majority of Rhodesians regard the terms of the proposed settlement as unacceptable. The Tory Government in Britain has found itself with no alternative but to accept the verdict and to shelve temporarily any thoughts of legally recognising Rhodesia as a sovereign state. Sanctions are, also, to be continued. The pro-Smith diehard caucus in the British parliament consists of only about 30 Conservative MPs, a number of whom have also been against British entry into the Common Market and have come under increasing fire from their own party for disloyalty and indiscipline. They are unlikely now to risk further party opprobrium on the Rhodesia issue. This means that the Tory Government will not find it difficult to maintain the *status quo*, i e, abide by the myth that Rhodesia is still a British colony and continue the half-hearted sanctions. This will not be done for any moralistic reasons, but because there are some fears that some African countries, particularly Nigeria, to which Britain exports much more than it ever could to Rhodesia, might take a dim view of Britain's withdrawal of sanctions. And in any case, British exports to Rhodesia can always be routed through South Africa, so as to avoid the embargo.

Bangladesh

Government by Patronage

A Correspondent writes :

FOR some people, the fruits of liberation have not been long in coming. In his May Day broadcast to the nation, in which he reiterated his determination to lead the country to socialism, Sheikh Mujibur Rahman announced a pay rise for government servants which would cost the government 30 to 35 crore takas annually. He also announced the abolition of land revenue on holdings upto 25 *bighas*. All arrears of land revenue on these holdings are also to be written off. This decision is estimated to cost the government 70 crore takas a year.

The immediate question that arises is about the wisdom of the government, faced with the urgent tasks of rehabilitation and reconstruction, permitting such large-scale erosion of its revenues. Among the first acts of the government after liberation was the constitution of a planning commission consisting of economists and others with impeccable credentials. But so far the commission's existence appears to have been largely symbolic. Apart from the Sheikh's May Day announcements, this is confirmed also by other circumstantial evidence such as, for instance, the painfully slow rehabilitation of the transportation system and the continuing absence of satisfactory arrangements for running many of the jute and textile mills and other industrial units abandoned by their former West Pakistani owners. The disorganisation of currency and finance also persists, hindering both internal and external commerce. And there are few signs of a public distribution system for the basic necessities of life in short supply.

Even if the case for affording relief to certain sections of the people at the expense of the exchequer is conceded, it is not at all clear that those picked by the government for favourable attention are the most deserving. It is true that the salary increases to government servants have for the present been limited to those drawing upto 335 takas per month. Also, in real terms the benefit of the increases has been more than wiped off by the rise in prices since the liberation. Similarly, the remission of land revenue, it may be said, will benefit the more modest land-holders. But the special attention paid to government servants and land-holders has to be judged in the context of the government's increasing reluctance to talk about what, if anything, is being done to rehabilitate those uprooted during the liberation struggle, including the many who had fled to India.

In the circumstances, it is difficult not to see the pay hike for government employees and the remission of land revenue as part of the pork-barreling, the most outstanding example of which so far perhaps is the import policy announced last month. The policy is tailor-made for distributing official patronage through the Awami League. An arbitrary limit of 20,000 takas has been placed on single import licences and it has been decreed that at least 10 persons from every thana would be given licences. And to be eligible, applicants for licences have to get certificates of good conduct from the local member of the Constituent Assembly, who is an Awami Leaguer in almost every case!

The preoccupation with dispensation of political patronage is a sign of the government's failure to get down to the tasks of reconstruction and development; it also reflects growing political nervousness which does not at first sight square with the Awami League's monopoly of power in the country and Mujib's monopoly of it within the League. However, both monopolies are rather less solid than they appear. The urban middle class at any rate is becoming aware, and critical, of the regime of corruption and favouritism ushered in by the Awami League as well as of the factionalism within the League. The League's youth wing, the Chhatra League, was openly split on the eve of the recent elections to the Dacca University students' union in which it was soundly trounced by the pro-Moscow National Awami Party. As for Mujib, his place as the father of the nation seems secure enough, but his performance as the head of the government is increasingly coming in for questioning. Mujib himself is not unaware of these developments; the shrillness of his recent attacks on the 'enemies of the people' allegedly conspiring to subvert the independence of the country bears testimony to this.

The National Awami Party of Muzzafar Ahmed is seeking to exploit the dissatisfaction with the Awami League to present itself, if not as an alternative, at least as a force capable of providing the much-needed stuffing to the political system. The party's strategy is to give full-throated support to Sheikh Mujib and his "socialist" policies, but to call attention at the same time to the corruption and the other failings of the Awami League and the administration and to emphasise how these heighten the danger of subversion by "Left extremists and communalists". By implication the NAP projects Sheikh Mujib as a supra-party national leader — an image which it helped to promote by persuading him to address the inaugural session of its national conference on the 19th of this month. Without asking for a place in the government for the party, the national conference issued a call for "joint political action" by the "progressive" section of the Awami League, the pro-Moscow Communist Party of Bangladesh and itself.

Political Prisoners

Is the Fig-Leaf Showing ?

THE Minister in the Ministry of Home Affairs disclosed in reply to a question in the Rajya Sabha the other day that upto the end of April this year 4,666 persons had been detained under the Maintenance of Internal Security Act. The Act came into force on July 2, 1971, replacing the Maintenance of Internal Security Ordinance promulgated two months earlier. It empowers the Central and state governments to detain without trial or recourse to the normal legal processes any person with a view to preventing him from acting in a manner prejudicial to the security of the country. The maximum period for which a person may be detained is 12 months, but the period can be stretched indefinitely by the government issuing fresh detention orders.

The Minister's reply included a table which is interesting enough to bear reproduction here, The table suggests that of the 4,666 persons detained, 1,619 had been released till April 30, 1972, leaving 3,047 persons still in detention on that date. These figures, it is important to remember, do not cover Jammu and Kashmir which has its own preventive detention law and to which the Maintenance of Internal Security Act does not extend. As expected, West Bengal accounts for the bulk of the detentions, though Gujarat's 286 does come as a surprise.

Name of State/Union Territory	No of Persons, Detained upto 30.4.1972	No of Persons among Them with Known Political Affiliation	No of Detenus since Released
Andhra Pradesh	40	22 Naxalites and other extremists	40
		6 Majlis-e-Ittehadul Muslimeen	
		3 Jamaat-e-Islami	
		3 Tameer-e-Millat	
Assam	123	13 Naxalites and other extremists	26
Bihar	22	10 Naxalites and other extremists	14
Gujarat	286	Information is being obtained	286
Haryana	8	1 Naxalite/Extremist	8
Kerala	32	19 Naxalites and other extremists	24
		2 Jamaat-e-Islami	
Mysore		3 Jamaat-e-Islami	24
Maharashtra	31	Information is being obtained	28
Manipur	5	1 Jamait-e-Ulema-e-Hind	4
Madhya Pradesh	9	—	8
Orissa	1	1 Naxalite/Extremist	—
Punjab	103	Information is being obtained	51
Rajasthan	64	Information is being obtained	52
Tamil Nadu	4	Information is being obtained	4
Uttar Pradesh	6	2 Republican Party of India	
		Information is being obtained	
West Bengal	3829	Information is being obtained	1001
Arunachal Pradesh	1	—	—
Chandigarh	1	—	1
Goa, Daman and Diu	1	—	1
Mizoram	1	—	—
Delhi	47	1 Jamait-e-Ulema (dissident group)	47
		13 Jamaat-e-Islami	
		1 Anjuman-e-Ahmediya	
		18 Naxalites and other extremists	

Two significant facts emerge from the table. First, of those detainees whose "political affiliations" were ascertained, almost all were identified either as "Naxalites and other extremists" or as belonging to Muslim organisations like the Jamaat-e-Islami. Indeed, of the 119 detainees information about whose political affiliation was given by the Minister, 117 belonged to these two categories — 84 were classified as Naxalites and other extremists and 33 as belonging to various Muslim organisations. Surely, this is suggestive of where, in the government's view, lie the major sources of threat to the country's security?

Second, and even more significant, is the fact that out of the 4,666 persons detained without trial, the Minister could give information about the political affiliations of only 119. This is truly amazing, if one considers that action under the Maintenance of Internal Security Act would be taken essentially on the basis of the political affiliations of the individual concerned. One would thus expect that the government would have a pretty good idea of a detainee's political affiliations before it decides to incarcerate him. And yet the Union Home Ministry appears to be aware of the political affiliations of only 119 of the 4,666 persons whom the Central and state governments had thought fit to detain without trial in the interests of the security of the country, in respect of as many as 4,317 of the remaining, information was still being "obtained"!

It would be altogether too complacent to assume that this reflects no more than bureaucratic sloth. As it is, the individual is practically defenceless against the government's actions under the Maintenance of Internal Security Act. The framers of the law did try to clothe it in a fig-leaf of decency by providing, first, that the reasons for detention had to be communicated to the detainee within 15 days of his detention and, second, that every detention order had to be reviewed by an advisory board which would send its report to the government within 10 weeks of the date of detention. The Minister's inability to provide information about the political affiliations of all but a very small number of those detained raises serious doubts about how far even such tenuous concessions to legality as are incorporated in the Maintenance of Internal Security Act are operative in practice.

Power

Patratu Debacle

N K Singh writes :

FOR the last one and a half months Bihar is in the grip of a severe power crisis. The power station at Patratu, which caters to the needs of the Chotanagpur industrial belt, and the one at Barauni, which serves the equally important region of north Bihar where a green revolution is in full swing, are generating only 110 MW of power between them. The Patratu power station, with an installed capacity of 400 MW, is generating only 44 MW and the Barauni plant is generating 66 MW out of its capacity of 145 MW.

The Bihar State Electricity Board has, since its inception, lost about Rs 40 crores, even though electricity tariffs in Bihar are among the highest in the country. While the BSEB gets electricity from the Damodar Valley Corporation at 2 paisa per unit, it supplies power to its consumers at 35 paisa per unit. Repeated allegations have been made in the state legislature and outside that the Board is bristling with both inefficient and corrupt officers. But, thanks to the high-level support that such elements enjoy, no action has been taken against them.

The crisis at the Barauni thermal power station is not as serious as that at Patratu which is operating at 11 per cent of capacity. The debacle at Patratu has severely hit the production programme of industries in Chotanagpur region where are located some key industrial units like Heavy Engineering Corporation, National Coal Development Corporation, Tata Iron and Steel and Bokaro.

Besides highlighting the gross inefficiency of the BSEB, Patratu is also a reflection of our over-reliance on foreign collaboration. This is not the first time that the plant has failed to ensure uninterrupted power supply. The investment of Rs 60 crores made so far on this gigantic project has not yielded supply of even 100 MW of power uninterruptedly for a few months. The original project report, prepared after an agreement with the Soviet Union in 1962, had envisaged the installation of the 400 MW capacity by 1967. But there has been a delay of at least five years in the commissioning of the plant's full capacity and in the process the cost of the project has gone up by nearly Rs 12 crores.

The Patratu power station consists of four units of 50 MW each and two units of 100 MW each. The four 50 MW units were commissioned between 1966 and 1970; one of the 100 MW units went on stream in June 1971 and the other 100 MW units only in May this year. Many factors contributed to the delay. The Ranchor Committee, appointed to go into the working of the Bihar State Electricity Board, had exposed the gross mismanagement at almost every stage of the planning and execution of the project. At the very start, a number of components from Russia were received in "semi-finished condition and required a good deal of machining and matching". As a result, many flaws cropped up. It was pointed out by the Committee that no arrangement had been made by the government for inspection of the equipment during manufacture. Nor was there a cell at the project site for "proper planning, evaluation and quality control". And there were far too many contractors who "often fell out with each other causing dislocation of work". To make matters worse, "the contractors had very few skilled technicians with experience of turbine work".

Two of the four 50 MW units got damaged as a result of a series of accidents and breakdowns in April this year. Once other 50 MW unit had been shut down for "capital maintenance" and the 100 MW unit was shut on May 2 owing to slag formation in its second boiler. The other 100 MW unit was commissioned on May 3 but it had to be closed down after just three days. At the moment of writing only one 50 MW unit is working, generating 44 MW of power.

According to the Chief Engineer of the plant, non-availability of spare parts from the Soviet Union is one of the main reasons behind the trouble. But what ails Patratu most is lack of coordination and understanding among those who control its destiny. Some top executives of the State Electricity Board and of the Patratu power plant are not getting on well together and the working of the project has suffered on this account. A no less important cause of the frequent breakdowns is the lack of skilled operating staff. The BSEB had spent several lakhs of rupees on sending some 50 engineers abroad for training in the operation of thermal power plants, but not even half of them have been posted for manning the station. Even the Chief Engineer is a novice. No wonder, an SOS had to be sent for Russian experts when the four generating units broke down in quick succession.

Talepiece: The boilers of Patratu station are so designed that they can burn low grade coal with high ash content and also coal washery byproduct. The site of the station was itself selected because of its proximity to the coal-bearing belt of South Karanpara which abounds in low grade coal. Paradoxically, one of the causes of the recurrent power crisis has been the failure of the BSEB to feed Patratu with low grade coal!

Tyres

Task for NCST

PRODUCTION of automotive tyres expanded threefold between 1960 and 1971. And yet the industry's central problem remains to be squarely faced. The problem is that of technology. Of the seven companies in the industry, all have foreign technical collaboration and all but one have financial collaboration as well. (The exception is Inchek Tyres, set up with Czechoslovak collaboration.) Though production of tyres in the country started way back in 1936 and despite the manifold expansion of output in the last decade, the tyre industry remains completely tied to imported technology.

Over the last few years the government has issued expansion licences to six existing units and to as many as 10 new parties, including the Industrial Development Corporations of Punjab, Gujarat, Andhra, Tamil Nadu and Orissa. Only one solitary license out of the 10 issued to new parties has been taken up for implementation. And, sure enough, this is being done with foreign technical collaboration! The unit in question is being put up by the Modis at Modipuram in collaboration with a West German firm. The large number of idle tyre licences bear testimony to the government's casual approach to industrial planning. It was not vidently realised at the time that handing out licences to new parties would achieve nothing unless some action was taken simultaneously in regard to the problem of technology.

Once the unimplemented tyre licences began to be an eye-sore and became the subject of criticism, govern ment spokesmen have been making desultory statements about "purchasing" technology for making tyres and tubes. In a statement in the Lok Sabha two months ago, the Minister for Industrial Development announced that the government had decided to set up a centralised agency to purchase foreign knowhow for tyre manufacture and make it available to units in the country. What has happened to the idea? Like so many so-called 'decisions' of the government, has it been quietly forgotten—once the purpose of satisfying some inquisitive Member of Parliament was served? If the National Commission on Science and Technology is seriously looking for gainful employment, here is a matter for it to give immediate attention to.

Or else the experience of the last few years is certain to be repeated. WWith all the recent exapansion in capacity and the licences under implemention, the chairman of Ceat Tyres anticipates a general tyre shortage to re-emerge next year (for text of speech, see May 20, pp 1039-40). The timing may be off by a year or so but the prognostication is otherwise valid. In fact Ceat Tyres, having completed the first round of expansion with admirable despatch, has applied for licence to set up a new 4 lakh tyres unit. No doubt those of the other existing producers who have not already done so, may be expected to do the same. And unless the government can find an answer to the problem of making available the technology to prospective new entrants into the industry, worsening shortages, a booming black-market and public criticism will once again force the issue — as happened three years ago.

Company Affairs

Unbecoming Reticence

OF all the Union Ministries, the Ministry of Company Affairs — which from August 1970 has been given a status independent of the Ministry of Industrial Development — appears to be the most reticent about its working, judging from its skimpy Annual Report of barely 35 pages. Of the three most important pieces of legislation regulating business activity, *viz*, Industrial Licensing, Company Law and the MRTP Act, administration of the last two is the responsibility of the Company Affairs Ministry. Of these, the working of the two year-old MRTP Act has generated much controversy, a lot of it because the Ministry has been unnecessarily reticent about the manner in which it is administered. Even Company Law needs some important modifications to regulate changing corporate practices as well as to make it effectively serve the broader social objectives of regulation of corporate activities. One would, therefore, have expected the Annual Report of the Company Affairs Ministry to give a more detailed resume of the problems faced in the administration of these two acts and the measures proposed to be taken to tackle these problems.

As regards the administration of the MRTP Act, the Ministry seems to have made up its mind to give the minimum possible information. The government, it needs to be remembered, has also not published the MRTP Commission's reports on cases referred to it or even a summary of them. Perhaps the reason is that the Ministry has yet not evolved definite procedures and decision-making criteria for exercising its powers under the Act. By way of information on the MRTP Act all that the Annual Report gives is the following :

(i) After the enforcement of the MRTP Act, 828 companies have been registered under Section 26 which requires compulsory registration of undertakings which by themselves or together with interconnected undertakings have assets worth at least Rs 20 crores or which are dominant undertakings with assets worth at least Rs 1 crore.

(ii) 7,050 trade agreements have been registered under section 35 which requires compulsory registration of restrictive trade agreements falling within section 33.

(iii) As regards the administration of anti-concentration provisions requiring prior government approval of substantial expansions, new units and mergers/takeovers, what the annual report reveals is summarised in the Table. The information reveals nothing about how many applications were referred to the MRTP Commission for investigation and advice, how many of those referred were approved or rejected by the Commission, in which cases the Commission's opinion was divided or unanimous, how many of the proposals made by the largest ten business houses were decided without reference to the Commission, etc. In fact, nowhere in the Annual Report, is the role played by the MRTP Commission in the administration of the Act, particularly in respect of control of concentration mentioned. This probably reflects the seant importance the Ministry attaches to the existence and working of the Commission.

Since the Ministry finds itself on surer grounds in the administration of the Companies Act, it is less tight-lipped. However, even here most of the information given is of the routine kind, providing no insight into the working of and effectiveness of the Companies Act. The report mentions that the Ministry is actively considering amending the Act to tighten some of its provisions in the light of "certain undesirable" trends and practices which have come to its notice. But one is given no idea of what these "undesirable trends and practices" are and which provisions of the Act need to be tightened and how.

	Approval Sought under			
	Sec 21 Substantial Expansion	Sec 22 New Units	Sec 23 Merger or Take-over	Sec 25 Appointment of Directors
(1) No of notices received upto December 1971	148	25	21	47
(2) No of notices to which provision not applicable	32	1	—	—
(3) No of notices withdrawn	14	4	—	—
(4) No of cases in which final orders passed by the government	44	4	13	45
(5) No of cases pending decisions	58	16	8	2

Guest Keen Williams

Rather More to It

FOR the first time in the 50 years since Henry Williams started manufacture in Calcutta, Guest Keen Williams, the company subsequently formed with principal shareholder, achieved a turn-Guest Keen and Nettlefolds of UK as over of Rs 50 crores in 1971. GKW was badly affected in 1967-68 when the railways, its major customer, cut back on orders. GKW went off the dividend list in those two years. It has now recovered, and its Rs-10 share, quoted as low as Rs 12-13 in the recession, is back in strength at Rs 35-36.

GKW's chairman is optimistic about the company's capabilities, and defends the high liquid resources maintained by it on grounds of "inflation, high tax rates, and growing volume of business" In his speech, a point of interest which is left insufficiently elucidated pertains to the proposed 1 for 2 bonus issue. The chairman discloses that the government has turned down the request for bonus issue on the ground that Rs 1.11 crores of total Share Premium Account was "created by consideration other than cash" which it will not permit to be capitalised. Without much further clarification, Maitra maintains that this policy raises many important points which affect "both our company and yourselves as shareholders, for it effectively freezes a part of our Share Premium Account for many years to come".

In 1960, GKW made a right issue at a premium of Rs 18.50 per share of Rs 10. Guest Keen and Nettlefolds of UK, the principal shareholders, paid their part of the premium not in cash but by giving over their subsidiary, Sankey Electrical Stampings, to GKW. Hence the Share Premium Account that is now being proposed to be used to issue bonus shares was really sizeably created by 'considerations other than cash' and cannot be allowed to be capitalised again into the hands of the British collaborator.

What K C Maitra could have illuminated GKW's shareholders about is the operations of Sankey Electrical Stampings which GKW accepted in payment and which has not performed well and has had much labour unrest. What does GKW propose to do to put this part of the company on its feet?

Capital View

Romesh Thapar is abroad. Capital View will be resumed on his return. — *Ed.*

Sailing into Further Earnings

Hansavivek

CENTURY SPINNING, which is already engaged in the manufacture of textiles, rayon yarn, sulphuric acid, carbon-di-sulphide, tyre yarn, caustic soda, salt, and cement, intends to take on further lines of activity. The Memorandum of Association is being altered to include, many more diverse lines — among them shipowning, shipping, air transport, road transport, haulage contractors, contractors of all kinds of buildings and structures including roads, railways, pipelines, dams and projects, and even the rendering of general, administrative, secretarial, advisory, consultancy and engineering services. It is stated that the company incurs expenditure of Rs one crore annually on freight and cartage to move salt from Saurashtra and to import pulp and sulphur, etc, for its rayon tyre cord and chemical divisions at Kalyan. Another Rs 16 lakhs are spent on transport of salt from Jamnagar to other ports. It is argued that the company would thus save on this by undertaking the transport itself; and, of course, it could also utilise the remaining space for booking cargo for others. Century has been receiving inquiries from Iraq, Indonesia, and other countries, for supply of management services to parties there. The company has been, in fact, negotiating for setting up a composite textile mill in Indonesia with equity participation in the form of capital goods; it also proposes to supply administrative and technical services to run the mill

The company's industrial licence application to undertake manufacture of 30,000 tonnes, each, of chemical pulp and paper was referred to the MRTP Commission. On completion of its detailed public inquiry, the Commission recommended — *vide* its majority report — that the company should be granted the industrial licence. The project, involving a capital outlay of about Rs 30 crores, however, is now proposed to be set up in the joint sector. In regard to the application for the seamless pipe project the government has informed the company that it proposes to set up a unit for the manufacture of seamless steel pipes and tubes in the public sector. If, for any reason, the proposed public sector project does not come up, government will again invite applications for consideration. The company has been granted a 'Carry on Business' licence for manufacture of portland cement with an installed capacity of 6,00,000 tonnes per annum. The plant is expected to go into production during the second half of 1973. The company has secured a contract from Zuari Agro Chemicals to set up phosphoric acid handling and storage facilities. The contract, valued at Rs 70 lakhs, is expected to be completed during this year.

Century's working during 1971 showed contraction of margins. While net sales increased by about 5.5 per cent to Rs 48.39 crores, gross profit decreased by over 18 per cent to Rs 11.88 crores. The textile mills experienced a rise in costs owing to increases in prices of cotton and labour charges. The working of the rayon plant has considerably improved following modifications and improvements to the machinery and equipment. In accordance with the voluntary agreement with weavers, the company is now expected to supply 70 per cent of the production at fixed rates, instead of the 60 per cent of production it was supplying upto last year. In addition, as before, 10 per cent of the output is being offered at concessional rates against exports of rayon fabrics. The position of raw materials is causing concern, Last year, the imported pulp released to the company was 'far less' than its requirements. The working of the tyre cord plant continues to be satisfactory. The company has approached government for permission to further expand its weaving capacity of tyre cord fabrics. The Tariff Commission is again going into the cost details of tyre yarn, since there has been a 'steep' increase in the cost of production. Last year, Century exported nearly 21 per cent of its production of tyre cord to industrially advanced countries, such as Holland, Austria and the UK.

KILLICK NIXON produced much better results for the year to November last, with a 55 per cent rise in gross profit at Rs 55 lakhs — following only a 12 per cent increase in net sales at Rs 5.20 crores. This was owing to the continued rationalisation at the steel files factory and improved performance of the engineering and furnace factories — in spite of cuts in quotas of imported materials and components, shortages, delayed deliveries and poor quality of raw materials, expiry of collaboration agreements, and consequent changes in trade names. Production and sales of files in terms of quantity were in fact lower compared to the previous year, but better realisations in the home and export markets lifted the turnover and brought about an appreciable improvement in the operating results. The working of the prestressing and machinery divisions was also satisfactory. The volume of business in imported as well as indigenous drilling equipment showed an increase. The steel sales division had a successful year, with record business resulting from a more liberal import policy of government to meet the shortage of steel. Sales of aircraft spaces were also satisfactory, despite a cut in import licence. Offtake of domestic appliances slackened last year owing largely to the imposition of excise duty on pressure cookers. The kitchenware range has been expanded, and two new types of irons are expected to be introduced shortly. Turnover of other products handled by the marketing divisions showed continued improvement. The shipping and clearing and forwarding departments also fared well. Export turnover declined, although the outcome was better than in the previous year owing to better selection of items. Diamond exports negotiated by the company were the highest ever, although more recently these exports have been handled on a commission basis. The company has given guarantees on behalf of the subsidiary, associated, and erstwhile managed, companies for the grant of cash credit and/or loan facilities for a maximum amount of Rs 6.02 crores. This figure includes a guarantee of Rs 60 lakhs given jointly and severally with Kohinoor Mills and other parties in respect of cash credit facilities to Navjivan Mills. The balance sheet of Navjivan as at December 31, 1970, disclosed that the paid-up capital and reserves together amounted to less than Rs 59 lakhs, while the accumulated losses amounted to over Rs 1.43 crores without providing for arrears of depreciation, doubtful debts, advances, etc. It is stated that the outcome of the company's guarantee on behalf of Navjivan is contingent upon that company's 'future successful working'.

SHRI AMBICA MILLS has completed modernisation and expansion of its unit number 3. The process house at unit number 1 has been reorganised and expanded. A Zimmer rotary screen printing machine and a few other processing machines have been installed. In order to provide sophisticated preparatory machinery for weaving sections, efforts are being made to obtain import licences. The company has been successful in exporting its fabrics, and is exploring newer markets. The tube division continued to face 'acute' shortage of raw materials. The government's decision to allocate steel on the basis of licensed capacity provided the company with steel for barely one shift. The licensed capacity was doubled to 25,000 tonnes per annum, but allocation of steel was not changed during the mid-year owing to procedural difficulties. The plant ran partially only on imported raw materials, which resulted in an inadequate margin. The company has already taken steps for doubling the existing licensed capacity in view of the government's announcement of liberalisation for fuller utilisation of existing plant and machinery. The allocation of steel quota is likely to improve thereafter. The machinery manufacturing division fabricated its first continuous bleaching plant which was installed at Arbuda Mills, the subsidiary. Efforts are being made to further diversify the production programme to include specialised and sophisticated machinery. The cylinder division commenced commercial production last year, but the inadequate supply of LPG sheets from HSL and TISCO hampered the working. The production programme is being diversified to include cylinders for various chemicals. Ambuja Chemicals began production of emulsions for various textile industries. Programmes for the modernisation of the manufacturing and research activities is continuing. Ambica's net sales advanced by 11 per cent to Rs 17.60 crores, but its gross profit declined by 19 per cent to Rs 228 lakhs as a result of a sharp rise in costs. Arbuda also experienced the same trend with consequent reduction in profit despite higher production and sales.

AHMEDABAD ADVANCE MILLS' gross profit last year was halved at Rs 46 lakhs, despite an 18 per cent rise in net sales at Rs 9.66 crores. This was mainly due to the steep increases in cotton prices and further increases in other costs which, together with the credit restrictions, diminished margins in the cotton textile business. The metal division at Navsari had to contend with raw material shortages and power cuts. Apparently, the disturbed conditions in the border areas also had an adverse effect on the company's working. The company is going ahead with the expansion of the metal division. A rights issue of equity shares was made last year to yield Rs 21 lakhs. Steps are being taken for issue of further debentures worth Rs 1.5 crores and for a foreign currency loan equivalent to Rs 93.25 lakhs from ICICI. Orders have already been placed with Hindustan Steel and Bharat Heavy Electricals for supply of a 2 hi/4 hi reversible cold rolling mill at about Rs one crore. This plant is scheduled to be delivered in July next year. Clearance from the capital goods committee for the import of a Sendzimir mill, a continuous annealing pickling line and metallurgical laboratory equipment has been received. The import licence is, however, still awaited. A plot of land adjoining the metals division was purchased last year for about Rs 5 lakhs for the expansion scheme. The company has built up a sales organisation of its own for the products of its metals division.

The Week's Companies (Rs in Lakhs)

	Century		Killick Nixon		Shri Ambica Mills		Ahmedabad Advance	
	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 30-11-71	Last Year 30-11-70	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 31-12-71	Last Year 31-12-70
Paid-up capital	505	505	125	125	285	149	136	115
Reserves	2050	1791	96	86	519	628	137	136
Borrowings	562	637	233	286	660	517	384	332
of which Term borrowings	476	560	—	—	411	364	75	81
Gross fixed assets	4324	4101	134	145	1234	1110	619	584
Net fixed assets	1309	1330	62	67	523	494	320	316
Investments	46	47	195	256	73	72	9	9
Current liabilities	954	835	193	187	207	166	231	152
Current assets	2715	2392	390	360	1076	895	560	411
Stocks	1124	861	132	132	522	503	357	239
Book debts	558	335	249	220	516	366	196	168
Net sales	4839	4591	520	463	1760	1584	966	826
Other income	173	120	87	111	64	85	21	9
Raw material costs	1634	1273	59	54	975	861	404	331
Wages	1047	867	110	119	271	269	194	179
Interest	55	51	26	28	56	47	32	29
Gross profit(+)/loss(—)	1188	1455	45	29	228	282	46	93
Depreciation provision	250	288	7	7	77	68	31	34
Tax provision	580	706	14	9	76	112	—	16
Net profit(+)/loss(—)	358	461	24	13	75	102	15	43
Development rebate provision	26	16	—	—	22	21	6	19
Transfer to reserves	159	272	10	1	3	35	—5	10
Dividend								
Amount	E 160	E 160	14	12	P 1	P 1	P1	P1
	E 13	E 13			E 49	E 45	E 13	E 13
Rate (per cent)	E 45	E 45	11	10	P 7.14&5.72	P 7.14&5.72	P 7.14	P 7.14
	P 8.57	P 8.57			E 18	E 33	E 12	E 12
Cover (times)	2.00	2.70	1.72	1.08	1.06	1.77	0.62	1.77
Ratios (per cent)								
Gross profit/sales	24.55	31.69	8.65	6.26	12.73	17.80	4.76	11.26
Net profit/capital employed	11.48	15.72	5.28	2.61	5.12	7.88	2.28	7.37
Inventories/sales	23.23	18.75	25.38	28.51	29.66	31.75	36.95	28.93
Wages/sales	21.64	18.88	21.15	25.70	15.39	17.00	20.08	21.67

Policy and Decision-Making in Government

V A Pai Panandikar

ONE of the basic justifications for modern public bureaucracies has been the policy and decision-making functions which such organisations are especially designed and equipped to discharge. To Max Weber, the father of bureaucratic theory, organised career based bureaucracy was the epitome of efficiency, and truly the only available instrument for rational and efficient performance of the functions of a modern government.

Theoretically, policy and decision-making is supposed to be done in the government by the bureaucracy under, of course, the overall supervision and direction of the elected representatives of the people. These in our case would be the Ministers and the Cabinet as a whole. However, the bureaucracy is supposed to be the "expert" group with the necessary educational, technological and other relevant embellishments to provide the real knowhow for policy- and decision-making.

Main Components

The main theoretical components of policy- and decision-making may be described as follows. First of all, there is the basic or primary function of anticipating and if necessary even "discovering" the policy needs of the country, and hence of the government. In others words, the bureaucracy is expected to "scan" the environment including the emerging social needs to arrive at some tentative understanding of the changing socio-economic values, and thus anticipate or sometimes even "discover" the broad policy needs of the country.

Secondly, having done so, the bureaucracy has to systematically develop the various alternatives or choices —that is to say identify the different manners in which the political (policy) needs of the people can be met In particular it has weigh carefully the pros and cons of each of the alternatives in terms of the objectives and their "attainability".

Thirdly, the bureaucracy is expected to suggest a specific choice of alternatives or in other words suggest a "policy". Policy in this context would be a generic course of action within which specific or individual decisions could be made to achieve the desired objectives.

Fourthly, as the expert group and directly concerned party, the bureaucracy is expected to decide upon the instruments of implementation. This would involve indication of how the policy objectives can be achieved through specific administrative machinery either existing or through specifically designed instruments of implementation, which may be broadly termed as "administrative policy".

Fifthly, the bureaucracy is expected to apply the generic policy to specific instances—decision-making in individual cases. Generally speaking this is supposed to occupy the maximum time and effect on the part of the bureaucracy as a system of policy-making and its implementation in government.

One final addendum to this list is that in order to perform all these functions, the bureaucracy has to organise suitable "scanning" and "memory" instruments both for policy and decision-making. Without effective scanning mechanisms no bureaucracy can anticipate the policy needs, while in the absence of a proper memory and retrieval system, the available information and knowledge would not be made use of in actual practice for day-to-day operations of government.

Actual Situation

The real and pertinent question is: what is the policy and decision-making process in actual practice?

With very little hesitation one can say that there is today hardly any "policy anticipation" in the government. Even in the most organised agencies of the government, there are no mechanisms and no personnel designed for or capable of handling such a task. Indeed the function itself does not exist and whenever an anticipatory question is raised, the normal reaction is: why bother about a problem until it has arrived? Nor is there an understanding that for "anticipation" to function in policy-making, the government needs to examine a series of developments on a national plane, both institutional and behavioural. This would inevitably imply the use of research technology. But the orle of research technology. But the role of research in articulating policy needs is nearly absent in India and almost ironically the only organised attempts to collect data on the citizen clientele and their preferences seem to be made by the soap and cigarette manufacturers and distributors.

In the absence of such policy planning work, the development of alternatives of policy choices in the government is based on the "knowns" which necessarily confines our policy horizons to the beaten tracks and to a few and limited alternatives. In fact it means that here is really no hope for new alternatives to be developed. How can they be developed unless we have better facts and new interpretations, and we are willing to look at national and international experience for developing our policy options?

Within this context of the reality of policy-making, it is easy to understand how the identification of a choice would be. In the neatly bureaucratised system in the government, an important factor that dominates is status. In deciding upon the actual alternative or in other words in making a policy or policy-type decision, the judgment of the Joint Secretary is *ipso facto* superior to that of the Deputy Secretary, and of the Secretary to that of the Joint Secretary. In such a status-based policy-making system, the objectives, the means and the substance itself, all become secondary.

To aggravate the problem further, the question of considering an appropriate instrument of implementation or the generic problem of administrative planning and policy has never been asked with any seriousness. At most the problem is discussed in terms of the difficulties of getting necessary personnel skills. Without denying the crucial importance of personnel, any identification of the problem in purely "manpower" terms is not only simplistic or even simple-minded but it also betrays a total ignorance of the role of the administrative system as a whole and of the need for articulating administrative policy to support substantive policy. Indeed, the two cannot even be separated.

It is, therefore, not surprising that in the government there is little application of policy to individual cases and there is much of "deciding" the individual cases. Rarely is there a thread of

policy running through the decisions. As is well known, the preoccupations are much more with "precedents", regardless of their policy relationships. One can cite but infinite examples as to how decisions are made in the most sophisticated ministries and departments without any organic link to policy, and how often there is no trace or even a mention of what the policy is or supposed to be in the field.

The Administrative Reforms Commission's Report on the Machinery of Government did make several useful recommendations regarding the function and the organisation for policy planning, etc. These are still languishing in the rusty stacks of the Secretariat if they have not already been moved out to the National Archives. The story in all the ministries and departments runs on familiar lines. "We know what policies the country needs", and therefore, no agencies or even people have been given the responsibility to examine, evaluate and anticipate policy needs. As a result the "memory" that is left in the government and practised is not policy memory but the memory of precedents and decisions retained and nurtured by the "sections" in the government.

Inevitably, therefore, the decision-making in the government is done by the LDCs, the UDCs, and the Assistants — at best by the Section Officers. And that is the ultimate reality for the five hundred and sixty million citizens of this country.

II

The traditional view that "the decisive reason for the advance of bureaucratic technical superiority over any other form of government" and its non-va'idity in India in key respects has been gone into above.

The case for a higher civil service[1] ever since the British imperial days has been made in terms of the expanding needs of government for specialised and diverse skills, especially higher policy level skills which cannot be procured from the open market. These skills are necessary to make decisions of one time character, or unique decisions. Essentially then, these would be policy decisions or decisions of an individual and fundamental nature and having implications for policy itself. Generally speaking in the developing countries which are still in the process of basic political and economic change, the component of such 'non-programmed' decisions by government would be much higher than in the developed countries where the areas and spheres of drastic or major change in any sector of national life would be of such less magnitude and significance.

The case for the higher civil service in India has also been made on the basis of the need of the government for a core of highly trained and developed groups of persons at different levels of the administrative hierarchy performing both the higher executive functions as well as the policy roles in the secretariat and other key agencies. Since such personnel are not available in the open market, they have to be developed on a career basis through deliberate exposure to executive and policy work. Such a system also has the advantage of maintaining continuity in administration.

Another argument which is sometimes presented, but not with adequate force, is that citizen relationships can only be effectively handled by highly trained and 'superior' personnel who have the necessary experience and attitudes. To what extent are these claims valid and applicable to the higher civil service in India?

Scrutiny of Record

It is by now reasonably established that the policy needs of the country are rarely examined within the administrative system; that the machinery of the government and hence the higher civil service is neither organised nor equipped for the purpose. In fact even today there is little recognition in the elaborate corridors of the secretariats of the need for anticipating and organising for such a role and working towards it. There is a great deal of evidence that such policy thinking and the consequent questioning of conventional wisdoms is deliberately discouraged, sometimes even punished.

Besides, any scrutiny of the recent administrative history of India reveals virtually no new important policy measure which could be attributed to the foresight of the higher civil service. Contrast this with the British civil service which conceived the national health service or its French counterpart which gave birth to the European common market concept and its organisation.

It is well known that the bulk of the important policy measures in India have tended to emerge in recent years from outside the civil service. Most often the genesis of new policy has been in the political parties on the basis of 'popular' needs. Sometimes important policy suggestions have also come from a select group of universities and research institutions.

Perhaps the relatively successful areas of higher civil service operations have been in the executive branches. That is to say in areas where policy content has been lower and implementative content higher. In other words, the present higher civil service could, at best, be expected to achieve an acceptable degree of results in the traditional sectors of governmental activities like law and order, revenue collection and other activities of routine or repetitive character. Even here, however, the relationship of the civil service with the citizen clientele has been none too happy and the bureaucratic attitude has often smacked of feudal and imperial overtones leaving many adverse scars on the citizen clientele.

In other words the performance record of the higher civil service in crucial areas such as policy planning and formulation, achievement of broader planned and programmatic goals and a reasonably effective citizen relationship makes sorry reading. What was considered the great legacy of British rule in India is now the greatest liability to India.

One question which may be legitimately asked is whether the necessary changes could not be brought about with the existing framework. There is nothing in the present administrative scenario of India to suggest that there is a prospect of significant change in the higher civil service and its movement towards essential functions and role. In fact the opportunities available to the higher bureaucracy to adapt themselves in recent years, have been frittered away by their preoccupation with grabbing as much as possible for themselves and by bickering among themselves. Even worthwhile reforms have been nullified by the vested interest sitting in judgment over the suggested changes. All this only goes to show that the higher civil service has neither mentally nor professionally reached a level from which it could be expected to fulfil its responsibilities.

Comparative View

Curiously enough the experience of many a developing country is none too dissimilar. Through clever backstage manipulation many bureaucracies in the developing countries have sought to nullify the rights of the citizen or the needs of the state. To some extent even the Chinese experience seems to be similar. Han Suyin for example notes "today in China, in spite of a communist revolution, in spite of seventeen years of socialised education, one can still find attempts at the resurgence of feudal bureaucratism[2]."

The only conclusion inevitable from a close look at the recent performance of the higher civil service in India is that it is not only incapable of undertaking the tasks which justify its existence but that its entire character and orientation is detrimental to the development of an effective system which meets the national needs. If the purpose of such an expensive system is to provide expert and new policy advice to the government, it is in no position to do so. If the rationale is that there is no other source of such skills available, even then the case is feeble. In fact the present higher civil service with its iron grip on the administration and financial resources, has made it almost impossible for other groups to develop in the country which can fulfil the nation's urgent needs. Besides, the experiments in the last two or three years to co-opt properly qualified individuals from outside into the highest levels of government have demonstrated for the first time that the essential roles at these levels can be met well, if not better, by carefully selected persons from outside.

In other words, the present higher civil service is not only incapable of performing its own role but it is also an impediment to the growing needs of the country especially since more and more responsibilities are to be shared by the government for the development and growth of the country. The need for a group or groups of people who have the capability of providing such services and thereby serving a crucial function continues to remain.

Alternatives

What then are the alternatives? Insofar as requirement for policy personnel is concerned, by far the most important potential source would be the political parties. Except, perhaps, for the leftist parties, few including the ruling party have made much effort to build professionally competent cadres of such persons. Most of the national parties can indeed afford to organise small research cells around which can be built a group of 'sympathetic' professionals and thinkers who could help the party concerned to develop their policy frameworks and potential policy executives.

The time has also come to utilise the services of many a national research institution to help the assessment — including anticipation — of policy needs. Several existing institutions, especially in fields like economics, are already engaged in such activities. However, quite often the direction from the ineffective bureaucracy for such work has been lacking. Many a time there has been a lack of appreciation of the role such institutions can play. As a result, even the limited work that has been done has remained unutilised. In passing it may also be added that there is sometimes even a studied unwillingness on the part of the higher civil service to make adequate use of such institutions and personnel, often for petty and parochial considerations of service interests.

Finally, in several areas where existing national competence in academic or professional groups is not adequate or the institutions are found lacking, it may even be desirable to create or establish new institutions. This, however, should be done after the potential of the various available alternatives has been adequately utilised.

Action Need

The action need now is to remove the highest echelons of the secretariats from the clutches of the ineffective higher civil service and to bring in professionally competent individuals, perhaps through party cadres, perhaps through academic institutions, or other sources, including professional groups and institutions. This need not mean that no one in the civil service should be eligible. Rather such eligibility should be of an individual and not of the service which has cut at the very roots of professionalism and merit in the governmental bureaucracy of today.

Hopefully the political parties will include in their election programme an administrative *manifesto* which will seek to destroy the vestiges of feudalist bureaucratic arrogance and the anti-democratic system which has been perpetuated through the higher civil service. Without such a plan, the prospects for the future of the socio-economic goals so crucial to the success of democracy in India are bleak.

In short, the higher civil service in India is not only unnecessary but dangerous. Unnecessary because the crucial functions which the higher civil service is supposed to perform in assisting the state and the people of India to achieve their socio-economic goals, is simply not being discharged by it. Dangerous because it has systematically over the last twenty-four years denied the people of India their rights and access to power for fulfilling their aspirations, and any further continuance of the system will subvert the long-term national objectives of making a smooth and natural transition towards a functioning democracy.

Notes

1 While India has *no* single higher civil service as such, the term is used here to connote all organised groups or services from whom the higher secretariat and other positions are presently manned. These include the IAS and all other central services which are on 'deputation' to the Central Government and similar personal at the state level.

2 Han Suyin, "China in the year 2001" Penguin, London, 1970, p 21.

FROM OUR CORRESPONDENTS

NEW DELHI

Taming the Trade Unions

AT last the government appears to have cleared the decks for introducing the proposed new industrial relations legislation. The Union Labour Minister, R K Khadilkar, has been working hard towards this end for nearly two years. The Labour Ministry will now present a bill to the next session of Parliament to replace the existing Industrial Disputes Act passed as far back as in 1947. This has been made possible by the results of the conference of State Labour Ministers earlier this week and the coming together of the INTUC, the AITUC and the HMS (led, r spectively, by the Congress, the CPI and the Socialists) to form a joint National Council of Central Trade Unions (NCCTU).

The intervention of the Prime Minister and the indefatigable energy shown by the Union Labour Minister have been responsible for this outcome. For, only a fortnight ago the three central trade union centres had fallen out and had gone back on the "limited accord" that they had arrived at last year. The State Labour Ministers, on their part, continue to be very jealous of their rights in the formulation and application of labour laws and would not have easily surrendered any part of the authority vested in them under the Industrial Disputes Act now in force. It was something of a personal triumph for R K Khadilkar

that he was able to bring round both the trade union leaders and the State Labour Ministers to accept the proposed new industrial relations law for which he has been canvassing support ever since he was appointed Union Labour Minister.

The proposed industrial relations law has been sought to be described as a half-way house between the existing law — which invests the government with unlimited initiative and power in the the working of the machinery of conciliation, arbitration and adjudication — and the unfettered play of collective bargaining between trade unions and employers. The National Commission on Labour had held that the existing disputes settlement machinery was cumbersome and had an *ad hoc* character. In addition, it was prone to be influenced by the political predilections of the government of the day because of the discretion vested in the government in the matter of referring disputes for adjudication. The Commission had proposed the creation of an independent judicial machinery, in the form of Industrial Relations Commissions, at the Centre and in the states which would exercise all the powers of conciliation, adjudication and certification of unions as representative unions. It had also proposed the constitution of standing labour courts to deal with disputes relating to rights and obligations under the existing laws as well as interpretation and implementation of awards.

The differences between the recommendations of the National Commission on Labour and industrial relations law now on the anvil are, however, vital. Most important, while Industrial Relations Commissions and standing Labour Courts are proposed to be set up under the new law, the authority of the Central and state governments in the regulation of industrial disputes would be maintained intact. Further, strict legal curbs are to be enforced on the right to strike.

The new law will provide for a prior strike notice of 14 days. At present this is required only in the case of public utility services. It is also proposed to amend the Trade Union Act of 1926 to provide that a strike ballot open to all members would be organised by the union and that the strike decision would be supported by two-thirds of the membership of the union.

As for the disputes settlement machinery, under the existing law the initiative for referring a dispute for adjudication rests entirely with the government. The main change proposed here is that in the absence of settlement through direct negotiations, in a non-essential industry or service either party may approach the Industrial Relations Commission for adjudication. This would not, however, affect the government's right to intervene at any stage in a dispute and to refer it for adjudication by the IRC. The government' right to do so is absolute in industries or services declared essential by the government. Strikes and lockouts in public utility services are to be prohibited. The principle underlying the government's approach appears to be that the workers' right to strike is not total or unqualified. In terms of collective bargaining the new law is thus clearly regressive. It would place greater curbs on the trade union movement and its growth. It would obliterate all worthwhile distinction between essential and non-essential industries and services and place them on par in respect of the workers' right to strike.

The only advance, if it can be so termed, over the existing industrial relations set-up would be in respect of recognition of unions. The present *ad hocism* in this sphere has been the cause of much tension in the trade union movement. The new formula for recognition has been evolved by agreement between the three trade union centres and will be given a statutory basis. Though it is still hedged in by many conditions, the right of a representative union to be recognised by the employer as the sole bargaining agent is to be admitted. Conflicting claims for recognition would be settled through verification, as at present. Only, where the results of verification prove to be inconclusive, the issue would be settled through secret ballot. This is clearly a compromise between the INTUC and the other two trade union centres. The INTUC had insisted on verification of membership as the sole criterion for recognition. The other two had wanted recognition to be decided by secret ballot of workers.

The limited accord between the INTUC, the AITUC and the HMS, the setting up of the central council of the three centres and the proposed new industrial relations law have been hailed by the Labour Ministry and some others as "historic". This is clearly an exaggeration. The major factor which has made these developments possible has not been any consideration of the interests of the workers or the trade union movement, but the re-emergence of Congress dominance and the willingness of the CPI and the Socialist Party to play the roles of junior partners to the Congress. The prospect of trade union unity as a result of these developments still remains very much uncertain.

There is no escaping the fact that the three trade union centres which are a party to the present accord do not, despite their claims of representing the larget chunk of the organised trade union movement in the country, constitute the entire trade union movement. The CITU led by the CPM, the UTUC of the RSP as well as the HMP under the leadership of the former SSP remain outside the accord and have denounced it sharply. Even the accord among the three is not firm and free of strains. The Congress has acquired more or less complete control over the INTUC. At the same time, several former socialist leaders, particularly of the HMS, have recently joined the Congress. They do not want to quit the HMS after joining the Congress but are being pressed by the Congress leadership to do so and strengthen INTUC. The position of the HMS is particularly fragile on this account. As for the AITUC, though in the political field the CPI readily accepts its position as a junior ally of the Congress, it claims a more equal status in the trade union sphere. CITU and HMP leaders have charged that the joint council of the three trade union centres will be an instrument at the service of the government to isolate the militant trade union movement in the country. As the new industrial relations legislation, with its stringent restrictions on militant action by workers, is enacted and enforced, this criticism may win considerable support among workers.

■

The government appears to be caught in a dilemma in regard to the giant Kudremukh iron ore project. The project was conceived several years ago. It is the first iron ore project for which, ignoring the protests of Indian experts, financial and technical collaboration was sought with American and Japanese interests. The project report, drawn up by the National Mineral Development Corporation in collaboration with the Marcona of the USA and the MON Group of Japan, envisages a capital investment of as much as Rs 208 crores (as against Rs 177 crores anticipated earlier). The two foreign groups will hold 40 per cent of the equity and the World Bank has indicated its willingness to extend a loan of over Rs 100 crores.

The foreign equity participation and technical collaboration have been justified on the ground of the sophisticated technology to be employed in the project. For the same reason management control, particularly on technical matters, will vest with the foreign parties, especially the Americans. This the government finds somewhat embarrassing in the present political context. Kudremukh, when fully developed, is slated to be the biggest iron ore mine in the country with annual raisings of 20 million tonnes of magnetite ore and 7.5 million tonnes of concentrates.

SOUTH

New Trends in Tamil Nadu

Mohit Sen

IT might have seemed that there was no state with greater stability than Tamil Nadu. Not only had the DMK a substantial majority but its relations with the ruling Congress at the Centre were also quite excellent. Indeed, it could be said that Indira Gandhi was attempting to convert the Congress into an all-India DMK, what with the talk and action appealing to the semi-submerged sections, while the DMK was becoming an indistinguishable part of the mainstream of all-India politics.

Matters appear somewhat different after the events of the recent past. The DMK and the Congress have drifted apart and the DMK has again raised the slogan of 'autonomy'. It might look as if one is back to 1967 or even earlier as far as this particular state is concerned. But this is only true as far as certain surface phenomena are concerned. It is not at all the case if one analyses the deeper and the shaping trends.

Never a Left Party

It should be borne in mind that the DMK was never a Left party based on the toiling people, much less the working class. It was and remains a democratic party based on a big section of the petty bourgeoisie, appealing to the vast unorganised urban poor as also to the middle sections of the rural population in the relatively more backward areas of the state. The middle Tamil bourgeoisie, especially the new rich elements, also provided ballast for it.

The fluctuating and opportunist character of the petty bourgeoisie scarcely needs underlining. Its inherent tendency is to go off at a tangent as soon as it attempts to function on its own. Only when certain other powerful opposing forces are in the field and engaged in a tussle does it fall behind one or another of these forces. And it should certainly be the endeavour of the Left to see that it falls behind the relatively more progressive contender.

The DMK's tangential trajectory was manifested, above all, in two facts. One was its attempt to impose itself on the working class and that, too, in the more organised sectors. When this met with heavy resistance it decided on strongarm methods with the help of the state power. And this proved to be its undoing. The united resistance not only of the Simpson workers directly involved but of the organised forces of the class as a whole forced it to beat a retreat and take its hands off the workers. This was almost a classic case of the working class asserting itself against the arrogance of the so-called middle class. This assertion had also the invaluable result of exposing that a good deal of sham exists behind the glittering facade of the DMK.

The other fact was that relying upon an all-pervasive corruption and refusing to go in for democratic structural transformations the DMK hoped to alleviate the distress in the state by blackmailing the Centre. It had in the immediate period following the split in the Congress certainly secured a great deal more than its legitimate share. When it found that this blackmail was no longer paying in the post-1971 period, it took up the slogan of "autonomy".

Role of the US

Here another factor has to be taken into account. This is the role of the US imperialists — Karunanidhi is not only a frequent visitor to the USA but has made statements there which place him in the category of the clients of that country. One of the more important aspects of the US neocolonial offensive against our country is its drive to fragment our unity. This is what it is attempting in West Bengal and this is what it is trying in Tamil Nadu. This underlines the danger of the DMK's opportunism in resurrecting the plea for autonomy. This plea is being raised not because the Centre interferes in Tamil Nadu to prevent the proclamation or implementation of radical reforms nor because it holds up development efforts. It is being raised as a diversion exactly at a time when US imperialism is also in need of this diversion.

It is, of course, absurd to write off the DMK as a whole as a democratic and progressive force. The plea for autonomy is not likely to automatically capture the imagination and minds of all its members and cadres, much less its vast mass following. The trend towards radicalism, the mass desire for an end to poverty and scarring inequality which has swept across our country do not stop at the frontiers of Tamil Nadu or the gates of the DMK. If the sense of deprivation had previously taken a separatist form following the withdrawal of the Telugu and Malayalam-speaking districts, now the possibility of moving away from deprivation can take the shape of struggle for fulfilment of the radical speeches and pledges of the DMK leadership. But it is precisely by stressing on this that the Left parties can influence and bring about desirable changes in that party.

It is most unfortunate, therefore, that precisely at this moment sections of the CPI(M) leadership have decided to woo the DMK on the basis of its revived plea for autonomy. It is symptomatic but tragic that when the DMK adopted an anti-Right stance the CPI(M) opposed it and now when it takes up a posture that plays directly into the hands of the US imperialists the CPI(M) begins approaching it.

Feelers to Kamaraj

It is also to be regretted, but also not to be wondered at, that a section of the Congress leadership should have thought in terms of a rapprochement with the Syndicate with the spurious plea that Kamaraj is different from his colleagues. He may well be. As an individual he is welcome to join any party or front provided he subscribes to its programme or platform. But the idea was to link on to his organisation just because it was an anti-DMK force with a mass base. The desire to return to the ministerial bungalows irrespective of pledges and policies was all too palpable. Even if the Congress in the state has officially turned its face against this manoeuvre, it will not do to forget two points. One is that this manoeuvre failed also because Kamaraj was not all that willing. The other is that those who wanted this manoeuvre are still powerfully entrenched in the Congress.

It is to be noted that just when all this was going on the working class was also continuing its actions. And even more significant, in Thanjavur district, almost two lakhs of agricultural workers turned out to greet the second conference of the Bharatiya Khet Mazdur Sangh. If these two facts and actions could be co-ordinated, the very face of Tamil Nadu would be radically altered. And not Tamil Nadu alone.

SAIGON

Report from the Battlefront

Harish Chandola

IT will be naive to believe that the mining of North Vietnamese ports and the frenzied bombing of its road and rail links with China will turn the tide of the war in South Vietnam. Even if these acts are performed to perfection and succeed in stopping the flow of military equipment to Vietnam (which really is an absolutely impossible task), how long will it take the stoppage of fresh supplies to affect the war? The US stopped bombing North Vietnam four years ago and it is common knowledge that during those four years military equipment has freely been flowing in. So even if the US manages to cut off fresh supplies, the stock of four years is already in the pipeline for the liberation struggle and it will be a long time before this is exhausted.

The South Vietnam People's Liberation Armed Forces (PLAF) and the North Vietnamese use their supplies with extreme economy and to maximum effect and do not spend them freely like the Saigon and US troops. They are conscious that their country does not produce major items of equipment and is dependent on supplies from outside which often have to be paid for. Aware of this all the time, they fight with skilled frugality and achieve maximum results with the minimum waste of material.

Nor does the saturated bombing by the US much effect their ability to fight. Though they have perfected methods of shelter against the worst bombing and of continuing their fight, the bombing takes a large toll of civilian life, the victims being mostly old people and children. Fighting personnel, however, seldom get killed in bombing raids, because of their alertness in putting into practice the techniques of survival.

Vietnam has long been the experimental ground for testing new military weapons and tactics. Since weapons do not fight by themselves and however advanced they might be their effectiveness still depends upon those handling them, one need not discuss the weapons here, but the tactics.

From what I have seen of the battles so far, I can say that the PLAF have absolutely no fear of the US and South Vietnamese aerial attacks, have complete control of the situation when they start fighting because their attacks and operations are elaborately planned, use their manpower and ammunition with great economy and their units are 'independent' and not tied down to tactical support like the units of their adversaries.

I recall several daily battles around the town of Chon Thanh. It was the PLAF which attacked the Saigon troops and never the other way round. The PLAF chose the place of their attack with great care and thus dominated the fighting. They did not consider aerial bombing as something against which they had no defence. They considered it as one of the routine hazards of war. To avoid being bombed the PLAF always kept the fight very close to Saigon forces so that it would not be possible for planes to bomb them without bombing the Saigon troops also. Whenever Saigon troops withdrew to let the aircraft bomb the liberation forces, the liberation forces used another stratagem to confuse the bombers. The Saigon troops upon withdrawing had to mark their new positions by using smoke grenades. The smoke indicated to the planes the positions of Saigon troops so that they would not drop bombs on them. But the liberation forces too started using smoke grenades, with the result that it became impossible for the airmen to determine which positions to bomb and which not to bomb!

A far more reliable means of surviving the intense bombing is the preparation of well dug-in positions. The liberation forces always prepare such positions before they launch attacks. I have seen them re-emerge to continue their battles from precisely the same positions which a few minutes earlier had been thoroughly bombed from the air.

The other important factor is the positioning of their troops for attacks. They never seem to commit all their forces to a battle point, as they always maintain adequate reserves carefully scattered at supporting positions all around the edges of the battlefield. From these reserve positions their casualties are evacuated very quickly, unlike those of the Saigon troops, and fresh troops committed to the battle to maintain constant pressure at the main battle point. The result is that the strength of the liberation forces is never diminished at the main battle-point.

But above all what the liberation forces have is courage and a keen sense of judgment exercised by all, and not merely by the unit commanders. In the midst of battles, I have seen PLAF men courageously climb trees to locate the positions of Saigon soldiers and to call in their mortars to hit the enemy. In Kontum when the airfield there was under attack, I was constantly shouted at by the US military advisers for coming to the fighting zone without a helmet and a flak-jacket (bullet-proof jacket protecting one from shrapnel mainly). All the Saigon and US troops wore these along with anti-mine boots. But I have seen from a distance, men of the liberation forces moving about in the midst of battle wearing only soft-hats, shirts and trousers, and perhaps not even shoes (from the distance at which I was in the fighting I did not see them wearing shoes). And yet they won the battles.

The PLAF defeated many well known military tactics of the US and Saigon troops in the Dong Ha-Quang Tri battle, namely, airborne support, positional defence, mobile defence by tanks and infantry and multi-line defence. In Quang Tri, the US was unable to put into effect the 'helilift' tactic, considered by the US military as the 'latest discovery' and a big leap forward in mobility and firepower. This tactic, according to US calculations, has four advantages: It enables swift transportation and landing of troops to secure sudden superiority over the adversary; it provides short range and vertical fire support; it facilitates the supply as well as removal of troops and it enables quick withdrawal in adverse conditions.

In Quang Tri the helicopters failed both to ferry Saigon troops in for rescue missions or to whisk away the battered army. This was because the PLAF chose to fight in close combats and possessed an effective anti-aircraft force and formidable artillery firepower that kept in check all the airfields and helicopter landing grounds in the area.

The tactic of defence in big clustered positions, also failed. Because Saigon troops were previously easily wiped out in their small and medium-sized positions, the US had this time ordered them to gather into big clusters of positions so as to be able to react more effectively. The US command believed that with such defence complexes as in Dong Ha, Ai Tu, La Vang and Tich Tuong, the PLAF could not overrun the garrisons overnight and that the US could provide efficacious air support and rush in reinforcements in daytime. But by co-ordinating the actions of their various arms and services, the PLAF smashed the Saigon troop concentrations of regiment and even brigade size. They attacked by day and by night on a wide front and with amazing swiftness, splitting the Saigon forces and wiping out one position after another.

The tactic of mobile defence by tanks and infantry has also proved ineffective. At the Dong Ha-Quang Tri defence complex, the US command had deployed a big defensive force inside heavily-guarded strongholds and also organised strong mobile units of tanks and infantry. Saigon troops were stationed at one place in daytime and at another at night. Such a mobile defence outfit was usually made up of electrically detonated mine-fields on the outer perimeter, a row of tanks and finally infantry troops.

But in the face of a big-scale attack, this tactic did not work either. The Saigon troops who were used to fighting from entrenchments, could not put up any substantial resistance when fighting outside their fortifications. Instead of co-ordinating their fight, the panic-stricken tankmen and infantrymen fought one another. More than once their fleeing tanks crushed their own soldiers. Assaulted from many directions the Saigon troops were at a loss finding out where to focus their fire. Therefore, their force was scattered and their reaction capability which was already weak even inside the fortifications, became still weaker in open terrain combat.

The tactic of multi-line defence also failed. To face the PLAF's quick assaults, the US command ordered this tactic both as a counter-measure against lightning attacks and as a means to gain time for an orderly withdrawal. In Dong Ha-Quang Tri, the US-Saigon defence was thus established in a multi-line system from the north to the south along Highway One.

In their attacks on Dong Ha-Quang Tri, the PLAF fought the Saigon forces from both the front and rear lines and launched simultaneous frontal and flank attacks. This prevented the Saigon troops from providing mutual support.

On the causes of the failure of the US tactics, the North Vietnam Army newspaper, *Quan Doi Nhan Dan*, said: "Any tactic, however good, must rely on the men who apply it. The Saigon troops, with their low morale, poor capacity for big operations and bad co-ordination, cannot effectively apply any tactics, including the one called 'orderly withdrawal'".

THE FOURTH ESTATE

Prime Ministerial Pep-Talk

Nireekshak

THE Prime Minister's speech at the golden jubilee celebrations of *Ananda Bazar Patrika*, Calcutta's influential Bengali daily (circulation: about 320,000), was the most forthright indictment of the profession in recent months. She said: "...it does seem as if our editors and journalists have by and large convinced themselves that they have reached the top, hence there is no longer the reformist zeal of the best journalists of olden days. Increasing prosperity has taken them further away from the people. Today they are more anxious to be heard and to give advice to the legislature and the government rather than to find out and report the trends in different fields of activity. Even from the professional yardstick, it is unfortunate that our newspapers should be content to devote only five to six per cent of their space to social change — a fact to which I drew attention seven years ago... For some reason our press is unduly interested in this narrower politics. My officials tell me that in the last few weeks, ten times more questions were put to them on the so-called impending cabinet reshuffle than about economic policy. I leave it to the journalistic profession to remedy this state of affairs."

That Indira Gandhi made these remarks at the *Ananda Bazar Patrika's* jubilee celebrations was not without significance. The paper, not very long ago, was known to be an inflexible critic of the Prime Minister and her party. Then suddenly some months ago it changed and became less hostile to the establishment. Two other Calcutta newspapers in which a similar transformation came about rather suddenly were *Statesman* and *Hindustan Standard*. (The latter is part of the *Ananda Bazar Patrika* group.) Was this change of heart voluntary or under pressure from the government? According to Niren Ghosh's allegation in the Rajya Sabha on May 11, the government had put "pressure on *Hindustan Standard* and the *Statesman* for writing critical articles" and now "they are completely toeing the government line." The Prime Minister's presence at the *Ananda Bazar Patrika's* golden jubilee celebrations along with the Governor and Chief Minister of West Bengal may be an indication that it is no longer a staunch critic of the powers-that-be in New Delhi and Calcutta and that Niren Ghosh's allegations in Parliament have some substance.

Monopolising a Theme

Indira Gandhi's pet theme of concentration and monopoly in the newspaper industry also figured in her speech at the celebrations. "Newspapers should not be house magazines for big business. We want the press to be an independent industry which is not subservient to other industries," she said. Close on heel came the reported recommendations of the ministerial committee on the diffusion of ownership of newspapers. According to them, the diffusion bill as envisaged earlier — which had provisions like employee-share-holders, etc — was likely to create legal and other complications. The ministerial committee, whose members are Mohan Kumaramangalam, H R Gokhale, Uma Shankar Dikshit, Nandini Satpathy and K V Raghunatha Reddy is said to have recommended that an amendment in the Company Law limiting the holding of shares of newspaper units by big business should meet the purpose at the moment. The committee is also reported to have suggested that newspapers should be barred from investing their funds in any industry other than that connected with newspapers and journals. While the former recommendation may effect Tata-Mafatlal's *Statesman*, Birla's *Hindustan Times* and Goenka's *Indian Express*, the latter is likely to have some bearing on the *Express* group of newspapers only. It was revealed in the Lok Sabha recently that the *Indian Express* group had invested over Rs 4 crores in industrial enterprises in no way connected with the newspaper business. This is said to be the highest investment by a newspaper company in non-newspaper ventures. Generally it is the other way round. *Indian Express*, it is said, was able to perform this miracle by soliciting public loans at high interest rates and then directing the funds to profit-

able ventures, some of which it is alleged were of purely speculative nature. (See "When Will RBI Step In?", *Economic and Political Weekly*, May 20, pp 1003-4.)

The sermons of the Prime Minister and the findings of the ministerial committee about the gross interference of big business in the newspaper do not, of course, reveal the defaults of newspaper which call themselves 'champions of socialism'. It was revealed in Parliament that out of the 51,527 establishments with provident fund facilities, 8,400 were in arrears. The Jan Sangh-RSS English daily, *Motherland*, did a follow-up story and came out with the disclosure that one of the 8,400 defaulters is a newspaper intimately connected with Indira Gandhi's family. According to the right-wing daily, "The *National Herald* has failed to deposit a sum of Rs 3.2 lakhs. With a salary bill of less than Rs 2 lakhs a month, and provident fund at 8 per cent of salary, the *National Herald* has obviously not deposited the employees' provident fund money for something like two years!" A major default by any socialist standard. A shocking state of affairs in a newspaper whose editor, M Chalapathi Rau, has in his own right been and is the champion of the working journalists' fight for better professional standards and financial security.

The big newspapers have found a way out of the newsprint order which requires them to restrict their pages to ten. The Supreme Court's stay order, which was granted to them early this month, is only valid till July 19 and, therefore, using their ingenuity they have come out with special 'pullout' editions known as 'consumer service'. These 'pullout' editions are, in fact, advertisement sheets in tabloid-size, inserted into the usual newspaper. According to *Statesman's* Managing Director, C R Irani, this is the only method to retain heavy advertising in his newspaper. In the long run, it is conceded by all big newspaper managements, these devious ways are nothing but irritants to a government which has already made up its mind about the future of big newspapers.

Indo-Bangladesh Tensions

The interim period between the D P Dhar-Aziz Ahmed talks at Murree and the Indo-Pak summit expected in Delhi in June is proving to be full of speculation and controversy. Bangladesh figures prominently in the speculation. One of the conjectures is that growing tension between India and Bangladesh on matters of trade has resulted in the delay of the Indo-Pak summit. As Ranajit Roy of the *Hindustan Standard's* New Delhi Bureau put it, "Mr Bhutto may be hoping that these tensions would steadily increase and Dacca may be persuaded to have a dialogue with Islamabad." Whether these tensions will eventually affect the Bhutto-Indira Gandhi meeting is now gradually surfacing in the press. And for the first time even leftist newspapers are making attempts to probe the factors that have generated these tensions between India and Bangladesh. *Patriot's* Dacca correspondent has reported, "Traders and businessmen of Bangladesh have made common cause with Maulana Bhashani, who has now under his wings both extreme right and left elements, in running down the Indo-Bangladesh Treaty and the Trade Pact. For over a month now these forces have been indulging in the propaganda that both the treaty and the trade pact affect Bangladesh adversely and should, therefore, be scrapped. Of late some of the local dailies have also fallen victim to this line of propaganda. The Dacca Chamber of Commerce, which had earlier attacked the provisions of border zone trade and jute export in the pact, has now chosen to attack the provisions relating to fish trade between the two countries."

Another indication of growing tensions between India and Bangladesh was the first anti-Indian rally in Dacca which was organised by students during D P Dhar's recent visit to the Bangladesh capital. The official Bangladesh news agency, BSS, did not report the incident which was the first of its kind since the liberation of Bangladesh. Neither did the Indian news agencies, judging from the fact that only one newspaper carried the item. *Amrita Bazar Patrika*, which has a news bureau in Dacca, reported the incident prominently on its front page. It said, "Students brought out an anti-Indian procession today demanding the return of the Indian emissary Mr D P Dhar. The demonstrators paraded through the streets of Dacca shouting the slogan 'D P Dhar go back'. Their main contention was that no engineers should be brought from India and Bengali engineers should alone be employed. Moreover, no gas should be exported from the Teetas Gas Project, they demanded. Later, representatives of the demonstrators met two Ministers of the Bangladesh Government, Mr Mushtaq Ahmed and Mr Moffiuddin Chowdhury ...".

The devaluation of the Pakistani rupee is given by *National Herald* as having given Pakistan "a competitive edge over India's exports..." It has been generally conceded that now Pakistan will be at an advantage in selling its textile products at low prices in international markets. But India can take some comfort from the fact that Pakistan's export potential after the December war is extremely limited.

MP in Hospital

Members of Parliament normally make news by their contributions to the proceedings of the two houses. Recently a backbencher in the Lok Sabha hit newspaper headlines for what allegedly happened to him at New Delhi's VIP hospital, named after the British Viceroy, Willingdon. The MP, C P Shailani, according to one version, was manhandled by the hospital staff. Another account, alleged that the watchman of the hospital and Dr Ramakant of the Casualty Department were assaulted by the MP. The incident figured in Parliament but Union Health Minister Uma Shankar Dikshit's timely intervention, ordering an inquiry into the incident, and the Prime Minister's 'pulling-up' of the MP involved, kept the temperature of the over-sensitive MPs from boiling over. For most Delhi newspapers and metropolitan dailies it was the lead story. In reporting as well as in editorial comments, Willingdon Hospital did come in for criticism but no one spared the MP either. According to the hospital staff, some VIPs demand too much attention at the expense of other more serious cases. This brings in the issue of medical ethics and doctors at the Willingdon hospital seem justifiably concerned about it, as press reports indicate.

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Statesman's Calcutta Notebook had this interesting item: "Reporting the fighting in Vietnam, a contemporary carried an agency message stating that 'the two generals held responsible for the defeat of the South Vietnamese forces on the far northern front were *fired* today'. So far, if in rather an American than an English medium, so good. But the paper's Bengali equivalent understood something quite different by 'fired'. It wrote and headlined, 'Saigon-e dujon general-ke- guli'. The unfortunate generals had now been shot."

Regulating the Bureaucracy

Mohammed Imam

Administrative Law in India by S P Sathe; N M Tripathi, Bombay, 1970; pp 294 + xxxviii; Rs 22.

ADMINISTRATIVE law, says Chief Justice P B Mukharji in his foreword to this book, still remains ideologically confused in spite of many attempts to define and explain it. In his view, 'the law that regulates administration in its impact on the subect', is perhaps a simple but incomplete definition of the nature of administrative law. The growth of the bureaucracy in the modern state and society is largely responsible for the growth and importance of administrative law. The purpose of administrative law is to control administrative actions and to correct them insofar as they affect or tend to affect the rights or interests of individuals. It is a branch of public law embodying principles, methods and machinery devised to achieve the above stated objective. Its need in India is no less and, barring a few exceptions, its growth can hardly be said to have failed to keep pace with the ever-growing need for it. Although administrative and legislative controls of administrative actions form part of this important branch of law and it is a practice to include them in any book dealing with administrative law, for the greater and more substantial part it consists of those principles of law and techniques which the courts have evolved over a period to correct administrative actions and to give adequate relief to the individual concerned.

Administrative law is ideologically confused primarily because it is judge made law. Judge made law, its nature and process of evolution being what they are, is incomparable to statute law in matters of brevity, clarity and policy consistency. There is no confusion so far as the object of this law is concerned. The uncertainty concerns the scope and extent of judicial interference with administrative actions. Hitherto the courts concentrated, in developing this law, on the form or nature of the administrative actions and this resulted in the inadequacy of judicial remedies against certain forms or kinds of administrative actions, namely, ministerial, administrative, discretionary, etc, notwithstanding the fact that they affected or tended to affect the rights or interests of the individual. This was more due to judicial self-restraint and historical reasons. In the development of administrative law the courts are giving up the approach of 'form of action' and are giving their most anxious consideration to the substance on which the action operates or the effect of such an action.

Judicial techniques and methods, not to speak of reasoning, have never been consistent in their reach and one can see in this judicial endeavour the main object for which these were devised, *viz*, to prevent injustice being done by an illegal administrative action. The hands of the courts under Article 226 of the Indian Constitution are not tied to issuing specified writs only. The Indian High Courts can issue any order, direction or writ for the enforcement of fundamental rights or for any other purpose. The power of our courts is constitutional and for certain purposes. The development of this branch of law by the courts cannot be explained in terms of its common law principles. It is unfortunate that the courts in India have adopted the 'form of action' approach and allowed the content of their power to be circumvented by the common law notion of judicial review. They are, however, slowly drifting from this position. It is now for the academic lawyers to examine this trend and deduce principles and general concepts from it.

In the book under review, the author has analysed and explained the subject under different headings, namely, classification of administrative action, legislative powers of the administration, control of delegated legislation, judicial control of administrative tribunals and quasi-judicial bodies, administrative discretion and the controls, judicial remedies, privileges and immunities of the state, public corporations and the Indian Ombudsman (*Lokpal* and *Lokayukta*). The book explains the subject with reference to decided cases upto the date of its publication and has the merit of explaining various topics with clarity, and of being handy and easily comprehensible to undergraduate students of law.

The first chapter is about the classification of administrative actions: the need for classification, various tests that are deducible from the cases decided by the courts for distinguishing legislative, administrative, judicial and quasi-judicial functions, and the difficulties that are present in the classification of these functions. Not all administrative actions were brought under the superior jurisdictions of the courts and the courts took to classifying administrative functions to find out whether the challenged action was of the type to which their jurisdiction extended. Due to the recent decisions of our Supreme Court, namely, *ACC* v *P N* Sharma, AIR (1965) SC 15, *State of Orissa* v *Dr (Miss) Bina Pani Dei*, AIR (1967) SC 1269, *Divisional Forest Officer, South Kheri* v *Ram Sahnehi Singh*, CA 1638/1969 decided on 15 1 1969 *Rampur Distillery Co Ltd* v *Company Law Board*, (1970) 2 SCR 177 and *A K Kraipak* v *Union of India*, (1970) 1 SCR 457, and of the English courts *Ridge* v *Baldwin* (1964) AC and *In re K(H) (an Infant)*. (1967) 1 All ER 226, perhaps it may be said that the need for classifying administrative action no longer exists, although the courts now and then continue to pay lip service to this concept.

In view of the fact that the jurisdiction of the High Courts under Article 226 is wide enough to issue any order (and is not necessarily confined to issuing one or more of the specified prerogative writs) to any person or authority throughout the territory over which their jurisdiction extends for the enforcement of any of the rights conferred by Part III of the Constitution and for any other purpose; that it is one of the fundamental rules of our constitutional set up that every citizen is protected against exercise of arbitrary authority by the state or its officers; that the jurisdiction of the administrative bodies is increasing at a rapid rate and the concept of rule of law would lose its vitality if the instrumentalities of the state are not charged with the duty of discharging their functions in a fair and just manner; and that the restrictions on fundamental rights under Article 19 in order to be valid must be reasonable both substantively and procedurally and irrespective of by what form of action the fundamental right is violated, the most appropriate test for judicial review of administrative action seems to be not whether the authority is under a duty to act judicially but whether the authority has the power to determine questions affecting the rights or interest of the individual or resulting in miscarriage of

justice — involving civil consequences. Any form of action, be it quasi-judicial or administrative, which produces these effects may be open to question on the ground that there was failure to comply with the principles of natural justice. The requirement of compliance with the principles of natural justice may need to be relaxed when an action is taken for safeguarding the security of the state or in the interest of public order or where an action is expressly excluded from judicial review by statute, provided such a statute does not suffer from constitutional infirmity.

The limitations upon the legislative powers of the administration have been considered in the light of American experience. Our courts, following the American practice, have denied to the executive, in *In re Delhi Laws Act, 1912,* AIR (1951) SC 332, the power of essential legislative function. But there being no definition of what constitutes an essential legislative function, the doctrine of 'non-delegability of essential legislative functions' can hardly be said to be a substantial check on the executive. 'Essential legislative function' is reduced to a mere statement of policy laying down adequate standards to guide the exercise of delegated legislation. The views of the book's author, and of Chief Justice Mukharji, expressing doubts about the wisdom of this judicial policy cannot but be shared.

The other checks on delegated legislation are both judicial and parliamentary. Parliamentary control of delegated legislation is becoming more effective in this country. Judicial control is confined to considering whether the subordinate legislation is, *ultra vires.* 'Reasonableness' as a ground for considering validity remains to be accepted by the courts. It is always possible for the courts to say that parliament or the state legislatures cannot be deemed to have intended to authorise the executive to make an unreasonable rule.

The grounds — for challenging the decisions of administrative tribunals and quasi-judicial bodies — such as, *ultra vires,* lack of jurisdiction, declining jurisdiction, determination of jurisdictional and collateral facts, and the rules of natural justice, have been considered briefly. Under the requirement of compliance with the principles of natural justice lies the assumption that the decision that results from following these principles would be a just one. Very often the cases that come to the courts reveal how unrealistic this assumption is and emphasise the need for supplementing these principles by the requirement to render a reasoned decision or a speaking order so that it becomes possible for the courts to determine whether in substance justice was done by the decision of these bodies. Such a view has been taken by the Supreme Court in *Hari Nagar Sugar Mills* v *Shyam Sunder* AIR (1961) SC 1969, in respect of the decisions of the tribunals coming in special leave appeal under Article 136, and by the High Court of Gujarat in *Testeel Ltd,* AIR (1970) Guj 1, and by the High Court of Madras in *Thiruvengadam,* AIR, (1970) Mad 34 in respect of decisions and orders challenged under Article 226 of the Constitution. To make the matter clear, the author suggests that the requirement for the administrative bodies to give reasoned decisions may be statutorily inserted in the General Clauses Act.

Until lately in the view of the courts, the exercise of administrative discretion was, apart from questions of its constitutionality, largely unquestionable, as it could be challenged only on grounds of improper purpose, *malafide* and leaving out relevant considerations or taking into account irrelevant considerations. After the *Barium Chemicals* and *Rohtas Industries* cases, the exercise of discretionary power is no longer so immune from judicial review. Pharases like 'in the opinion of', 'if satisfied' and 'reasonable cause to believe' are no longer taken to suggest the vesting of discretionary power. The courts are, however, yet to be seen examining the manner in which the discretion is exercised. This attitude of the courts is reflective of the very same formal approach and underlying it is the assumption or the trust that if certain given conditions are satisfied, the exercise of discretion must be deemed to be proper. This judicial restraint justifies and provides the necessity for having an institution popularly known as the Ombudsman, the proposal for setting up an Indian equivalent of which is contained in the *Lokpal* and *Lokayuktas* Bill, 1968. The powers and procedures to be followed by it are explained and discussed by the author in a separate chapter.

The discussion on judicial remedies is mainly confined to the nature and scope of traditional writs and civil remedies such as injunction and declaratory action. The jurisdiction of the courts in India is not confined to issuing these writs. They can issue any direction, writ or order and this power is in great measure being exercised by them. An analysis and study of such other types of directions, orders and writs is called for so as to ascertain the principles underlying them and the purposes for which and the circumstances in which they have been issued.

The setback to the principle and policy laid down in *State of Rajasthan* v *Vidyawati,* AIR (1962) SC 933, caused by the decision in *Kasturilal* v *State of UP,* AIR (1965) SC 1039, as to the extent to which the state is liable for the tortious acts of its servants committed in the discharge of their duties has been presented lucidly in the book. This exposition can be relied upon to reiterate the demand voiced in many quarters to remedy the situation by suitable legislations. The Government (Liability in Tort) Bill, 1967, does not provide an adequate answer as it contains a long list of actions of the government that are exempt from the scope of the Bill and the resultant position does not seem to be an improvement. The liability of the state under a statute as a general proposition that came to be eventually established in *State of West Bengal* v *Corporation of Calcutta,* AIR (1967 SC 997, and the privilege of the state to withhold documents from the courts (greatly reduced in content now), are explained briefly but satisfactorily. The suggestion is added that special privileges, immunities and preferences may be retained by the state only insofar as the special features of the state's functions require them. In all other respects the state should, in the eye of the law, not be different from a private individual. Should not this principle be statutorily provided for or judicially read in the general principle of rule law or deduced from the preamble and the scheme of our Constitution, particularly from the guarantee of equality before the law?

Bank of America

BANK OF AMERICA has announced plans to establish a multi-nationally owned, regional merchant bank with headquarters in Singapore. Swiss, British, French and Singapore banks have already agreed to participate in the proposed merchant bank. They are: Union Bank of Switzerland, Zurich; Kleinwort, Benson, London; Banque de Paris et des Pays-Bas S A, Paris and Overseas Union Bank Singapore.

The merchant bank, with initial authorised capitalisation of US $10.65 million, is intended to serve the south-east Asian area. It is expected to open late this year. The planned merchant banking institution expects to engage in discounting bills of exchange, short and medium term lending, acceptance and money markets operations, underwriting, syndicating loans, financial counseling and investment services.

Studies in Planning Techniques

IV—Planning the Distribution of Income

R M Sundrum

One of the great concerns of Indian economic policy from the very beginning has been with reducing economic inequalities among the people, but little has been done to express this concern in a practical way through the techniques of planning.

It is only recently, as more data on income distribution have become available and been subjected to a great deal of analysis, that we have become more aware of the problem and more concerned to make it an important objective of practical policy.

There have already been a number of studies of the actual position and of various lines of policy which might be followed to deal with it. The present paper is an attempt to bring these together in a broad framework of policies as an aid to reconsider the techniques of planning for this purpose.

The general conclusion to which this paper hopes to attract attention is that planning for equalisation must strike at the root causes of inequality and that the sources of inequality and the possibilities of reducing them are scattered all over the economy.

These have to be identified more closely to estimate the equalising power of various specific policies. Once this is done, it will be possible to orchestrate them in various combinations so that what we gain in equalisation, we do not lose in development.

For this purpose, it is also necessary to see the role of these policies in a time perspective. It is highly probable that drastic measures for equalisation may be self-defeating and damaging to growth prospects at the same time.

ONE of the great concerns of Indian economic policy from the very beginning has been with reducing economic inequalities among the people, but little has been done to express this concern in a practical way through the techniques of planning. It is only recently, as more data on income distribution have become available and been subjected to a great deal of analysis, that we have become more aware of the problem and more concerned to make it an importanat objective of practical policy. There have already been a number of studies of the actual position and of various lines of policy which might be followed to deal with it. The present paper is an attempt to bring these together in a broad framework of policies as an aid to reconsider the techniques of planning for this purpose.

The problem of income distribution in a developing country such as ours is rendered particularly difficult by the fact that our primary concern is still with economic development. The difficulty is accentuated by the generalisation drawn by Kuznets that inequality tends to widen in the earlier phases of growth and to narrow only in its later phases.[1] This generalisation, of course, is based on what may be called the 'natural history' of the process, i.e, the process as it works out in the natural course of events, when equalisation has not been a primary objective of policy. But it is still useful to show the nature of the challenge to policy-making when greater equality becomes an integral part of our planning for development.

In this, as in all matters of long-term policy, it is useful to have a clear idea of the ultimate objective we should aim at. The goal is clearly not one of complete equality, whatever that might mean. This is important because some of the most fashionable measures of inequality are based on comparing the actual distribution with an equal distribution. In the sort of mixed economy most people have agreed upon, which leaves a good deal of scope for free enterprise and private initiative, the ideal is rather what Arthur Lewis has described thus: "If one is concerned with incentives for effort, as any serious thinker must be, the emphasis naturally rests on equality of opportunity rather than equality of reward. The latter survives only in the form of a concern to eliminate extremes from both ends of the income scale. Equality of opportunity centres these days on trying to ensure that every young person shall have equal access to the fullest education from which he can benefit, and thereafter equal access to every job, irrespective of tribe, class, race or religion. If incomes were based only on opportunity, the result would be poverty for the handicapped and the unlucky, and riches for the talented or the lucky. Here the sentiment for equality of incomes comes in to cut off both ends."[2] This certainly is a noble objective, worthy of our utmost endeavours, but it is also a distant objective. In fact it is worthy of the most anxious concern whether this is realistically achievable by the end of the development phase, towards which current planning efforts have to be directed. However, it is a bit academic to debate this aspect of the matter; what is unquestionably clear is that this is the goal towards which we must hasten with all deliberate speed. In particular, this view of the ultimate goal provides us with an instrument of study and a test of policy, namely to consider how far particular observed income differentials are based on inequality of opportunity and to consider how far each act of policy narrows or widens the inequality of opportunities.

Key Elements

There are, of course, many important influences on inequality of incomes and inequality of opportunities which

require deep analysis of sociological and political phenomena. These aspects have tended to be neglected in much of the recent discussion. They require intensive study by experts, and an effort must be made to incorporate their findings in our planning process. The present study is, alas, confined to the economic aspects, because of the author's limitations. They are also important aspects. On this understanding, let us consider some aspects of the process of change in the distribution of incomes. Some of the key elements in this process may be described symbolically as follows:

$$I_t = A.I_{t-1} + R.W_t \quad \ldots (1)$$

$$W_t = W_{t-1} + R.I_{t-1} \quad \ldots (2)$$

where I_t stands for the distribution of income at time t; W_t for the distribution of wealth at time t; A is a matrix which shows the effect of the production system on the distribution of incomes from work; R a matrix which shows the effect of incomes from property on the distribution of total incomes, and B is a matrix which shows the process of private wealth accumulation, i e, the effect of income distribution on changes in wealth distribution. Equation (1) shows that the distribution of income at one point of time on the distribution in the previous period, modified by the influence of the production system. It also depends on the wealth distribution, and the way wealth influences income. Equation (2) shows that the wealth distribution at any time depends on the distribution in the previous period, and the effect of the previous income distribution. Differencing Equation (1) and substituting Equation (2), we get

$$I_t = (1+A+R.B)\ I_{t-1} - A.I_{t-2} \quad \ldots (1)$$

This second-order difference equation hints at the cumulative tendencies operating in the process of change of the income distribution, but this way of considering the matter is too aggregative to be of practical use, and it would be idle to pursue this much further.

A useful beginning to the study of the various policies that can be deployed is to consider their main points of focus, such as the elements described in the above equations. This will help us to appreciate the quantitative significance of the equalising power of each policy approach, and also to clarify in our minds the time periods involved in achieving perceptible effects. On this basis, let us look first at the variable I_t, describing the income distribution to begin with. It represents a position we are dissatisfied with and which we wish to change in the direction of greater equality.

A good deal of the world literature on the subject has been concerned with fitting general mathematical functions and trying to discern some universal laws of motion in the process. This approach tries to summarise the pattern of inequalities at any time in terms of some statistical constants, corresponding to the parameters of the mathematical functions being fitted. Useful as this may be in studying some long-term aspects and to make some broad international comparisons, it is not a particularly useful basis for policy studies, as the inequality of income distribution in a country such as ours is the result of too many disjointed influences and requires action at so many different fronts. Some other measurements, more directly related to the actual forces at work and reflecting the role of particular policies, are needed.

In recent years, there has been considerable discussion of some aspects of income distribution in India. On the one hand, there has been concern with the concentration of economic power at the upper end, and there has been fair unanimity that, in spite of all the countervailing measures sought to be implemented, this concentration has increased during the period of our plans. At the other end, there has been great concern with the extent of poverty. This has been measured in various ways. This 1962 Study Group defined the minimum standard of living as a per capita consumption level of Rs 240 (in 1960-61 prices) a year, at a time when the average for the whole country was Rs 280; on this basis, the proportion of poor people was between 50 and 60 per cent. More recently, Dandekar and Rath have defined the poverty line in terms of nutritional adequacy, i e, ability to consume 2,250 calories per capita daily. Using an all-India average consumption of foods, they estimated the annual cost of such a diet at Rs 170 per capita in rural areas and Rs 270 in urban areas, at a time when the average consumption expenditures were Rs 260 and Rs 360 in rural and urban areas respectively. On this basis, they found that 40 per cent of people in rural areas and 50 per cent in urban areas were poor.[3]

There are some conceptual difficulties with the definition of poverty in such terms. The concept is based on a nutritionally adequate diet determined nationally, with the cost of this diet varied from state to state according to local prices. This has two consequences. In states where the average income is itself low, the proportion of the population below this level is found to be large. For example, Dandekar and Rath find that 90.75 per cent of the rural population of Kerala were poor in this sense in 1961-62. The other difficulty is that this concept does not take account of regional differences in the sort of foods from which people derive their calories. In Kerala, again, the main source of calories for the population is cheaper than the foods used elsewhere, so that a nutritionally adequate diet could be obtained with a lower consumption expenditure and the proportion of poor people would not be so high. It may, however, be argued that it is a reflection of the greater poverty of the people of Kerala that they have to resort to cheaper foods for their nutrition. There are, therefore, some difficulties in applying such a definition of poverty to measure differences in inequality between states. It is still a reasonable compromise for a study of policy issues at the national level and reveals a seriously disturbing situation.

The large proportion of people living below the minimum standard of living is due to the low level of income of the whole country and to the unequal distribution of income. Each explanation indicates its own line of attack on the problem. The extent to which the extent of poverty can be reduced by overall growth has been worked out in the long-term perspective underlying the Fourth Plan. Its target is an increase of Net Domestic Product from 1968-69 to 1980-81 at 6 per cent annually, and of total private consumption at 5.3 per cent annually, or 86 per cent over the whole period. As population is projected to increase by 31 per cent, this implies an increase of per capita consumption by 42 per cent, i e, from Rs 488 in 1968-69 to Rs 693 in 1980-81 (in 1967-68 prices). Assuming the same pattern of inequality, the per capita consumption of the second poorest decile would increase from Rs 230 to Rs 320; it would still be 25 per cent less than the minimum standard of living, estimated at Rs 430 in 1967-68 prices. Another way of looking at the problem is that the proportion of poor people would decline only from 55 per cent to 35 per cent. The effect of the projected growth alone on the extent of poverty is not very encouraging, even if it can be achieved fully. Hence, the concern with measures to change the income distribution.

Past trends in the extent of poverty have not been very encouraging either. Ojha[4] and Bardhan[5] have argued that the extent of poverty in rural areas has increased in the past decade, while Minhas[6] holds the contrary view. In a comprehensive study, Vaidyanathan[7] has concluded that there has been some decline in the degree of inequality (as measured by the Lorenz Ratio) in the past decade, but because per capita real consumption also declined in the rural areas, being about 16 per cent lower in 1967-68 compared with 1960-61, the proportion of the rural population below a given level of per capita consumption expenditure has increased appreciably during this period. The position is worsened by the fact observed in recent studies that when prices rise, they rise faster for the poor than for the rich.[8]

Policy Goal

This leads to the question of what should be our goal for equalisation policies in the future. In the long period, we have defined it in terms of equality of opportunity. What about the short-term in which the overall income changes will be small? We may think of the task as one of rotating the income distribution curve around a point, say P, acting as the fulcrum, so that incomes above this point are reduced, and those of persons below this point are raised. The tendency in much recent discussion has been to locate this point at a high level but this, by itself, would make little difference to all those below that level. To make a perceptible impact, the fulcrum has to be located much lower down. The argument then becomes one between the very poor and the not so very poor. Even if a 'ceiling and floor' approach, such as that suggested by Dandekar and Rath is followed, there will be the problem of reconciling the middle groups to little change in their low consumption levels, until the economy has adjusted to the fast population growth and reached a higher standard.

Let us now consider policies acting directly on I_t. The traditional instrument of income redistribution in mixed economies has been redistributive taxation. If it can be used at all, it can act fast, but this is countered by its limited scope. Income tax in India covered in 1966-67 only about 1.5 per cent of households and about 5.7 per cent of the national income, and there is no extensive system of transfer payments. The effective degree of progression has not changed very much in the past, so that, as Ved Gandhi has concluded for the period 1950-51 to 1963-64, "income-tax has been regressive and inequitous intertemporally".[9] While an equitable structure of progressive taxation is an essential element in an equalisation programme, it must be recognised that its role is quite limited. If the economic system persistently generates a very unequal distribution of income, the tax system by itself will be unequal to cope with the situation; to do so, the tax structure has to be so progressive as to seriously affect incentives.

While transfer payments to the poor have played a negligible part in India, a great deal of progress has been achieved in a wider distribution of social services. As a result, the distribution of consumer welfare has been equalised to an extent not revealed by studies based on the distribution of consumption expenditures. This has, in fact, been the major contribution of recent policies to greater equality. However, there is much more to be done. The quality of the services provided for the poor is much below that provided for the better off. The emphasis on higher education has been at the expense of the early fulfilment of the constitutional target for primary education for the poorer classes. The provision of such necessities as water supply and public housing for the poor and rural areas has lagged behind the corresponding provision for urban areas. Beyond all this, there is a limit to the possibilities of substitution of public goods for private goods, so that equalisation policies have to go well beyond the provision of social services.

One further point to note is that even if greater equality of distribution of money incomes can be achieved quickly, it will take a much longer time for the economy to adjust its production pattern to the consumption pattern corresponding to the changed income distribution. Equalisation policies will therefore have to be phased to synchronise with policies to change the production structure. We may also consider an emphasis on equalisation of consumption rather than incomes. This means increasing the savings rates of the richer. As these savings get invested in wealth accumulation, it means postponing the problem of inequality to a time when we may be better able to cope with it.

A factor which might be discussed at this stage is the effect of the sort of inflation that we have been having in India. The usual text-book answer is that inflation has income regressive effects, but the problem has to be studied in more detail. Here we have the basic difficulty that we do not quite understand the causes of the inflationary process in India. Planning seems to be based on a 'monetary' theory of inflation, but the increase in money supply between 1950 and 1967 at 5.6 per cent points a year does not quite explain the increase in wholesale prices at 3.8 per cent points, together with an increase in real national income at 3.7 per cent points a year. Between 1951 and 1963, consumer prices increased at 2.7 per cent points annually, but money wages of factory workers increased by 3.8 per cent points, giving them an annual rise of 0.7 per cent in real wages; hence a cost-push theory of inflation has been advanced by Weintraub.[10] From 1964 onwards, prices increased much faster between 11 per cent and 16 per cent, but these were years of agricultural shortfalls. Some sections in the agricultural sector benefited but who—farmers or traders? According to the text-books, fixed income groups always suffer but many of then repair the damage fairly rapidly by the operation of the cost-of-living clauses. Further there has always been the suspicion that one important group of fixed income earners, the government servants, have been overpaid, considering the general poverty of the country. As Gadgil said, in the late fifties, "India continues to have, therefore, one of the most non-equalitarian systems of payments to the higher public officials."[11] In spite of all this, there can be no question that inflation affects large sections of poor people adversely. If it is decided that inflation to some degree is inevitable, then it is urgently necessary to protect the living standards of poor people against these effects.

Distribution of Wealth

The next group of policies to explore is that connected with the distribution of wealth. It is clearly an important factor influencing the income distribution. A highly unequal distribution of wealth leads to a highly unequal distribution of income. At the same time, an unequal distribution of income leads to inequality in wealth distribution. In India, as in most countries, wealth is more unequally distributed than income.[12] In rural areas, where land accounts for over

two-thirds of all assets, a 1961 estimate showed that the top 5 per cent of land-owning households held 36 per cent of the area, while the bottom 86 per cent held only 40 per cent of the area. It was also found that 25 per cent of rural households were agricultural labour households, i e, households depending on agricultural wage employment as their principal source of livelihood; 60 per cent of these had no land, while the remainder operated small pieces of land. In urban areas, the main form of wealth is residential property. It has been estimated that 53 per cent of urban households owned the houses they lived in, but the value of these houses varied so greatly that the concentration ratio of the value distribution was about 0.68. Further, the top 10 per cent were thought to own all rented property bringing the concentration ratio to 0.79. After this, the next major item is business assets, owned by about 1.7 million persons, with a concentration ratio of about 0.75. Financial assets may be broadly classified as currency and deposits, shares in joint stock companies, and government securities. Little is known about the ownership of currency, but it is interesting to note that the proportion of currency and deposits in the net investment of household savings in financial assets rose from 47 per cent in 1954-55 to 87 per cent in 1970-71. Shares in joint stock companies were owned by 0.19 million persons in the household sector, with a concentration ratio of 0.57. Government securities were owned by only 0.03 million persons in this sector, with a concentration ratio of 0.46

What can be done about the inequality of such wealth distribution? Excessive wealth concentrations may be nationalised, but there is little that can be done by redistribution, with the important exception of agricultural land. The total supply of land is so limited, and there are so many legitimate claimants for it that the approach through redistribution is the obvious route. Another possibility is the sharing of business assets with workers. This is not only an equalising measure but would also give workers a greater stake in the enterprise in which they are employed.

As the possibilities of redistribution of wealth, with the exception of land, are so limited, let us consider ways of regulating the effect of unequal wealth distribution on the income distribution i e, the effect of the matrix R. Income from wealth can be taxed more heavily than income from work, and also more progressively. In this connection, the role of wealth taxes is important. Wealth taxes have been yielding about Rs 10 crores in recent years, but Krishnan has estimated that by eliminating the large number of exemptions, the yield could be raised to between Rs 200 and Rs 300 crores. Wealth taxes can be looked at from two points of view—as a means of the progressive nationalisation of the more concentrated forms of wealth and as a more efficient means for the higher taxation of income from property. But any such approach to wealth taxation must be based on a long-term view of the desired pattern of private wealth ownership in the country. If agricultural land is expropriated and redistributed, it discriminates in favour of holders of wealth in other forms. Individuals must hold their wealth, especially from hump savings, in some form or other, and the forms in which they hold it depends on the rate of returns expected from them; the taxation of wealth must be planned so that the resulting returns lead to a desired pattern. Just now, there seems to be an excessive incentive to hold wealth in the form of urban residential property, thus diverting resources from other uses. The 1964 Perspective Plan expected Government to increase its borrowing from household savings from 20 per cent in 1960 to 40 per cent in 1965; this was not achieved; in order to achieve this, securities must be made more attractive than they are now, compared with other forms of assets. It may be worth experimenting with value-linked bonds, even with low rates of interest, to reassure savers against the fear of inflation.

We now consider the effects of income distribution on wealth accumulation, i e, the effect of the matrix B. This constitutes an important link in a cumulative disequalising tendency. Once a family has a level of income beyond its consumption needs, it saves, accumulates wealth, increases its income, saves more and so on. The higher the level of income over consumption needs, the more strongly this tendency operates. On the other hand, a family starting with an income below its consumption needs, dissaves or reduces its consumption standard, leaving the next generation worse off. This process has to be studied in its life-cycle pattern. Every family goes through a process of expanding family size; to maintain its living standard, its earning capacity must increase correspondingly. This is difficult for most families in the rural sector, so long as their income depends only on the size of their landholdings. It can only be achieved by sufficiently widespread agricultural development, raising productivity of the land, or by providing adequate alternative employment to rural workers. In order to study the extent of these trends, it would be highly desirable to relate household earnings or consumption expenditures according to the age of the head of household.

In this connection, it is interesting to study the relationship between living standards and household sizes. In rural areas, the average household size in the lowest decile is 5.87 compared with 3.78 in the top 5 per cent; in urban areas, the average household size in the bottom decile is as large as 6.09 compared with 2.25 for the richest 5 per cent. Dandekar and Rath conclude that "there is therefore little doubt that the size of a household is an important factor in pushing it down the ladder".[13] The relationship is more complex, as we see if we take income as the dependent variable. This is done in Table 1, which shows a U-shaped curve; per capita consumption declines as family size increases up to a point, and then increases thereafter. The data used were taken from Vaidyanathan, referred to above.

Finally, we turn to consider the effect of the production system on income inequalities. i e, the effect of the matrix A. Here, it is convenient to consider individual aspects of the system rather than the aggregative position at the national level. This will be more conducive to direct attention to specific policy decisions that can be taken to improve the position. There is, however, one qualification that has to be borne in mind in using this sectional approach, for equalisation according to some aspects might be cancelled by factors affecting other aspects. Take, for example, the effect of educational improvement between two periods shown in Table 2. The Table shows the change in proportions in four educational categories : U (with less than primary education); P (with primary education); S (with secondary education); and H (with higher education) of the workers in the labour force, and the changes in average incomes between the two periods. The educational expansion has reduced the proportions in the lowest category and increased it in the

higher categories, and average incomes have increased unequally. The result is still an increase in the co-efficient of variation from 98 per cent to 99 per cent, with the Lorenz Ratio almost the same. This, however, is just a cautionary point to indicate the complexity of factors entering into the transitional stages of the process of equalisation.

TABLE 1 : HOUSEHOLD SIZE AND PER CAPITA CONSUMPTION EXPENDITURES IN RURAL INDIA

Household Size	1958	1964-65
1	31.8	38.3
2	26.5	31.4
3	23.4	28.0
4	21.4	26.3
5	20.5	25.3
6	19.4	24.3
7	20.1	23.7
8	19.3	23.7
9	20.8	
10	20.9	
11	21.1	
12	23.7	25.7
13	21.1	
14	25.5	
15+	28.0	
Total	22.1	26.7

TABLE 2 : HYPOTHETICAL EXAMPLE OF THE EFFECT OF EDUCATIONAL EXPANSION

Educational Category	Period I		Period II	
	% in Labour Force	Average Income	% in Labour Force	Average Income
U	75	100	64	200
P	19	430	20	440
S	5	596	14	960
H	1	1350	2	2480
Total	100	200	100	400

TABLE 3: INCOME AND CONSUMPTION EXPENDITURES BY STATES

State	Per Capita State Income 1964-65 *	Per Capita Monthly Consumer Expenditure 1961-62		
		State **	Rural †	Urban †
Andhra Pradesh	458	20.88	19.96	25.20
Assam	394	23.42	22.03	40.15
Bihar	292	20.33	18.96	35.20
Gujarat	523)			
Maharashtra	529)	24.82	20.76	35.57
Kerala	391	21.80	21.00	26.31
Madhya Pradesh	378	22.34	21.47	27.56
Mysore	441	25.27	24.98	26.29
Orissa	368	18.43	17.40	33.64
Punjab	576	32.19	32.68	30.26
Rajasthan	365	24.53	23.62	29.19
Tamil Nadu	436	23.90	21.69	29.98
Uttar Pradesh	374	22.99	22.56	25.90
West Bengal	495	25.09	20.81	38.31
All India	423	23.35	21.63	31.20

Sources: * Government of Kerala, State Planning Board, Fourth Five-Year Plan 1969-74, p 5.
** Average of rural and urban data, using 1961 Census populations as weights.
† National Sample Survey of India, 17th Round, September 1961 to July 1962.

REGIONAL INEQUALITIES

Let us begin by considering the regional inequalities. Some data are summarised in Table 3. The difficulties of measuring per capita income, especially at the state level, are well known. It is therefore useful to supplement the income estimates by using the per capita consumer expenditures collected by the National Sample Survey. The inequalities between states in consumer expenditures (co-efficient of variation 13.4 per cent) is lower than that in incomes (co-efficient of variation 17.5 per cent); the two series are quite highly correlated (co-efficient of correlation +0.75). Urban expenditures are generally higher than rural expenditures, except in the case of Punjab, but there is great variation in the urban-rural disparity among the states.

There is also some evidence that these disparities have been increasing over time. The inequality of consumption expenditures in rural areas among the states (co-efficient of variation 16 per cent) is about the same as that in urban areas (co-efficient of variation 15.6 per cent), but an interesting fact that emerges is that the per capita expenditures in urban and in rural areas among the states have a weak negative correlation (co-efficient of correlation —0.22). The inequality in rural living standards among the states depends to some extent on the population presssure on the land, but this relationship is rather weak (co-efficient of correlation +0.38) a great deal of the variation must therefore be attributed to variations in the quality of the land, availability of inputs like water, etc, agricultural practices and non-agricultural incomes. It has not been possible to explain the variation in urban expenditures among the states; there is some evidence that it tends to counter-balance the differentials in consumer expenditures in the rural areas of the same states. Of course, all this is subject to the reliability of the data. Future prospects for reducing the inter-state differentials are not very promising. They depend to a great extent on the relative amounts of investments in the various states. But as seen in a previous paper, because Central assistance is largely neutral (co-efficient of correlation —0.22) and states' own resources are highly correlated with state income levels (co-efficient of correlation +0.78), the overall Plan expenditures in the states are also highly correlated with state income levels (co-efficient of correlation +0.65).

Urban incomes are higher than rural incomes, and the disparity has been increasing over time. This reflects to some extent the neglect of agricultural development in the period covered by the statistical data. Agricultural development plays a crucial role in the drive towards equality, both by promoting fuller employment in the rural areas and by raising the output of goods most needed by the poor in all areas.

It is now well established that inequalities among farmers in rural areas are largely a reflection of the uneven distribution of land. Consumption expenditures are more equally distributed than land-holdings. Vaidyanathan has shown that the output of animal husbandry is more evenly distributed

than land. This points to the role that the further development of animal husbandry, focused on the smaller and less productive farms, can play in ameliorating the effect of the unequal distribution of land.

Agricultural labourers, without any land or with very little land, are among the poorest of the rural population. Special policies are required for the improvement of their condition. The question is whether they should be absorbed more fully into the agricultural sector or whether non-agricultural employment should be found for them. To provide more agricultural employment requires giving an even more labour-intensive bias to agriculture. Outside the agricultural sector but still within the rural areas, a strong case has been argued for employing them and other underemployed rural poor in rural works programmes. The success of this depends on building up a shelf of projects in all parts of the country. There are also questions of how tightly they should be organised for non-agricultural work and over what areas in the neighbourhood of their homes they should be employed.

There is then the question of whether there is any disequalising tendency in the application of the new agricultural technology. Some such tendency has occurred as a result of the concentration of intensive development efforts in particular districts; the effect of this could have been reduced if the government could have absorbed a greater proportion of the benefits accruing to a particular section of the people. However, the effect would reduce in course of time as development efforts spread to more areas. There is however the question of whether the new technology gives a greater benefit to larger farms; the evidence available so far is inconclusive.

Urban Areas

We turn now to consider some aspects affecting inequalities in urban areas. Although average incomes in urban areas are higher than in rural areas, income distribution is more unequal in urban areas, so that the proportion of poor people is the same, or even higher, in urban areas. In urban areas, even more so than in rural areas, the basic source of inequality is that between the employed and the unemployed. In rural areas, outright unemployment is less common and poverty is more due to underemployment. There is also a lot of underemployment in urban areas, especially in the service sector, where the situation is closer to disguised unemployment. As one commentator has put it, the poor cannot afford the luxury of unemployment. Even so, there is considerable open unemployment in urban areas. This is ultimately traceable to the fact that industrial employment, which in any case, grows more slowly than industrial production or investment, is also growing more slowly than the urban labour force. In the case of the urban labour force, the high rate of natural increase is reinforced by a steady rural-urban migration. This has been mostly attributed to the push factor of population pressure on the land in rural areas, but this assumption is worthy of further study. The flow of rural-urban migration may be more responsive to the actual, or imagined, difference between employment opportunities and income expectations in urban and rural areas. It has, therefore, to be seriously considered whether even the wretched conditions of the poor in urban areas provide an excessive incentive to rural migrants. To some extent, it may even be that policies to promote employment in urban areas actually increase the volume of unemployment by inducing a higher rate of in-migration. Part of the problem may have to be tackled by deliberate urbanisation policies. In the past, the share of small towns in urbanisation has actually been declining. Policies to promote the growth of such small towns may have beneficial effects on agricultural development in their rural hinterlands and on employment opportunities for rural migrants.

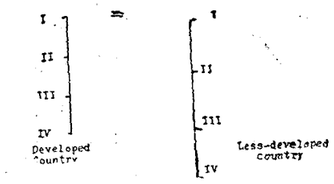
The role of small-scale industries has also to be considered as an equalisation policy. Lydall and Dhar[14] have argued that the productivity of capital is lower in these industries. Efforts should therefore be made to improve their technical efficiency. Also, the role of such industries in the training of entrepreneurs should be studied.

Another aspect of income inequalities affecting urban areas is the share of wages and salaries in value added in manufacturing industry. According to the UN Study of the Growth of Modern Industry, for 1963, this share is, on the average, about 48 per cent for the developed countries, and about 28 per cent for the less-developed countries. The proportion for India is given as 47 per cent, but this is not quite comparable because the Indian figures, unlike those of other countries, give value added in manufacturing net of depreciation.

Yet another source of inequality in urban areas is the different educational levels of workers. Educational progress has been sought after as a great equalising force. In fact, as Kuznets has pointed out, a considerable part of the trend towards equality in the later phase of economic growth in the developed countries has been due to the greater investment in the training and education of labour.[15] And Indian development strategy has also been based on this premise. But past developments raise some serious doubts as to whether the educational expansion has had an equalising effect on the whole. One problem is the extent of inequality in the access to education, a problem to which attention has been drawn by the Education Commission. It is not only a matter of the difficulty of poor families in meeting educational costs, but also the lag of primary education, in quantity and quality, behind other levels. Under these conditions, educational expansion, far from being an equalising force, may actually promote inequality. As Lydall has confirmed in his studies, "societies in which education is more unequally distributed will exhibit a wider dispersion of earnings than those in which it is more equally distributed".[16]

The other problem concerns the earnings differentials between the more and the less educated workers. These differentials are greater in less-developed countries than in developed countries.[17] The situation may be illustrated as in Figure 1. In this figure, the wages of the highest level I workers in the less-developed country is placed at the same level as in the developed countries, as they would be if they were free to migrate in search of personal advancement. However, the lowest level IV workers have earnings determined by the relative affluence or poverty of their countries. As a result, the salary differentials by education in the less-developed countries are higher than in the developed countries. The greater differential for the more educated workers in the less-developed countries is also due to the greater scarcity of such workers. In many countries, these differentials tend to persist from former periods of scarcities, as in colonial times, when the high-level manpower needs were mostly met by expatriates. In a period of such rapid educational expansion as has occurred in India, the more important question is the speed with which these differentials are reduced as a result of educational expansion.

Figure 1: Earnings Differentials by Education



The process of narrowing down of differentials has been very slow. This has been a cause of the phenomenon of educated unemployment. Unemployment in agriculture may be explained in terms of the musical chairs game, with more players than chairs, corresponding to more workers than jobs. In the case of educated workers, however, Blaug *et al*[18] have applied a dynamic model (due to Arrow and Capron) based on a queuing process; the unemployed corresponding to queues in the process of adjusting wages to the supply-demand position. The slower this process, the longer the queue, i e, the greater the unemployment. The adjustment process has been described by Arthur Lewis: "The process is inevitable, if painful and dangerous. It is painful because it requires that the young people coming out of schools and universities continually adjust their expectations downwards, and this is a frustrating process. It is dangerous because this frustration may erupt politically".[19] It is the role of planning to make this process less painful and less dangerous.

The slowness of the adjustment process has a number of effects on inequalities. One effect is that, as Blaug *et al* have tried to show, the private rates of return to more education are greater than the social rates of return, giving rise to a great pressure of private demand for higher education, which in turn, given the present 'open-door' policy, forces an excessive expansion at the higher levels at the expense of quality, and at the expense of primary education. Another effect is that at these high salary expectations of educated workers, their absorption in the private sector is slowed down, leading to greater problems of unemployment. Yet another effect is to raise the cost of public services and to reduce their equalising effects, and at the same time, reducing the pace of development and again reducing the trend towards equalisation by that route.

In most countries, the public sector is one of the major employers of educated workers and this is even more so in the less developed countries like India. Because of this dominant position, the initiative for adjusting salary structures to narrow down the differentials and to promote the better and fuller utilisation of educated manpower has to come from the government itself. However, past Pay Commissions have failed to set the pace in the public sector, but have taken their cue from the private sector instead. The issues before the present Pay Commission have been amply discussed by Dandekar.[20] If, because of its restricted terms of reference, the Pay Commission is not able to relate the question of emoluments of government employees to the economic position of the country, the Planning Commission has to give the lead in formulating an integrated policy in respect of wages, incomes and prices.

The general conclusion to which this paper hopes to attract attention is that planning for equalisation must strike at the root causes of inequality and that the sources of inequality and the possibilities of reducing them are scattered all over the economy. These have to be identified more closely to estimate the equalising power of various specific policies. Once this is done, it will be possible to orchestrate them in various combinations so that what we gain in equalisation, we do not lose in development. For this purpose, it is also necessary to see the role of these policies in a time perspective. It is highly probable that drastic measures for equalisation may be self-defeating and damaging to growth prospects at the same time.

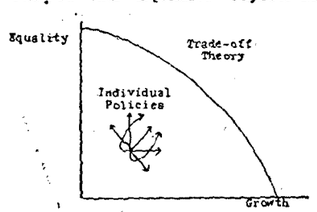
Growth versus Equality

The conflict between economic growth and income equality has always fascinated economists. There is a general feeling amongst us that the two are incompatible and that there is a trade-off between them. The growth of the national income is considered an economic objective, against which is poised equalisation, considered as a social objective. The two objectives were not advanced simultaneously in the natural history of the early stages of growth in the developed countries, but this does not constitute a universal law on the subject. The recent history of these countries shows many tendencies which have had positive effects on both objectives. These must be studied in detail in terms of individual policies, for policies vary in the effects on growth and equality. Even if some policies seem to advance one objective at the expense of the other in the short-term, their effects must be studied over a longer run as well, for then the two objectives may be reconciled. The possibilities are illustrated in Figure 2.

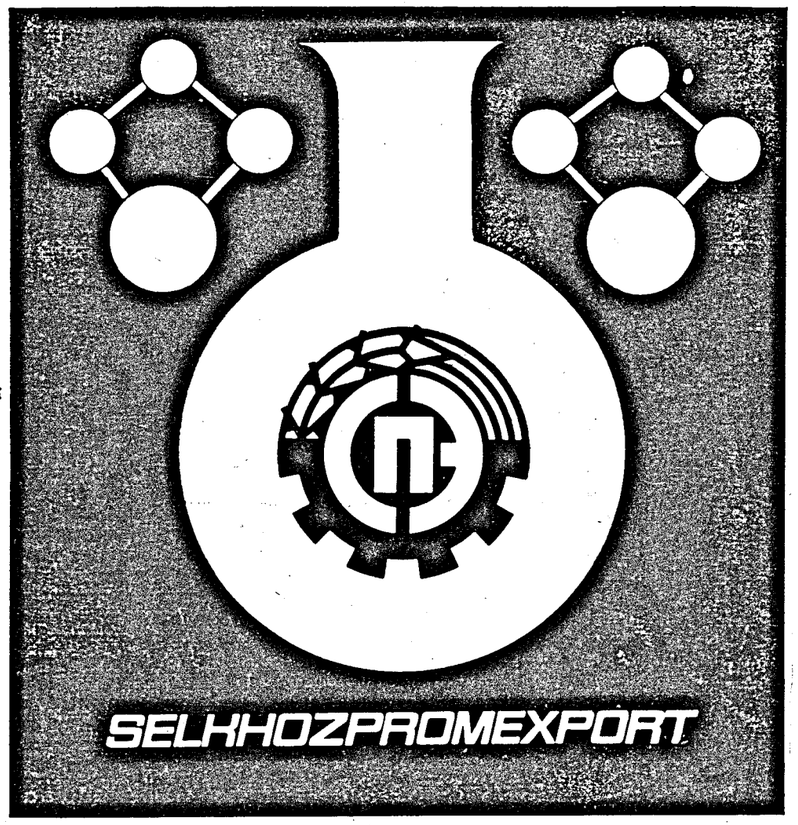
The options open to countries attempting development with their eyes on both objectives of growth and equality must, therefore be examined in some detail. In doing this, we leave out of the present consideration the political aspects, namely the threat of great and growing inequality to political stability, the pre-condition of economic growth. We must note, however, the wide ranging powers of modern governments, especially as it has come to be in India. In its more narrowly economic aspects, the case is generally argued in macro-economic terms at a high level of abstraction, thus: The propensity to save of individuals increases with their income; therefore, more equality means less savings and hence, less growth. In more sophisticated versions, it is recognised that the growth sought for is growth of consumption, so that growth of savings beyond a certain point may reduce growth of consumption, as discussed in the theorems on the optimum propensity to consume and the golden rule of savings. However, it is felt that in the early stages of growth, the level of savings is well below this critical point. There are a number of qualifications to this general argument once we look in more detail, especially in dynamic and macro-economic terms. For example, Harry Johnson has studied the effect of interdependence of consumption behaviour.[21] He has shown cases of what he calls an emulative society, as distinct from a competitive society, in which the effect of redistribution is to reduce aggregate consumption and increase savings.

In the macro-economic argument summarised above, it is assumed that growth depends only on savings and investment. But in the presence of unemployed resources, an increase of effective demand from consumption, at

Figure 2: Possible Effects on Growth and Equality Objectives



least in some sectors, could lead to increased activity, higher incomes and more consumption later on. It may seem paradoxical to argue for an increase in demand under the inflationary conditions that generally prevail in developing countries, but the argument cannot be rejected only on the strength of a general presumption. For example, it is not yet clear whether some patterns of agricultural development have not been impeded by lack of demand, and hence of incentives. Again, the general consensus of the OCED books on trade and industrialisation policies seems to be that import-substituting industrial enterprises have been producing expensive products for use by a restricted middle class and so production came up rapidly against the limits of the home market. It is thus possible that growth of capacity in some sectors might come up against a lack of demand even in the early stages of growth. This has been dramatically illustrated by the protracted industrial recession that has occurred in India in the last few years. It must also be remembered that in the balanced growth approach to development, agricultural development is emphasised not only to provide wage goods and raw materials, for industrial development, but also to



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provide the demand for growing industrial output.

In the usual models, the emphasis is mostly on private savings of households. In a country like India, the government has taken on a special responsibility for savings and investment. This provides the main avenue for increasing savings rates at the same time as income distribution becomes more equal. In advocating this sort of policy in the fifties, Gaitskell argued that in an economy growing at 3 per cent a year, the amount of man-made capital doubles in 25 years and quadruples in 50 years; if all new capital were public capital, the private share of capital would be reduced from about 60 per cent to only about 15 per cent of the whole.

The balance between growth and equality also depends on the type of growth we pursue. Thus, the relative emphasis on agricultural development has important effects on equalisation. A more equal income distribution will increase the demand for agricultural products more than for industrial goods. Therefore, greater emphasis on agricultural development will promote both growth and equality for some time to come. In considering the case for emphasis on agricultural, and more generally rural, development, it is relevant to consider Kaldor's criticism of Indian planning techniques made at the time of the Third Plan.[22] He then criticised the habit of looking at the problem of resources so much in financial terms, and argued that it was foolish to count the outlay on rural schemes as part of some given outlay, so that any increased expenditure in this direction must go to reduce outlay on other kinds of investment. His argument was that such schemes were likely to be self-financing well within a single plan period by yielding quicker returns in terms of wage goods than other kinds of investment.

Within the agricultural sector, there is much room for equalisation policies. There is first the case of land reform. In the early stages after redistribution, there may be a fall in agricultural production, especially if the new operators are unaccustomed to efficient cultivation, but one of the strongest arguments for land reform is that greater security of tenure and ownership will increase the incentives to long-term improvements, leading to faster growth. Apart from land reform, another measure for equalisation would be to redress the balance of bargaining power between farmers and traders. Also the agricultural terms of trade play a crucial role in the balance between producers and consumers of agricultural products; the broad line of policy would be to secure benefits to consumers in the form of low prices, and to producers in the form of rising incomes, based on improvements of productivity rather than of high prices. Such a broad approach needs to be embodied more fully in the work of the Agricultural Prices Commission.

An important cause of poverty is unemployment or underemployment of a chronic character, and so an important equalisation policy has been employment creation. If jobs were created just to increase the incomes of the poor, we would have greater equality but less growth. If, however, the projects for which extra employment is created are high-priority development projects, then this equalisation measure would contribute to future growth as well.

Then there is the approach to educational expansion. When educational opportunities are widely distributed, they will promote equality and at the same time accelerate growth. In the past history of the presently developed countries, development was not based on a wide spread of education, but Kuznets has pointed out that the simultaneous growth and equalisation in these countries in their later phase of development has been based on a great expansion of education.

Economic growth by itself, as we have seen, will not achieve the objective of eliminating poverty in India as rapidly as we desire, but rapid growth will facilitate the many changes of the economic system and the production structure needed for equalisation policies. Therefore, together with such equalisation policies economic growth must be pursued by a relentless search for more resources and improvements of government administration to tackle problems not faced in the past twenty years of Indian planning.

(To be concluded)

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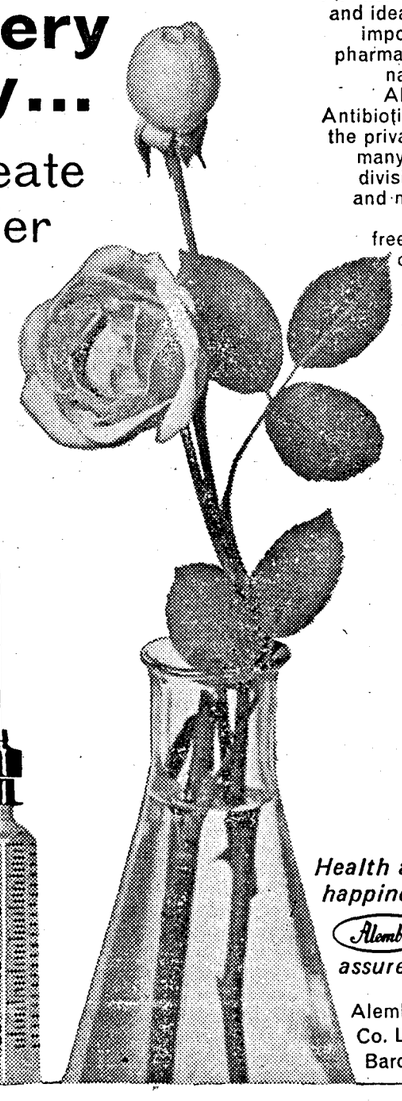
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REVIEW OF MANAGEMENT

May 1972

What Makes a Manager: Merit, Motivation or Money?
Baldev R Sharma

Strategic Planning: Some Operational Considerations
S K Bhattacharyya

Computers as Aids to Management Decisions
V L Mote
B G Shah

On Profit Maximisation in Public Enterprises
Ranjit K Sau

Wage Determination in Manufacturing
Pramod C Verma

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Manuscripts intended for publication should reach the Editor at least six weeks ahead of the date of publication.

Building on the Apex?

TO all appearances the 'managerial revolution' is here — with a distinct and significant social grouping of professional managers committed to 'efficiency' and 'results,' and bringing to bear on industrial working the analytical techniques yielded by the mathematical and behavioural sciences. Undertakings in the organised sector have what is termed 'an organisation structure', and even traditional family-managed business houses have begun to acquire the facade of a formal management. That the management function is recognised as an economically important one is seen from the fact of a flourishing market for professional managers where the terms of employment are highly attractive and entry not easy for the run-of-the-mill. It is widely recognised that to be a good manager you not only have to be competent in any one subject — be it economics or engineering — but need to acquire certain general qualities and motivations.

The institutes of management were set up in response to the growing demand for managers and over the years these have built up a capital of professionalism in research activity and training. It is a mark of their success that the number applying for admission to them have risen spectacularly and that industries have shown an increasing preference for their products in making appointments.

The conscious orientation towards efficiency and excellence must presume that merit and motivation decide entry into these institutes of training. Yet, as an article in this Review of Management underscores, with the best intentions in the world, there is a built-in bias in the selection process in favour of those with an urban, professional and English-speaking background. Of course, these are also the more affluent in our society.

It may be argued that 'merit' in the management context must inevitably encompass these attributes. Do the management schools themselves subscribe to this view? Not consciously, perhaps. What they emphasise explicitly is intelligence, a certain level of mathematical skills, capacity for logical reasoning, and facility in communication. The point, however, is that except for quantitative analysis, the rest has to take place in a medium, which happens to be English and in which a significant proportion of the candidates feel ill at ease. One may be very logical and sophisticated in one's mother-tongue but may fumble in a language that is not merely 'second language' but also has overtones of socio-cultural superiority and inferiority. It must be remembered, too, that this screening is a cumulative process that starts early in school, is carried over into college, and irrationally sieves through an alien medium the functional elite for the future. By the time graduates aspire to be trained as managers many with the relevant merits have already got left on the sidelines.

It is not simply that the management schools thus have an artifically limited catchment area. The question that needs to be focused on is whether the socio-cultural attributes of those who come out of these schools are adequate for the tasks of management in the socio-economic context of the country. If management is seen not as a series of technical decisions made in small conferences of 'professionals' and implemented with 'follow-up', but as a process of eliciting information, reasoning, evaluating and setting of goals, communication and team action, then the excellence in English and the particular social and material background which the educational system puts a premium on — with the inevitable, attendant elitism — may in fact prove a hurdle to the optimal functioning of the manager. It is in this light that the high professionalism that has set in has to be viewed.

Part and parcel of this professionalism is the tendency of managers — particularly those concerned with marketing and selling — to see their roles in limited though technically clever ways. The blinkers that an intense devotion to competence can put on an otherwise intelligent person may make him oblivious to the social and national relevance of the product he is making or selling. Indeed, the more unnecessary the product or the higher it is priced, the greater is the marketing skill deemed to be in making it acceptable — and the greater the work-pride. Management personnel often have no qualms to suggest in this dual economy — with its poverty-striken subsistence sector that has next to no purchasing power and its affluent sector with its 'surplus' purchasing power — that the social worthiness of a product has to be decided by the existence of demand for it. Nationalism then consists in indigenously supplying the goods that the smuggler might otherwise supply. Management education, by relying almost exclusively on reading materials from US business schools and modelling courses on the requirements of the free market economies, actively encourages this narrow conception of the manager's economic role in society.

Management Education

Ishwar Dayal

Management Education and Training in India, Vaikunth Mehta National Institute of Co-operative Management, Poona; Rs 20.

THIS is a collection of papers with a report on the proceedings of a conference on management education and training organised by the Vaikunth Mehta National Institute of Co-operative Management, Poona, from January 22 to 24, 1969. The invitees included educationists and executives from industry. The conference was held in five sessions — review of management education and training programmes in India and inter-institutional collaboration, management education techniques, training of trainers, research in management and collaboration between business and academics.

The first session reviewed the training programmes in some of the teaching institutions and business organisations represented at the conference. In addition, seven papers were presented. The paper by M N Rudrabasavaraj is comprehensive and could be seen as a theme paper for the conference. The author has reviewed the existing facilities for management education in the country and has pointed to the lack of satisfactory standards in teaching and in physical facilities and research in management. He suggests the setting up of a Management Advisory Council to replace the present Board of Management. While I see the problems of education as worthy of study, the solution recommended may have little impact on the system. Recruiting faculty and organising teaching material are tasks to be tackled essentially at the unit' level. To the extent the teaching institutions are indifferent to quality, and do not develop a reward and punishment system that evaluates the quality of teaching, an outside agency, even a Management Advisory Council, would be unable to make improvements in the present situation.

If it is accepted that education for professional careers should emphasise development of personal skills as much as knowledge of relevant concepts and theories, the organisation and administration of the educational system should reflect this concern in explicit terms. Among other things, such a system would require flexibility and tolerance on the part of the administration toward innovation and change in teaching methods and in organisational relationships. The examination system may also have to test the personal skills of the students with the same concern that is devoted to his knowledge of concepts and theories taught in class. If these considerations are important, as I believe they are, educational institutions must provide a large measure of autonomy and flexibility; they may have to ensure quality not so much by review of course outline, or centralised examination, but perhaps through a system of reward and punishment for the teachers.

Among other papers in the first session, K S Basu and Kamla Chowdhry have asked many relevant questions about management development. Having discussed the changing nature of the managerial job, Basu has asked three questions : who should be taught; what should be taught; and who should teach. In answering these questions, he has emphasised that teaching methods and material should be indigenous and should be evolved to suit local conditions. Kamla Chowdhry has quoted cases and autobiographical experiences to illustrate that the cultural factors in India are sufficiently different to require teaching methods and management development practices different from those used in the West.

Two other papers in the first session by Rudrabasavaraj and K K Mehta attempt to identify conditions necessary for developing people in organisations and give examples to illustrate their points. Three other papers by Sanyal, Dubashi and Prasad provide either a historical perspective of institutional activities or description of specific programmes.

In the second session, on the choice of teaching techniques, G P Asthana's paper discusses the comparative value of different teaching methods and quotes research data on knowledge and attitude changes in management education. Nahusharaj and Pereira discuss a method used by them to evaluate training and development in their company. Other contributors in this session, Ramaswamy, Dalvi and Jha have described different methods of teaching in education. In the report of the discussion in this session a wide range of techniques are listed.

The third session, on training of trainers, includes two papers. Dasgupta argues that the students should absorb a high degree of theoretical and practical knowledge of the field in which he chooses to work. He points out that a teacher has to be a specialist in a field of study related to management and emphasises co-operation between education and industry. He advocates teaching of management courses at the universities by executives. Rudrabasavaraj feels that the quality of teachers and of teaching is poor and suggests that research in management is necessary to improve teaching. Like Dasgupta, he strongly advocates closer association between business and teaching institutions and a programme of exchanging personnel between the two. Most ideas brought out in the papers are valid but the discussion avoids some issues. For example, what kind of experience is useful to either the executives or the academic? Exchange between the executive and the academic may be desirable, but the usefulness of the exercise would lie in explicit recognition of the kind of experience that could help each in doing the other's job better. In teaching management, some things are learnt better by doing research in industry and some others by doing a job of work. In the conference papers it is implied that experience in business enables an executive to teach management better than an academic. I think we have to clearly recognise that no one can teach just experience to students in a classroom, The executive has to have the ability to conceptualise his experience, and if he can do this, his contribution to the teaching of management could become significant.

The fourth session, on research in management, had one paper by M Ramsay but it has not been included in the proceedings and no reason is given for this omission. In the report of the discussion, the participants mentioned the research being carried out in their respective institutions and emphasised that without research the teaching of management was likely to become stale.

The fifth session, on business and academics, had three papers. Richardson describes the philosophy and practices of developing people in his organisation. Rao illustrates a deliberate plan to establish relations between the teaching faculty and others. Pande describes the many things his organisation has done to provide the academics with work experience.

The publication provides useful information about activities in different institutions. In retrospect, however, the discussions and the conclusions have died with the conference and no more is thought about them. There have been other conferences since that have discussed essentially similar things and perhaps come to the same kinds of conclusions. What then is the next stage?

What Makes a Manager—Merit, Motivation or Money ?

Baldev R Sharma

This article examines the process of admission of students to the two-year post-graduate programme at one of the institutes of management. Utilising the admission data for the last five years, a number of findings emerge.

Surely, merit and motivation are the only factors which are 'intended' to influence selection for admission. But that cannot rule out the 'unintended' consequences which might flow from some components of the selection process. The significant and dramatic trends repeating year after year make it naive to imagine that money is not influencing the making of a manager. The influence money has in determining the fate of a candidate is both indirect as well as unintended, although that does not make it any less important. The process through which this causal network really operates are identified here.

I

Introduction

THIS paper examines the process of admission of students to the two-year post-graduate programme at one of the institutes of management. Specifically, I will focus attention on the influence of family income on a candidate's chances of becoming a manager. To be sure, no school of management uses family income as an input for deciding whether or not to admit a candidate. Ideally, therefore, there should be no association between family income and a person's chances of getting selected for admission. However, sociological literature abounds in evidence of the many direct and indirect, subtle and not-so-subtle, ways in which a person's family income shapes his life chances. It is my aim in this paper to see whether such a thing is happening in relation to the admission process of the institute under study.

The institute selected for this study has been in existence for only nine years. The first batch of students for its two-year post-graduate programme was admitted in 1964, while the most recent batch was admitted in 1971. Before starting admission to each batch, wide publicity is given for the benefit of potential candidates throughout the country through advertisements in the leading English dailies. In addition, intimation is sent to various colleges and universities with a request to publicise the admission notice among their student population. Applications for admission are received from all over the country and from candidates with diverse educational backgrounds.

To be eligible to apply for admission, a person must have a bachelor's degree or its equivalent in any field of learning. Candidates who are in the final year of degree education are also eligible to apply, but they are admitted only if they have completed the degree examination *before* joining the school. Each year, a certain percentage of marks is prescribed as the minimum requirement for applying. Usually, a candidate is required to have obtained 50 per cent or more marks in more than one examination starting with the high school and ending with the degree examination.

The application form is quite comprehensive. It seeks information about a candidate's socio-economic background, educational record, work experience, extra-curricular activities, and motivation for a career in management. Up until 1969, candidates used to be evaluated on the basis of application data alone, after which about 500 candidates would be called for written tests, group discussions, and personal interviews. Final selection for admission was based on the cumulative performance of a candidate on all the selection items. In 1970 and 1971, written tests were introduced for *all* the eligible candidates at various centres in the country. Afterwards, the candidates were ranked in terms of their scores in application rating *and* written tests and the top 500 or so were called for group discussions and personal interviews.

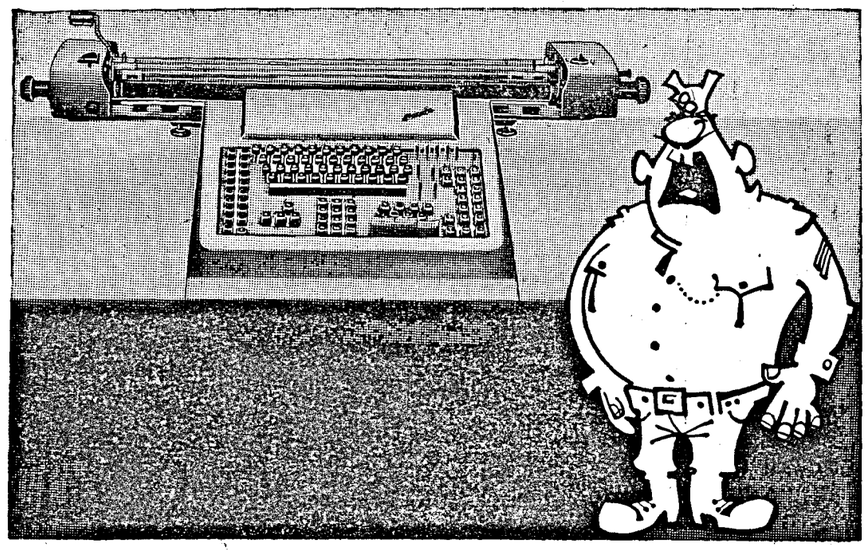
Thus 1970 marked a shift in the admission procedure of the institute. Whereas, in the past, selection of candidates for interview was made only on the basis of educational record and other application data, beginning 1970 such data were supplemented by additional data on actual performance of candidates in two written tests. It has always been the policy of the institute to call candidates for tests and interviews at a number of carefully selected centres all over the country. This is to ensure that no candidate is discouraged from applying because of the high travel costs of going to the city where the institute is located.

The institute under study always had sufficient funds in the form of

TABLE 1

Year	Category	Total Number of Candidates	Income Data Not Available		Balance*
			Number	Per Cent	
	Applicants	1699	128	7.5	1571
1967	Interviewed	471	20	4.4	451
	Selected	175	9	5.1	166
	Applicants	2321	204	8.8	2117
1968	Interviewed	539	30	5.6	509
	Selected	180	7	3.9	173
	Applicants	3046	217	7.1	2829
1969	Interviewed	589	52	8.8	537
	Selected	181	3	1.7	178
	Applicants	2899	51	1.8	2848
1970	Interviewed	589	52	8.8	537
	Selected	196	1	0.5	195
	Applicants	4694	55	1.2	4639
1971	Interviewed	512	6	1.2	506
	Selected	180	4	2.2	176

* Throughout this paper I have used the figures shown in this column as the source of data.



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TABLE 2: NUMBER AND PERCENTAGE OF CANDIDATES WHO (a) APPLIED FOR ADMISSION, (b) WERE CALLED FOR INTERVIEW, AND (c) WERE SELECTED FOR ADMISSION FROM DIFFERENT INCOME GROUPS DURING THE PERIOD 1967-1971

Annual Family Income	Year and Category of Candidates	1967			1968			1969			1970			1971		
		Applicants (a)	Interviewed (b)	Selected (c)	Applicants (a)	Interviewed (b)	Selected (c)	Applicants (a)	Interviewed (b)	Selected (c)	Applicants (a)	Interviewed (b)	Selected (c)	Applicants (a)	Interviewed (b)	Selected (c)
Upto Rs 3,000 (Group I)		459 (29.2)	105 (23.3)	25 (15.1)	505 (23.9)	104 (20.4)	26 (15.0)	617 (21.8)	113 (21.1)	23 (12.9)	505 (17.7)	44 (7.5)	9 (4.6)	623 (13.4)	23 (4.6)	5 (2.8)
Rs 3,001-6,000 (Group II)		489 (31.1)	148 (32.8)	51 (30.7)	610 (28.8)	142 (27.9)	40 (23.1)	814 (28.8)	155 (28.9)	44 (24.7)	762 (26.8)	133 (22.6)	35 (17.9)	1241 (26.7)	109 (21.5)	25 (14.2)
Rs 6,001-9,000 (Group III)		146 (9.3)	37 (8.2)	18 (10.8)	250 (11.8)	66 (13.0)	19 (11.0)	287 (10.1)	72 (13.4)	20 (11.2)	346 (12.2)	79 (13.4)	27 (13.8)	547 (11.8)	71 (14.0)	21 (11.9)
Rs 9,001-12,000 (Group IV)		220 (14.0)	64 (14.2)	23 (13.9)	312 (14.7)	83 (16.3)	30 (17.3)	376 (13.3)	77 (14.3)	28 (15.7)	413 (14.5)	106 (18.0)	38 (19.5)	732 (15.8)	87 (17.2)	31 (17.6)
Rs 12,001-15,000 (Group V)		71 (4.5)	25 (5.5)	15 (9.0)	109 (5.2)	32 (6.3)	18 (10.4)	118 (6.4)	35 (6.5)	14 (7.9)	192 (6.7)	52 (8.8)	17 (8.7)	374 (8.1)	52 (10.3)	27 (15.3)
Over Rs 15,000 (Group VI)		186 (11.9)	72 (16.0)	34 (20.5)	331 (15.6)	82 (16.1)	40 (23.1)	555 (19.6)	85 (15.8)	49 (27.5)	630 (22.1)	175 (29.7)	69 (35.4)	1122 (24.2)	164 (32.4)	67 (38.1)
Total		1571 (100.0)	451 (100.0)	166 (100.0)	2117 (100.0)	509 (100.0)	173 (99.9)	2767 (100.0)	537 (100.0)	178 (99.9)	2848 (100.0)	589 (100.0)	195 (99.9)	4639 (100.0)	506 (100.0)	176 (90.9)

Note: Figures in brackets are percentages.

TABLE 2A

Annual Family Income	Total Applicants (1967-71) N	Per Cent	Total Interviewed (1967-71) N	Per Cent	Total Selected (1967-71) N	Per Cent
Group I (Upto Rs 3,000)	2709	19.3	389	15.0	88	9.9
Group II (Rs 3,000-6,000)	3916	28.0	687	26.5	195	22.0
Group III (Rs 6,001-9,000)	1576	11.3	325	12.5	105	11.8
Group IV (Rs 9,001-12 000)	2053	14.7	417	16.1	150	16.9
Group V (Rs 12,001-15,000)	926	6.6	196	7.6	91	10.2
Group VI (Over Rs 15,000)	2824	2.2	578	22.3	259	29.2
Total	14004	100.1	2592	100.0	888	100.0

$X^2 = 131.097$ df = 10 P <0.001

TABLE 3

Income Group \ Year	1967	1968	1969	1970	1971
Group I	459	505	617	505	623
Group II	489	610	814	762	1241
Group III	146	250	287	346	547
Group IV	220	312	376	413	732
Group V	71	109	180	192	374
Group VI	186	331	555	630	1122

X^2=256.3 df=20 P<0.001

F=13.036 df=5,24 P<0.001

loans and scholarships to help needy students through the two-year post-graduate programme without much financial hardship. In fact, it has been the deliberate policy of the institute to ensure that no poor student, who is otherwise capable, is deprived of a career in management because of his poverty. Many admission procedures and activities are the direct result of this policy.

Every student who successfully completes the two-year post-graduate programme of the institute immediately gets employed in industry. This record of full employment of graduates is something unique to this institute. Among other things, it speaks of the high esteem in which industry holds the institute. The institute's placement office, which brings the potential employers and employees together, plays no mean part in making this possible. Moreover, the graduates are recruited at fairly high initial salaries, which are now in four figures. It is unsual for students with comparable education in other fields of learning to secure full employment and comparable salaries.

The two-year post-graduate programme of the institute is a full-time residential programme. The total cost of this education is between Rs 6,000 and Rs 7,000 for the two-year period. This amount includes tuition and other fees, room and board charges, cost of teaching materials, and other miscellaneous expenses. The loan and scholarship schemes already referred to enables a student meet the bulk, if not all, of the cost of his education.

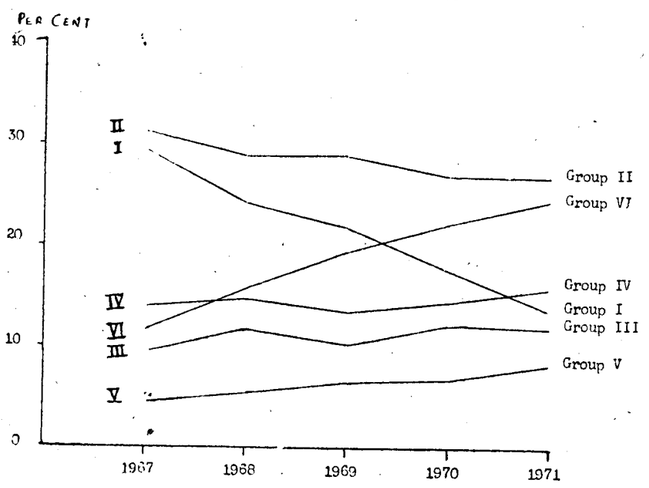
Of the eight batches of students admitted to the institute so far, I have selected the last five batches (1967-1971) for purposes of this study. The first three batches (1964-1966) are dropped because data on family income of candidates for those years are not available. The question inquiring about the annual family income of a candidate was introduced in the application for admission for the first time in 1967.

For purposes of this study 'annual family income' has been classified into the following six groups:

Group I	Upto Rs 3,000
Group II	Rs 3,001-6,000
Group III	Rs 6,001-9,000
Group IV	Rs 9,001-12,000
Group V	Rs 12,001-15,000
Group VI	Over Rs 15,000

The reason for this classification was simply the availability of data in this form. Data on annual family income were taken directly from applications for admission. One may raise doubts about the reliability of data collected through such a source. While no one can swear by it, there are strong reasons to believe that application for admission is a reliable source of data on family income. The candidates for admission are told in writing that "the application is the key part of the admission process and that complete, careful and accurate answers to the questions are therefore extremely important". They are also cautioned that "incomplete or false information could adversely affect their chances or selection" and that "if they are admitted

FIGURE 1: PROPORTION OF CANDIDATES APPLYING FOR ADMISSION FROM EACH INCOME GROUP DURING 1967-71



to the programme on the basis of false information, it could lead to their expulsion from the institute". In addition, each application is attested by a Gazetted Officer of the Central or State Government, Justice of Peace, of Principal of the college attended by the candidate. The attesting officer is required to certify that the particulars given in the application (including the section in which family income is mentioned) are correct. In view of these considerations, I feel that the data on family income used in this paper are sufficiently reliable, at least for the purpose in hand. In any case, there seems to be no other source from which more reliable data on this subject could be obtained.

During each of the five years under study, there were some candidates who did not complete the column for annual family income. Fortunately, no more than nine per cent of the candidates fall in this category. The non-availability of data from such candidates is, therefore, not likely to adversely affect this study. At the same time it is important to recognise this fact as one of the possible limitations of the study. Detailed information about such cases is given in Table 1.

II

The Findings

Table 2 gives the number and percentage of candidates at different stages of the admission process. This information is presented for every income group, separately for each of the five years under study. Table 2A depicts a picture of the various income groups by adding up the five-year data.

Even though the six income groups are not equally represented at each stage of the admission process, there appears to be a fairly widespread representation of the various income groups—at least when we look at the cumulative picture of the five-year period. In other words, at every stage of the admission process there are quite a few candidates from each group. These overall figures highlight another thing. For every one candidate called for interview there were five who had applied for admission, while the ratio between those selected and applicants was 1:16. Actually the number of students finally admitted is even lower than those selected for admission. This is because everyone who is offered admission does not join the programme for one reason or another. If, therefore, we compare those actu-

TABLE 4

Income Group	Linear Regression of Proportion of Applicants (y) on Time (x) Period	Linear Regression (y=a+bx)	$\bar{R}^2$	t Value of b	Level of Significance (2 Tailed Test)
Group I	1967-1971(5)	$\frac{Ay1}{A} = 32.54-3.78x$	.983	—15.197	P<.001
Group II	1967-1971(5)	$\frac{Ay2}{A} = 31.68-1.08x$	.858	—5.023	P<.02
Group III	1967-1971(5)	$\frac{Ay3}{A} = 9.42+0.54x$	.273	1.582	(ns)
Group IV	1967-1971(5)	$\frac{Ay4}{A} = 13.44+0.34x$	.118	1.239	(ns)
Group V	1967-1971(5)	$\frac{Ay5}{A} = 3.57+0.87x$	.963	10.183	P<.01
Group VI	1967-1971(5)	$\frac{Ay6}{A} = 9.35+3.11x$	.976	12.886	P<.01

TABLE 5

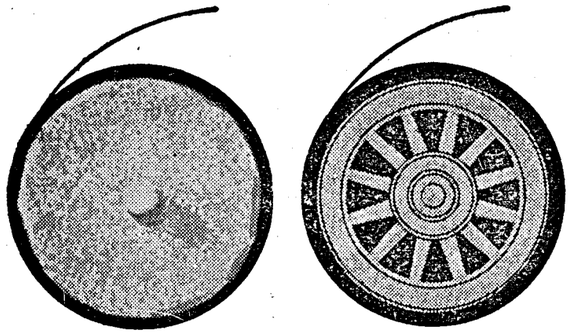
Income Group \ Year	1967	1968	1969	1970	1971
Group I	105	104	113	44	23
Group II	148	142	155	133	109
Group III	37	66	72	29	71
Group IV	64	83	77	106	87
Group V	25	32	35	52	52
Group VI	72	82	85	175	164

X^2=206.5 df=20 P<0.001

F= 7.609 df=5,24 P<0.001

TABLE 6

Income Group	Linear Regression of Proportion of Candidates Called for Interview (y) on Time (x) Period	Linear Regression (y=a+bx)	$\bar{R}^2$	t Value of b	Level of Significance (2 Tailed Test)
Group I	1967-1971(5)	$\frac{Iy1}{I} = 30.47-5.03x$	.795	—4.065	P<.05
Group II	1967-1971 (5)	$\frac{Iy2}{I} = 35.11-2.79x$	.855	—4.961	P<.01
Group III	1967-1971(5)	$\frac{Iy3}{I} = 8.44+1.38x$	.640	2.848	(ns)
Group IV	1967-1971(5)	$\frac{Iy4}{I} = 13.69+0.77x$	.345	1.762	(ns)
Group V	1967-1971(5)	$\frac{Iy5}{I} = 3.85+1.21x$	.889	5.753	P<.02
Group VI	1967-1971(5)	$\frac{Iy6}{I} = 8.08+4.64x$	.704	3.243	P<.05

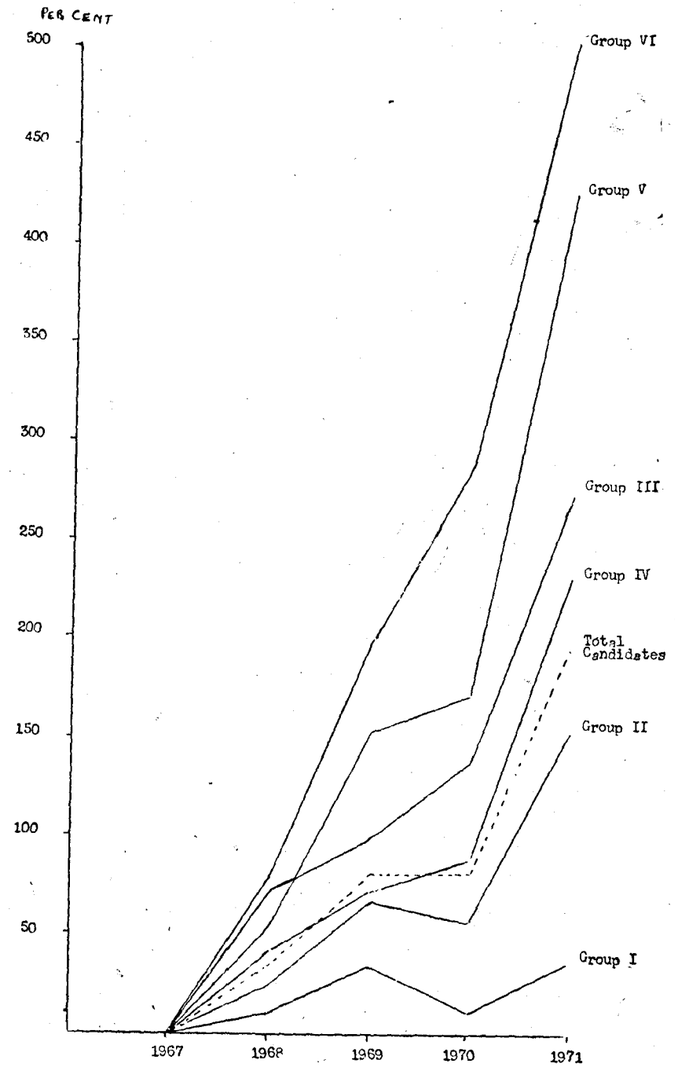


Development is proceeding in spite of the cultural attitudes, social institutions and political conflicts which sometimes seem to be such immovable barriers. It is not a smooth, uninterrupted progression, to be sure; rather, growth appears more as a series of fits and starts. "And yet," as Galileo is supposed to have said, "it moves!"

Eugene R. Black

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FIGURE 2: PER CENT INCREASE OF CANDIDATES FOR ADMISSION OVER THE BASE YEAR 1967 FOR EACH INCOME GROUP



ally admitted with those who applied, the ratio comes to about 1:25. All this indicates stiff competition for admission to the institute.

Looking at the total picture for the five years (1967-71), it also becomes clear that the various income groups have not been able to maintain their respective proportionate representation in the course of the three stages of admission. In fact, there are some marked shifts in the composition of candidates from one stage to the other. On the whole, it appears that the poorer candidates are the losers and the richer candidates the gainers in getting called for interview and getting selected for admission. The relationship between family income and the three stages of admission (as measured through the chi-square test) is signi..cant at the 0.001 level which suggests that these two factors are not independent of each other.

But total picture for the five years does not tell the whole story. When we compare the income distribution of candidates from year to year (Table 2), we notice some clear trends which are discussed next. For the sake of convenience, I shall discuss separately each stage in the admission process and then examine the overall trends.

(1) *Applicants for Admission:* With only one exception (in 1970) we notice a progressive increase in the number of candidates applying for admission to the two-year post-graduate programme of the institute. The overall annual increase has been of about 33 per cent, which has almost tripled the number of applications for admission in five years. On the other hand, the number of candidates called for interview as well as those selected for admission has remained more or less constant over the years, with the result that increasingly more persons have been competing each year for every one seat at the institute, the ratio moving from 1:9 in 1967 to 1:26 in 1971.

Table 2 helps us examine whether the rate of growth of applications from the various income groups has been uniform or not. My reading of the Table shows that it is not. The top two income groups (V and VI) have experienced maximum increase while the bottom two income groups (I and II) not only experienced no increase but suffered decrease in the proportion of applicants. The two income groups in the middle (III and IV) seem to show inconsistent and inconclusive trends, in that they neither substantially gained nor lost in terms of their proportionate representation over the years. As Table 3 shows, both analysis of variance (F) and chi-square (X^2) tests support the contention that the income composition of applicants for admission has significantly changed over the five-year period.

Figure 1 presents the findings discussed above in a graphic form. Again, the most dramatic trends are revealed by the two intersecting lines of the poorest (I) and the richest (VI) groups. It may, however, be pointed out that the decrease in the case of the lower income groups is not in terms of absolute numbers. From that point of view, barring one or two exceptions, *all* income groups have experienced varying degrees of increase in the number of applications. But the proportionate increase being not uniform in all cases, some groups have gone down while others have gone up over

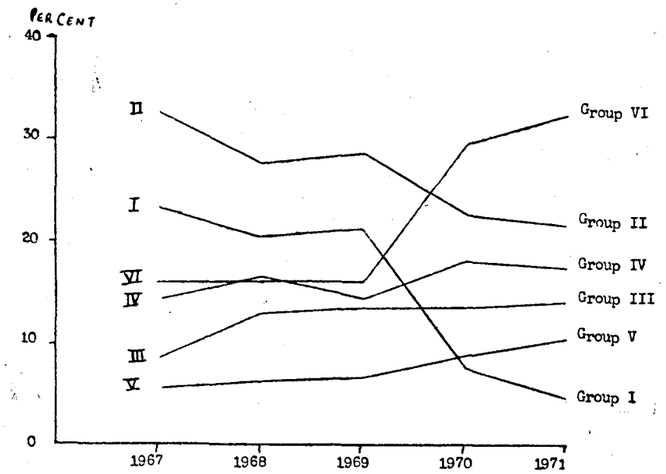
the years in terms of their representation among the total number of applicants.

The trends over time, reported above, were examined by using a simple regression model. The regression line of proportion of applicants in a particular income group (y) on time (x) can be fitted by the equation $y = a+bx$, where y stands for proportion of applicants and x for the year, while a and b are respectively the intercept and the slope co-efficient of y on x. As shown in Table 4, income groups I, V and VI show changes which are highly significant, while the other groups show trends which are either not significant (Group III and IV) or not highly significant (Group II). Of particular significance are the b-coefficients for Groups I and VI which show the largest rate of change compared to any of the remaining four income groups.

Figure 2 shows cumulative per cent increase of applicants over the base year 1967 for each income group. Once again, the growth rates of the two extreme income groups (I and VI) mark a sharp contrast indeed. While Group VI registered a 503.2 per cent increase at the end of five years, the corresponding growth rate for Group I was only 35.7 per cent.

(2) *Candidates Called for Interview:* A candidate's decision to apply for admission is influenced by a number of factors, one of them being his 'desire' to seek a management career. Any attempt to explain the differential growth rates of various income groups at the stage of initial application, therefore, must include a discussion of the motivational factors. On the other hand, the decision concerning who is to be called for interview is made entirely by the institute and is, therefore, not affected by the wishes or desires of the candidates. As already noted, shortlisting of candidates for interview was initially done

FIGURE 3: PROPORTION OF CANDIDATES CALLED FOR INTERVIEW FROM EACH INCOME GROUP DURING 1967-71



on the basis of application rating alone (1967-1969) and later on the basis of application rating plus scores in written tests (1970-71). In both cases, the major criterion for judging the suitability of a candidate for interview was his academic ability.

There is no way of knowing whether there is any difference in the academic abilities of the rich and the poor. It is, therefore, natural for me to assume that no such difference exists. If this assumption is correct, we should expect that the proportion of candidates called for interview during a particular year from each income group roughly corresponds with their proportion among the applicants for admission. In this section I shall attempt, among other things, to examine the validity of this assumption. A careful examination of data in Table 1 shows that there is a proportionate decrease over the years in the case of the poor (Group I) and a proportionate increase in the case of the rich (Group VI) among candidates called for interview. For example, the proportion of candidates called for interview from group I went down from 23.3 per cent in 1967 to 4.6 per cent in 1971; on the other hand, the proportion of candidates from group VI went up from 16.0 per cent in 1967 to 32.4 per cent in 1971. The other four income groups (II to V) show trends which are by and large similar to those reported above in the case of applicants for admission.

As in the case of applicants for admission, the income composition of candidates called for interview has changed significantly over the last five years. As shown in Table 5, the chi-square (X^2) and the analysis of variance (F) tests indicate the existence of significant shifts over the years in the income composition of candidates called for interview.

In the previous section, I have shown that the proportion of candidates applying for admission from group I has been declining while that from group VI has been rising during the last five years. Now we have seen that candidates from group I stand fewer chances of getting called for interview than those from group VI. Therefore, even if the proportions of applicants for admission from these two groups were to be the same, their proportions at the time of interview are likely to differ to the advantage of group VI and the disadvantage of group I. Obviously, the academic ability which is used to shortlist candidates for interview is not randomly distributed among the

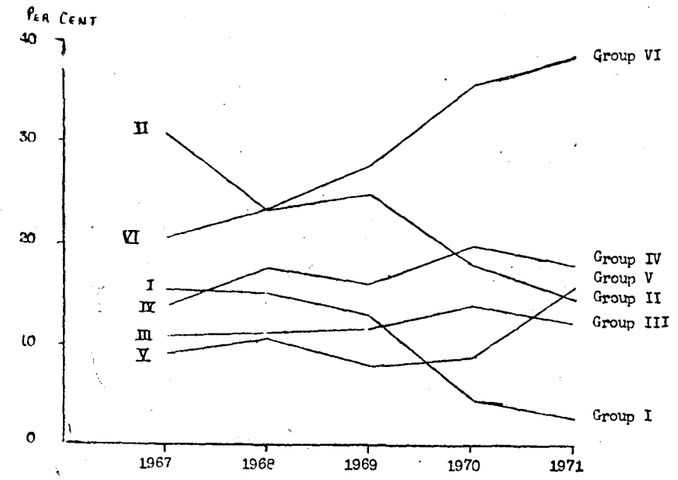
TABLE 7

Income Group \ Year	1967	1968	1969	1970	1971
Group I	25	26	23	9	5
Group II	51	40	44	35	25
Group III	18	19	20	27	21
Group IV	23	30	28	38	31
Group V	15	18	14	17	27
Group VI	34	40	49	69	67

$X^2 = 60.8$ df=20 P<0.001

F=10.453 df=5,24 P<0.001

FIGURE 4: PROPORTION OF CANDIDATES SELECTED FOR ADMISSION FROM EACH INCOME GROUP DURING 1967-71



various income groups, certainly not in the case of the extreme income groups. Figure 3 presents the above findings *in a graphic form.*

Table 6 shows the results of regression analysis of the data presented in Figure 3. The procedure used for this analysis was the same as that described in the preceding section on applicants. The purpose of this analysis was to measure the yearly changes in the proportion of candidates called for interview from *each* income group and to determine whether the overall trends for different groups are significant or not, and, if yes, the magnitude of the observed change. Although the levels of significance of the six t-values are not entirely consistent with those reported in the preceding section, there is an overall similarity between the trends observed for candidates *called for interview* and those noted for applicants. This observation is based on two factors: (1) the b-co-efficients are the largest for the two extreme income groups (I and VI); and (2) the two middle-income groups (III and IV) show only insignificant trends.

As shown in Figure 3, the trend of "the rich getting richer and the poor poorer" is observed—particularly during 1970 and 1971. It may be recalled that these two years marked a slight shift in the admission policy of the institute, in that, beginning 1970 candidates were shortlisted for interview on the basis of written tests in addition to application rating. Does this mean that the poor candidates' performance in written tests has been lower than that of the rich candidates? It certainly appears so, but I shall test this hypothesis more systematically a little later in this paper. Meanwhile, let me sum up this section by saying that, as in the case of applicants for admission, there is a gradual per cent decrease in the case of the poor and an increase in the case of the rich candidates being called for interview over the years, especially during the last two years.

(3) *Candidates Selected for Admission:* What is said above for the first two stages of the admission process is equally true of the third stage, that is, of getting selected for admission. As seen in Table 1, the proportion of candidates selected for admission from group I has gradually dropped from 15.1 per cent in 1967 to 2.8 per cent in 1971. In the same way, group II has suffered a decrease from 30.7 per cent in 1967 to 14.2 per cent in 1971. Groups III and IV show inconsistent and *inconclusive* trends with fluctuations in the range of plus or minus 2-3 per cent. Thus, with progressive increase in the total number of applications over the last five years, the two middle-income groups have generaly maintained their proportionate representation at the last two stages of the admission process.

Group V also shows a somewhat inconsistent pattern. Although the proportion of candidates selected from this group rose from 9 per cent in 1967 to 15.3 per cent in 1971, their increase over the years has not been consistent. For example, in 1969 and 1970, candidates from this category suffered a slight per cent decline compared to their representation during the two preceding years. Thus candidates from group V maintained their proportion between 8.7 and 10.4 per cent during the first four years (1967-1970) and increased it to 15.3 per cent only in the fifth year (1971).

Group VI has been the gainer in the initial two stages of the admission process (application and interview) and it continues to be so also at the time of final selection. Such candidates constituted 20.5 per cent of all the selected candidates during 1967 but their proportion gradually

TABLE 8

Income Group	Linear Regression of Proportion of Selected Candidates (y) on Time (x)				
	Period	Linear Regression ($y=a+bx$)	$\bar{R}^2$	t Value of b	Level of significance (2 Tailed Test)
Group I	1967-1971(5)	$\frac{Sy1}{S} = 20.58 - 3.50x$	.830	−4.533	P<.05
Group II	1967-1971(5)	$\frac{Sy2}{S} = 33.58 - 3.82x$	.869	−5.256	P<.02
Group III	1967-1971(5)	$\frac{Sy3}{S} = 10.24 + 0.50x$	.223	1.466	(ns)
Group IV	1967-1971(5)	$\frac{Sy4}{S} = 13.92 + 0.96x$	.357	1.795	(ns)
Group V	1967-1971(5)	$\frac{Sy5}{S} = 6.99 + 1.09x$	.119	1.241	(ns)
Group VI	1967-1971(5)	$\frac{Sy6}{S} = 14.67 + 4.75x$	.958	9.549	P<.01



rose to 38.1 in 1971. The yearly shifts in the proportion of candidates selected for admission from different income groups were tested for significance by the use of chi-square (X^2) and analysis of variance (F) tests. As shown in Table 7, the income composition of candidates selected for admission over the years has significantly changed. There is, therefore, reason to believe that the gradual increase or decrease in the proportion of selected candidates points to some definite trends over time.

Figure 4 shows the growth trends in the proportion of candidates selected for admission from each income group. Three distinct trends are noticed in Figure 4. First, the four income groups in the middle (II-V) seem to be gradually converging until in 1971 the proportions of candidates from these four groups ranged between 11.9 per cent and 17.6 per cent—that is, within a narrow margin of 6 per cent. Secondly, the two extreme income groups (I and VI) show the reverse trend from that observed for the rest of the candidates in that these two groups neither converge with each other nor with any of the other groups. Instead, the gap between these two groups has progressively widened until, in 1971, the proportion of the rich candidates (Group VI) has reached a record high figure of 38.1 per cent, while that of the poor (Group I) has touched the record low of 2.8 per cent. Thirdly, the rapid per cent growth of the rich candidates (Group VI) and the equally rapid per cent decline of the poor candidates (Group I) can be attributed directly to the admission process, particularly during the last two years. It seems that the introduction of written tests beginning 1970, has enhanced the chances of the rich and diminished the chances of the poor not only in being called for interview but also in being selected for admission.

The yearly trends of the six income groups presented in Figure 4 were further examined through regression analysis. As shown in Table 8, groups I, II and VI show trends which are statistically significant, while the changes in the other three groups are not significant. Once again we find that the two income groups at the extremes (I and VI) are marked by large b-co-efficients, while the magnitude of change in the two middle-income groups is very small. The only difference between the findings of this Table and those of the earlier two Tables is with reference to group II

TABLE 9

Year	Group I (Upto Rs 3000)			Group VI (Over Rs 15000)		
	Number	Per Cent of Total	Per Cent Increase over 1967	Number	Per Cent of Total	Per Cent Increase over 1967
1967	459	29.2	—	186	11.9	—
1968	505	23.9	10.0	331	15.6	77.9
1969	617	21.8	34.4	555	19.6	198.4
1970	505	17.7	10.0	630	22.1	238.7
1971	623	13.4	35.7	1122	24.2	503.2

TABLE 10

Year	Group I			Group VI		
	Per Cent Among Applicants	Per Cent Among Interviewees	Number of Interviewees	Per Cent Among Applicants	Per Cent Among Interviewees	Number of Interviewees
1967	29.2	23.3	(105)	11.9	16.0	(72)
1968	23.9	20.4	(104)	15.6	16.1	(82)
1969	21.8	21.1	(113)	19.6	15.8	(85)
1970	17.7	7.5	(44)	22.1	29.7	(175)
1971	13.4	4.6	(23)	24.2	32.4	(164)

TABLE 11

(Per Cent)

Marks (Percentage)	SSC/SSLC/HSE/ Matriculation		Higher Second/ Sr Cambridge		PUC/Inter		Degree	
	Poor (N= 501)	Rich (N= 579)	Poor (N= 170)	Rich (N= 577)	Poor (N= 484)	Rich (N= 594)	Poor (N= 246)	Rich (N= 339)
Below 50	5.4	4.8	7.1	6.1	13.0	16.8	17.1	20.4
50-54	13.8	10.9	14.7	14.9	21.7	19.0	19.5	22.4
55-59	15.8	16.6	19.4	19.8	19.8	19.4	22.0	18.0
60 or more	65.1	67.7	58.8	59.3	45.5	44.8	41.5	39.2
	X^2 =2.40 df=3 (Not significant)		X^2 =3.42 df=3 (Not significant)		X^2 =2.88 df=3 (Not significant)		X^2 =2.69 df=3 (Not significant)	

TABLE 12

Selection Item	Mean Scores		Difference between 2 Means (Col 3—Col 2)	t	df	Level of Significance
	Poor (N=552)	Rich (N=1023)				
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Application Rating	184.06	186.85	2.79	0.911	1573	(ns)
Quantitative Test	199.55	223.41	23.86	8.608	1573	P<0.001
English Test	65.80	102.28	36.48	25.691	1573	P<0.001
Total Score (1+2+3)	449.38	512.70	62.32	10.721	1573	P<0.001

TABLE 13

Selection Item	Mean Scores: Poor (N=23)	Mean Scores: Rich (N=164)	Difference between 2 Means (Col 3—Col 2)	t	df	Level of Significance
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Phase I						
(1) Application Rating	256.13	266.37	10.24	2.747	185	P<0.01
(2) Quantitative Test	259.82	269.74	9.92	2.391	185	P<0.02
(3) English Test	107.04	124.42	17.38	3.603	185	P<0.001
Phase II						
(4) Case Discussion	64.43	63.98	—0.45	0.106	185	(ns)
(5) Interview	137.91	151.73	13.82	1.138	185	(ns)
(6) Total Score	824.26	876.81	52.55	3.334	185	P<0.001

TABLE 14

Selection Item	Mean Scores: Poor (N=5)	Mean Scores: Rich (N=67)	Difference between 2 Means (Col 3—Col 2)	t	df	Level of Significance
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Phase I						
(1) Application Rating	240.00	271.56	31.56	6.421	70	P<0.001
(2) Quantitative Test	286.80	274.92	—11.88	2.463	70	P<0.02
(3) English Test	126.40	133.31	6.91	0.918	70	(ns)
Phase II						
(4) Case Discussion	75.00	74.86	— 0.14	0.024	70	(ns)
(5) Interview	175.20	204.05	28.85	1.285	70	(ns)
(6) Total Score	903.60	958.73	55.13	2.316	70	P<0.05

which, like group 1, shows a large and significant decline among the candidates selected for admission.

(4) *Conclusion:* Applications for admission to the institute under study have been gradually increasing over the years and have reached the threefold mark in five years. The increase in the number of applications is, however, not uniform for different income groups as much of the increase in both number as well as percentage of applications has come from the higher income groups (V and VI). Applications from the middle income groups (III and IV) have also increased in number. As, however, the *per cent* increase in their case has not been significant, the two middle-income groups have managed to maintain their proportionate representation among the candidates applying for admission over the years. The two lower income groups (I and II) also experienced increase in the number of applications, but the increase was so marginal that the two groups suffered a gradual *per cent decrease* over the years.

The total number of candidates called for interview and those selected for admission has been more or less constant over the years. As selection at these two stages is based on universal criteria of ability, one should expect that each income group would tend to maintain its proportionate representation (that is, as found among the applicants) in the course of the latter two stages of the admission process—assuming, of course, that there is no correlation between family income and ability.

The data clearly show that the rich candidates stand a better chance of, first, getting called for interview and, later, being selected for admission than the poor candidates. Generally speaking, therefore, the thesis of "the rich getting richer and the poor poorer" applies not only at the time of initial application for admission but also at the time of interview as well as selection. Does this mean that the rich candidates as compared to the poor are not only more motivated for a managerial career but are also more capable? This and many other hypotheses will be tested in the next section of this paper.

III

Analysis of Data

In the preceding portion of this paper I have tried to make a case for looking into the relationship between a candidate's family income and his chances of becoming a manager. I feel that a case certainly exists, if not for each and every candidate who applies, at least for those falling within the extreme income groups. Let us, therefore, examine the factors that account for the differential trends reported in Section II.

At every stage of the admission process, the two extreme income-groups (I and VI) have shown sizeable downward or upward trends which are statistically significant. Groups II and V have also shown significant trends, but these are either not consistently present at all the three stages of the admission process or these are small in magnitude. The remaining two income groups (III and IV) have consistently shown no significant trends at any of the three stages of admission.

In view of the above considerations, I have decided to compare only the two extreme income groups (I and VI) for further analysis of data. This decision is also influenced by the fact that the number of cases to be examined is very large and, therefore, somewhat unmanageable. Accordingly, I will examine only one-year data for the most recent batch (1971) to answer the several questions raised by the findings in Section II.

(1) *Applicants for Admission:* The questions that arise in relation to applicants for admission are essentially two:

(a) What accounts for the gradual rise in the proportion of applications from the higher income groups?

(b) Why is this growth not matched by a corresponding increase in the proportion of candidates from the lower income groups who have, in fact, suffered a decline?

It is difficult to find definite answers to the above questions. But it does seem that the lower base (11.9 per cent) from which the higher income groups started in 1967 accounts for the subsequent rapid growth of applicants from these categories. On the other hand, the lower income groups had a much higher base (29.2 per cent) in 1967 and, therefore, even though they experienced some increase over the years in absolute numbers, their proportionate representation among the applicants went on declining. Table 9 clearly brings out this fact.

But the lower or higher 'base' in 1967 does not fully account for the differential growth rates of the two income groups. It does not explain, for example, how at the end of five years candidates from group VI, even though they started from a lower base, could surpass candidates from group I not only in terms of percentage but also in absolute number. Clearly, something more than the initial differences in 1967 is at work here.

One explanation might be that, unlike the poorer candidates, the richer candidates turned to management education somewhat slowly and cautiously. But when such candidates became aware of the record of the institute in terms of both job security and high emoluments, they turned to management education in a big way. For a time in India the main ambition of a young man from higher income groups used to be to join the Indian Civil Service; later, everyone wanted to be an engineer; and today those aspiring for highly prestigious careers are attracted by management education.

One cannot say that the lower income candidates are less ambitious and that, therefore, their slower rate of growth can be attributed to this lack of ambition. Our data clearly show that, up until the last couple of years, the lower income candidates used to constitute the bulk of those who applied for admission to the institute. Their slow rate of growth can, instead, be attributed, first, to the large base that they had in 1967 and, secondly, to the fact that the higher income candidates are lately turning to management education in a big way. Upper middle and upper class people have usually had a monopoly in the world of professional occupations. Management as a profession being still something new in India, the initial cautious attitude of the higher income candidates in joining this profession is quite understandable. As the various institutes of management showed a good record of performance and industry responded favourably toward management graduates, it did not take higher income candidates very long to aspire and try for a career in management. If the present situation of management education continues, I expect the differential growth rates of applicants from the two extreme income groups also to continue, thereby further widening the gap between the two. In other words, much of the increase in the total number of applicants is likely to come, as in the past, from the high income groups while the lower income groups are likely to barely maintain their existing strength unless, of course, there is change in the environment or in the existing admission procedures.

TABLE 15

Characteristics	Percentage of Candidates in 1971: Poor (Group I)		Rich (Group VI)	
(1) Place of Permanent Residence				
(a) Rural (village)	14.1		1.5	
(b) Semi-Urban (town)	38.4		9.4	
(c) Urban (city of 1 lakh or more)	47.2		87.4	
(2) Father's Occupation				
(a) Professional (lawyer, doctor, engineer, professor etc)	2.0		8.9	
(b) Senior Government Officer	3.7	23.2	40.1	87.3
(c) Businessman (managerial)	17.5		38.3	
(d) Semi-Professional (librarian, social worker, journalist, novelist, etc)	9.5		2.1	
(e) White-Collar Employee (govt or business)	21.8		6.6	
(f) Agriculturist	28.7	76.8	1.5	12.7
(g) Blue-Collar Employee	2.6		0.9	
(h) Other (incl unclassified and unknown)	14.2		1.6	
(3) Studied at a Public School	12.6		51.3	
(4) Studied at a Missionary College	10.3		23.1	
(5) Medium of Instruction (English)				
(a) High School	19.2		75.4	
(b) PUC/Inter	47.4		95.4	
(c) Degree Examination	91.1		98.9	
(6) Educational Background				
(a) Engineering (IIT)	5.7		14.9	
(b) Engineering (Non-IIT)	31.3	37.0	22.1	37.0
(c) Commerce	15.4		17.0	
(d) Arts	10.0		18.5	
(e) Science	37.5		27.4	
(7) Over 20 Years of Age	48.2		30.7	
(8) Proportion Married	6.4		2.0	
(9) Proportion with Work Experience	10.6		12.9	
(10) Proportion of Scheduled Castes/Tribes	4.6		0.1	

Throughout the above analysis I have assumed that past academic performance and achievements are equally distributed among candidates from different income backgrounds, and that if some income groups are more likely to apply for admission than others it only reflects differences in their motivation. However, this assumption may not be true. As already indicated, the institute under study requires a certain minimum level of past academic performance (in various board and university examinations), failing which a candidate is not eligible to apply. It might well be that past academic performance above the cut-off point (which is usually around 50 per cent) is found more easily among the higher income than among the poorer candidates. If this is true, than naturally it is easier for higher income than for lower income candidates to show a more rapid growth at the time of application for admission. There is no way of verifying either of these two assumptions.

I have also assumed that no candidate is discouraged from applying for admission on grounds of cost of education. This assumption is based on the facts that there are liberal loan grants and several scholarships, and that admission tests and interviews are held at centres close to the places of residence of the candidates. Even this assumption may be false. Cost of education includes not only the actual cost (e g, room, board, tuition, materials, travel, etc) but also opportunity cost. It is well known that the practice of deferred gratification through prolonged education is more commonly found among the higher income groups than among the lower classes. This is because the latter are usually more anxious or more pressed to enter

the job market in order to support their families. If this is true, then the less rapid growth of applications from group I as compared to group VI could well be the result of financial constraints—even though indirectly.

(2) *Candidates Called for Interview:* The selection of candidates for interview is done purely on the basis of ability as demonstrated through marks in university examinations and (during 1970 and 1971) scores in two written tests. It has already been shown in Section II that, given a certain number of candidates who apply, those belonging to group I have fewer chances of being called for interview than those from group VI. Further, this situation is becoming even more acute with the passing of years. As shown in Table 10, however, the most dramatic differences between the two income groups occur only during 1970 and 1971.

Thus the criteria, used to measure ability in the selection of candidates for interview, have consistently favoured the rich (group VI) and acted against the poor (group I). Another way of saying the same thing is: In terms of the criteria used to measure ability in order to select candidates for interview, those from group VI have consistently performed better than those from group I. Since the differences between the two groups are specially pronounced during 1970 and 1971, it seems clear that the introduction in 1970 of written tests, as an additional measure of ability, has largely contributed toward creating disparity. In other words, it appears that candidates from group VI have on the whole performed better than candidates from group I not only in the previous board and/or university examinations but also in the written tests. Let us verify this conclusion.

The rich and the poor candidates for admission were compared in terms of their previous academic performance as revealed through marks obtained in the following four examinations:

(1) SSC/SSLC/HSE /Matriculation
(2) Higher Secondary/Senior Cambridge
(3) Pre-University/Intermediate
(4) Degree

A candidate can opt for one or two but not all of the first three examinations. Therefore, the number of cases falling in each category is smaller than the total number of candidates in each income group as previously reported. Similarly, the number of cases examined in the fourth (degree) examination is smaller than the actual because in this case there were many candidates who had yet to complete their final degree examination. Table 11 shows that the performance of the poor candidates did not significantly differ from that of the rich candidates in any of the four examinations listed above.

As already mentioned, one of the criteria used for shortlisting candidates for interview is application rating, which is based primarily on the previous academic performance of a candidate. Since, in 1971, application rating included work experience as an additional component, it seems necessary to compare the rich with the poor candidates in terms of their overall application rating scores as well. The mean scores of the two groups were compared by using t-test and it was found that the same did not differ significantly.

Thus, whether we compare the two groups in terms of overall application rating score or with reference to their performance in each previous university examination, they do not differ significantly from each other. And yet, we know that the rich candidates stood a better chance of being called for interview than the poor. Let us, therefore, turn to the other two components of the criteria used for shortlisting candidates for interview, that is, the two written tests. Obviously, if the previous academic record did not either help or hurt any of the two income groups, it must be one or the other of the two written tests, or both, which gave an edge to the rich over the poor candidates.

As shown in Table 12, the performance of the rich candidates was significantly better than that of the poor in each of the two tests. This combined advantage resulted in giving to the rich an edge of 62 points (14 per cent) over the poor in terms of the overall mean score which was the basis of shortlisting candidates for interview.

As a result of their superior performance in the two written tests, the rich candidates entered the second phase of the admission process with a proportion (32.4 per cent) much larger than that of the poor (4.6 per cent). Table 13 gives the mean scores of the rich and the poor candidates who appeared for interview in all the five selection items.

Even though, at the application stage, there was no significant difference between the mean *application rating* scores of the rich and the poor candidates, among those who actually qualified and appeared for interview, a significant difference existed in this respect. In other words, among those called for interview, the mean application rating score of the rich candidates was higher than that of the poor by a margin of 10 points (4 per cent), which was significant, even though among the applicants the difference in the mean scores was of just 3 points (1.6 per cent), which was not significant. On the other hand, whereas the differences between the mean scores among the applicants with regard to the two *tests* were quite large, the magnitude of these differences got considerably reduced among candidates called for interview. Yet, at the end of the first phase of the admission process, the rich candidates who appeared for interview still had a net lead of about 38 points (6 per cent) over their competitors from group I.

The performance of the rich and the poor candidates did not significantly differ in the group discussion test and the personal interview. Despite this, however, at the end of the second phase of the admission process, the rich candidates were able to maintain an edge over the poor candidates primarily because of their performance in the two written tests. The overall gap between the two groups was of the order of 53 points (6 per cent).

(3) *Candidates Selected for Admission:* The overall lead of 6 per cent which the rich candidates had over the poor among those interviewed also persisted among those finally selected for admission. However, as shown in Table 14, the internal composition of candidates within each of the two income groups underwent a considerable change probably as a result of the emphasis placed on some selection items but not on others.

The mean Application Rating score of the rich candidates selected for admission was significantly higher than that of the poor, even though among the applicants there was no significant difference in this respect. This is because among those called for interview the mean Application Rating score of the rich was higher than that of the poor. It may be remembered that candidates are shortlisted for interview on the basis of Application Rating score *combined with* scores in the two written tests and that it was in the written tests that the rich had secured a definite edge over the poor. Among those selected for admission, there was also a significant difference

between the quantitative test scores of the rich and the poor, but in this case it is the poor (instead of the rich) whose mean score is higher. There were no significant differences in the performance of the rich and the poor candidates selected for admission in sofar as the other three selection items are concerned. But there still remained a significant difference in the overall sources of the rich and the poor candidates in that the rich had a six percent overall lead over the poor.

Thus the poor candidates have been gradually losing the battle of admission to their competitors from the upper income group. Let me illustrate the magnitude of this problem. Suppose there are 1,000, applicants for admission from group I and an equal number from group VI, their chances of getting called for interview and being selected in 1971 were as follows:

Income Group	Number of Applicants	Number Qualifying for Interview	Number Selected
Poor (group I)	1000	37	8
Rich (group VI)	1000	146	60
All candidates	1000	109	38

IV

Conclusion

As stated in Section I, this paper is meant to examine the role of family income on a candidate's chances of becoming a manager. Utilising the admissions data for the last five years (1967-1971), I have shown in Section II the rapid growth of applications from the rich candidates (group VI) while at the same time the relatively minor increase in the case of the poor (group I). These trends were found to be very significant and, if allowed to continue, could radically alter the composition of the student population seeking admission at the institute. Already, in five years, the proportion of the poor candidates has dropped from 29 per cent in 1967 to 13 per cent in 1971, while during the same time, the proportion of the rich has gone up from 12 per cent to 24 per cent.

The different growth rates in the number and proportion of applications for admission from the rich and the poor cannot be explained entirely by attributing them to the differences in their numbers in the base year (1967). True, the rich started with a small base of only 186 applications, as against 459 from the poor; but the situation got reversed in a matter of few years until, in 1971, the number of rich candidates was almost double the number of poor candidates. A part of the explanation to different growth rates, therefore, lies in the fact that the rich candidates are more likely to 'want' to take up management as a career than the poorer sections of the society. I have tried to explain in Section III why the richer sections of the society only recently turned to management in a big way.

Even though the number of candidates called for interview has remained more or less constant over the last five years, their composition in terms of family income has not. Like applicants, those called for interview have also shown trends which clearly suggest that every year a larger proportion of the rich and a smaller proportion of the poor are qualifying for interview. The reasons for these differences are, however, entirely different from those responsible for differential growth rates of applicants. As shown in Section III, the rich candidates' performance in the two written tests has been significantly higher than that of the poor. Therefore, even though there were no significant differences in the application rating scores of the two groups, the superior performance of the rich in tests enabled them to march a lead over the poor candidates.

The performance of the rich and the poor candidates during the third stage of the admission process (group discussion and interview) did not differ significantly. And yet, the trend of "the rich getting richer, the poor poorer" was observed even among the candidates finally selected for admission. This is because final selection once again takes into account scores in application rating and the two written tests, which enable the rich candidates to carry forward the advantage they had in the two tests through the stage of final selection as well.

The title of this paper is in the form of a question, with the sub-title providing a clue to the possible answers. With the help of the data at our disposal, let us now try to answer the question: What makes a manager?

Everyone (including the candidates and the institute authorities) would like to belive that it is merit and motivation that determine whether a person should be selected for admission or not. Surely, these are the only factors which are 'intended' to influence selection. But that cannot rule out the 'unintended' consequences which might flow from some components of the selection process. Having looked at the significant and dramatic trends repeating year after year, it would be naive indeed to imagine that money is not influencing the making of a manager. Obviously, whatever influence money has in determinng the fate of a candidate is both indirect as well as unintended, although that does not make it any less important. Le us, therefore, identify the processes though which this causal network really operates.

A vast majority (87.3 per cent) of the rich candidates who applied for admission in 1971 came from large cities with a population of one lakh and above. Most of them (87.3 per cent) are sons of professionals like lawyers, doctors, engineers, and professors or of high ranking government officers or businessmen. A little over half of these candidates (51.3 per cent) had studied in public schools, while three-fourths of them had graduated from high school with English as the medium of instruction. Most of the rich candidates (95.4 per cent) started their college education through English medium and almost all of them (98.9 per cent) completed the Degree course with English as the medium of instruction. Of the 37 per cent rich candidates with engineering degrees, 15 per cent were the product of the prestigious Indian Institutes of Technology.

The poor candidates, on the other land, came primarily (52.5 per cent) from small towns or villages, the proportion of those hailing from big cities being 42.2 per cent (as against 87.4 per cent in the case of the rich). Most of the poor candidates (76.8 per cent) are sons of either agriculturists or white-collar employees in government or business, although a few are sons of semi-professionals or blue-collar employees. Both in terms of place of origin as well as father's occupation, therefore, the rich and the poor candidates hail from very different socio-cultural and not just socio-economic backgrounds. Only 12.6 per cent of the poor candidates had studied in public schools and less than one-fifth had had English as the medium of instruction in school. Even in college, less than half of the poor candidates *started* their studies through English medium, although nine-tenths of them *completed* their college education with

English medium. The proportion of candidates with previous background in engineering was the same (37 per cent) in the two groups, but relatively few (5.7 per cent) of the poor candidates had studied at Indian Institutes of Technology.

Except for some minor differences in relation to arts and science, the proportion of the rich and poor candidates coming from the other two backgrounds (commerce and engineering) was more or less the same. The proportion of engineers, for example, was exactly 37 per cent in each case. The poor candidates as a group were slightly older in age; more of them were married; and they had a higher proportion of scheduled castes among them than was the case with the rich. The comparative data for the two income groups is summarised in Table 15.

The selection procedures seem to have a dramatic effect upon some of the characteristics mentioned in Table 15. For example, while less than half of the poor candidates (47 per cent) came from big cities, among those who qualified for interview they constituted 74 per cent, and among those selected their representation went up to 80 per cent. The rich candidates from big cities also maintained or even improved their proportion through successive stages of the admission process (e g 87 per cent among applicants, 92 per cent among interviewees and 90 per cent among those selected). Thus there seems to be a clear preference for the candidate coming from large urban cities as opposed to one hailing from a village or a small town. Of the five poor candidates finally selected for admission, four came from big cities.

The second preference appears to be for a candidate with an engineering background. Whereas 37 per cent of applicants within each of the two extreme income groups were engineers, among those selected the engineers constituted 60 per cent of the poor and 70 per cent of the rich candidates. Among the engineers, there seems to be a further preference for the product of an IIT. Whereas only 6 per cent of the poor candidates were IIT graduates, their proportion among the interviewees and those selected rose to 35 per cent and 60 per cent, respectively. Even among the rich candidates, the proportion of IIT graduates rose from 15 per cent among applicants to 43 per cent among interviewees and 46 per cent among those finally selected.

The third preference seems to be for the product of a public school. Only 12.6 per cent of the poor applicants were the product of public schools, but among the interviewees and those selected the proportion of such candidates from group I went up to 30 per cent and 40 per cent respectively. Similarly, whereas 51 per cent of the rich candidates had studied in public schools, 61 per cent got called for interview and 63 per cent finally selected.

And, finally, there seems to be a preference for a candidate who has had his college education through the English medium. As many as 40 per cent of the poor candidates had had their college education through some Indian language. However, none of these candidates qualified even for an interview. On the other hand, whereas 47 per cent of the poor candidates completed college education through English medium, the proportion of such candidates went up to 96 per cent among interviewees and 80 per cent among those selected. Among the rich, the proportion of candidates with English medium remained more or less constant between 95 and 97 per cent during all the three stages of the admission process.

Needless to say it is expensive (1) to live in a metropolitan city, (2) to study engineering and technology (especially at a place like IIT), and (3) to go to a public school. The people who can afford such limited social facilities are the sons and daughters of high-ranking government officers, business managers, and professionals. It is this small group of the country's population which dominates the professional world in India. Many candidates from this group because of their unique socio-cultural and socio-economic backgrounds have their eyes set not only on the institute of management under study but also on schools of higher learning in the United States. The kind of objective tests that are used to select candidates for interview is well known to such candidates, who have taken similar tests before in the course of their school and college education as well as for admission abroad. In other words, such candidates, as compared with their not-so-fortunate counterparts, seem to be more 'test-wise'.

When, therefore, the candidates from group VI are able to grab a lion's share of the total number of seats at the institute, is this a function of their greater ability and motivation? I doubt this very much. In terms of ability, as we have already seen, there are no significant differences between the performance of the rich and the poor candidates in the course of their earlier school and college education. In terms of motivation, too, we have seen that large numbers of poor candidates have been wanting to get management education each year even though few of them were able to do so. If still group VI performed better than group I, it is primarily because they were more 'test-wise'. My answer to the question posed in this paper is, therefore, like this: It is merit, motivation *and* money that makes a manager at least insofar as the experience of the institute under study is concerned. Any attempt to reduce, if not eliminate, the role of money in the institute's selection procedure will, among other things, have to focus on the two selection tests that are being used at present.

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Strategic Planning: Some Operational Considerations

S K Bhattacharyya

The process of strategic planning or formulation of objectives requires consideration of the external as well as the internal environments and of the likely state of competition for assessing the threats and opportunities that arise during the strategic plan period. The objectives finally set must keep in view (a) the minimal level indicated by the weighted average cost of capital and (b) the highest level theoretically attainable by exploiting all potential opportunities and by overcoming all future threats.

Such possibilities have, of course, to be reviewed in the light of the strengths and weaknesses of the organisation and to be related to the past performance of the unit.

The formulation of objectives is essentially a structured, formal process. The formal planning system needs to be carefully nurtured, particularly in the initial stages when it is being developed. But the organisation is then in a far stronger position than it otherwise would be.

[The author gratefully acknowledges the help received from J C Camillus by way of many suggestions and comments.]

THE formal planning process comprises three distinct types of planning activities:

(a) "Strategic planning' for deciding on the long-term objectives of the organisation,

(b) 'Action planning' for formulating the quantified level of achievement during the period of the strategic plan, with a view to providing effective co-ordination and communication within the organisation, and

(c) 'Operational planning' for developing performance targets, for a much shorter period — usually one year broken into months — in order to provide benchmarks for management control.

It should be obvious that each of the three components of the formal planning process shades off into the other since the strategic plan sets out organisational objectives, the action plan the desired level of achievements in terms of those objectives, and the operational plan the performance targets for ensuring achievement of the desired short-term results. However, in most real life situations, organisations have initiated their planning effort with operational planning (or budgeting), primarily for the following reasons:

(a) The operational plan or the budget relates to a much shorter period — usually one year — and, accordingly, involves consideration of imponderables of a much less complex nature. It should not be too difficult to appreciate that forecasting of trends five years out relating to operational or environmental imponderables is much more complex compared to the process of estimating likely trends one year hence.

(b) Most organisations, including those which do not have formal operational plans or budgets for the entire organisation, have to estimate the likely trends for short periods in connection with their functional operations, e g, marketing campaign, capital investment, expansion of production, etc.

(c) Operational planning or budgeting involves forecasting of essentially operational trends as compared to formal long-term planning which involves scanning of the external environment, particularly of social and political trends.

It is possible to rationalise that, before an organisation attempts any exercise in long-term or strategic planning, it must acquire adequate experience and confidence in short-term or operational planning. This, however, does not take away the fact that such short-term planning, carried out without formulation of precise objectives tends to be sub-optimal. Many organisations tend to bridge this gap by developing policy guidelines prior to initiating of the budgeting exercise; but even in such situations the formulation of policies without a long-term objective is somewhat less than ideal.

This article will explore the nature and process of strategic planning, and illustrate it with reference to the banking industry. Strategic planning is best defined by Anthony[1] as:

> "the process of deciding on objectives of the organisation, and changes in these objectives, and resources used to attain these objectives, and on the policies that are to govern the acquisition, use and disposition of these resources".

The critical factor in the formulation of objectives is the clear delineation of *the concept of the business* for which the objectives are to be determined. It is not unusual to come across viewpoints which define the 'business' of banking in terms of one, or a combination, of the following:

(i) to provide customer services;

(ii) to serve as an instrument of economic development, particularly development of industry, trade and agriculture;

(iii) to mobilise deposits; and

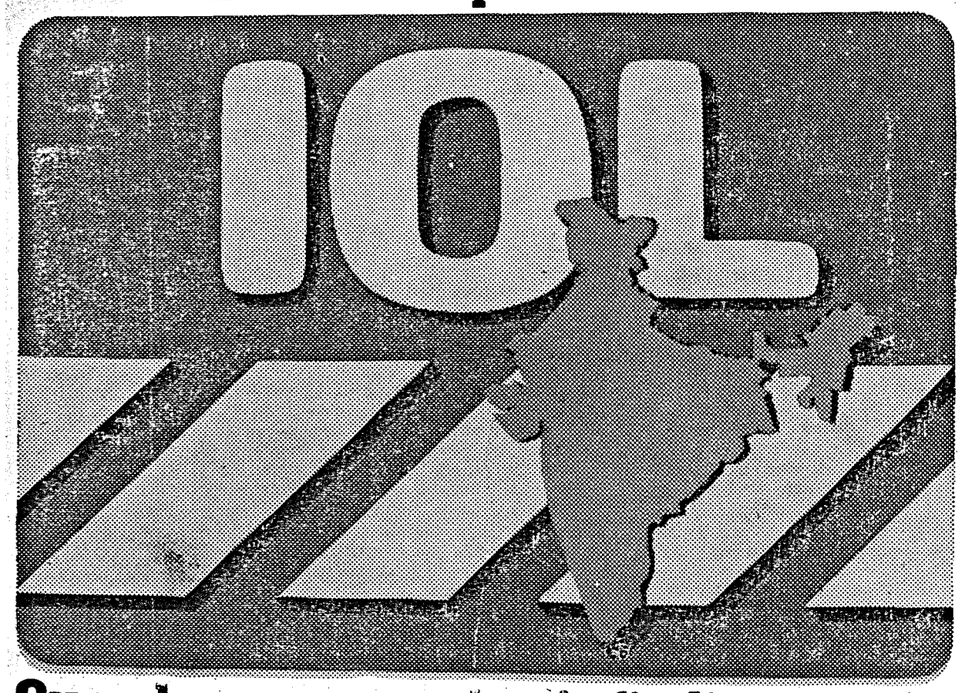
(iv) to provide credit.

It is suggested that none of the above provides a clear formulation of business of banking in the managerial sense, as they do not relate the needs of the customers to the unique services that the banking industry can offer. This uniqueness, or *distinctive competence* in managerial terms, is brought out in Mote and Shah's definition of the concept of the banking business as:[2]

> "*inducing* exchange of currency for liquid and convenient claims on the bank by paying a fair return".

If the above concept of the banking business is valid, it can be argued that the factors outlined earlier are the means rather than the ends or objectives of the banking business. It is contended that the objective of the banking business is best thought of in terms of optimising the value added by the banking process itself, evidenced by the generation of an optimal economic surplus. It can be argued, for instance, that the bank can improve its customer services by allocating additional resources (men, money, physical facilities, etc, in relation to the quantum of service demanded from it). But such a process, if carried out without a cost/benefit perspective, will inevitably lead to incurrence of extra cost per unit of banking service due to the allocation of additional resources, and lead to a net economic deficit rather than surplus. If this happens on a substantial scale, the banks' ability to provide customer services would become less and less — unless subsidised by other agencies. Similarly, a bank cannot indefinitely continue to mobilise deposits by offering high rates of interest without relating the economic effect of the mobilisation process in terms of deposit interests and processing costs as also the economic opportunities available to

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it by way of advancing the funds mobilised at an incremental rate. In sum, while banks must allocate their resources to several activities outlined earlier, they must do so after considering the appropriate 'mix' of activities, in the light of their cost/benefit characteristics, so as to generate the largest quantum of economic surplus or profit consistent with:

(a) The constraints imposed by the social and political system in which they operate,
(b) The constraints of the economic and financial policies of the government of the country in which they operate, particularly those imposed by the central bank and the finance ministry, and
(c) The requirement of balancing short-term profitability with long-term growth.

It is not suggested that the concept of a business is immutable. It is perfectly possible — in fact it might even be desirable — to change the concept of the business so as to ensure viability in a changing world.

The Formulation of Objectives

Given the concept of the business at a point of time, the formulation of objectives will have to be thought of in one — or a combination — of the following, over the strategic plan period:

(a) Desired level of *profits* expressed in absolute monetary terms.
(b) *Return on investment* (ROI), expressing profit after tax as a percentage of capital employed or total assets.
(c) Profits to be earned per unit of capital, e g, *earnings per share* (EPS)
(d) Desired *growth* rate, either in terms of profit, return on investment, earnings per share *or* in terms of functional activities (e g, market share/sales volume or revenue/deposits/advances, etc).

The formulation of objectives will then require an examination of the business in terms of:

(a) the external environment in which the organisation is likely to operate.
(b) the internal environment likely to prevail within the organisation,
(c) the competition it will face, and
(d) its past performance.

External Environmental Trends:

This factor is perhaps the most comprehensive, in that, it involves the scanning of the entire spectrum of the social, political, technological and economic forces likely to have a bearing on the future performance of the organisation, the industry to which it belongs, and business generally, with a view to determining what the organisation can reasonably seek to achieve during the strategic plan period.

In the case of the banking industry, it is useful to think of the external environment in terms of four distinct categories:

(i) regulatory agencies,
(ii) social and political systems,
(iii) the economic and technological environment, and
(iv) the scale of activities of end-users of the services of the banking industry.

In relation to banks, the *regulatory agencies* would primarily be the finance ministry of the government and the central bank. In making strategic plans, banks would certainly require to consider carefully the policies which are likely to be adopted by the government in the light of the economic policies and which have a bearing on the banks' future activities. Obviously, any such attempt to identify likely trends would require scanning the long-term economic plans of the government and the political value systems inherent in governmental planning. In operational terms, banks would have to consider how central banking policies are likely to undergo changes in the context of probable changes in government economic policies. In this context, it would also be useful to consider the likely responses of the industry association to changes in governmental and central banking policies, and the strategies likely to be adopted by other major operators on the financial scene such as life insurance companies, investment trusts, etc.

The *social and political systems* in which banks operate are likely to have considerable bearing on the future external environment, since changes in such systems would be reflected in the expectations of the society regarding the operations of the banking system. It is, for instance, quite possible that the society and its political institutions might urge that banking policies be specially geared to the development of a priority sector, e g, agriculture; or the expectation might be that banks should provide funds to a particular sector as compared to others, e g, small entrepreneurs as distinct from big business. Social and political changes might also be reflected in consumption and savings habits of the people, which in turn will determine the demands made on banking organisations to meet such social and political expectations.

The *economic environment* is also likely to have significant bearing on future operations of banking organisations — changes in population, the rate of urbanisation, per capita income, spending and saving habits, growth in GNP, etc, are likely to have far-reaching effects on future banking operations. Economic policies relating to foreign taxation, import and export policies, balance of payments, etc, are also significant economic factors to be considered in formulating objectives.

Technological changes are so pervasive that it is quite difficult to make a conscious forecast of such changes. For example, the impact of computer applications might have far-reaching implications for the banking industry.

The major *end-users* of the banking industry are industry, trade and commerce; these require banking services and funds for their operations, while individual members of the society look upon banks as institutions providing security to their savings deposited with them and as providers of banking facilities. Obviously, trends relating to the future scale of activities of the industry, trade and commerce, as well as the level of economic earnings and activities of individuals, are likely to have far-reaching influences on the banking industry. In developing their strategic plans, banks will thus require depth studies of the future development and growth of industries generally, supplemented by detailed analysis of future trends in particular industries or trades served by individual banks. In addition to this, banks will have to consider likely changes in the agriculture as well as in the scale of activities of other institutions which have dealings with them. The important point to emphasise here is that planning for any industry cannot be considered in a vacuum, i e, only in relation to its own operations. Any long-term plan must be related to the likely changes in the activities of the end-users. These would substantially affect the volume, the revenue, and the cost of the business, of the industry providing the product or the services to the end-users.

Internal Environment:

Forecasting of the likely trends in the internal environment involves a careful consideration of the following factors internal to the organisation:

(a) the professional (or technological) competence and the quality of operational 'knowhow',
(b) the managerial expertise of the top management,
(c) the skills and values of the employees,
(d) the ability to raise the required resources for accomplishment of future tasks, such as the ability to attract and recruit the right kind of people in the various cadres, and
(e) the organisational climate and values relating to achievement.

It is not too difficult to establish the premise that, even within the same industry, there will be units which are more effective and efficient than others due to the leads they have in internal environmental factors listed above. In any planning process, a conscious stock-taking of such internal factors and forecasting of the future trends is essential in order to remedy any internal weaknesses that are present or likely to develop in future years as also to ensure

that the points of strength of the organisation are appropriately taken into account in formulating long-term plans.

Competition:

Any attempt at formulating long-term objectives must take into account the likely trends in competition, so that the organisation can effectively determine the future opportunities available to it, given the likely state of future competition. However, the concept of competition is so broad and has so many facets that it needs to be broken down into relevant components if it is to be operationally useful. It can be interpreted in traditional terms to include only those companies that serve the same market. It could, however, be expanded to include other organisations which serve similar customer needs through different products or services or those which utilise similar technology or those with similar management values and styles. An effective scanning of competition would, therefore, involve a look at similar products, similar technology, and similar management.

For units in the banking industry, other banks and financial institutions providing similar financial services and facilities relating to deposits, advances, remittances, etc, would obviously require careful consideration. The trends relating to institutions like life insurance companies, investment trusts, savings and loan associations, etc, which provide similar services, would also require to be studied in depth. Another element in competition would be postal savings banks, co-operative banks, and such like institutions which too have similar operational characteristics as banks. Finally, a bank must take into account not only the performance of these listed organisations, but also the performance of well-managed organisations outside the banking field, so as to ensure that even competition in terms of management abilities is taken into account in developing long-term plans.

Interface with Organisational Strengths and Weaknesses:

The formal analysis of the above three factors, i e, external environment, internal environment, and competition, would highlight the opportunities and threats which are likely to arise during the strategic plan period. For instance, if it is evident that, due to political consolidation and likely tempo of economic development, the per capita income is likely to go up sharply and the scale of industrial activity is likely to be stepped up, it is but natural to presume that banking opportunities available would increase significantly during such a period. How much of such increased opportunities will be available to individual banks would have to be worked out against forecasts about the likely state of future competition. However, the mere fact that opportunities and threats will arise cannot by itself help an organisation in the formulation of its objectives unless it consciously considers the strengths and weaknesses it has in conducting its operations. Many organisations find it useful to think of such organisational strengths and weaknesses in key operational areas. A typical listing used by a large organisation[3] includes:

(a) *Organisation* — the way the major functional elements of the organisation relate to one another and to the major tasks of the organisation.

(b) *Technology or professional competence* — the level of professional or technical skill and the accumulated amount of pertinent knowhow possessed by operating departments.

(c) *Product or services* — those which are offered to customers.

(d) *Management* — the adequacy (related to the long-range goals) of the people in the first two levels — those who make the major decisions and supply the key leadership.

(e) *Operations* — the efficiency and effectiveness of day-to-day activities. This includes, but is not limited to, cost control, paperwork flow, productivity, etc.

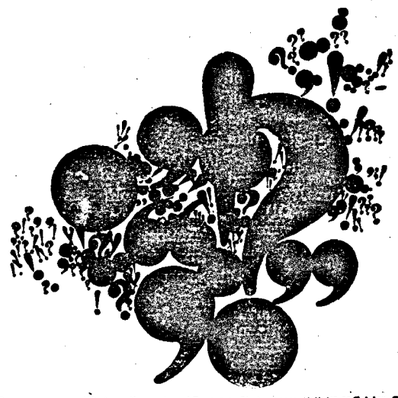
(f) *Policies* — the significant attitude which the organisation characteristically takes towards its customers, employees, and products or services.

(g) *Distribution* — the way in which business is solicited and services or products made available to customers.

(h) *Facilities* — the physical assets which the organisation has available.

(i) *People* — the adequacy — both quantitative and qualitative — of all employees other than those covered under 'management'.

These organisational strengths and weaknesses are then the filters through which the three factors outlined earlier would have to be viewed, because only the conscious matching of the Company's strengths and weaknesses with the future opportunities and potential threats would lead to the formulation of a viable set of objectives.



Steel Grammar...

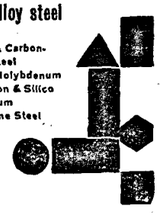
What use the genius of Tagore or Shakespeare, Voltaire or Tolstoy, D.H. Lawrence or Hemingway, had they been careless of punctuation? The Kabuliwala could not have been so lovable, Hamlet so pathetic, Lady Chatterley so elusive nor the Old Fisherman so inspiring!

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Process of Quantification of Objective

As highlighted earlier, there is a tendency to confuse the organisational objectives with those of activities (i e, what one does with what one should try to achieve) and targets (what one should attempt to achieve in short, if not in the immediate, time-frame rather than the overriding purpose of one's organisation). It would, therefore, be right to say that organisational objectives should be formulated either in terms of a desired level of economic surplus, or profits, or return on investment, or earnings per unit of capital, or of growth of any of these.

Any attempt to develop long-term objectives would also require consideration of two other factors, *viz*,

(a) the cost of resources for accomplishing the objectives, and

(b) the analysis of the benefit to be derived from having incurred the costs, consistent with the risks inherent in the operations.

The cost of resources is best thought in terms of weighted average cost of capital[4] which synthesises the expectation of the owners by way of dividends, the payment of interest to lenders or depositors, and the expected rate of return on internally ploughed-back funds. Obviously, in any long-term planning, the surplus needed for servicing the expectations of claimants in relation to each of the three aforesaid components of equity and the cost of servicing any future resources to be raised, must both be carefully considered. This weighted average cost-of-capital represents the 'floor' level of the objectives — simply because any lower level of achievement would lead to default in servicing the equity components. The 'ceiling', or the highest level of objectives, should be determined with reference to the range of economic opportunities which can be exploited by the organisation, either with its present resources or by acquiring required new resources, after due consideration of the likely state of future competition. The acquisition of new resources, particularly capital funds for new projects, would of course have to be justified by an appropriate cost/benefit analysis. In the case of manufacturing companies, this could be worked out either by adopting a net present value method (or by working out an internal rate of return) and in the case of a bank, by working out the long-term return on capital employed inclusive of deposits.

It is, however, true to say that irrespective of whatever may be the desired level of ceiling, it is unrealistic to assume that such a level can be entirely unrelated to the past performance of the organisation. While the basic assumption must be that the organisation will continue to show improvement in its performance, prudence demands a very hardheaded analysis of past performance in relation to sales volume, prices, costs performance (in the case of a bank, this would mean: deposits and their mix, advances and their mix, processing costs, operating costs, etc) to ensure that the level of objectives finally decided upon is an attainable one in the light of the past level of performance.

Summary

In sum then, the process of strategic planning or formulation of objectives requires consideration of the external as well as the internal environments, and of the likely state of competition for determining the threats and opportunities likely to arise during the strategic plan period. The objectives finally set must keep in view the minimal level (indicated by the weighted average cost of capital) and the highest level (theoretically attainable by exploiting all potential opportunities and by overcoming all future threats). Such opportunities and threats would naturally have to be reviewed in the light of the strengths and weaknesses of the organisation and related to the past performance of the unit.

Formal *vs* Informal Planning

The formulation of objectives outlined above is essentially a structured, formal process. It is necessary, however, that the differences, both in terms of concepts and potential performance between formal and informal planning, be carefully understood before initiating a formal planning system. Informal planning exists in every organisational situation. However, in most situations, it is triggered off by crises or by drastic changes in the environmental situations. The processes, by which alternatives are arrived at and evaluated, is not rational since there is no attempt to identify a conscious process of rationalisation. There is no systematic attempt to identify all the alternatives available, the results which are likely to arise from such alternatives, and the criteria for analysis and selection of alternatives. The content or the focus of the organisations' thinking on the future is in most cases either not specified or not clearly and comprehensively articulated.

Formal planning, on the other hand, is a distinct structured process. Not only is the content of the output of the formal planning process specified but also the relative emphasis or the elements in the content are consciously articulated. Implicit in this is a formal understanding of the responsibility of individual executives for accomplishing the various tasks necessary to execute the formal corporate plan.

The formal planning process is thus distinct from the informal one. The formal planning system needs to be carefully nurtured, particularly in the initial stages when it is being developed. The major advantages of formal planning over informal planning are:

(i) The organisation has more time to react to, and to take advantage of, the threats and opportunities in the environment. Implicit in this, too, is the fact that opportunities and threats are more likely to be perceived by the organisation.

(ii) It contributes towards development of an integrated approach for achieving specific objectives. This action has two elements, *viz*, "that all bases are touched" and that problems are seen and opportunities exploited, not individually but in an integrated and synergistic fashion.

(iii) Organisational management has to make the critical decision whether the time, trouble, and effort, required to initiate and administer the formal planning system, are more or less than the potential benefit such a system has to offer. Large diversified operations in a rapidly changing environment need the formal planning system to be able to survive. On the other hand, a small, closely-run, tightly-knit, flexible management, running as a single-product single-market company, may find formal planning more a hindrance than an advantage.

Notes

1 Robert Anthony: "Planning and Control Systems — A Framework for Analysis"; Division of Research, Harvard Business School, Boston, 1965.

2 V L Mote and B G Shah: 'Concept of Planning — A Case Study'; *Economic and Political Weekly*, Review of Management, February 26, 1972.

3 These factors are consciously scanned by Motorola, a leading US electronics organisation in developing its objectives and goals programme.

4 S K Bhattacharya: 'A Cost-of-Capital Framework for Management Control'; *Economic and Political Weekly*, Review of Management, August 29, 1970.

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The paints industry in India has made remarkable progress in the past two decades with an average growth rate of about 7 per cent per annum. This rate of growth is expected to be improved in the future. The Company's existing share of the market in the organised sector of the industry is about 13% and with its wide range of products it is in a position to take advantage of the expected increase in demand. The Company is also trying to develop markets overseas and has been successful in obtaining substantial orders from Russia and the Middle East countries. The proceeds of the present issue will be utilised in the business of the Company and with the strengthening of its capital base it will be in a position to increase its manufacturing activities in the future.

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41,170 equity shares of Rs. 10 each have been reserved for subscription for cash at par by wholetime Directors and employees who shall all be Indian nationals. (If any of these shares are not so taken up, they will be applied in meeting applications from the public)	Rs. 4,11,700
NOW OFFERED FOR PUBLIC SUBSCRIPTION	
3,70,530 equity shares of Rs. 10 each for cash at par	Rs. 37,05,300
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13/1 Sunny Park, Calcutta 19.

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Company Director
77 Blenheim Crescent, London W 11.

ERIC WILLIAM OSMOND
Company Director
7 Cannon Close, Coventry, CV4 7AT, U.K.

PHANI BHUSAN SEN GUPTA
Chartered Accountant
Flat 10 Harrington Mansion,
8 Ho-chi-minh Sarani, Calcutta 16.

INDRU MANGHARAM MALKANI (Managing Director)
Chemical Engineer
5A/1, Belvedere Road, Calcutta 27.

SECRETARY

BIJAN KUMAR SEN GUPTA
P 518 Raja Basanta Roy Road Extn.,
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Computers as Aids to Management Decisions

Application to Linear Programming

V L Mote
B G Shah

The variables that need to be incorporated into management decision-making have increased manifold. At the same time, the magnitude of inputs that have to be committed to projects has increased considerably making sub-optimal decisions very expensive. Hence the need to use advanced methods to aid decision-making.

While there exist concepts and tools that allow a formal incorporation of these complex factors into decision-making, there has been a dearth of requisite data and a lack of capabilities to process the data quickly.

Computers have now made possible the application of formal quantitative methods as aids to better decision-making.

In this article are discussed some aspects of applying some of these quantitative concepts and tools to certain types of complex business problems. Specifically, the application of linear programming to product-mix planning in a textile mill and to scheduling problems in a transport undertaking are discussed.

MANAGERS have attempted to incorporate in their decision-making process as many variables as possible affect their decisions. In recent times, these decisional variables have increased manifold, because of competitive markets, rapidly changing technology, and Government regulations, controls and directives. Further, the magnitude of the various inputs that have to be committed to projects has increased considerably, making sub-optimal decisions very expensive. There is, therefore, an increased need for use of advanced methods to aid decision-making in the face of such growing complexities.

Academicians have contributed concepts and tools that permit a formal incorporation of these complex factors into the decision-making process. But there have been real limitations on the use of these concepts and tools — because of the enormous difficulties in generating the requisite data and the lack of capabilities to process the data speedily and inexpensively. But this has now been made possible with the emergence of computers which have enabled increasing application of formal quantitative methods for better decision-making.

In this paper we share our experiences of applying some of these quantitative concepts and tools to certain types of complex business problems. In the following we discuss the application of linear programming to product-mix planning in a textile mill, and later, to scheduling problem in a transport undertaking.

Application of Linear Programming to Production Planning Problem in Manjeshwari Mills

The Manjeshwari Mills (the name is fictitious) was a composite mill with 33,000 spindles, 618 looms, and dyeing, bleaching and processing plants. It was an old mill with antiquated machinery in the spinning and weaving preparatories, ring frame, and loom shed. It manufactured cotton fabrics of the medium category. Its sales grew at a compound rate of 7.5 per cent during 1960-70. The recent sharp increase in cotton prices eroded the small contribution[1] towards its fixed costs, and the management was concerned with stopping cash losses. It, therefore, approached us for advice on the following problems which it considered important:

(1) Installing a system to control costs;
(2) Examining the economics of working a third shift in the loom shed; and
(3) Identifying and setting the priorities in investment decisions.

Among these three problems, the management considered cost control as the most critical problem in the short run. Since there was little scope for immediate reduction in the major items of costs (cotton, wages, colours and chemicals, and stores), we concluded that the mill's major problem in the short run was that of improving contribution through change of product-mix. Such a review of the production programme (product-mix) required a creative search for new sorts,[2] on one hand, and optimal (not necessarily full) utilisation of capacities, on the other. Looked at from this broader angle, the review of the production programme not only required a reallocation of loom-shifts among sorts already produced but also involved finding rational answers to such questions as:

(i) Should the mill sell cloth or yarn or both?

(ii) Should it operate its capacities at the existing level of utilisation or change the levels of utilisation? If the level is to be changed, when should it be changed?

In specific terms, the problem was that of choosing among the following three alternatives:

(a) Should the mill maintain the *status quo*? (i.e, operate two shifts in loom shed (1236 loom-shifts)[3] and a partial third shift in the ring frame section (74,100)[4]

Warp	40,050
Weft	34,050
	74,100

(b) Should a third shift be added in the loom shed (1736) *and* also should the entire ring frame department be worked in the third shift?

Warp	50,580
Weft	42,150
	92,730

(c) Should the entire ring frame department be operated in the third shift and two shifts be operated in the loom shed?

Warp	50,580
Weft	42,150
	92,730

The outcome of each of these alternatives would be different, since the contributions and fixed costs corresponding to each of these alternatives would vary. The first step in making a choice among the listed alternatives was, therefore, to determine the contributions and fixed costs attached with each of them. This amounted to determining the optimal production programme corresponding to each of the alternatives.

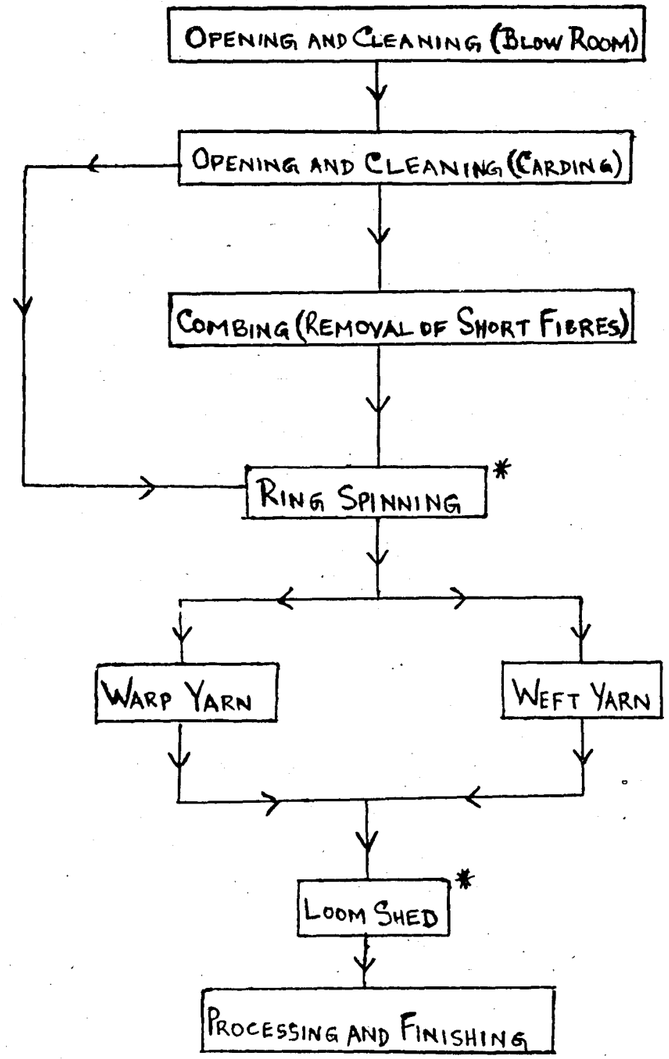
It will be helpful to begin the discussion on determination of an optimal production programme by outlining a partial flow process in a textile mill. The flow process will help in a better appreciation of the different manufacturing capacity constraints preceding and succeeding the loom shed which constitutes the pivot of the production planning in a textile mill.

The loom shed is the pivot of a production plan in a textile mill. Once the allocation of looms to different sorts is completed, the capacity requirements in terms of processes preceding and succeeding the weaving in loom shed are computed on the basis of well-defined technical relations. In operational terms, therefore, drawing up a production programme involves deciding which sorts to produce on which loom-widths — such that none of the manufacturing capacity constraints in the loom shed or the process centres preceding and succeeding it is violated. To draw up the production programme, therefore, we need data on (1) alternative sorts that can be manufactured and sold, (2) alternative loom widths on which these sorts can be woven, (3) available manufacturing capacities at different process centres, and (4) marketing constraints in terms of the maximum and minimum amounts of each of the listed sorts that can be sold.

We now discuss problem areas in collecting the above data. The first problem area was that of preparing the list of sorts to be considered for manufacturing. We consulted the mill's salesman and pursued a quick but exhaustive search for new sorts that were technically feasible for manufacture and sale in the light of prevailing market trends. A feasible list of some 20 sorts was thus drawn up. We had also to indicate the alternative loom widths on which these sorts would be woven. Appendix IV gives such a listing. For example, the sort group numbered 1,001 to 1,005 shows five alternatives of producing that sort. Sort number, 1,001 indicates the alternative of producing it on the minimum technically permissible loom width; while 1,005 indicates the alternative of producing that sort on the widest technically feasible loom width. As has been pointed out earlier, the profitability and capacity requirement of producing a sort will vary, however, depending upon the width of the loom allotted to it, because of different rates of output of the same sort on looms of different widths. Appendix 4 shows 70 different alternatives of looms allocation for producing the 20 sorts. Obviously, such a list is not good for all time. It needs to be revised and up-dated from time to time in the context of shifts in the market constraints and prices and availability of cotton, colours, and chemicals.

It was extremely difficult to estimate, properly, the minimum and maximum quantity of sorts that could be sold. There was a built-in tendency to regard maximium sales in the past of any sort as the potential size of the market for

DIAGRAM 1 : (PARTIAL) FLOW PROCESS



° Yarn spun in the ring spinning department is woven into a fabric in the loom shed. Basically, the weaving process consists of interlacing of yarn. The yarn which is vertical is called the warp yarn, while the yarn that runs perpendicular to the warp yarn is called the weft yarn. A typical loom shed consists of looms of different widths required for weaving fabrics used for shirtings or coating is normally 28/29" while that of sarees or dhoties is 47/48". Clearly, a loom of wider width is required for weaving a wider width fabric. Technically, however, there are upper and lower limits to the difference between the width of the loom and the width of the fabrics to be woven on it. As the width of a loom increases, its (loom) speed decreases. Accordingly, production per loom shift decreases as its width increases. Given the width of a fabric it is, therefore, customary to allot for its manufacture as far as possible a loom with technically required minimum width.

that sort. It needed some effort to bring out that what was relevant in defining the sales constraints was not the quantity of the sort which was sold in the past but the quantity that could be sold in the future — with or without additional sales promotion efforts. Our effort in this direction resulted in the enlargement of the sort list and in redefining of sales limits. Appendix IV shows the marketing constraints as were indicated by the salesman. These constraints are expressed in terms of loom-shifts per day. For instance, the salesman indicated that the maximum loom-shifts that should be allocated to the sort comprising the group 1,001-1,005 should be 300. This quantification of market potential for the sort (and likewise for other sorts) was based on his assessment that 300 loom-shifts per day of that sort could be absorbed in the market without depressing its assumed price.[5]

The next major problem that was faced in preparing data for the production programme was the measurement of available manufacturing facilities — particularly those which were most likely to prove bottlenecks. The discussions with the mill manager and the production manager showed that the critical manufacturing constraints of the mill would be :

(i) Cards (available capacity to produce 12,320 lb of yarn per day),
(ii) Combers (capacity to produce 2860 lb of combed yarn per day),
(iii) Warp and weft spindles in the ring frame department, and
(iv) Looms in the different widths.

Having surmounted these difficulties in collecting the data on production and marketing constraints, we proceeded with the determination of contribution and incremental costs attached to each of the three alternatives. Appendices I, II, and III give the production programme corresponding to the Alternatives 1, 2, and 3.

Table 1 shows the contributions and the incremental costs incurred under the alternatives 1, 2, and 3.

Analysis of the results showed that it was profitable for the mill to pursue Alternative 2 (operating three shifts in loom shed and ring frame). This alternative would increase the contribution by Rs 417 per day, i e, Rs 1,25,100 per year of 300 working days. But it involved recruitment of 100 additional workers. One can imagine how difficult it would be for the management to take a rational choice of the production programme without this kind of formal analysis.

We still have a problem of choice of alternative. Such a choice (of the production programme) had to be guided by the following considerations:

Alternative 2 involved employment of additional labour (100 workers). In the event of an adverse change in the economics of the third shift due to unfavourable change in cotton or cloth prices, etc, what problems would the additional labour force pose to the management?

Alternative 3 shows that the mill could make an additional contribution of Rs 109 per day without any additional worker being required. Under this alternative, the company would sell 2150.3 lbs sized beam yarn per day. Though this alternative yielded a lower contribution it did not have the risk of employing additional labour force.

The alternatives, intervening uncertainties and the outcomes are presented in Diagram 2.

After examining the relevant environmental data, the management assessed that cotton prices would go down and that cloth prices would stabilise if not increase. As for demand for cloth, it might not increase if the armed conflict with Pakistan materialised. The management therefore assessed that the chances of the economics of third shift proving adverse were slim, and the alternative 2 was therefore chosen.

At this stage, it will be useful to compare the linear programming approach with the company's current practice for drawing up a production programme. As can be seen, for drawing up the production programme, we had considered 70 alternative loom allocations to the 20 sorts. Traditionally, only the looms with the technically required minimum width are allotted to produce a particular sort, as it is less profitable to produce that sort on a loom with a larger than technically required minimum width. Thus, in a traditional approach, only around 20 alternative loom allocations would have been considered — instead of 70 that we considered. How such a traditional approach to loom allocation can lead to a sub-optimal programme may be seen from a study of Appendix I. In Appendix I, it will be observed that it has been decided to choose alternative 1,009, while alternatives 1,006, 1,007, and 1,008 are dropped. In other words, the computer has allotted looms with larger than the minimum required width to produce the sort comprising the looms group 1,006-1,009. Further, traditionally, it is common to allocate looms in a descending order of sort 'profitability', subject to marketing constraints. Even assuming that, instead of 'profit' we would now use 'contribution' for product-mix decisions, it does not follow that looms should be allotted to the different sorts in the descending order of their 'contribution' per loom-shift. In this connection, it is interesting to compare the programmes detailed in Appendices I and II. For instance, in Appendix II, sort 1,069 has been dropped and allocation to sort 1,067 has been increased, though the contribution per loom-shift of sort 1,069 is higher than that of sort 1,067.

An interesting conclusion that emerged from the interpretation of the production programme is that cards and combers were critical constraints and not the looms or the ring frames.[6] The criticality of the cards and combers became clear when it was estimated that the contribution per day could increase as follows for every lb of additional carded and combed yarn:

	Carded Rs	*Combed* Rs
Alternative 1	0.31	0.61
Alternative 2	2.17	2.46
Alternative 3	1.60	1.53

Thus the determination of the optimal programme helped us to answer all the three problems posed by the management, *viz*:

(i) It was profitable for the mill to run the third shift in the loom shed;
(ii) In case the management is unwilling to commit additional work force it should run three shifts in the ring frame and sell yarn;
(iii) The management should exercise close control on the efficiency of card and comber which have been identified to be critical constraints on the profitability; and
(iv) The pay-off on investment in cards and combers would be very attractive and certain.

In this sense the programme helped in identifying opportunities for investment.

These findings were accepted by the management and will be used as a basis for its product and investment decisions. The management is taking steps for developing skills within the organisation for applying linear programming for determining its production programmes in the future.

TABLE 1 : CONTRIBUTIONS AND INCREMENTAL COSTS UNDER THE THREE ALTERNATIVES

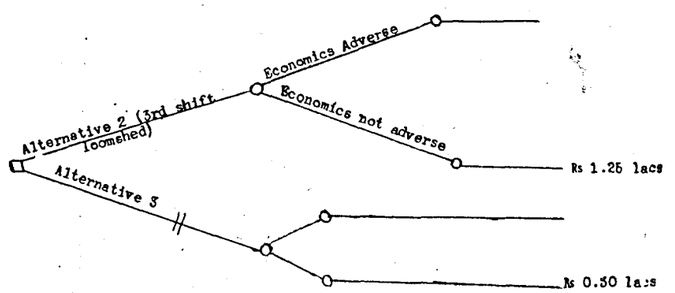
	Alternatives				
	1†	2	3	2-1°	3-1°°
Contributions	38,263	40,480	38,372	—	—
Change in contribution compared to Alternative 1	—	—	—	2,217	109
Increase in cost compared to Alternative 1	—	—	—	1,800	Nil
Increase in contribution compared to Alternative 1	—	—	—	417	109

*Extra contribution obtained by adopting Alternative 2 instead of Alternative 1.
°°Extra contribution obtained by adopting Alternative 3 instead of Alternative 1.
†The difference between the contribution resulting from a production programme prepared by a linear programming technique and that obtained from a production programme prepared in an informal way was of the order of Rs 7,625 per day.

TABLE 2

Trip Number	Starting Place	Destination	Starting Time	Arrival Time
1	SND	UPDL	80 40	09 40
2	SND	ABD	10 50	11 40
3	SND	ABD	08 25	09 15
4	SND	ABD	06 25	07 15
5	SND	NLS	09 45	11 25
6	SND	ABD	07 00	07 15
7	SND	RTL	11 20	12 10
8	SND	ABD	15 00	15 50
9	SND	RTL	14 00	14 50
10	SND	KLP	13 50	15 05
11	SND	ABD	16 45	17 35
12	ABD	SND	07 25	08 15
13	ABD	SND	18 00	18 50
14	ABD	SND	09 45	10 45
15	ABD	SND	12 00	12 50
16	ABD	SND	16 20	17 10
17	ABD	SND	08 05	08 55
18	ZLP	SND	07 25	08 15
19	UPDU	SND	09 50	10 50
20	NLS	SND	11 40	13 20
21	RTL	STD	15 05	15 55
22	RTL	SND	12 25	13 15
23	KLP	SND	15 00	16 15
24	STD	ZLP	16 15	18 30

DIAGRAM 2



Scheduling Problem in a State Transport Organisation

The second application was made to a scheduling problem in a State Transport Corporation. The State Transport Corporation had 10 divisions in the state. Each division operated a fleet of 300 buses on an average, and one of the important tasks was preparation of time-tables three times a year. In the preparation of these time-tables the first problem was to assess the demand for passenger buses, the load factor, and so on, to determine a list of trips to be operated. Technically, a 'trip' is a journey performed by a bus between two places ('starting place' and 'ending place') at specified timing. Thus the list of trips specified the starting place, ending place, the starting time and the ending time.

The number of trips, however, did not remain the same over a year. It fluctuated as demand for buses varied from season to season. The total number of trips operated by the Corporation also increased over the years because of the Corporation's deliberate policy of adding more and more routes and also of increasing the frequency of trips on the existing routes to meet the growing volume of traffic. Once the trips in each route were decided upon, the Corporation made a schedule indicating which bus should cover which trips.

TABLE 3

Bus Number	Trip Number	Starting Place	Ending Place	Starting Time	Ending Time
1	12	ABD	SND	07 25	08 15
	1	SND	UPDL	08 40	09 40
2	4	SND	ABD	06 25	07 15
	17	ABD	SND	08 05	08 55
	2	SND	ABD	10 50	11 40
	16	ABD	SND	16 20	17 10
3	6	SND	ABD	07 00	07 15
	14	ABD	SND	09 45	10 45
	7	SND	RTL	11 20	12 10
	21	RTL	STD	15 05	15 55
	24	STD	ZLP	16 15	18 30
4	3	SND	ABD	08 25	09 15
	15	ABD	SND	12 00	12 50
	9	SND	RTL	14 00	14 50
5	19	UPDL	SND	09 50	10 50
	10	SND	KLP	13 50	15 05
6	20	NLS	SND	11 40	13 20
	11	SND	ABD	16 45	17 35
7	22	RTL	SND	12 25	13 15
	8	SND	ABD	15 00	15 50
	13	ABD	SND	18 00	18 50
8	23	KLP	SND	15 00	16 15
9	18	ZLP	SND	07 25	08 15
	5	SND	NLS	09 45	11 25



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In other words, the trips were grouped in such a way that each group of trips could be operated by a single bus. Ideally, this grouping should be so done that the number of buses and crew requirements are minimised. In preparing such a schedule manually it became difficult to ensure that a minimum of bus and crew requirements were achieved. At present, in each division two persons spent a month on changing the time-table and 25 per cent of their time was spent on grouping the trips. A need was, therefore, felt to mechanise the entire work, ensuring that bus and crew requirements were minimised. To do this, it was necessary to develop an algorithm to group the trips so that each group of trips could be operated by one bus. In this paper, we shall focus our attention on problem of minimising bus requirements.

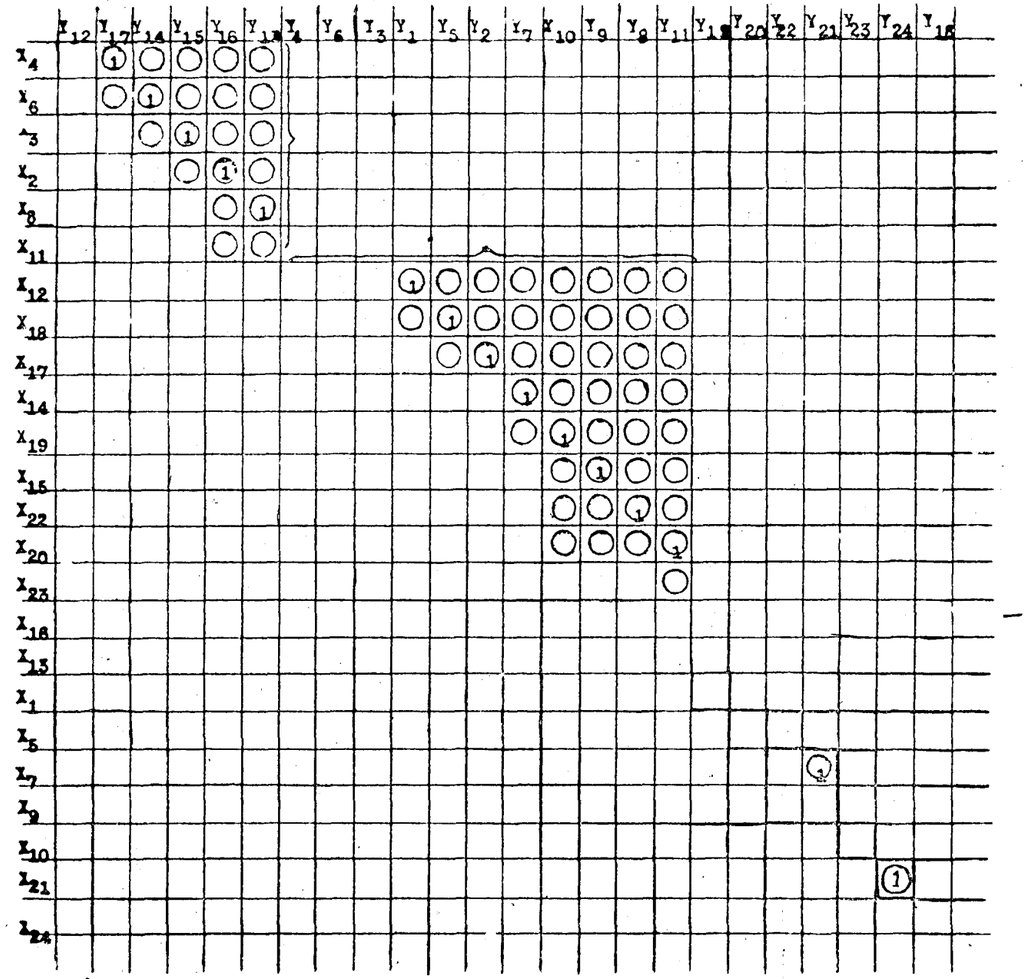
The problem was best illustrated by an example. We take this example from the trips operated from a depot of the State Transport.

The problem was to find the minimum number of buses required to operate these trips, and also to find which trip should be attached to which bus. It was required that there must be at least 20 minutes break between any two consecutive trips taken by a bus.

The solution to the problem was as indicated in Table 3.

The question that naturally arises is: Was this the best solution, in the sense that, the number of buses required could not be reduced by further regrouping of the trips? The answer is 'yes'. Perhaps this solution could have been obtained by a visual study of the data by an experienced scheduler. However, this becomes difficult when the number of trips are very large. For example in a particular division, the number of trips that a scheduler had

TABLE 4



APPENDIX I

MANJESHWARI MILLS: LOOM PROGRAMME WITH SHIFTS IN LOOMSHED AND PARTIAL THIRD SHIFT OPERATIONS IN RING SPINNING (ALTERNATIVE 1)

Serial Number	Identification Number	Loom Width in Inches	Number of Loom Shifts Allocated	Contribution/Loom Shift Rs	Total Contribution Rs	Spindle Shifts Warp	Spindle Shifts Weft	Looms × Spindles of Warp	Looms × Spindles of Weft	Yarn Consumed per Loom Shift (in lb)	Total Yarn Consumed (in lb)	Combed Yarn per Loom	Total Combed Yarn
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	[(14)
1	1009	48	38	28.03	1065.14	36	21	1368	798	7.76	294.88	4.96	188.48
2	1010	52	62	26.63	1651.06	34	20	2108	1240	7.37	456.94	4.71	292.02
3	1012	42	75	26.02	1951.50	28	20	2100	1500	6.47	485.25	3.90	292.50
4	1017	42	150	25.05	3757.50	29	20	4350	3000	6.66	999.00	3.98	597.00
5	1021	36	220	28.98	6375.60	22	14	4840	3080	7.83	1722.60	—	—
6	1022	42	20	28.30	566.00	22	14	440	280	7.65	153.00	—	—
7	1036	42	43	31.96	1374.28	34	22	1462	946	7.50	322.50	4.62	198.66
8	1038	48	7	30.73	215.11	32	21	224	147	7.21	50.47	4.44	31.08
9	1043	48	59	25.72	1517.48	30	23	1770	1357	7.12	420.08	4.18	246.62
10	1045	56	18	21.66	389.88	26	19	468	342	6.00	108.00	3.52	63.36
11	1046	45	80	33.37	2669.60	38	26	3040	2080	8.66	692.80	5.21	416.80
12	1047	48	20	32.00	641.80	36	25	720	500	8.33	166.60	5.01	100.20
13	1052	52	62	29.62	1836.44	32	25	1984	1550	11.03	683.86	—	—
14	1053	56	68	27.28	1855.04	30	23	2040	1564	10.16	690.88	—	—
15	1054	62	50	24.73	1236.50	27	21	1350	1050	9.17	458.50	—	—
16	1056	56	50	22.38	1119.00	27	23	1350	1150	9.47	473.50	—	—
17	1065	62	50	27.36	1368.00	36	28	1800	1400	8.62	431.00	4.92	246.00
18	1067	66	33	31.28	1032.24	32	25	1056	825	10.80	356.40	—	—
19	1068	66	100	33.94	3394.00	31	20	3100	2000	10.83	1083.00	—	—
20	1069	66	21	38.76	1201.56	44	28	1364	868	9.72	301.32	6.02	186.62
	Total		1236		35217.73			36934	25677		10350.58		2859.34
			Yarn prod 10 lb	Contribution 10 lb Yarn									
21	2072		72.43	16.00	1158.88	43		3114	—	10	724.30	—	—
22	2074		21.17	11.00	232.87		44	—	931	10	213.70	—	—
23	2076		103.35	16.00	1653.60	—	72	—	7441	10	3033.50	—	—
	Grand Total				38263.08			40048	34049		12320.08		2859.34

APPENDIX II

MANJESHWARI MILLS: LOOM PROGRAMME WITH THREE SHIFT OPERATION IN LOOM SEED AND RING FRAME (ALTERNATIVE 2)

Serial Number	Identification Number	Loom Width in Inches	Number of Loom Shifts Allocated	Contribution/Loom Shift Rs	Total Contribution Rs	Spindle Shifts Warp	Spindle Shifts Weft	Looms × Spindles of Warp	Looms × Spindles of Weft	Yarn Consumed per Loom Shift in lb	Total Yarn Consumed in lb	Combed Yarn per Loom	Total Combed Yarn
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1	1002	42	92.2	24.88	2294	30	21	2766	1936	6.81	628	4.11	379
2	1003	45	12.4	24.88	309	30	21	372	260	6.81	84	4.11	51
3	1004	48	87.1	23.92	2083	29	20	2526	1742	6.55	571	3.95	344
4	1011	36	69.1	26.64	1841	29	20	2004	1382	6.62	457	3.99	276
5	1012	42	5.9	26.02	154	28	20	165	118	6.47	38	3.90	23
6	1017	42	150.0	25.05	3758	29	20	4350	3000	6.66	999	3.98	587
7	1021	36	240.0	28.98	6955	22	14	5280	3360	7.83	1879	—	—
8	1031	42	26.5	21.05	558	29	22	769	583	9.71	257	—	—
9	1036	42	50.0	31.96	1598	34	22	1700	1100	7.50	375	4.62	231
10	1043	48	87.1	25.72	2240	30	23	2613	2003	7.12	620	4.18	364
11	1044	52	19.3	23.69	457	28	21	540	405	6.56	127	3.85	74
12	1046	45	100.0	33.37	3337	38	26	3800	2600	8.66	866	5.21	521
13	1052	52	87.1	29.62	2580	32	25	2787	2178	11.03	961	—	—
14	1053	56	95.5	27.28	2605	30	23	2865	2197	10.16	970	—	—
15	1054	62	17.4	24.75	430	27	21	470	365	9.17	160	—	—
16	1056	56	50.0	22.38	1119	27	23	1350	1150	9.47	474	—	—
17	1062	56	45.6	23.49	1071	32	24	1459	1094	10.63	485	—	—
18	1063	62	4.4	21.48	95	29	22	128	97	9.72	43	—	—
19	1067	66	115.2	31.28	3603	32	25	3686	2880	10.80	1244	—	—
20	1068	66	100.0	33.94	3394	31	20	3100	2000	10.83	1083	—	—
			454.8		40,480			42,730	30,450		12,321		2,860

Utilisation of Spinning

	Available	Used	Surplus
Warp	50,580	42,729	7,851
Weft	42,150	30,450	11,700
Total	92,730	73,179	19,551

Utilisation of Loom Shifts

	Available	Used	Surplus
Loom shifts	1736.6	154.8	281.8

APPENDIX III

MANJESHWARI MILLS: LOOM PROGRAMME WITH TWO LOOM SHIFTS AND THREE SHIFTS IN RING FRAME (ALTERNATIVE 3)

Serial Number	Identification Number	Loom Width in Inches	Number of Loom Shifts Allocated	Yarn Production 10 lb	Contribution 10 lb Yarn	Contribution/Loom Shift Rs	Total Contribution Rs	Spindle Shifts		Looms × Spindles of Warp	Looms × Spindles of Weft	Yarn Consumed per Shift in lb	Total Yarn Consumed in lb	Combed Yarn per Loom	Total Combed Yarn
								Warp	Weft						
(1)	(2)	(3)	(4)			(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1	1009	48	38			28.03	1065.1	36	21	1368	798	7.76	294.9	4.96	188.5
2	1010	52	62			26.63	1651.1	34	20	2108	1240	7.37	456.9	4.71	292.0
3	1012	42	75			26.02	1951.5	28	20	2100	1500	6.47	485.3	3.90	292.5
4	1017	42	143			25.05	3582.2	29	20	4147	2060	6.66	952.4	3.98	569.1
5	1019	48	7			24.08	168.6	28	20	196	140	6.41	44.9	3.83	26.8
6	1021	36	220			28.98	6375.6	22	14	4840	3080	7.83	1772.6	—	—
7	1022	42	20			28.30	566.0	22	14	440	280	7.65	153.0	—	—
8	1036	42	50			31.96	1598.0	34	22	1700	1100	7.50	375.0	4.62	231.0
9	1043	48	59			25.72	1517.5	30	23	1770	1357	7.12	420.1	4.18	246.6
10	1045	56	68			21.66	1472.9	26	19	1768	1292	6.00	408.0	3.52	239.4
11	1046	45	80			33.37	2669.6	38	26	3040	2080	8.66	692.8	5.219	416.8
12	1047	48	20			32.09	641.8	36	25	720	500	8.33	166.6	5.01	100.2
13	1052	52	62			29.62	1836.4	32	25	1984	1550	11.03	683.9		
14	1053	56	68			27.28	1855.0	30	23	2040	1564	10.16	690.9		
15	1054	62	50			24.73	1236.5	27	21	1350	1050	9.17	458.5		
16	1057	62	50			20.46	1023.0	25	21	1250	1050	8.66	433.0		
17	1067	66	21			31.28	656.9	32	25	672	525	10.80	226.8		
18	1068	66	100			33.94	3394.0	31	20	3100	2000	10.83	1083.0		
19	1069	66	43			38.76	1666.7	44	28	1892	1204	9.72	418.0	6.02	258.0
			1236				34928.4			36485	25170		10166.6		2862
20			215.3	16.00	3444.8					9258			2153		
										45743	25170		12319.6	2862	(approximate)
Grand Total							38372.4								

APPENDIX IV

MANJESHWARI MILLS

APPROPRIATE SORT LIST AND MARKET CONSTRAINT

Group Number	Serial Number	Contribution in Rs per Loom Shift	Marketing Constraints (i e Allocation of Loom Shifts Not to Exceed)
1	1001	25.47)	
	1002	24.88)	
	1003	24.88)	300
	1004	23.92)	
	1005	22.72)	
2	1006	29.85)	
	1007	29.15)	
	1008	29.15)	100
	1009	28.05)	
	1010	26.63)	
3	1011	26.64)	
	1012	26.02)	
	1013	26.02)	75
	1014	25.02)	
	1015	23.77)	
4	1016	25.66)	
	1017	25.05)	
	1018	25.05)	150
	1019	24.08)	
	1020	22.88)	
5	1021	28.98)	
	1022	28.30)	
	1023	28.30)	240
	1024	27.21)	
	1025	25.92)	
6	1026	23.50)	
	1027	22.95)	
	1028	22.95)	240
	1029	22.07)	
	1030	20.91)	
7	1031	21.05)	
	1032	21.25)	
	1033	20.24)	60
	1034	19.23)	
	1035	17.71)	
8	1036	31.96)	
	1037	31.96)	
	1038	30.73)	50
	1039	28.30)	
	1040	26.06)	
9	1041	26.75)	
	1042	26.75)	
	1043	25.72)	200
	1044	23.69)	
	1045	21.66)	
10	1046	33.37)	
	1047	32.09)	
	1048	29.56)	100
	1049	27.03)	
11	1050	24.98)	
	1051	23.00)	30
12	1052	29.62)	
	1053	27.28)	200
	1054	24.73)	
	1055	24.73)	
13	1056	22.38)	
	1057	20.46)	50
	1058	20.46)	
14	1059	21.75)	50
	1060	19.89)	
	1061	19.89)	
15	1062	23.49)	50
	1063	21.48)	
	1064	21.48)	
16	1065	27.36)	
	1066	27.36)	100
17	1067	31.28)	150
18	1068	33.94)	100
19	1069	38.76)	100
20	1070	24.12)	60

to plan for were approximately 1,500 to 2,000. A visual study of the data, therefore, would be neither feasible nor very effective. Fortunately, this problem can be formulated as a linear programming problem and the best solution worked out.

We sketch a method of attacking this problem.[7] The problem formulation is done exactly on the lines as an experienced scheduler would go about when confronted with such a problem. The first step is to identify the possible pairs of trips that a bus can make. Clearly, for a bus to be able to make the two trips, the following conditions must necessarily be satisfied:

(1) The ending point of one trip must be the starting point of the second trip
(2) The starting time of the second trip must be later than the time at which the first trip arrives.

For finding out the possible pairs of such trips, we proceed as follows. First, we arrange the trips stated in Table 2, according to their ending places. The ending places are ABD, SND, UPDL, NLS, KLP, STD, and ZLP. Further, for trips ending in each of these places we arrange them in ascending order of their ending times. This arrangement is shown vertically in Table 4. For example, the trips shown as X_4, X_6, X_3, X_2, X_8, and X_{11} all end in ABD and they are so arranged that they are in ascending order of their starting times. Similarly, other trips were shown vertically in Table 4.

We regroup these trips again according to their starting places, the starting places being in the same order as ABD, SND, etc. Further, within each of these groups, the trips are arranged in ascending order of their starting places. The trips so grouped are shown vertically in Table 4. For example, trips shown as

Y_{12}, Y_{17}, Y_{14}, Y_{15}, Y_{16},

and Y_{13} all start from ABD. This arrangement has given us a rectangular array as shown in Table 4. In this array, a circle shows that the two trips can be taken by the same bus. For instance, a circle in 4 and 17 in the table indicates that the same bus can take trip Numbers 4 and 17.

Placement of 1's in the circle indicates that these two trips have been grouped together and therefore, these trips should not be included in any further grouping of trips. Thus, each 1 indicates a grouping. The problem therefore boils down to how many 1's can be placed in the rectangular array so that:

(i) the 1's are placed only wherever there is a circle, and

(ii) that 1' is placed only once in either a row or a column.

A computer programme was prepared to solve this problem and the preparation of a time-table for 1,500 trips was done barely in a minute and a half.

The management of the State Transport Corporation was more confident of optimal sceduling, even as the number of trips became numerous with such a scheduling programme being available. The dependence on experienced scheduler has been eliminated. The chances of optimal scheduling have been ensured. Optimal scheduling became particularly important in view of the large investment in the fleet of buses maintained for servicing the consumers. The Corporation is keenly interested in using linear programming as a planning tool, and steps are being taken to apply it in preparing optimal time-table.

Notes

1 Contribution is defined as the difference between the sales price (adjusted for damages) and the variable cost. In a textile mill in India, the variable cost, for practical purposes, comprises the costs of materials (cotton, dyes and chemicals, sizing and packing). The contribution per loom-shift is defined as contribution per metre multiplied by production of the sort per loom-shift in metres.

2 A 'sort' is specified in terms of: (1) Fineness of the warp and weft yarn used in the construction of the fabric of the particular sort, (2) Number of warp and weft yarn threads (ends) per inch of fabric, and (3) Width and length of the fabric. There will be as many sorts as there are different varieties of fabrics manufactured by a mill.

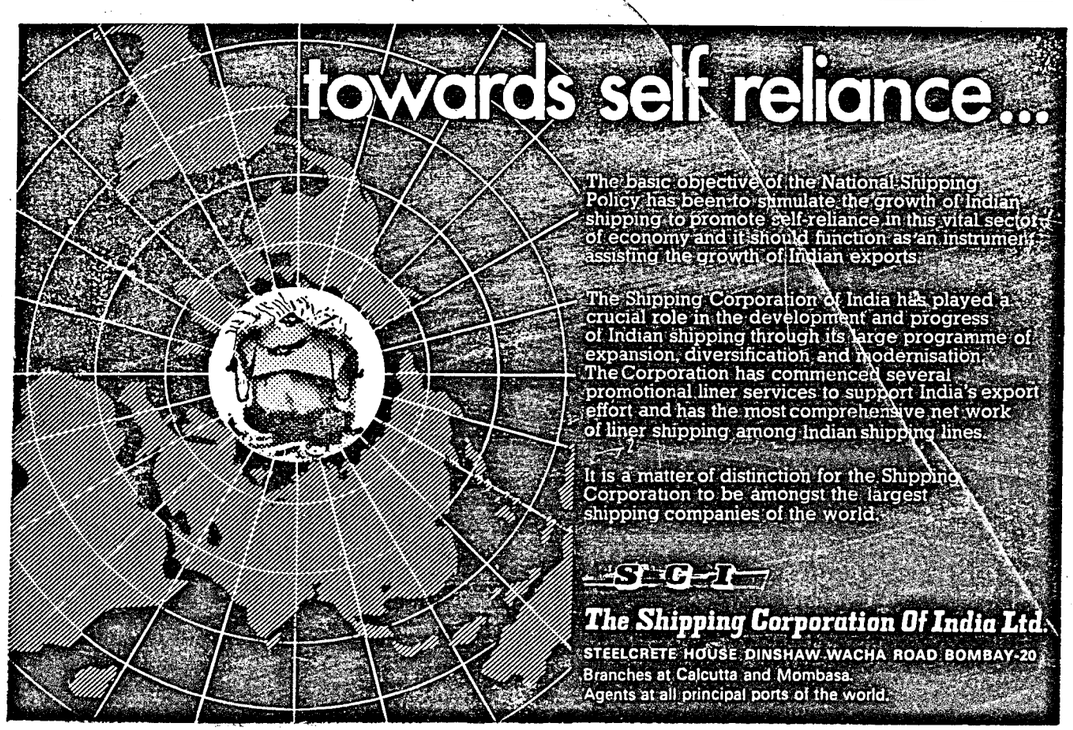
3 'Loom-shift': A loom-shift is defined as one loom working for eight hours.

4 'Spindle-shifts required per loom': To weave a particular fabric on a given loom, we need yarn both of warp and weft. For example, if a loom would produce 25 metres of cloth in one shift, then we need the necessary yarn to weave 25 metres of cloth. To produce this quantum of yarn, we need machine capacity in ring spinning in warp spindles as well as weft spindles. Thus for every loom we require certain spindle-shifts of warp and certain spindle-shifts for weft. This is what is shown in Appendices I, II and III.

5 This, of course, is to some extent a simplification of the problem. The problem could as well have been posed in terms of whether a reduction in price and a higher sales volume would be better than holding the price and restricting the volume. The reasons why the simplification was called for are that: (1) To formulate the problem taking into account the price-volume relationship would require solving a non-linear programming problem. At present, good computer packages are not available to solve a problem of that magnitude, (2) The decision-makers were not in a position to give the type of assessments required that would allow for a reasonably good determination of the price-volume relationship, and (3) Our experience in the past has shown that this is a reasonably good approximation.

6 A study of Appendices I, II, and III would support the statements. In Appendix II, for example, the capacity in ring frame and loom shed is unutilised because the capacities for carded and combed yarn become binding at the lower level of utilisation of ring frame and loom shed.

7 Readers interested in a rigorous formulation of the problems are referred to the literature on this problem, *viz*, 'Generalisation of Dilworth's Theorem on Minimal Chain Decomposition', M Raghavachari and V L Mote, *Management Science*, Volume 16, Number 7, March 1970. 'An Algorithm for Bus Scheduling Problems', J L Saha, *Operational Research Quarterly*, Volume 21, pp 463 to 474.



On Profit Maximisation in Public Enterprises in India

Ranjit K Sau

The basic purpose of the public sector in India is twofold: first, to help initiate and sustain a process of rapid economic development, and, secondly, "to carry out such an economic change as will eliminate the economic bases of the... exploiting classes". The pricing policy of public enterprises in India, therefore, has to be determined keeping in full view the context and the logic of the mission to be fulfilled.

Abstraction from the secondary attributes of a phenomenon and concentration on its basic scaffolding have always been the primary tools of all analytical efforts. However, any analysis of the pricing policy of Indian public enterprises that is blind to the crucial perspective is senseless, if not also harmful.

Here we shall analyse the pricing policy of public enterprises in India in the light of this recognition. To begin with, we shall go into the British and French schools of pricing policy, and then turn briefly to the debate in the Soviet Union, the socialist countries of Eastern Europe, and China. Finally, after this long tour, we shall return to India.

THE role of public enterprises depends upon the historical context. In a country like Britain or France the public sector performs a somewhat limited type of functions; the nationalised industries such as railway, coal, or electricity are presumably intended to provide services to the consumers at reasonable prices. Because if left to the private sector, these industries might have given rise to monopolies or oligopolies, with the associated problems of high price and restricted output. Indeed, profit maximisation as such is by no means the end of these industries while under nationalisation.

On the other hand, in the Soviet Union, for instance, the state sector assumes a much different character. Consequently, its pricing and output policies need not necessarily be the same as in, say, Britain or France.

The Indian economy today fundamentally differs from the British, French, or the Soviet economy, for instance. Socialism is India's professed goal, but its economy is far from socialist as yet. It is predominantly semi-feudal in nature, with a capitalist sector of industries which is of relatively small size. The public (state) sector is now struggling to assert itself in the commanding heights of the economy. The basic purpose of the public sector in India is twofold: first, to help initiate and sustain a process of rapid economic development, and secondly, "to carry out such an economic change as will eliminate the economic bases of the... exploiting classes".

The pricing policy of public enterprises in India, therefore, has to be determined keeping in full view the context and the logic of the mission to be fulfilled. Abstraction from the secondary attributes of a phenomenon and concentration on its basic scaffolding have always been the primary tools of all analytical efforts. However, any analysis of the pricing policy of the Indian public enterprises that is blind to the crucial perspective is senseless, if not also harmful. Because, the task of the public sector in India is unique; by no means is it one of merely ensuring the Pareto optimality or restoring a tenuous second-best equilibrium. Its historic task is not a secondary attribute of the phenomenon. It is a fundamental one.

In the light of this recognition, here we shall analyse the pricing policy of public enterprises in India. To begin with, we shall go into the British and French schools of pricing policy, and then turn briefly to the debate in the Soviet Union, the socialist countries of Eastern Europe, and China. Finally, after this long tour we shall return to India.

I
Pareto Optimality and Pricing Policy

(1) Marginal Cost Pricing

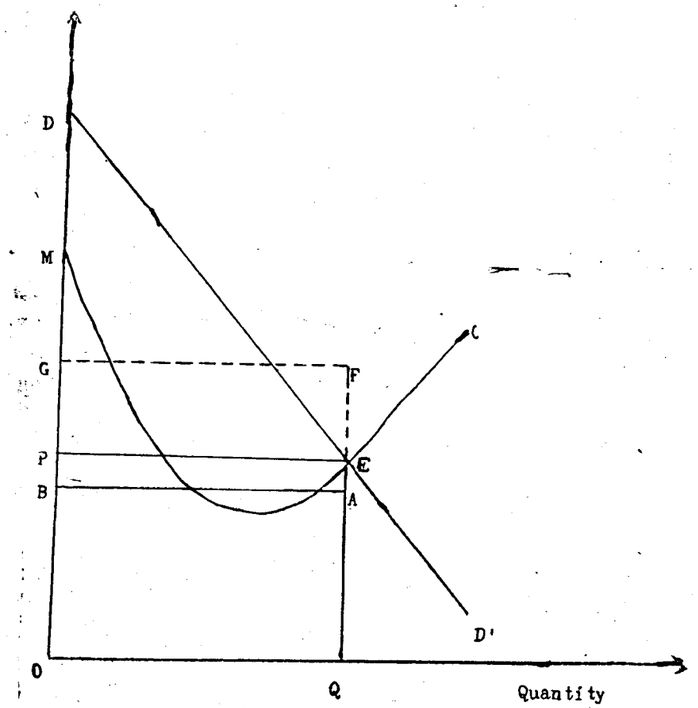
In a perfectly competitive economy, the demand curve for a product reflects the marginal utility received by the consumers.[1] If the marginal cost is not equal to the price at any given output, it follows that some one can be made better off by expanding or contracting output as the case may be, without reducing the welfare of others. When price and marginal cost are equal, with an upward sloping marginal cost curve, the situation is Pareto optimal. This is well known, although the controversy is still inconclusive.[2]

Hicks argues further as follows.[3] Let DD' be the demand curve and MC the marginal cost curve in the Figure. The Pareto optimality requires that the price is equated to the marginal cost; hence the price is OP. Now the consumer surplus is given by area DPE. If the average cost is OB, the producer surplus is measured by PBAE. With a downward sloping curve, the consumer surplus is always non-negative; more specifically it is always positive at relevant prices. The producer surplus, however, could be of any sign, depending upon the relation between price and average cost.

Hicks defines the social surplus as an algebraic sum of consumer and producer surpluses. The consumer surplus being usually positive, the social surplus can be positive even if the producer surplus is negative. This has an important corollary, as explained below.

What do consumer and producer surpluses imply, anyway? The consumer surplus is the *net* benefit received by consumers in excess of what they pay for the product at the ruling price. Likewise the producer surplus is the net profit to the producer over and above the cost of production. Even if the producer surplus is negative (the average cost being FQ in the Figure), the social surplus can still be positive provided area DPE is sufficiently large. It follows that in such a case the consumers, in principle, could potentially compensate for the producer's loss (area PEFG), and yet remain better off. In this sense a positive social surplus necessarily implies a Pareto Optimal situation in terms of the Kaldor-Hicks compensation principle. Hicks employs this criterion not only for the pricing

FIGURE



policy of public enterprises but also for evaluation of public investment projects.[4]

Is it the short-run or the long-run marginal cost that is to be equated to price? Interestingly, it has been demonstrated by Boiteux and other French writers on public enterprise economics that the short-run and long-run marginal costs are indeed equivalent, given correct forecasting, i e, granted that the assumptions made about the future in calculating long-run marginal cost turn out to be valid.[5]

It is also interesting to note another aspect of the marginal cost pricing rule. If this rule is followed in an increasing cost industry like coal, for instance, it is the cost of the least efficient (marginal) mine that determines the price. On the other hand, in a decreasing cost industry, where the marginal cost is below the average cost, marginal cost pricing would entail loss to the producer giving rise to the need for subsidy.

(2) Second Best

Marginal cost pricing is a necessary condition for Pareto optimality. But in fact, prices are not equal to respective marginal costs in many industries. Should a public enterprise equate its price to the marginal cost, under such circumstances? This is a problem of what is called the second best.

Turvey argues that should the marginal cost pricing rule be violated in the rest of the economy, it would be still better to 'tackle' such deviations 'directly', rather than by one more deviation by the public enterprise itself. His "personal bias is towards aiming for the best rather than adjusting to the second best. This has the subsidiary merit of simplicity since it requires less knowledge on the part of those responsible for . . . pricing".[6]

However, when the departures from marginal cost pricing in the rest of the economy are unalterable, Turvey concedes that the public enterprise also should make appropriate adjustments in its pricing.[7] But precise theoretical formulations on this issue are not yet in sight.

(3) Budget Constraint

In a decreasing cost industry like railway, the equation of price to marginal cost would involve deficits for the enterprise. What should a public enterprise do if it is under legal obligation to balance its budget? Several solutions to this problem have been advocated. Prior to World War II, the pricing policy of the French railroads, for instance, was based upon the principle of price discrimination advocated by Colson:[8] tariffs *ad valorem* were the rule — this being supposedly equivalent to taxing inelastic demands and subsidising elastic demands — except when the pressure from other means of transportation imposed competitive prices. Reacting against this practice, Allais[9] suggested that all prices should be proportional to marginal costs irrespective of demand elasticities. The factor of proportionality would be so chosen as to bring about a break-even situation. This solution was presented by Allais as a "first approximation" to a "lesser evil".

Boiteux[9] and Debreu[10] have arrived at a different result. In short, they have recommended a set of fictitious prices, as opposed to the market prices, for the inputs used by public enterprises. As for the output price, its proportionality to the marginal cost depends upon the elasticity of demand.[11]

Foster, however, suggests a straightforward solution: equate the average cost to price so that the budget of the enterprise is in balance.[12]

II
The Law of Value under Socialism

The law of value here refers to the Marxian labour theory of value, which by itself is a topic of profound significance.[13] Our primary concern, however, is to see how far it is applicable in a socialist economy or in an economy in transition to socialism from semi-feudalism and monopoly capitalism.

(4) Labour Theory of Value

According to Marx, first in the early stage of the conversion of the "simple" commodity production into capitalist commodity production all commodities continue for some time to exchange "at their values", i e, labour-contents. But capitalism, having once found a foothold, soon proceeds to modify the way in which the law of value operates. The extension and intensification of capitalist competition leads to the formation of an average rate of profit, which means that equilibrium exchange ratios begin to diverge from embodied labour ratios in all cases where the organic composition of capitals concerned is different. Commodities now tend to sell in proportion to their "prices of production", instead of in proportion to their "values".[14]

Historically speaking, competitive capitalism inevitably paves the way for monopoly capitalism. Now the law of value suffers further mutations. If the fundamental economic law of capitalism is the law of surplus value, under monopoly capitalism, that is to say, imperialism, the fundamental economic law is "the securing of maximum capitalist profit through the exploitation, ruin and impoverishment of the majority of the population of the given country, through the enslavement and systematic robbery of the peoples of other countries especially backward countries", as Lange puts it.[15] "When we speak of a monopoly price", Marx wrote, "we mean in a general way a price which is determined by the general eagerness of the purchasers to buy and by their solvency, independently of the price which is determined by the general price of production and by the value of the products". Under conditions of monopoly, exchange ratios do not conform to labour-time ratios, nor do they stand in a theoretically demonstrable relation to labour-time ratios as is the case with prices of production.[16]

(5) Socialist Construction

The need for a certain transition period, or a period of socialist construction in a given country results from the fact that the transition from capitalism to socialism follows the political revolution which establishes the dictatorship of the proletariat, and launches the reconstruction of production relations — effected by it.[17] This period is marked by administrative management and administrative allocation of resources on the basis of priorities centrally established. Economic incentives, during this period, are replaced by moral and political appeals to the workers, by appeals to their patriotism and socialist consciousness. This is, so to speak, a highly politicised economy.[18]

Sooner or later this transition period of socialist construction in a country comes to an end. In the words of Lange: "The gradual reduction of political guidance of economic processes is an essential reflection of the process of maturation of the socialist society. The further away socialist society has moved from its capitalist heritage, as well as from the heritage of the period of transition, in which extra-economic force plays a decisive role, the more the guidance of economic processes becomes separated from the exercise of political government."[19] In other words, "the substitution of the methods of administrative and centralised management and development by new methods based on the utilisation of economic laws indicates the end of the period of transition and the beginning of the functioning of an established socialist economy."[20] It is extremely important to grasp the significance and duration of the transition period in a given country for a better understanding of the role of law of value there.

Soviet Union, for instance, has completed its period of socialist construction. It is therefore expected that the economic laws of socialism would now be in fuller operation there. By contrast, the situation in a country that is in the midst of socialist construction must be different.

The period of socialist construction in the Soviet Union began in 1917. The first post-revolution formulation of a theory of transition from capitalism to socialism was published in 1920 by Nicolas Bukharin under the title "The Economics of the Transitional Period". The second major formulation appeared in 1925 in the complicated economic situation created by the NEP; it was entitled "The New Economics". Evgeny Preobrazhensky was its author.

"Primitive socialist accumulation" is the basic concept of Preobrazhensky's theoretical scheme. "The economic equilibrium of the Soviet economy", he finds, "is settled on the basis of a struggle between two antagonistic laws: the law of value and the law of primitive socialistic accumulation." He continues: "By socialist accumulation we mean the addition to the functioning means of production of a surplus product which has been created within the constituted socialist economy . . . Primitive socialist accumulation, on the other hand, means accumulation in the hands of the state of material resources mainly or partly from sources lying outside the complex of state economy. This accumulation must play an extremely important part in a backward peasant country, hastening to a very great extent the arrival of the moment when the technical and scientific reconstruction of the state economy begins and when this economy at last achieves purely economic superiority over capitalism."[21] This law of primitive socialist accumulation, according to him, changes and partly does away with the law of value and all the laws of commodity and capitalist commodity economy, in the transitional phase of an economy such as the Soviet Union's its era of socialist construction.

As a concrete corollary of the law of primitive socialist accumulation, Preobrazhensky proposes a policy of high prices for industrial products and low prices for agricultural products so that through the medium of such 'non-equivalent exchange between town and country' the state will acquire the necessary funds for socialist industrialisation.[22]

Another landmark in the economics of transition from capitalism to socialism is Stalin's, "Economic Problems of Socialism in the USSR", published in 1952, where he clearly announces that the law of value does operate during the period of socialist construction, but it operates within the limits defined by the principle of socialist planning for balanced development of the national economy[23]

Meanwhile the Soviet economy has presumably transcended its period of socialist construction, and now it is on the way to communism. This perhaps partly explains the increased reliance on economic laws and less recourse to centralised bureaucratic interventions since the 23rd Party Congress in 1965.[24]

As for the pricing policy of state enterprises in particular, usually the Soviet practice was to base the prices on average (for the whole sector) prime costs plus some capital charges.[25] In Poland, the prevailing view seems to be that the marginal cost (measured by the average variable cost of the group of enterprises which have the highest cost in the industry) plus a charge to cover the fixed costs in the industry should determine the price as a rule.[26] In other socialist countries of Eastern Europe also usually the price as a rule is formed on the basis of the cost of production, average or marginal as the case may be.

A question which still remains unsettled is this: How to determine the surplus to be charged over and above the material and wage costs? There are four alternative approaches to this question: (1) The Value Model. In this model, the surplus is proportionate to the wage costs, the proportion being the same in all sectors. (2) The Price of Production Model. Here the surplus is related to the amount of fixed capital employed in each sector, the ratio of surplus to fixed capital being uniform in all sectors. (3) The Mixed Model. This is a cross between two earlier models in the sense that now the surplus is broken up into two parts corresponding respectively to 'social consumption' and 'productive investments' The first element is proportional to wage in accordance with the value model while the latter is related to the fixed capital as in the price of production model. (4) The Prime Cost Plus

Model. Here the price is formed with a mark-up on the prime cost i e, costs of depreciation, material inputs, and labour.[27]

A variety of experiments are being made both at theoretical and empirical levels for determining market prices, in the Soviet Union and the socialist countries of Eastern Europe.[28] A debate is going on in China as well on some of these issues.[29]

III

Primitive Pre-Socialist Accumulation

(6) The Indian Economy in Transition

It is imperative to realise that the Pareto optimality is not the major problem of India today unlike in, say, Britain or France as alleged. Nor is the Indian economy in the phase of socialist construction unlike the Polish, Hungarian or Chinese economy, for instance. The Indian economy is now in the pre-socialist stage, held in the firm grip of semi-feudalism and monopoly capitalism. The law of value hardly operates in India now, the prices being largely determined by monopolies of one form or another.

The immediate task of the public sector in India is to prepare the material base for transition to socialism. With this end in view, the public enterprises should help the process of primitive accumulation, a process which has to develop within the womb of semi-feudalism and monopoly capitalism. It is primitive accumulation in the sense that it is the historic basis instead of historic result of specifically socialist production; indeed it forms the starting point. We may call it the primitive pre-socialist accumulation; 'pre-socialist' because India has not yet launched the programme of socialist construction. Only the preparation for the socialist construction is under way.

What is the source of the primitive pre-socialist accumulation? It is not correct to ask as to whether it is industry or agriculture, town or country. The correct question is: Which section of the population is to pay for this accumulation, be it in industry or agriculture, town or country? The answer is obvious: The richer section of the population which thrives on feudal or monopoly capitalist exploitation has to alienate part of its surplus product. The more unequal the distribution of income and wealth, the more intense the degree of exploitation, larger is the share to be borne by the exploiting class.[30]

Finally, be it noted that even though this law of primitive pre-socialist accumulation phonetically rhymes with the Preobrazhensky-Trotskyite law of primitive socialist accumulation, it has nothing in common with the latter either in form or in substance.

Once the law of primitive pre-socialist accumulation is accepted, the pricing policy of public enterprises follows as a corollary, as we shall see in a moment.

IV

Pricing Policy in India

(7) Public Sector Investment

Since the beginning of the First Five-Year Plan (1951-52) up to March 1969, the total capital investment of the public sector of India was of the order of Rs 12,500 crores (Table 1). Of the total investment in central government enterprises (non-departmental), steel accounts for one-third, engineering for one-fourth, and chemicals and petroleum for one-fifth. Together these four groups claim roughly 80 per cent of such investment (Table 2). The public sector thus concentrates heavily on the basic and key industries which are the essential foundation for rapid industrialisation. But who are enjoying the fruits of industrialisation?

Table 3 reveals that one-half of the industrial consumer goods is consumed by only one-fifth of the rural and urban population, who are among the richest in the country. Accordingly, the bulk of the benefits of industrialisation in India accrues to a small group.

Steel is an interesting example. The public sector has invested a substantial amount in steel plants. Who are the main beneficiaries of steel output? We do not have detailed data about the final consumers of steel products by income groups. One indicator regarding the final consumers is provided by the Raj Committee when it observes

Table 1: Investment in Public Sector as at 31 March 1969
(Rs Crores)

A *Central Government*	
Enterprises	
Non-departmental	3902
Departmental:	
Railways	3797
Posts and Telegraphs	352
Nationalised Banks and RBI	100
Others	49
Total	8200
B *State Government*	
Enterprises	
Non-departmental:	
Electricity Boards	2019
Transport Undertakings	212
Companies	325
Departmental:	
Commercial Irrigation Works	1756
Others	na
Total	4312
C *Local Government Enterprises*	na
Grand Total (A+B+C)	12512

Source: *Lok Udyog* (October 1970), p 825.

Table 2: Sector-wise Distribution of Investment in Government Enterprises (Non-departmental), 1968-69
(Per Cent)

(1) Steel	33.44
(2) Engineering (including Building and Repairing Ships)	24.60
(3) Chemicals	10.80
(4) Petroleum	10.33
(5) Mines and Minerals	7.66
(6) Aviation and Shipping	3.97
(7) Trading	6.87
(8) Miscellaneous	2.15
(9) Financial Institutions	0.18
Total	100.00

Source: "A Handbook of Information on Public Enterprises" (1970), p 5. The absolute amount of such investment is Rs 3902 crores; see Table 1.

Table 3: Shares of Consumption of Industrial Goods by Fractile Groups 1960-61[31]
(Per Cent)

Fractile Group (1)	Share of Total Consumption: Rural and Urban, 1967-68 (2)	Consumption of Industrial Goods		
		Rural (3)	Urban (4)	(5) = (3) + (4) Total
0-10	3.19	1.6	0.5	2.1
10-20	4.69	2.6	0.8	3.4
20-30	5.76	3.2	1.1	4.3
30-40	6.81	3.8	1.3	5.1
40-50	7.91	4.4	1.6	6.0
50-60	9.13	5.6	2.0	7.6
60-70	10.60	6.7	2.3	9.0
70-80	12.52	8.3	3.1	11.4
80-90	15.48	11.4	4.2	15.6
90-100	23.91	26.0	9.5	35.5
Total	100.00	73.6	26.4	100.0

that in mid-1963 galvanised sheets commanded a price on the black market approximately 100 per cent and other flat products between 15 and 30 per cent above the government's controlled selling price.[32] Who are the main customers in the black market? "The principal customers for black market steel included manufacturers of such consumer goods as steel furniture, utensils, and automobile and bicycle parts."[33] In any event, there is no doubt that the upper income group consumers are the major users of steel in the final analysis. The same observation equally holds for all industrial consumer goods as confirmed by Table 3.

If so, there is no valid reason why the industrial enterprises in the public sector should not charge high prices for their products so as to maximise the surplus. A profit maximising pricing policy for public enterprises need not be inflationary by itself. In the first place monopoly capitalists in the Indian economy are already charging high prices. Under such circumstances, low prices for public sector output is not an effective means of combating inflationary tendency. In any case, a profit-maximising pricing policy by public enterprises can be a powerful instrument for the primitive pre-socialist accumulation.

The official policy of the Government of India on this matter is both confused and naive, if not deliberately deceptive. For instance, we are told that "conscious of its duty to the community", the government has started many enterprises which are little, or not at all, profitable. To quote at length: "A classic instance of such enterprise is the hundreds of irrigation works of all types built all over the country in which over Rs 1,950 crores have been invested during the twenty years ended 1968-69. It would indeed be desirable if the farmers agreed to pay reasonable water charges so that these dams could earn adequate return on this capital invested. But it has not yet been possible to get farmers to agree to this; as a result, the Government has to accept losses on the operation of these irrigation works. Yet, no responsible Government can refuse to build such dams just because they would not earn profits. In this context it should be noted that the government's loss in such cases is farmers' gain. This is not something which one should regret too much. And, one should not also forget the vital fact that but for the massive investment in such irrigation projects which in terms of profits criterion is to be regarded as utterly 'wasteful investment' the country would not be reaping today (1969-70) a fabulous harvest of 100 million tonnes of food-grains, as against a bare 50 million tonnes at the time of Independence. It is obvious that, in such cases, to concentrate criticism on the so-called inefficient working of such projects is to do them less than justice." So says an editorial of the organ of the Bureau of Public Enterprises, *Lok Udyog* (September 1969).[34]

First of all, let us examine the statement: "the Government's loss in such cases is farmers' gain". Who are these farmers who reap the gain? The extreme inequality of distribution of land in India is a well known fact. For instance, a bare 5 per cent of the rural households own as much as 40 per cent of the agricultural land.[35] If the benefits received by the rural households from irrigation facilities are proportional to their respective landholdings, the inevitable conclusion is that a handful of families monopolise the benefits so produced. Furthermore, if the story of the 'Strong and the Weak on the Sarda Canal'[36] is at all typical, then clearly the rich peasantry gets a big share of the irrigation facilities well above the corresponding proportion of landholding. The feudal landlords are not far behind either. There is evidence to the effect that as soon as irrigation works appear in a certain area the rents and landlord's shares go up sharply. In a word, whatever benefit arises due to the irrigation projects the lion's share of it ultimately goes to the landlords and rich peasantry. No wonder, "it has not yet been possible to get the farmers to agree to" pay reasonable water charges. After all, who dares to alienate the landlords and rich peasantry!

As for the contribution of the irrigation schemes to "a fabulous harvest of 100 million tonnes of foodgrains", no one at all doubts the important role of irrigation in this respect. It is all the more a strong reason as to why therefore the rich farmers must pay a high price for irrigation services.

It is of course, understandable why the Government would not raise the price of irrigation water, so long as the rural votes are delivered by the landlords and rich peasantry.

(8) Official Policy

According to the Bureau of Public Enterprises,[37] the guidelines regarding the pricing policy of the public sector enterprises, *inter alia*, envisage the following:

(i) For enterprises which produce goods and services in competition with other domestic producers the normal market forces of demand and supply will operate and their producers will be governed by the prevailing market prices.

(ii) For enterprises which operate under monopolistic or semi-monopolistic conditions, the landed cost of comparable imported goods would be the normal ceiling. Within this ceiling it would be open to the enterprises to have price negotiations and fix prices at suitable levels. If the landed cost is found/believed to be artificially low or in other exceptional circumstances it is considered necessary to have higher prices then the matter should be referred to the administrative Ministry for an examination in depth in consultation with the Ministry of Finance and the Bureau of Public Enterprises.

It is not at all clear in the above-mentioned policy statement whether or not public enterprises which produce goods and services in competition with other domestic producers should determine their output so as to maximise profit. In any case, what is the meaning of the rule: "normal market forces of demand and supply will operate"? Are the public enterprises in India so insignificant as to be passive price-takers in the market, i e, to be "governed by the prevailing market price" without at all affecting the market prices in turn? In other words, the policy statement begs the entire question; and it is vague enough to be meaningless.

Many imported items in India sell at a high premium. Hence one wonders why the landed cost of comparable imported goods is taken as the "normal ceiling". What should be imported and what should not be imported has to be decided upon keeping in view a number of factors, of which the relative world prices are just some of the elements, but not all. This policy need not be always mixed up with the pricing policy of public enterprises. It is conceivable that certain things should be produced at home — in the public sector; because domestic costs are lower. But that does not necessarily mean that their domestic prices should be lower than the landed cost of the comparable imports. Be as it may, the basic question still remains. What is the 'suitable level' for the price, even below the so-called 'normal' ceiling?

Briefly, it is our contention here that public enterprises as a rule should be advised to maximise profits where the major part of their products are consumed in the final analysis by the richest section of the community. Exceptions however, should be made, directly or indirectly for the consumers

belonging to the poorer sections. If the profit-maximising price for steel leads to a rise in the price of tractors, for instance, it would be better for the public sector to set up a tractor factory as well, and supply tractors to poor peasants at subsised rates, rather than to lower the price of steel as such.

The law of the primitive pre-socialist accumulation requires that a sizeable part of the surplus accruing to the richest section of the community be alienated by the state for its accumulation fund. Accordingly, public enterprises should charge high prices to the rich customers and maximise their profit thereby. This however does not mean that the criterion of profitability would be the sole guide for sectoral allocation of public investment. For if profit is taken as the only objective then one would reach the absurd conclusion that the public sector in India should produce whisky, rather than steel.

The sectoral and regional allocation of public investment is a strategic decision which has to be based upon the requirements for rapid, sustained, balanced development of the Indian economy. The tactical decision of pricing is to be made keeping in view the ultimate consumers on the one hand and the law of primitive pre-socialist accumulation on the other.

Notes

1 For the stringent conditions required for the demand curve to reflect marginal utility of consumers, see O Eckstein, "A Survey of the Theory of Public Expenditure Criteria", in R W Houghton (ed) "Public Finance", (1970), p 226.

2 See J R Nelson (ed), "Marginal Cost Pricing in Practice" (1964), I M D Little, "A Critique of Welfare Economics" (1957); R Turvey (ed), "Public Enterprise" (1968).

3 J R Hicks, "The Rehabilitation of Consumers' Surplus" *Review of Economic Studies* (1941).

4 This has drawn attention of Soviet economists also; see R G Karagedov, "The Question of the Relationship between the Categories of Economic Effectiveness and Profitability", *Problems of Economics* (November 1970).

5 J Dreze, "Some Postwar Contributions of French Economists to Theory and Public Policy", *American Economic Review*, Part 2 (June 1964); R Turvey, "Optimal Pricing and Investment in Electricity Supply" (1968), p 91; and R Mohring in R Dorfman (ed), "Measuring Benefits of Government Investments" (1965), pp 233-39.

6 Turvey, *op cit*, pp 86-88.

7 *Ibid*, p 89.

8 Dreze, *op cit*, p 27.

9 *Ibid*, p 28.

10 *Ibid*, p 28.

11 M Boiteux, "On the Management of Public Monopolies Subject to Budgetary Constraints", *Journal of Economic Theory* (September 1971), p 235.

12 C D Foster, "The Transport Problem" (1963), pp 126-27.

13 K Marx, "Capital", Vol 3; P M Sweezy, "The Theory of Capitalist Development" (1942); R L Meek, "Studies in the Labour Theory of Value" (1958); A Biswas, "On the Marxian Notion of Value", *Arthaniti* (1958); P A Samuelson, "Understanding the Marxian Notion of Exploitation: A Summary of the So-called Transformation Problem between Marxian Values and Competitive Prices", *Journal of Economic Literature* (1971).

14 Meek, *op cit*, p 181.

15 O Lange, "The Economic Laws of Socialist Society in the Light of Joseph Stalin's Last Work", *International Economic Papers*, No 4, pp 159-60.

16 Sweezy, *op cit*, p 270.

17 O Lange, 'Basic Problems of Socialist Construction', in Lange (ed) "Problems of Political Economy of Socialism" (1962), p 35.

18 O Lange, "Role of Planning in Socialist Economy", *ibid*, p 18.

19 O Lange, "Political Economy of Socialism", *ibid*, p 15.

20 *Ibid*, p 19.

21 Preobrazhensky, "The New Economics" (Oxford, 1965), p 84.

22 *Ibid*, p 124.

23 See also Lange, "The Economic Laws of Socialist Society", *International Economic Papers*, No 4; W Brus, "Socialist Production and the Law of Value", *ibid*, No 7.

24 V P Gloushkov, "New Methods of Economic Management in the USSR: Some Features of the Recent Economic Reform", in J Margolis and H Guitton (eds), "Public Economics" (1969).

25 N K Chandra, "Theory and Practice of Soviet Price Reforms", in Year Book of East European Economics (1970).

26 O Lange (ed), *op cit*, pp 29-30; see also the contributions of Brus and Minc in this book.

27 Chandra, *op cit*.

28 A Brody, "Three Types of Price System' in "Economics of Planning" (1965), shows that in Hungary if the prices are computed taking into account 'human capital' within an input-output system, "the resulting price system tends to the proportions of the value price system" (with a mark-up after labour). See also S Ganczer, "Price Calculations in Hungary on the Basis of Mathematical Methods", *ibid*; and G Simon, "Ex-Post Examination of Macro-Economic Shadow Prices", *ibid*.

Also relevant are the following: J Typolt, 'Price-Fixing and the Decentralisation of Planning', in D C Hague (ed), "Price Formation in Various Economies" (1967); and R Belousov, "Price as a Means of Planning in the National Economy", *ibid*; I Maksimovic and Z Pjanic, 'Price Problems in Yugoslav Theory and Practice", in M C Kaser (ed), "Economic Development for Eastern Europe" (1968); O Kyn, "The Role of Prices in a Socialist Economy", *ibid*; O Kyn B Sekerka and L Hejl, 'A Model for the Planning of Prices', in C H Feinstein (ed), "Socialism, Capitalism and Economic Growth" (1967); W Brus and K Laski, "The Law of Value and the Problem of Allocation in Socialism", in "On Political Economy and Econometrics" (1965), Essays in Honour of Oskar Lange; and A Wakar, "Prices, Incentives and Calculation Methods", *ibid*.

29 In various issues of the *Chinese Economic Studies*, see Yang Chien-pai, "The Equilibrium of the National Economy and Production Prices"; Ts'ai Chien-hua, "Reputing the Production Price Theory of Comrade Yang Chien-pai and Others"; Hsueh Mo-chiao, "Several Pending Problems Concerning Commodity Prices in Our Socialist Economy which Await Discussion", Tao Chu, "A Discussion on the Problems of Economic Laws during the Transitional Period"; and Yueh Wei, "Several Problems on the General Equilibrium of the National Economy".
See also D H Perkins, "Market Control and Planning in Communist China" (1966); and S Swamy, "Retail Price Index in the Peoples' Republic of China", *Review of Economics and Statistics* (1969).

30 *Cf* Preobrazhensky, *op cit*, p 124.

31 This table is complied on the basis of Fourth Five-Year Plan, 1969-74, p 34; and R K Sau, "Indian Economic Growth: Constraints and Prospects" *Economic and Political Weekly*, Annual Number (February 1972), Tables 8 and 9.
Deb Bose has pointed out in private communication arithmetic errors of multiplication in the last column of the above-mentioned Tables 8 and 9. The major conclusions of the paper, however, remains unaffected. The arithmetic errors being quickly detectable, we need not give the corrected details.

32 Raj Committee, 'A Preliminary Report on Steel Control" (1963), cited in W A Johnson, "The Steel Industry of India" (1966), p 101.

33 Johnson, *ibid*, p 102.

34 Reprinted in Government of India, Ministry of Finance, Bureau of Public Enterprises, A Handbook of Information on Public Enterprises (1970), p xvi.

35 Government of India, National Sample Survey, Tables with Notes on Some Aspects of Land Holdings in Rural India No 159, Tables 2.0 and 10.0, see also R K Sau, "Agricultural Revolution by Production Function", *Economic and Political Weekly*, Review of Agriculture (June 26, 1971), Table 5.

36 Daniel and Alice Thorner, "Land and Labour in India" (1962), pp 14-20.

37 A Handbook of Information on Public Enterprises, p 159.

Wage Determination in Indian Manufacturing: 1950 to 1964

Pramod C Verma

The usual dilemma before a developing country seems to be having to choose between the competing objectives of social justice and economic growth. However, this paper claims that a judicious balance can be found in a situation of rising productivity which may lead not only to a higher rate of capital formation but also to a reasonable standard of living for the workers who can secure this by being organised.

It is argued here that the wage variation in the Indian manufacturing sector has been influenced by increase in productivity. Yet, there is need for a wage policy which not only provides for an equitable sharing in the gains of productivity but also ensures the containment of inflationary pressures in the economy.

[*The author wishes to thank R Seethalakshmi for her assistance in computation.*]

THE purpose of this paper is to study the growth of money wages in the manufacturing sector. In a developing economy, inflation is almost inevitable, with the consequence that, the purchasing power of money wages is always declining. This fall in real wages, unless counteracted by organised labour, might simply result in the impoverishment of an already weak section of the economy existing on the subsistence level. On the other hand, if industry has to accelerate the rate of capital formation, it might not be in a position to afford a higher rate of money wages. This, then, is the usual dilemma in a developing economy: to choose between the competing objectives of social justice and economic growth.[1] However, a judicious balance of these objectives can only be found in the situation of rising productivity, which could lead not only to a higher rate of capital formation but to reasonable living standard for the workers.

It is the contention of this paper that wage variation in the Indian manufacturing sector has been influenced by increases in productivity. This has led to an improvement in the monetary position of industrial workers, but there is need for a wage policy which not only provides for an equitable sharing in the gains of productivity but also ensures the containment of inflationary pressures in the economy.

I
The Model

The theoretical model adopted for the present analysis can be stated thus:

(1) $W = f\ (V, K, U, CP)$

where W = average annual wage per worker
V = value added per worker
K = fixed capital per worker
U = trade union membership
CP = consumer's price index

This formulation implies a multivariate hypothesis that the variation in average wage rate is influenced by changes in such factors as productivity, capital intensity, trade union membership, and cost of living.[2]

Economic theory postulates that an increase in productivity should, *ceteris paribus*, lead to a rise in average wage rate. If the product price were to remain constant or to increase, only labour and capital share the gain in productivity.[3] Thus wage and productivity are positively related and the latter assumes the position of an independent explanatory variable.

However, productivity is itself partly dependent upon capital intensity of the productive process. If that is so, capital intensity would appear to be another independent explanatory variable in wage determination, although both productivity and capital intensity are intercorrelated. These two variables create a situation in which there is likelihood that employers will be able to acceed to a reasonable demand for an improvement in wages.

However, the accelerating pace of inflation has the unfortunate effect of eroding into the level of real wages. In such circumstances, the more immediate concern of the workers would appear to be to try and neutralise this fall in real wages by asking for a raise in the money wages. The extent to which workers are in a position to exert pressure on the employers will depend upon 'trade union pushfulness'.[4] It is thus reasonable to argue that these variables, trade union membership and consumer's price index, should also exert independent influence on the trend in wages.

Two possible limitations of the present model should be recognised. First, there may be factors — other than the ones chosen for this analysis — which might have some influence on the dependent variable. Nevertheless, the explanatory variables, it is believed, represent not only the employers' ability to pay but also the workers' concern to offset a fall in real wages and to share in productivity gains. Second, the model refers to only one aspect of the labour market, *viz*, the demand for labour. Due to the unavailability of appropriate data, the variables relating to the supply of labour are not proposed to be considered.[5]

For the purposes of statistical verification of hypothesis, the following operational model is put forward:

(2) $W = \alpha + \beta_1 V + \beta_2 K + \beta_3 U + \beta_4 CP$

In this equation, regression co-efficients are indicated by $\alpha, \beta_1 \ldots \beta_4$, where $\beta_i \gtrless 0$ $(i = \overline{1,4})$. Moreover, this is a linear equation with $f_1, f_2, f_3, f_4 \gtrless 0$ (f_i = partial derivative of f with respect to the ith independent variable). In other words, it is expected that the regression co-efficient will have a positive sign. However, several variants of this model will be tested. In addition to the introduction of lags, first difference and log transformation of data will also be attempted.

II
Data and Results

The dependent variable in this study is 'annual average wages per worker'. The term 'wages' includes 'money value of benefits' and the average was arrived at, by adding 'wages' and money value of benefits' and dividing this total by the number of 'workers' (all the three terms are defined in Census of

Indian Manufactures, CMI, and Annual Survey of Industries, ASI, reports).[6] It is possible that the figure thus arrived might overestimate wages, since not all money value of benefits accrue to 'workers'. But there is really no way to determine the extent of overestimation involved.

Productivity is indicated by the net value added per worker. This is admittedly a partial productivity index, yet it represents the trend in growth of productivity. Capital intensity, based on the book value of fixed capital, is much more hazardous to accept as a realistic variable. It does, however, provide us with some indication. The data for productivity and capital intensity are drawn from CMI and ASI reports.

The third independent variable relates to trade union membership rather than to 'trade union density'.[7] Due to the uncertain nature of employment data, it was considered undesirable to compute the density figures. The data relating to trade union membership are based on the returns submitted under the Trade Unions Act, 1926. These returns are voluntary, and consequently some registered unions do not submit these returns for one reason or another. Thus, some underestimation might be involved in this case.

The final variable is consumer's price index published by the Bureau of Labour Statistics.[8] Although the index can be considered as fairly representative, there have been various revisions in its formulation, rendering it as somewhat inaccurate. Nevertheless, this limitation should not vitiate the nature of results obtained.

The data for this study cover the period 1950 to 1964. These are in the form of annual series. An inspection of the data will reveal that:

(a) Money wage have more than doubled over this period (the index number in 1964 stood at 225.1, with 1950 = 100); productivity reached a slightly higher level (index number in 1964 being 239); capital intensity outpaced all variables (index number in 1964 being 660); consumer's price index showed a moderate increase (index number in 1964 being 137 with 1949-50 = 100); and unionism displayed a respectable figure (index number in 1964 at 184, with 1951 = 100). Thus three variables — money wages, productivity and trade union membership — registered similar growth while consumer's price index lagged behind them and capital intensity went up more than sixfold.
(b) The annual rate of change tended to differ from one variable to another. After an initial rise in 1950-51, the rate of change in money wages showed a gradual decline until 1955 — when it picked up again. During 1955-57, a steady rate was maintained, only to slow down during the recession of 1957-59. There was a sudden spurt in 1960, followed by three years of fluctuation around the same trend. In 1964, there was again a sudden jump in the index. Changes in other variables did not uniformly follow those in money wages.

The ordinary least square method was applied to the data as the interrelationship among the variables was assumed to be of a linear nature. Both simple and multiple regression analyses were attempted. It is hoped that the inclusion of regression analysis will strengthen the validity of results.

Regressing the index of money wages on the indices of explanatory variables, the following results were obtained:

(3) $W = -338 + \underset{(3.32)}{0.51^{\circ}}\,V + \underset{(1.04)}{0.04}\,K - \underset{(1.71)}{0.10}\,U^{\circ\circ} + \underset{(1.92)}{0.599^{\circ\circ}}\,CP$

$\bar{R}^2 = 0.976$; SEE = 5.22; DW 1.861; DF 10

* Significant at 1 per cent
*° Significant at 10 per cent

In this equation computed t ratios are provided in parentheses. The t test suggests that the regression co-efficients for V, U and CP are significant while co-efficient for K is not. Only U does not have the expected sign. Moreover, the co-efficient of determination is quite high, indicating the explanatory power of independent variables. This equation seems to imply that productivity has the most significant relationship with money wages. This is confirmed by the simple regression analysis:

(4) $W = \underset{(2.28)}{16.93} + \underset{(17.53)}{0.81^{*}}V$

$\bar{R}^2 = 0.956$; SEE = 7.07; DW = 1.47; DF 13

° Significant at 1 per cent.

Similarly, the simple regression for consumer's price index improves the result:

(5) $W = \underset{(4.66)}{-83.58} + \underset{(12.75)}{1.94^{\circ}}CP$

$\bar{R}^2 = 0.920$; SEE = 9.54; DW = 1.013; DF = 13

* Significant at 1 per cent

The regression co-efficient for capital intensity (K) which was insignificant in equation (3), now becomes significant in a bivariate relationship with money wages:

(6) $W = \underset{(27.28)}{94.78} + \underset{(16.66)}{0.184^{*}}K$

$\bar{R}^2 = 0.952$ SEE 7.419; DW = 1.088; DF = 13

° Significant at 1 per cent

In the following equation, the co-efficient for trade union membership not only becomes positive but turns out to be significant as well:

(7) $W = \underset{(2.58)}{54.59} + \underset{(4.35)}{0.593^{*}}U$

$\bar{R}^2 = 0.561$; SEE = 22.38; DW = 0.484; DF = 13

° Significant at 1 per cent

In this particular case, the co-efficient of determination is not as high as in others.

Equation (3) through to (7) had assumed that no time lags were involved and that the data referred to the level rather than rate of change. Moreover, a linear relationship among the variable was also assumed. It is now proposed to drop these assumptions.

In equation 8, is it assumed that there is a time lag of one year in the effect of independent variables:

(8) $W_t = \underset{(1.353)}{98.801} - \underset{(1.084)}{0.125}\,V_{t-1} + \underset{(3.521)}{0.227^{*}}\,K_{t-1} + \underset{(0.244)}{0.034}\,U + \underset{(0.78)}{0.063}\,CP_{t-1}$

$\bar{R}^2 = 0.928$; SEE = 8.760; DW = 2.545; DF = 9

* Significant at 1 per cent

Compared to equation (3), the $\bar{R}^2$ is lower, the regression co-efficient for productivity is negative and insignificant, and the co-efficient for capital intensity is positive and significant. The implication, therefore, is that previous increase in capital intensity affects the present level of money wage rate. An analysis of bivariate relations shows that the co-efficients for all variables are significant, but this is particularly true for capital intensity:

(9) $W_t = \underset{(22.119)}{95.811} + \underset{(13.619)}{0.216^{*}}\,K_{t-1}$

$\bar{R}^2 = 0.934$; SEE = 8.392; DW = 3.337; DF = 12

* Significant at 1 per cent

It may be recalled that equation (3) was based on the data which related to level rather than to rate of change. The following result was obtained by computing the first difference in data:

(10) $\triangle W = \underset{(1.916)}{3.580} + \underset{(1.384)}{0.175}\,\triangle V + \underset{(0.709)}{0.039}\,K - \underset{(1.384)}{0.161}\,\triangle U + \underset{(2.454)}{0.501^{\circ}}\,\triangle CP$

$\bar{R}^2 = 0.389$; SEE = 3.869;

DW = 1.817; DF = 9

* Significant at 5 per cent

This result shows a very low co-efficient of determination but it highlights the correlation between the rate of change in money wages and the rate of change in consumer's price index. The co-efficient of determination improves, if lagged relation is assumed:

(11) $\triangle W_t = \underset{(4.216)}{6.490} - \underset{(3.433)}{0.122}\,\triangle^{*}V_{t-1} - \underset{(0.261)}{0.012}\,\triangle K_{t-1} - \underset{(1.215)}{0.091}\,\triangle U_{t-1} + \underset{(0.203)}{0.046}\,CP_{t-1}$

$\bar{R}^2 = 0.555$; SEE = 3.278; DW = 1.488; DF = 8

* Significant at 1 per cent

Although the rate of change in productivity has a significant value, the sign is negative. On the other hand, the co-efficient for consumer's price index becomes insignificant.

If the assumption of linear relationship is dropped in favour of a log linear relationship, the following results are then obtained:

(12) $\log W = \underset{(0.863)}{0.899} + \underset{(2.73)}{0.473^{*}}\log V + \underset{(1.61)}{0.145}\log K - \underset{(1.81)}{0.137^{**}}\log U + \underset{(1.36)}{0.331}\log CP$

$R = 0.968$; SEE = 0.039; DW = 1.713; DF = 10

* Significant at 5 per cent
** Significant at 10 per cent

Comparing Equation (12) with Equation (3), there appears to be no improvement either in the co-efficient of determination or in co-efficients of regression. Likewise, the introduction of lag in Equation (12) does not reveal any major improvement in result except for a slightly higher co-efficient of determination.

Till now, the dependent variable was *average annual money wage* based on the data contained in CMI and ASI. Two other possibilities may now be investigated. One is to compute the *average annual real wage* and the other to derive the *average annual earnings* based on the data collected under the Payment of Wages Act (PWA).

In the following results, the dependent variable is average annual wage (W_r) computed by dividing the index of money wages by the consumer's price index. The dependent variable ($_rV$) is value added per worker divided by the wholesale price index.

(13) $W_r = \underset{(29.594)}{1.012} + \underset{(6.563)}{0.91^{*}}\,V_r$

$\bar{R}^2 = 0.751$; SEE = 0.062; DW = 0.994; DF = 13

* Significant at 1 per cent

This equation indicates that real wages and real productivity are positively correlated. Result obtained in Equation (13) can be compared with that of Equation (3) discussed before. It is found that the co-efficient of determination, the regression co-efficient and the value of computed t ratio are lower in Equation (13). The extent to which money wages are correlated with value productivity appears to be higher. Nevertheless, the result shown in Equation (13) confirms the significance of real productivity in determination of real wages.

The final set of computations refers to annual earnings ($\bar{W}$), based on the data collected under PWA as the dependent variable. The independent variables are: $\bar{V}$ (physical productivity), U (trade union membership), and CP (consumer's price index).

(14) $\bar{W} = \underset{(1.107)}{22.047} + \underset{(1.654)}{0.123}\,\bar{V} + \underset{(2.358)}{0.169^{*}}U + \underset{(2.200)}{0.538^{\circ}}CP$

$R^2 = 0.918$; SEE = 4.613; DW = 1.180; DF = 10

° Significant at 5 per cent

In this result, the role of unionism in raising the money wage rate is highlighted. Consumer's price index is again found to be significantly associated with money wages. In the multiple regression analysis, the effect of physical productivity is seen to be insignificant, but in a bivariate relation, the regression co-efficient of $\bar{V}$ is highly significant. Generally speaking, these results tend to support the earlier findings. Additional results are provided in the Appendix.

III
Some Comments

Three variants of the dependent variable were used: average annual money wage per worker (W); average annual real wage per worker (W_r); and average annual earnings ($\bar{W}$). The data for the first two variants were drawn from the CMI and ASI reports, while those for the last variant were drawn from statistics based on PWA. Although all the three sources of data suffer from different types of weaknesses, it is noteworthy that the results do show some comparability. Moreover, several variants of the basic model were tested with a view to ascertain the effect of independent variables on the movement in money wages during the period under study. These exercises seemed to be useful in some cases.

Evidence suggests that, productivity and wages are highly correlated.[9] The regression co-efficient for V was found to be significant in most of the computations reported here. In Equation (3), the regression co-efficient for V was the most significant, and so was it in the log linear equation. The rate of change in productivity was not significantly correlated with the rate of change in money wages. Likewise, the previous level of productivity failed to show a positive relation with current level of money wages. Real productivity was highly correlated with real wages.[10] The results presented in this paper confirm the hypothesised effect of productivity on wages.

The relationship between capital intensity and money wages is somewhat less certain. In the multiple regression equations, the regression co-efficient for capital intensity turned out to be insignificant, but in a bivariate relation, it was highly significant. However, if a lag is introduced, this variable assumes an important role. The implication is that a previous level of capital intensity has some effect on the current level of money wages. The evidence then lends a qualified support to the hypothesis.

It is hazardous to offer any definite conclusion about the effect of trade unionism on money wages.[11] The results obtained from computations were not quite encouraging. In bivariate regression analyses, the co-efficient for trade union variable turned out to be positive and significant. Furthermore, in the multiple regression analysis based on the PWA data, this variable had a significant co-efficient.[12] However, in all other computations, the variable showed a negative value. Consequently, a weak relation between trade unionism and money wages appears to be supported by the findings.

As expected, the consumer's price index was found to be significantly related to the money wage index. Moreover, the rate of change in consumer's price index was also correlated with the rate of change in money wages. The evidence seems to suggest that there has been some neutralisation in the effect of rising costs of living.[13]

This then constitutes another support to the hypothesis.

It is evident from the results of statistical analysis that both productivity and costs of living have significant influence upon the movement in money wages.[14] This substantive conclusion has some policy implications as indicated below:

(1) It is encouraging to find that productivity is a significant variable in the operation of wage system in the industrial sector. Wage policies which emphasise productivity could usefully be adopted at the level of the undertaking, and indeed at the level of economy. Moreover, this finding tends to uphold the view that economic factors do have, in practice, a determining influence on wages, despite the fact that non-market forces (particularly the State) have assumed a crucial role in wage determination. Whatever the *process* of wage determination (which, of course, differs from one industry to another), the *ex poste* data appear to suggest a strong confirmation of the economic hypothesis.[15]

(2) It is also rightly suggested that inflation accounts for a general environment in which real wages have a tendency to rise slower than real productivity, but the socio-economic policies of the State can to some extent counteract this trend. Professor H A Turner points out that, in theory, "the general level of wage will be held down by the labour surplus: average real wages will rise less than productivity, profits rise faster than wages, and wages for unskilled labour in particular be kept close to subsistence level".[16] However, Turner concludes on the basis of ILO statistics that facts do not necessarily conform to this theoretical position. The findings of this paper lead to a similar conclusion. It may even be suggested that the provision for increasing level of living should form an essential ingredient of wage policy.

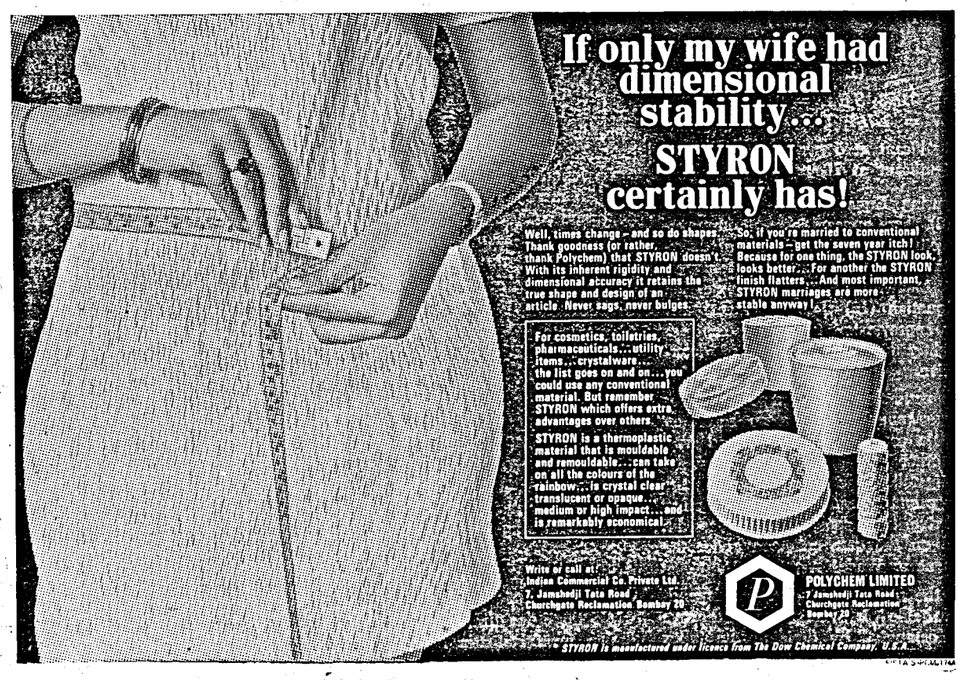
(3) The possibility that, money wages may increase *pari passu* productivity changes, ultimately depends upon the price situation. A stability in price level tends to restrain wages from chasing the cost of living and to provide for some gains from productivity to accrue to the consumer. In an inflationary situation, both these objectives may be hard to achieve. Consequently, price stability would appear to be crucially linked with the relation between wages and productivity.

In view of the above arguments, a multi-dimensional wage policy appears to be called for. This wage policy should have definite guidelines for wages, productivity and prices. It is suggested that, if price stability is ensured, a productivity-based wage policy is likely to succeed even in a less developed economy.

Notes

1 H A Turner, "Wage Trends, Wage Policies and Collective Bargaining: the Problems for Underdeveloped Countries" Cambridge: Cambridge University Press; 1966; A D. Smith (ed) "Wage Policy Issues in Economic Development" New York; St Martin's, 1969.

2 Similar hypotheses in the Indian context, have been suggested in: A J Fonseca, "Wage Determination and Organised Labour in India", London: Oxford University Press, 1964; C K Johri, "Unionism in a Developing Economy", Bombay, Asia Publishing House, 1967; T N Sinha and P K Sawhney, "Wages and Productivity in Selected Indian Industries", Delhi: Vikas Publications, 1970.



APPENDIX : SOME ADDITIONAL RESULTS

Equation Number	Dep	Regression Co-efficients	$\bar{R}^2$	SEE	DW	DF
A1	$\log W_t$	$3.059 - 0.092 \log V_{t-1} + .422^* \log K_{t-1} - 1.55 \log U_{t-1}$ (2.179) (1.239) (4.796) (1.259) $+ 0.189 \log CP_{t-1}$ (0.514)	0.940	0.50	2.57	9
A2	$\log W_r$	$0.075 + 0.174^* \log V_r$ (3.633) (6.908)	0.769	0.049	0.994	13
A3	W_{rt}	$1.049 + 0.89^* V_{rt-1}$ (32.298) (6.195)	0.742	0.055	1.821	12
A4	$\log W_r$	$0.112 + 0.154^* \log V_r$ (5.961) (6.204)	0.743	0.044	1.688	12
A5	$\overline{W}$	$60.668 + 0.499^{**} \overline{V}$ (2.809) (2.955)	0.373	12.776	0.850	12
A6	$\log \overline{W}$	$1.238 + 0.138 \log \overline{V} + 0.235^{**} \log U + 0.368 \log CP$ (1.687) (1.752) (2.958) (1.751)	0.923	0.036	1.199	10
A7	$\log \overline{W}$	$2.106 + 0.561^* \log \overline{V}$ (3.437)	0.454	0.096	0.972	12

* Significant at 1 per cent
** Significant at 5 per cent

3 The interrelationship between wages, prices and productivity have been lucidly presented by Salter. See, W E G Salter, "Productivity and Technical Change", Cambridge: Cambridge University Press, 1966.

4 A G Hines has considered the relation between trade union membership and money wages. See A G Hines, 'Trade Unions and Wage Inflation in the United Kingdom, 1893 to 1961', *Review of Economic Studies*, 1964.

5 It is not implied here that the supply of labour does not affect the determination of wage rates. In some theoretical formulations, for example, in the Lewis model it is assumed that the elastic supply curve of labour will tend to force the wage rate to the near subsistence level. For certain types of labour, this does not usually happen. See, W A Lewis, 'Economic Development with Unlimited Supplies of Labour', *The Manchester School*, May 1954.

6 The Census of Indian Manufactures was published for the period 1946-58. This census covered 29 major industries and, in these industries, included all factories registered under the Indian Factory Act, 1948, employing 20 or more workers on any day using power. In the Annual Survey of Industries, which started from 1959, 209 industries were covered. These included factories which employ 50 or more workers with power or 100 or more workers without power. Although there are several problems of coverage involved in the data based on CMI and ASI reports, these should not seriously affect the results of our computations.

7 The data are drawn from various issues of *Indian Labour Statistics*, published by the Bureau of Labour Statistics, Simla.

8 *Ibid.*

9 Sinha and Sawhney, *op cit.*

10 The relation between real wage and productivity is usually studied in the context of long-run stability of the share of wages in national income. See, E H Phelps Brown, 'The Long-term Movement of Real Wages', in John T Dunlop (ed), "The Theory of Wage Determination", New York, St Martins, 1964.

11 A J Fonseca, *op cit.*

12 Our results are in general agreement with those obtained by Johri, *op cit.*

13 This is emphasised by both Fonseca and Johri studies.

14 However, unlike the Fonseca and the Johri studies, the statistical results obtained here imply that both productivity *and* costs of living have influenced the movement in money wages. Fonseca's results were as follows:
$x'_1 = 0.18\ x_2 + 0.91\ x_3 + 2.09\ x_4$; R = 0.93
(where x'_1 = money wages; x_2 = the degree of unionisation; x_3 = the cost of living; and, x_4 = productivity).
Similarly, Johri found the following relationships:
r y x_1 = 0.75
r y x_2 = 0.88
r y x_3 = —0.02
R = 0.84
(where y = money earnings; x_1 = degree of unionisation; x_2 = consumer's price index; x_3 = physical productivity).

15 John T Dunlop, 'Productivity and the Wage Structure' reprinted in Richard Perlman (ed), "Wage Determination", Boston: D C Heath, 1964.

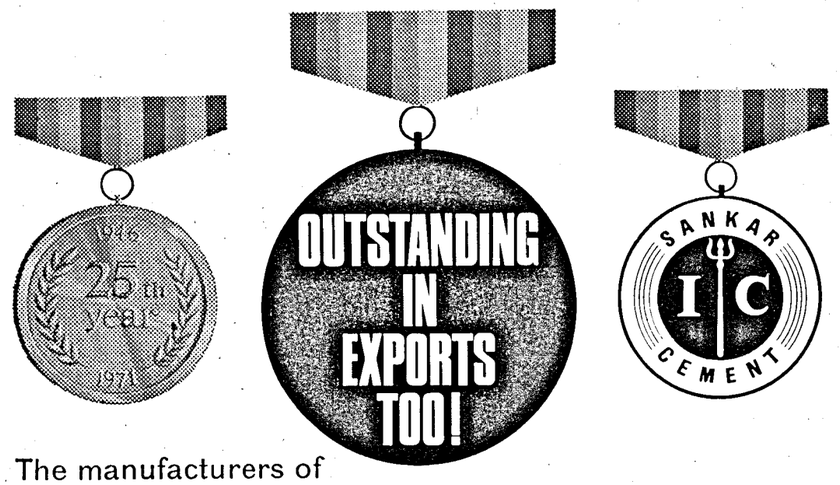
16 Turner, *op cit* page 11.

17 *Ibid*, page 12.

Straw Products

STRAW Products has reported a higher production at 36,380 tons against 34,629 tons. The sales of the Company have also reached a record figure of Rs 909.35 lakhs against Rs 767.96 lakhs in the previous year, thus depicting an increase of 18.41 per cent over the 1970 level. Profits before depreciation have improved to Rs 191.88 lakhs against Rs 177.58 lakhs, while profits pre-tax have moved up to Rs 136.48 lakhs against Rs 128.48 lakhs. As a result, the Directors have stepped up the equity dividend from 12 per cent to 13 per cent for the year ended December 1971. These results would have been still better but for the considerable and alround rise in the cost of production due to increase in wages and salaries, and rise in the cost of materials and services.

Besides a higher dividend, the Company has also issued bonus shares in the proportion of one new share for two shares held. The Company is growing fast. The gross block stands at Rs 1,410 lakhs and shows an increase of Rs 450 lakhs over the previous year. The first phase of expansion was completed last year by the commissioning of M G machine. The second phase is expected to be completed by the third quarter of 1972.



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Trade Union Unity

S D Punekar

The decision taken by the INTUC, the AITUC and the HMS to set up a national council of central trade unions has been hailed as "epochmaking". The council, it is hoped, will help to promote inter-union co-operation and co-ordination, bring about unity among the working people and advance their interests.

To appreciate the limitations to which these expectations are subject, this article reviews, first, the history of the central organisations of Indian workers and, then, the experience of the recent moves for trade union unity.

THE decision taken by the three major central organisations of workers — the INTUC, the AITUC and the HMS — on May 21 to set up a national council of central trade unions has been hailed as "epoch-making" in the annals of the Indian trade union movement. With this the deadlock among the three national federations, which had till recently refused to come together on a common platform, has been broken. Now their decision to establish a joint council to hammer out a common approach to various issues has raised a number of expectations. The council, it is hoped, will help promote inter-union co-operation and co-ordination, bring about unity, advance the interests of the working people and further the development of the national economy on a democratic, self-reliant and non-monopoly basis. To understand the limitations of these expectations it may be useful to look at, first, the history of the central organisations of Indian workers and then the experience of the recent moves for trade union unity.

History of Central Organisations

The All-India Trade Union Congress: Modern trade union movement in India started with the establishment of the Madras Labour Union on July 27, 1918. Soon after a number of unions came into existence to demand higher wages for workers to offset the high post-War prices. However, the immediate cause for establishment in 1920 of the All-India Trade Union Congress, the first national trade union federation, was the nomination by the government of India of the Indian workers' delegate to the first International Labour Conference in Washington in 1919. As there was no central organisation of workers, the government nominated the delegate without consulting labour organisations.

Partly to claim this right to nominate Indian workers' delegates to international conferences and partly to co-ordinate the activities of a large number of trade unions which had been formed since 1918, the All-India Trade Union Congress was brought into existence. Its first session was held on October 30, 1920, in Parel, Bombay, under the presidentship of Lala Lajpat Rai, who incidentally was the President of the Indian National Congress in that year. Though the presidents of the AITUC were supplied by the Indian National Congress, the trade union organisation came under the dominance of communists after 1925. This drove the moderates to form their own organisation at the 1929 Nagpur session, presided over by Pandit Nehru. The organisation was called the Indian Trade Union Federation. In 1933 it changed its name to the National Federation of Trade Unions. In the meanwhile, the All-India Trade Union Congress was split; at the Calcutta session in 1931 under the chairmanship of Subhash Chandra Bose the communists walked out to launch their own Red Trade Union Congress. However, after many attempts, particularly by V V Giri, unity was brought about at Nagpur in 1938 between the AITUC and NTUF.

The Second World War created a serious problem for the AITUC, which consisted of a motley crowd of trade unionists with diverse attitudes towards the war. The Royists who wanted to support the British war effort walked out of the AITUC in 1941 to form the Indian Federation of Labour, which was recognised by the government as the representative organisation of Indian workers. Most of the non-communists in the AITUC were then in jail or underground. With the end of the war in 1945, the recognition accorded to the Indian Federation of Labour was taken away and given to the AITUC. This recognition was, however, short-lived.

The Indian National Trade Union Congress: Though a number of Congressmen were working in the AITUC, they could not "reform it from within". Hence, the Hindustan Mazdoor Sevak Sangh, the labour wing of the Indian National Congress, considered it desirable to have its own national federation and thus the Indian National Trade Union Congress was born in New Delhi on May 4, 1947. Its birth was blessed not only by Congress-minded trade unionists, but also by top Congress political leaders. Within a year, the INTUC was considered the most representative central organisation of workers. It has maintained that status since then.

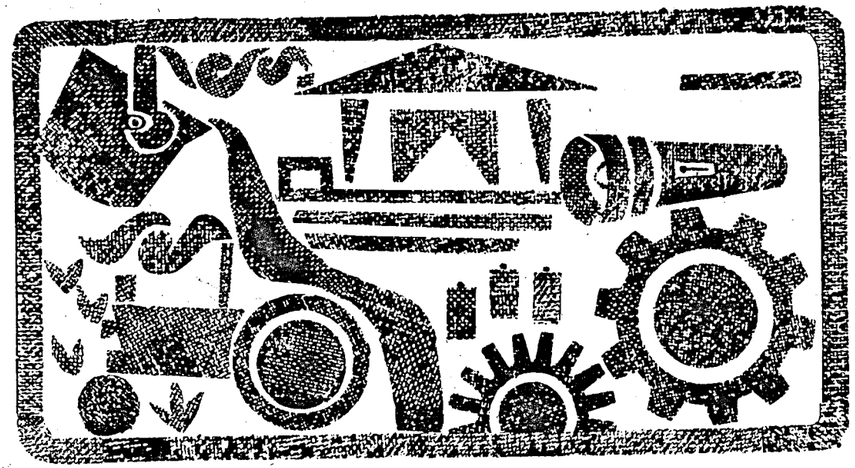
Hind Mazdoor Sabha: The Socialists in the Indian National Congress, as well as those in the AITUC, were not happy about the labour policies of either of these two organisations and they formed a new organisation — the Hind Mazdoor Panchayat. The HMP, with the Royists-dominated Indian Federation of Labour, formed the Hind Mazdoor Sabha in December 1948.

United Trade Union Congress: Some of the radicals who came out of the AITUC with the socialists became dissatisfied with the principles and objectives of the Hind Mazdoor Sabha and formed their own separate United Trades Union Congress on April 30, 1949.

The four federations (the AITUC, the INTUC, the HMS and the UTUC) enjoyed for many years the status of recognition as Indian workers' central organisations. The criteria for recognition have been mainly two: (i) the central organisation should have a minimum membership of one lakh; and (ii) this membership should be spread out in at least in five states of the country. The latest verified official membership figures of the four central organisations are not available. The AITUC and the HMS have boycotted the verification procedure, whereas the INTUC is opposed to the secret ballot method. In fact, one of the most serious obstacles to trade union unity in India has been the verification *versus* ballot question.

Some years back the verified membership of the INTUC was about 10 lakhs (60 per cent), while the figures for the AITUC, the HMS and the UTUC were about 4 lakhs (18 per cent), 4 lakhs (18 per cent) and one lakh (4 per cent), respectively. The Central Ministry of Labour recently proposed that representation at the national level in tripartite conferences should be restricted to those central

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trade union organisations which command a minimum membership of four lakhs spread over a number of states and with a sizeable membership in a number of industries. If this criterion were accepted, the UTUC would cease to enjoy the status of even an "observer" in the tripartite, while the AITUC and the HMS might be on the margin.

Other Central Organisations: The Central Ministry of Labour, making a slight departure from the existing practice, has asked non-recognised trade union centres like the CITU (Centre of Indian Trade Unions), the HMP (Hind Mazdoor Panchayat) and the BMS (Bharatiya Mazdoor Sangh) to submit membership returns for verification. Of these, the Marxist-led CITU unions were till recently in the AITUC. The (Lohia) Socialist-dominated HMP unions were for some time with the HMS. Both the CITU and the HMP have been created by politicians dissatisfied with the "mild" policies of their erstwhile colleagues. The CITU has submitted its membership figures to the Central Labour Ministry for verification.

The Bharatiya Mazdoor Sangh is a right-wing organisation with some affinity with the RSS and the Jan Sangh. The BMS had its first session in 1967. At its third session held in Bombay on May 22 and 23, 1972 it claimed a membership of over six lakhs, spread over a number of states and industries. It has made headway in some of the unorganised sectors — for instance, among domestic servants.

Thus under the criterion of a minimum membership of 4 lakhs, the UTUC might go out, but three new organisations might come in. And the objective of unity, sought to be achieved by the three recognised centres (the INTUC, the AITUC and the HMS) might actually become more distant in the changed trade union picture. The Bharatiya Mazdoor Sangh has pleaded for a broader unity of all big unions, if necessary by even abolition of all central organisations. The HMP complains that the HMS, with which it wants to merge, has been indifferent to it. The CITU has criticised the formation of the National Council of Trade Unions as being not in the interest of the working class. Its president B T Ranadive, thinks that the formation of the Council is an attempt to stem the growing unity of the working class in joint struggles and also an attempt to forestall the unity of CITU, AITUC, HMS and UTUC to forge a common front against the Government's anti-labour policies. The Council, he fears, would be increasingly used by the government to get support for its policies and to isolate the militant trade union organisations. He criticised the INTUC and the AITUC leaders for their role in West Bengal where, according to him, they were either screening or indirectly supporting the semi-fascist terror directed against unions affiliated to CITU and UTUC.

History of Unity Moves

The agreement reached on May 21, 1972 to set up a national council of central trade unions is the result of one year's negotiations among the organisations. On May 18 and 19, 1971 the HMS called a conference of trade union organisations in Delhi. According to it, "in the pre-election phase, trade union development remained stalled and immobilised by internal dissensions, mounting bitterness and intensified inter-union rivalries". The post-election phase changed this picture, with a comfortable majority for the ruling party. The conference called by the HMS was aimed at opening a dialogue among the trade union organisations on various topical issues. The AITUC became the co-sponsor of the conference, which passed unanimously "a trade union declaration" setting out the immediate tasks of the working class movement. After the conference was over, the HMS delegation met representatives of the INTUC separately on May 19, when it was informed that the INTUC working committee had suggested the formation of a national consultative committee of INTUC and HMS. This committee was formed in June 1971. A similar committee of HMS and AITUC was formed in August 1971.

In the meanwhile, some of the steps taken or proposed by the Central Labour Ministry hastened the consultation between the three central organisations. So far the INTUC had enjoyed the sole right of representing Indian workers at international conferences. For the June 1971 International Labour Conference in Geneva, two nominees of the AITUC and the HMS were included in the Indian delegation, though with the status of observers only. In future conferences, non-INTUC men may get the status of delegates.

The Central Labour Minister, R K Khadilkar, used various means to bring about the trade union unity. He postponed the tripartite meetings and the verification dates to suit the convenience of labour leaders, requested them to evolve a formula for recognition of the bargaining agent, invited suggestions on matters of industrial relations and threatened that government would not wait indefinitely for the trade union centres to reach an agreement, but would bring in Parliament a comprehensive industrial relations legislation, amending the Industrial Disputes Act. A large measure of the credit for the agreement between the three major central trade union federations thus goes to the Labour Minister.

The powerful Ahmedabad group, which had founded and built up the INTUC, had all along disfavoured the idea of having a dialogue with the communists. However, now this group belongs to the Old Congress, whereas the INTUC is controlled by labour leaders owing allegiance to the Congress(R). The way for trade union unity talks was cleared with the diehard, anti-communist Ahmedabad group severing its connections with the INTUC.

Till two years back, the INTUC, dominated by the Ahmedabad group, had been opposed to any direct negotiations with the AITUC, because of the latter's pro-communist leanings. It even refused to negotiate with the HMS, because the latter was not agreeable to breaking all contact with the AITUC. However, with the diminishing importance of the Ahmedabad group and with the initiative taken by the HMS, the picture changed slowly. The first meeting of the three organisations was held on August 4, 1971 in Madras. On February 6, 1972 they reached "a limited accord", agreeing in principle to the setting up of a joint national council of trade unions. Often it seemed that the three trade union centres might not be able to reach an agreement on the crucial issue of recognition of trade unions. This issue has been causing bitterness among the centres and their affiliates at the industry level. Another point of dispute is in regard to the states of Maharashtra, Gujarat and Madhya Pradesh which are covered by the Bombay Industrial Relations Act. The provisions of this Act have given a privileged position to the INTUC which is, therefore, reluctant to apply the general formula for union recognition to these states. It, however, agreed that unions in these states might be covered by the new formula, but only after the experience gained in according recognition was found to be satisfactory.

The limited agreement reached on February 6, 1972 was the result of discussions on questions of industrial relations, recognition of trade unions

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25	1385	1800	2590
50	2770	3600	5180

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and joint industrial committees. Except on the question of recognition of unions — already governed by State industrial relations legislation — there were general agreement on all other issues. With regard to industrial relations, the trade union centres felt that the present system was totally inadequate and required immediate change. The best way to promote healthy industrial relations was to leave all disputes to be resolved through direct bilateral negotiations. The parties may agree to refer the dispute to voluntary arbitration or, failing agreement, workers should have the right of direct action, including that of going on strike. The centres also agreed that joint industrial committees at the national level should be set up in all industries and services to decide on all important matters concerning the industry and workers.

The limited accord was repudiated on May 6 by the three organisations. The INTUC stuck to the view that the states of Maharashtra, Gujarat and MP, covered by the BIR Act should be excluded from the operation of the national formula for union recognition. "The new formula should first be tried in areas and industries where there is no law governing union's recognition and thereafter, if experience gained in the working of the new formula is satisfied, be extended to areas and industries covered by the State laws on recognition." It suggested a two-year period for such an experiment. The AITUC and the HMS, on the other hand, refused to concede this point which they considered crucial not only for the states concerned, but also for the evolution of democratic norms for industrial relations all over the country. These two organisations also expressed the apprehension that the Congress and the government had, as so often in the past, veered round to the position of lending their support to INTUC to the disadvantage of other central organisations. They feared that a principled and objective approach would not be taken by the government while formulating the new industrial relations legislation. The AITUC accused the government of trying to "continue their old line of imposing INTUC, now in a rejuvenated form, on the trade union movement". The HMS also charged that "the INTUC has declined to continue the dialogue". The HMS stood for collective bargaining, recognition of a single bargaining agent and its choice by secret ballot. The AITUC and the HMS declined to join the national council except on the basis of equality and parity, whereas the INTUC demanded representation on various committees proportionate to membership.

Fortunately this set-back proved to be temporary and on May 21, 1972 an agreement was signed by the three organisations to set up a national council. It is hoped that at their next meeting on May 30, the machinery for implementation of the proposal would be set up.

As may be seen from the history of the trade union unity move, the sailing has not been at all smooth. However, in spite of heavy odds, a substantial achievement has been recorded, as far as unity is concerned. Not only have the three most important central organisations of workers come together and discussed the issues, but they have been able to put out a common programme from a common platform. Incidentally, the three trade union centres unitedly celebrated May Day this year.

Principle of Unity

It should not be forgotten, however, that the unity achieved is from the top and not from the bottom. It is necessary to inculcate the principle of unity among workers and their unit level unions, so that the foundation may be strong. Another important problem would be that of the other central organisations like the CITU, HMS and BMS. They are not recognised trade union centres and as such have been kept out of the trade union centres' meetings. It is possible that once the proposed national council is set up, it may negotiate with these organisations and may even extend invitations to them to join it. The CITU leaders have made it clear that they would not be bound by any formula adopted without their active participation. The HMP leaders are at present silent, while the BMS has once again pleaded for a broader unity.

The success of unity would depend on the activities of the national council and its three main sponsors. The ideological differences would still remain, but they should not come in the way of negotiations with the government, co-ordination of trade union activities and improvement in the working and living conditions of the labouring classes. The Indian trade union movement has to play an important role not only in bettering the conditions of workers but in the development of industry, the community and the nation. The national council of central trade unions, as the chief agency of Indian workers, could fulfil this role.

N. R. CHAKRAVARTI

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Syndicate Bank

Balance-Sheet as at 31st December, 1971

As at 31st December, 1970				CAPITAL AND LIABILITIES	As at 31st December, 1971			
Rs.	P.	Rs.	P.		Rs.	P.	Rs.	P.
				1. **CAPITAL :**				
1,41,97,104	00			Paid-up Capital (Wholly owned by the Central Government)			1,41,97,104	00
		1,56,00,000	00	*2.* **RESERVE FUND AND OTHER RESERVES :**				
		13,79,161	85	Reserve Fund	1,79,50,000	00		
1,69,79,161	85			Other Reserves	14,33,000	00		
							1,93,83,000	00
		102,27,09,012	74	*3.* **DEPOSITS AND OTHER ACCOUNTS :**				
		39,61,08,486	86	Fixed Deposits	137,52,84,662	00		
		25,86,52,063	62	Savings Bank Deposits	49,81,81,365	54		
167,74,69,563	22			Current Accounts, Contingency Accounts, etc.	32,29,22,740	42		
							219,63,88,767	96
				4. **BORROWINGS FROM OTHER BANKING COMPANIES AGENTS, ETC. :**				
				i) In India (Includes an amount of Rs. 65,00,000/- borrowed from Industrial Development Bank of India and Rs. 8,61,000/- from Agricultural Refinance Corpoiation as per contra)	77,31,468	50		
		6,63,61,819	66	ii) Outside India	31,55,972	83		
		63,169	73					
6,64,24,989	39						1,08,87,441	33
				Particulars :				
		75,50,000	00	(*a*) Secured against :				
				i) Central and State Government Securities	2,31,715	92		
		49,91,714	26	ii) Under the Refinance Scheme vide No. 5(1)(*a*) as per contra	73,61,000	00		
		5,36,50,000	00	iii) Under Bill Market Scheme vide section 17(4) (c) of the Reserve Bank of India Act	Nil			
		2,33,275	13	(*b*) Unsecured	32,94,725	41		
		6,64,24,989	39		1,08,87,441	33		
2,11,24,497	26			*5.* **BILLS PAYABLE :**			2,45,80,413	95
				6. **BILLS FOR COLLECTION BEING BILLS RECEIVABLE AS PER CONTRA :**				
		11,25,30,955	06	(*a*) Payable in India	11,40,85,032	27		
		1,62,93,410	45	(*b*) Payable outside India	2,46,21,741	46		
12,88,24,365	51						13,87,06,773	73
		10,34,50,135	15	*7.* **OTHER LIABILITIES :**				
		8,81,923	49	i) Inter Branch Adjustments	11,47,60,060	93		
		87,917	44	ii) Rebate on Bills Discounted	3,84,370	20		
				iii) Security Deposits	1,02,993	57		
		2,08,175	14	iv) Amalgamated Banks' Liabilities for collection against Assets as per contra	2,02,981	03		
		3,62,81,128	37	v) Others	5,19,47,230	54		
14,09,09,279	59						16,73,97,636	27
7,31,64,486	65			*8.* **ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS PER CONTRA**			9,56,43,306	66
				9. **PROFIT AND LOSS :**				
		65,20,952	28	Profit for the year			89,99,131	49
		14,00,000	00	*Less :* Appropriations :				
				Transferred to Reserve Fund	23,50,000	00		
		29,60,000	00	Transferred to Other Reserves	7,638	15		
		43,60,000	00	Provision for Bonus to Staff	43,01,000	00	66,58,638	15
21,60,952	28			Balance to be transferred to Central Government in terms of Section 10(7) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970			23,40,493	34
				10. **CONTINGENT LIABILITIES :**				
		9,38,876	66	i) Claims against the Bank not acknowledged as debts of which Rs. 1,61,230.10 is reimbursable by Insurance Company in case the liabilities arise	9,47,481	63		
		55,75,235	02	ii) Liability on Bills of Exchange re-discounted	61,55,487	53		
		6,00,35,420	62	iii) Liabilities on account of outstanding Forward Exchange Contracts (for purchases and sales)	19,62,87,239	28		
		6,79,38,440	00	iv) Money for which the Bank is contingently liable for guarantees given	8,42,05,057	99		
		Nil		v) Estimated amounts of contracts remaining to be executed on capital account and not provided for	Nil			
		15,70,250	00	vi) On Partly paid shares of Joint Stock Companies	28,20,250	00		
214,12,54,399	**75**			**TOTAL**			**266,95,24,937**	**24**

Syndicate Bank

Balance-Sheet as at 31st December, 1971

As at 31st December, 1970				PROPERTY AND ASSETS			As at 31st December, 1971			
Rs.	P.	Rs.	P.				Rs.	P.	Rs.	P.
				1. **CASH :**						
9,32,58,159	86			In hand and with Reserve Bank of India and State Bank of India (including foreign currency notes)					13,20,74,427	36
				2. **BALANCES WITH OTHER BANKS :**						
		2,28,23,483	39	In Current Account						
		30,50,615	71	i) In India	2,69,08,435	36				
		Nil		ii) Outside India	10,22,736	16	2,79,31,171	52		
2,58,74,099	10			In Deposit Account—In India			1,95,00,000	00		
									4,74,31,171	52
50,00,000	00			*3.* **MONEY AT CALL AND SHORT NOTICE**					25,00,000	00
				4. **INVESTMENTS AT BOOK VALUE :**						
		45,51,04,595	84	1. Securities of Central and State Governments and other Trustee Securities (Total Face Value Rs. 60,85,65,318 21) (Total Market Value Rs. 58,82,31,778 56)			58,80,94,084	83		
				2. Shares of Corporations and Companies :	**Face Value**		**Market Value**			
		20,71,007	12	*a*) Equity fully paid	18,90,203	00	16,80,954	71	18,14,107	12
		17,14,936	03	*b*) Equity partly paid	56,54,200	00	30,48,414	25	29,64,936	03
		12,73,294	75	*c*) Preference fully paid	12,94,590	00	13,11,185	70	12,73,294	75
		3,172	00	*d*) Deferred fully paid	3,172	00	3,172	00	3,172	00
		20,07,250	00	3. Debentures and Bonds	1,92,25,000	00	1,90,80,025	00	1,92,07,250	00
				4. Other Investments :						
		3,00,000	00	*a*) Initial capital of Unit Trust of India	3,00,000	00	3,00,000	00	3,00,000	00
		2,00,000	00	*b*) Units of Unit Trust of India	2,00,000	00	2,00,000	00	2,00,000	00
				c) 'B' Class shares of Agricultural Co-op. Credit Societies	289	00	289	00	289	00
		Nil		5. Gold	Nil		Nil		Nil	
46,26,74,255	74	Nil							61,38,57,133	73
				Note : Securities of the face value of Rs. 10,06,000/- are lodged with Government and Post Office for specific contracts						
				5. **ADVANCES :**						
				(Other than Bad and Doubtful Debts for which provision has been made to the satisfaction of the auditors)						
				1. Loans, Cash Credits, Overdrafts, etc.						
		100,47,57,099	76	*a*) In India (Includes advances in respect of which finances have been obtained from Industrial Development Bank of India Rs. 65,00,000/- and from Agricultural Refinance Corporation Rs. 8,61,000/- as per contra)			119,89,63,933	55		
		Nil		*b*) Outside India			Nil			
				2. Bills Discounted and Purchased :						
		16,62,04,773	22	*a*) Payable in India	24,51,28,444	49				
		5,72,61,531	41	*b*) Payable outside India	5,75,30,602	49	30,26,59,046	98		
		22,34,65,304	63						150,16,22,980	53
122,82,23,404	39			(Particuiars of advances as per Schedule I Attached)						

Syndicate Bank

Balance-Sheet as at 31st December, 1971

As at 31st December, 1970		PROPERTY AND ASSETS	As at 31st December, 1971	
Rs. P.	Rs. P.		Rs. P.	Rs. P.
		6. BILLS RECEIVABLE BEING BILLS FOR COLLECTION AS PER CONTRA :		
	11,25,30,955 06	*a*) Payable in India	11,40,85,032 27	
	1,62,93,410 45	*b*) Payable outside India	2,46,21,741 46	
12,88,24,365 51				13,87,06,773 73
		7. CONSTITUENTS' LIABILITIES FOR ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS PER CONTRA		
7,31,64,486 65				9,56,43,306 66
		8. PREMISES LESS DEPRECIATION AS PER SCHEDULE II ATTACHED		
83,65,665 35				85,92,314 42
		9. FURNITURE, FITTINGS, ETC, LESS DEPRECIATION AS PER SCHEDULE III ATTACHED		
1,27,03,040 00				1,49,44,146 00
		10. OTHER ASSETS :		
	72,74,603 98	i) Interest accrued on Investments	95,42,216 60	
	98,65,751 22	ii) Interest accrued and due on Advances, etc.	28,17,372 16	
	53,08,972 04	iii) Motor Vehicles and Library (Less depreciation) Stamps, Stocks of Paper, Stationery etc.	72,60,162 65	
	5,47,54,775 90	iv) Branch DDs, TTs paid, Bills realised and in transit pending adjustment	6,35,33,971 42	
	2,20,45,634 41	v) Income-Tax paid in advance	2,67,64,928 66	
	35,08,554 07	vi) Sundries—including pre-paid expenses*	34,37,020 20	
	2,08,175 14	vii) Assets of Amalgamated Banks for collection as per contra	2,02,981 03	
	13,080 50	viii) Constructions	1,13,958 55	
10,29,79,547 26				11,36,72,611 27
		*(Sundries include Rs. 8,000/- deposits with Post Office for purchase of vehicles)		
		11. NON-BANKING ASSETS ACQUIRED IN SATISFACTION OF CLAIMS—LESS DEPRECIATION—AS PER SCHEDULE IV ATTACHED		
1,87,375 89				4,80,072 02
		Approximate market value of the properties is Rs. 5,97,000/-		
		Note : One item of Property is subject to a charge of Rs. 2,000/- and interest thereon		
214,12,54,399 75		**TOTAL**		**266,95,24,937 24**

Syndicate Bank

Profit and Loss Account for the Year Ended 31st December, 1971

Corresponding figures for 1970	EXPENDITURE		Year ended 31st December 1971
Rs. P.			Rs. P.
6,40,69,699 70	1.	Interest paid on Deposits, Borrowings, etc	8,00,96,557 17
4,69,54,188 48	2.	Salaries and Allowances, Provident Fund and Gratuity Contribution*	5,73,82,507 93
20,288 35	3.	Directors' and Local Committee Members Fees and Allowances	66,484 66
43,38,425 30	4.	Rents, Taxes, Lighting, Insurance, etc.	55,53,635 09
33,832 69	5.	Law Charges	79,437 23
30,00,589 74	6.	Postage, Telegrams and Stamps	37,94,966 62
2,67,850 00	7.	Auditors Fees	2,28,450 00
23,21,727 08	8.	Depreciation on and Repairs to the Bank's Property	28,57,242 82
23,08,363 24	9.	Stationery, Printing, Advertisement, etc,	38,28,452 67
Nil	10.	Loss from sale of or dealing with Non-Banking Assets	Nil
47,75,836 07	11.	Other Expenditure	60,10,565 44
65,20,952 28	12.	Balance of Profit subject to Bonus	89,99,131 49

Notes: (1) Particulars of Remuneration relating to the Custodian:

Rs. P.		Rs. P.
45,000 00	i) Salary	42,000 00
4,375 00	ii) Allowances	5,250 00
—	iii) Bonus**	520 97
	iv) Employer's contribution to Provident Fund	3,499 92
3,749 92	v) Monetary value of any other benefits	1,800 00
1,950 00	or perquisites	53,070 89
55,074 92		

(2) Stationery, Printing, Advertisement, etc. and Other Expenditure include Rs. 10,06,809.13 towards Publicity expenses.

*(3) Includes Rs. 3,58,967.26 being Bonus relating to previous years paid in excess of the provisions made in those years.

**(4) Proportionate Bonus for 1970 paid for the period when the Custodian was General Manager.

13,52,11,752 93	TOTAL	16,88,97,431 12

Corresponding figures for 1970	INCOME (Less Provisions made during the year for Bad and Doubtful Debts, Taxation and other usual or necessary provisions)		Year ended 31st December 1971
Rs. P.			Rs. P.
11,89,25,496 72	1.	Interest and Discount	14,97,95,127 55
1,10,03,596 97	2.	Commission, Exchange and Brokerage	1,32,59,705 51
6,80,075 98	3.	Rents	8,99,574 05
7,40,694 61	4.	Net Profit on Sale of Investments, Gold and Silver, Land, Premises and other assets (Not credited to Reserve or any particular Fund or Account)	2,45,315 61
Nil	5.	Net Profit on re-valuation of Investments, Gold and Silver, Land, Premises and other assets (Not credited to Reserve or or any particular Fund or Account)	Nil
3,300 43	6.	Income from Non-Banking Assets and Profit from sale of or dealing with such Assets	4,218 85
38,58,588 22	7.	Other Receipts	46,93,489 55
13,52,11,752 93		TOTAL	16,88,97,431 12

As per our Report of even date attached.

B. K. KAPUR
M. B. MOHAMED
O. SWAMINATHA REDDY
M. K. VENKATACHALAM
Directors

D. RANGASWAMY & CO.
VARMA & VARMA
Chartered Accountants

Place: MANIPAL
Date: 18th April, 1972

H. N. RAO
Chief Accountant

H. N. PAI
General Manager

K. K. PAI
Custodian

Syndicate Bank

Report of the Auditors

To
THE PRESIDENT OF INDIA :

1. We have audited the attached Balance Sheet of **Syndicate Bank** as at 31st December, 1971 and the attached Profit and Loss Account of the Bank for the year ended 31st December, 1971 in which are incorporated the returns of 100 Branches audited by us, 164 Branches audited by other auditors, and the unaudited returns in respect of 243 Branches not visited by us, for the exclusion of which branches from audit, concurrence of the Reserve Bank of India was obtained.
2. The Balance Sheet and the Profit and Loss Account have been drawn up in forms 'A' and 'B' respectively of the Third Schedule of the Banking Regulation Act, 1949. Accordingly, they disclose such matters as were required to be disclosed in the case of Banking Companies prior to nationalisation by virtue of the provisions of the said Act as read with the relative provisions of the Companies Act, 1956. Subject to the limitations of such disclosure and on the basis of the audit indicated in the first paragraph, we report that :—
   (*a*) in our opinion and to the best of our information and the explanations given to us and as shown by the books of the bank :—
      i) the Balance Sheet read with the notes thereon is a full and fair Balance Sheet containing the necessary particulars and it is properly drawn up so as to exhibit a true and fair view of the affairs of the Bank as at 31st December, 1971; and
      ii) the Profit and Loss Account read with the notes thereon shows a true balance of Profit for the year ended on that date;
   (*b*) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and have found them to be satisfactory;
   (*c*) the transactions of the Bank which have come to our notice have been within the powers of the Bank; and
   (*d*) the returns received from the offices and branches of the Bank have been found adequate for the purposes of our audit.

MANIPAL
18th April, 1972

D. RANGASWAMY & CO.
Chartered Accountants

VARMA & VARMA
Chartered Accountants

SCHEDULE-I

SCHEDULE OF PARTICULARS REQUIRED BY THE BANKING REGULATION ACT, 1949 ACT X OF 1949 ANNEXED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31ST DECEMBER, 1971

As at 31st December, 1970 Rs. P.		As at 31st December, 1971 Rs. P.	Rs. P.
	Particulars of Advances :		
95,73,79,519 25	i) Debts considered good in respect of which the Bank is fully secured	106,72,37,725 07	
11,97,18,648 65	ii) Debts considered good for which the Bank holds no other security than the Debtors' personal security (inclusive of advances on joint and several pronotes)	18,23,64,159 10	
15,11,25,236 49	iii) Debts considered good, secured by the personal liabilities ofone or more parties in addition to the personal security of the Debtors	25,20,21,096 36	
Nil	iv) Debts considered doubtful or bad not provided for	Nil	
122,82,23,404 39	**TOTAL**	**150,16,22.980 53**	
	v) Debts due by Directors or officers of the Bank or any of them either severally or jointly with any other persons		37,10,182 00
30,87,659 00	*vi) Debts due by the companies or firms in which the Directors of the Bank are interested as Directors, Partners or Managing Agents or in the case of private companies as Members		15,21,937 98
6,74,266 09	vii) Maximum total amount of advances including temporary advances made at any time during the year to the Directors or Managers or Officers of the Bank or any of them either severally or jointly with any other persons		37,87,469 00
32,21,917 00	*viii) Maximum total amount of advances including temporary advances granted during the year to the companies or firms in which the Directors of the Bank are interested as Directors, Partners or Managing Agents or in the case of Private companies as members		22,21,540 78
8,70,814 00	ix) Due from Banking Companies		16,72,731 00
16,57,310 19	* vi and viii are advances to companies in which a Director of the Bank is interested as a nominee Director of a State Financial Corporation for which exemption under Section 53 of the Banking Regulation Act, 1949, has been obtained.		

SCHEDULES FORMING PART OF BALANCE SHEET AS AT 31ST DECEMBER, 1971

SCHEDULE-II

As at 31st December, 1970 Rs. P.		As at 31st December, 1971 Rs. P.
	Premises :	
91,57,065 64	Original cost as on 31-12-1970	1,03,68,147 64
12,78,620 44	*Add* : Additions during the year	6,87,433 87
1,04,35,686 08		1,10,55,581 51
67,538 44	*Less* : Deductions/Transfers	97,149 15
1,03,68,147 64		1,09,58,432 36
20,02,482 29	*Less* : Depreciation written off upto 31-12-1971	23,66,117 94
83,65,665 35	**TOTAL**	**85,92,314 42**

SCHEDULE-III

As at 31st December, 1970 Rs. P.		As at 31st December, 1971 Rs. P.
	Furniture, Fittings, etc. :	
1,26,76,816 77	Original cost as on 31-12-1970	1,80,08,274 51
53,85,818 38	*Add* : Additions/Transfers	41,51,387 34
1,80,62,635 15		2,21,59,661 85
54,360 64	*Less* : Sales/Deductions during the year	1,20,122 57
1,80,08,274 51		2,20,39,539 28
53,05,234 51	*Less* : Depreciation written off upto 31-12-1971	70,95,393 28
1,27,03,040 00	**TOTAL**	**1,49,44,146 00**

SCHEDULE-IV

As at 31st December, 1970 Rs. P.		As at 31st December, 1971 Rs. P.
	Non-Banking Assets :	
1,56,891 70	Original cost as on 31-12-1970	2,23,518 57
67,226 87	*Add* : Additions during the year	3,35,011 10
2,24,118 57		5,58,529 67
600 00	*Less* : Sales/Deductions during the year	18,670 71
2,23,518 57		5,39,858 96
36,142 68	*Less* : Depreciation written off upto 31-12-1971	59,786 94
1,87,375 89	**TOTAL**	**4,80,072 02**

MANIPAL
18th April, 1972

H. N. RAO
Chief Accountant

H. N. PAI
General Manager

K. K. PAI
Custodian
B. K. KAPUR
M. B. MOHAMED
O. SWAMINATHA REDDY
M. K. VENKATACHALAM
Directors

D. RANGASWAMY & CO.
VARMA & VARMA
Chartered Accountants

Appropriation of Profits

The Directors report that, the usual and necessary provisions having been made, the net profit of the Bank for the year ended 31st December, 1971 amounted to Rs. 89,99,131-49. (Rs. 65,20,952-28 for the year ended 31st December, 1970.)

Year ended 31st December, 1970 Rs. P.		Year ended 31st December, 1971 Rs. P.
	This sum, the Directors of the Bank have disposed of as follows :	
14,00,000 00	Transferred to Reserve Fund	23,50,000 00
—	Transferred to Other Reserves	7,638 15
29,60,000 00	Bonus to Staff (Provision)	43,01,000 00
21,60,952 28	Balance to be transferred to Central Government in terms of Section 10(7) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970	23,40,493 34
65,20,952 28	**TOTAL**	**89,99,131 49**

MANIPAL
18th April, 1972

K. K. PAI
Custodian

B. K. KAPUR
M. B. MOHAMED
Directors

O. SWAMINATHA REDDY
M. K. VENKATACHALAM
Directors

Canara Bank

Head Office : Bangalore-2

Balance-Sheet as at 31st December, 1971

1970		CAPITAL AND LIABILITIES	1971	
Rs. P.	Rs. P.		Rs. P.	Rs. P.
		1. **CAPITAL :**		
1,75,00,000.00		PAID-UP CAPITAL		1,75,00,000.00
		(Wholly-owned by the Central Government)		
		2. **RESERVE FUND AND OTHER RESERVES :**		
	1,81,54,976.11	(a) Reserve Fund	2,02,20,976.11	
	20,66,000.00	*Add :* Transfer from Profits for the year	36,10,523.89	
	2,02,20,976.11		2,38,31,500.00	
	48,500.00	(b) Reserve for Development Rebate	48,500.00	
2,02,69,476.11				2,38,80,000.00
		3. **DEPOSITS AND OTHER ACCOUNTS :**		
	117,13,07,733.38	Fixed Deposits (Includes Cash Certificates, Janapriya, Cumulative, Recurring, Nithya Nidhi and Kisan Deposits)	154,66,48,273.33	
	60,68,05,910.14	Savings Bank Deposits	75,57,66,995.59	
	62,11,04,916.04	Current Accounts, Contingency Accounts, etc.	63,86,48,370.42	
239,92,18,559.56				294,10,63,639.34
		4. **BORROWINGS FROM OTHER BANKING COMPANIES, AGENTS, ETC:**		
	82,42,809.73	(i) In India	1,94,27,413.00	
	34,875.97	(ii) Outside India	—	
82,77,685.70				1,94,27,413.00
		ARTICULARS :		
		(1) Secured :		
	82,42,809.73	Under the Refinance Scheme of Industrial Development Bank of India per contra	29,83,415.00	
		(2) Unsecured :		
	Nil	(i) Under the Refinance Scheme of Industrial Development Bank of India per contra	1,14,43,998.00	
	Nil	(ii) From Reserve Bank of India	50,00,000.00	
	34,875.97	(iii) Others	Nil	
	82,77,685.70		1,94,27,413.00	

Canara Bank

Head Office : Bangalore-2

Balance-Sheet as at 31st December, 1971

1970		PROPERTY AND ASSETS		1971	
Rs. P.	Rs. P.			Rs. P.	Rs. P.
		1. **CASH :**			
19,08,82,354.38		In hand and with Reserve Bank and State Bank of India (including Foreign Currency Notes)			19,89,51,607.82
		2. **BALANCES WITH OTHER BANKS :**			
	53,99,408.78	(a) In Current Account : (i) In India		1,61,69,752.86	
	31,82,484.04	(ii) Outside India		9,53,786.81	
	—	(b) In Deposit Account : (i) In India		11,25,00,000.00	
	—	(ii) Outside India		—	
85,81,892.82					12,96,23,539.67
40,00,000.00		*3.* **MONEY AT CALL AND SHORT NOTICE :**			6,35,25,000.00
		4. **INVESTMENTS (BELOW MARKET VALUE)**			
	59,10,37,243.41	(i) Securities of the Central and State Governments and other Trustee Securities		78,37,08,252.89	
	33,75,413.47	(ii) Shares : (a) Equity — Fully paid	34,64,471.91		
	21,25,000.00	(b) Equity — Partly paid	33,83,500.00		
	1,10,400.72	(c) Preference — Fully paid	1,10,400.72		
				69,58,372.63	
	13,52,154.92	(iii) Debentures		1,31,14,904.92	
	—	(iv) Other Investments		—	
	—	(v) Gold		—	
59,80,00,212.52					80,37,81,530.44
		5. **ADVANCES :**			
		(Other than Bad and Doubtful Debts for which provision has been made to the satisfaction of the Auditors)			
		(i) Loans, Cash Credits, Overdrafts etc.			
	123,91,18,805.05	1. In India (includes medium term advances of Rs. 1,44,27,413.00 (previous year Rs. 82,42,809.73) refinanced by the Industrial Development Bank of India per contra)	146,18,53,249.98		
	—	2. Outside India	—		
	123,91,18,805.05			146,18,53,249.98	
		(ii) Bills discounted and purchased :			
	39,23,41,862.26	(1) Payable in India	34,06,32,029.60		
	5,83,65,714.61	(2) Payable outside India	5,08,54,590.97		
	45,07,07,576.87			39,14,86,620.57	
168,98,26,381.92					185,33,39,870.55
		(Particulars of advances set out in separate Schedule attached to and forming part of this Balance Sheet)			

Canara Bank

Head Office : Bangalore-2

Balance-Sheet as at 31st December, 1971

1970		CAPITAL AND LIABILITIES	1971	
Rs. P.	Rs. P.		Rs. P.	Rs. P.
3,60,39,800.39		5. BILLS PAYABLE		3,60,66,402.72
		6. BILLS FOR COLLECTION BEING BILLS RECEIVABLE AS PER CONTRA :		
	19,87,21,238.88	(i) Payable in India	21,70,77,153.69	
	2,10,20,441.10	(ii) Payable outside India	2,27,73,636.24	
21,97,41,679.98				23,98,50,789.93
		7. OTHER LIABILITIES :		
	14,57,024.85	(i) Rebate on Bills	96,07,807.96	
	3,68,82,970.55	(ii) Others	2,86,68,745.49	
		(iii) Liability on account of assets taken for collection from Taken-over Banks per contra	27,21,609.47	
	27,33,858.59			
	4,90,15,092.87	(iv) Inter-branch/office adjustments	5,52,17,221.82	
9,00,88,946.86				9,62,15,384.74
16,27,90,521.80		8. ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS AS PER CONTRA		16,30,12,286.49
	1,03,25,239.67	9. PROFIT AND LOSS ACCOUNT : Profit for the year	1,39,07,172.37	
	20,66,000.00	*Less :* Transfer to Reserve Fund in terms of Section 17 of Banking Regulation Act, 1949	36,10,523.89	
	54,81,000.00	Provision for Bonus to Staff	72,40,000.00	
	75,47,000.00		1,08,50,523.89	
		Balance being amount to be transferred to Central Government under Section 10(7) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970		
27,78,239.67				30,56,648.48
		10. CONTINGENT LIABILITIES :		
	11,94,293.55	(i) Claims against the Bank not acknowledged as debts : There is in addition a claim for Rs. 1,250.00 p.m. for life from the Ex-General Manager of Canara Bank Limited.	15,36,960.54	
		(ii) Letters of Guarantee given :		
	19,09,73,502.47	(a) On behalf of Constituents	23,85,80,679.62	
	1,650.00	(b) On behalf of Directors or Officers	1,650.00	
	3,76,33,321.47	(iii) Bills of Exchange rediscounted	6,72,62,856.83	
	13,84,61,959.27	(iv) Outstanding Forward Exchange Contracts	10,63,17,164.56	
	21,25,000.00	(v) On partly paid-up Shares and Debentures	33,83,500.00	
	2,650.00	(vi) Others	2,700.00	
295,67,04,910.07		TOTAL		354,00,72,564.70

Note: 1. Bank has entered into agreement for sale in respect of property at Mandvi, Bombay having book value of Rs. 1,53,615.49 included under Premises.

2. There are certain old items or differences remaining to be cleared at certain branches in respect of:
   (a) Balancing of General Ledgers with Subsidiary Ledgers;
   (b) Clearing Differences; and
   (c) Bills under collection.

   Special steps are being taken to reconcile and/or locate the old items and/or differences and/or make appropriate adjustments therefor.

Head Office:
Bangalore-2.
Dated : April 17, 1972
Chaitra 28, 1894

K. SHANTARAM SHENOY
Chief Accountant

K. S. R. MALLIAH
R. C. KESAVAMURTHY
K. N. R. RAMANUJAM
M. K. VENKATACHALAM
} *Directors*

Canara Bank

Head Office : Bangalore-2

Balance-Sheet as at 31st December, 1971

1970		PROPERTY AND ASSETS	1971	
Rs. P.	Rs. P.		Rs. P.	Rs. P.
		6. BILLS RECEIVABLE BEING BILLS FOR COLLECTION AS PER CONTRA :		
	19,87,21,238.88	(i) Payable in India	21,70,77,153.69	
	2,10,20,441.10	(ii) Payable outside India	2,27,73,636.24	
21,97,41,679.98				23,98,50,789.93
16,27,90,521.80		7. CONSTITUENTS' LIABILITIES FOR ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS AS PER CONTRA		16,30,12,286.49
		8. PREMISES LESS DEPRECIATION :		
	93,26,209.68	Original Cost	93,07,402.55	
	4,400.00	Additions during the year	9,625.98	
	93,30,609.68		93,17,028.53	
	23,207.13	Deductions during the year	—	
	93,07,402.55		93,17,028.53	
	17,39,212.24	Depreciation written off to-date	19,44,203.84	
75,68,190.31				73,72,824.69
		9. FURNITURE AND FIXTURES LESS DEPRECIATION :		
	1,57,29,330.70	Original Cost	2,15,35,311.61	
	60,21,310.28	Additions during the year	86,99,357.16	
	2,17,50,640.98		3,02,34,668.77	
	2,15,329.37	Deductions during the year	2,17,337.62	
	2,15,35,311.61		3,00,17,331.15	
	85,01,006.91	*Less :* Depreciation written off to-date	1,14,99,060.17	
1,30,34,304.70				1,85,18,270.98
		10. OTHER ASSETS :		
	95,24,626.00	(i) Interest accrued on investments	1,23,92,900.25	
	66,71,870.70	(ii) Library, Stationery, Stamps etc	61,59,594.61	
	2,66,72,810.16	(iii) Clearing bills and vouchers under adjustments	1,97,23,552.22	
	1,65,92,001.90	(iv) Prepaid expenses and recoverables etc.	2,09,17,028.29	
	27,33,858.59	(v) Assets taken for collection from taken-over banks per contra	27,21,609.47	
6,21,95,167.35				6,19,14,684.84
84,204.29		11. NON-BANKING ASSETS ACQUIRED IN SATISFACTION OF CLAIMS : At Cost		1,82,159.29
295,67,04,910.07		TOTAL		35[illegible],00,72,564.70

In Accordance with our report attached.

K. P. J. PRABHU,
Custodian.

B. K. RAMADHYANI & CO. BRAHMAYYA & CO.
Chartered Accountants

Canara Bank

Head Office: Bangalore-2

Profit and Loss Account for the Year Ended 31st December, 1971

Previous Year 1970	EXPENDITURE		1971
Rs. P.			Rs. P.
7,87,60,914.15	1.	Interest paid on Deposits, Borrowings, etc	10,45,47,287.56
5,92,51,668.28	2.	Salaries & Allowances and Provident Fund	7,61,87,594.80
	3.	Directors' and Local Committee Members' Fees and Allowances	58,552.67
24,684.40	4.	Rent, Taxes, Insurance, Lighting, etc.	80,77,876.67
62,33,154.74	5.	Law Charges	91,986.95
65,954.43	6.	Postage, Telegrams and Stamps	43,10,688.88
34,73,574.49	7.	Audit Fees and Travelling Expenses	2,87,601.03
2,90,050.00	8.	Depreciation on and Repairs to Bank's Property	40,36,933.02
27,24,185.63	9.	Stationery, Printing, Advertisement, etc	39,99,424.14*
35,85,802.30	10.	Expenditure on Non-Banking Assets and Loss from sale of, or dealing with such assets	6,644.79
113.84	11.	Other Expenditure	1,05,84,285.81
69,30,893.19	12.	Balance of Profit	1,39,07,172.37
1,03,25,239.67			

NOTE : Particulars of remuneration relating to Custodian

1970			1971
Rs. P.			Rs. P.
48,000.00	1.	Salaries	48,000.00
11,959.10	2.	Travelling Allowances	9,818.80
Nil	3.	Sitting Fees	Nil
Nil	4.	Bonus	Nil
Nil	5.	House Rent Allowance	Nil
	6.	Employer's contribution to Provident Fund, Pension Fund or any other Fund	Nil
Nil	7.	Payments by way of Gratuities, Pensions or otherwise in excess of the employer's contribution and interest thereon	Nil
Nil	8.	Medical expenses	440.47
1,255.86	9.	Estimated monetary value of perquisites:	
		(a) Furnished quarters free of rent	6,000.00
6,000.00		(b) Free use of Bank's Car	1,800.00
1,800.00			
17,16,66,235.12		TOTAL	22,60,96,048.69

* Includes expenses on Advertisement and Publicity amounting to Rs. 6,84,258.90 (Previous year Rs. 5,29,563.27).

Head Office: Bangalore-2, Dated: April 17, 1972. Chaitra 28, 1894.	K. SHANTARAM SHENOY *Chief Accountant*	K. S. R. MALLIAH R. C. KESAVAMURTHY K. N. R. RAMANUJAM M. K. VENKATACHALAM	*Directors*

INCOME (Less provision made during the year for Bad & Doubtful Debts, Taxation and other usual or necessary provisions)		1971
		Rs. P.
1.	Interest and Discount	19,48,24,417.93
2.	Commission, Exchange and Brokerage	2,30,09,190.11
3.	Rents	3,26,214.52
4.	Net profits on sale of investments, gold and silver, land, premises and other assets (not credited to Reserves or any particular Fund or Account)	—
5.	Net profits on revaluation of investments, gold and silver, land, premises and other assets (not credited to Reserves or any particular Fund or Account)	—
6.	Income from Non-Banking Assets and Profits from sale of or dealing with such assets	15,168.04
7.	Other Receipts	79,21,058·09
	TOTAL	22,60,96,048.69

K. P. J. PRABHU *Custodian*

In accordance with our report attached.
B. K. RAMADHYANI & CO.
BRAHMAYYA & CO.
Chartered Accountants

Canara Bank

Head Office : Bangalore–2

Particulars attached to and forming Part of the Balance-Sheet as at 31-12-71

1970	PARTICULARS OF ADVANCES		1971
Rs. P.			Rs. P.
134,91,23,593.46	(i)	Debts considered good in respect of which the Bank is fully secured.	156,56,82,741.00
10,74,51,802.34	(ii)	Debts considered good for which the Bank holds no other security than the debtors' personal security.	10,99,65,131.18
23,32,50,986.12	(iii)	Debts considered good, secured by the personal liabilities of one or more parties in addition to the personal security of the debtors.	17,76,91,998.37
Nil	(iv)	Debts considered doubtful or bad not provided for.	Nil
168,98,26,381.92		TOTAL	185,33,39,870.55
60,26,641.81	(v)	Debts due by Directors or officers of the Bank or any of them either severally or jointly with any other persons (Due by Directors .... Nil).	86,70,232.55
Nil	(vi)	Debts due by Companies or firms in which the Directors of the Bank are interested as Directors, Partners or Managing Agents, or in the case of Private Companies, as members.	Nil
60,26,641.81	(vii)	Maximum total amount of advances including temporary advances made at any time during the year to Directors or Managers or Officers of the Bank or any of them either severally or jointly with any other persons.	86,70,232.55
Nil	(viii)	Maximum total amount of advances including temporary advances granted during the year to the Companies or Firms in which the Directors of the Bank are interested as Directors, Partners or Managing Agents or in the case of Private Companies as members.	Nil
2,25,84,656.30	(ix)	Due from Banking Companies (includes Rs. 5,96,312.63 [previous year Rs. 7,79,193.39] due from Banks taken over functioning as residuary companies —fully secured).	18,99,452.45

Head Office: Bangalore-2. Dated: April 17, 1972. Chaitra 28, 1894.	K. P. J. PRABHU *Custodian* K. S. R. MALLIAH R. C. KESAVAMURTHY K. N. R. RAMANUJAM M. K. VENKATACHALAM *Directors*	In accordance with our report attached. B. K. RAMADHYANI & CO. BRAHMAYYA & CO. *Chartered Accountants*
K. SHANTARAM SHENOY *Chief Accountant*		

Auditors' Report

To

The President of India,

1. We have audited the attached Balance Sheet of Canara Bank as of 31st December, 1971, and the Profit and Loss Account of the Bank for the year ended that date, in which are incorporated the Returns of thirty-one branches audited by us, of one hundred and ninetyone branches audited by other Auditors and the unaudited Returns in respect of three hundred and eightyseven branches of which seventyone branches were audited by us for the first half year ended 30th June, 1971, in accordance with the arrangement for the audit of branches approved by the Reserve Bank of India.

2. The Balance Sheet and the Profit and Loss Account have been drawn up in Forms 'A' and 'B' respectively of the Third Schedule to the Banking Regulation Act, 1949. Accordingly, they disclose such matters as were required to be disclosed in the case of Banking Companies prior to nationalisation by virtue of the provisions of the said Act as read with the related provisions of the Companies Act, 1956. Subject to the limitations of such disclosure and on the basis of the audit indicated in the first paragraph, we report that:

(a) In our opinion and to the best of our information and the explanations given to us and as shown by the books of the Bank:
  (i) The Balance Sheet read with the notes thereon is a full and fair Balance Sheet containing the necessary particulars and is properly drawn up so as to exhibit a true and fair view of the affairs of the Bank as at 31st December, 1971;
  (ii) The Profit and Loss Account read with the notes thereon shows a true Balance of Profit for the period covered by the account;

(b) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and have found them to be satisfactory;

(c) The transactions of the Bank which have come to our notice have been within the powers of the Bank; and

(d) The returns received from the Offices and branches of the Bank have been found adequate for the purposes of our audit.

B. K. RAMADHYANI & CO.
Chartered Accountants

BRAHMAYYA & CO.
Chartered Accountants

Bangalore-2.
Dated: April 17, 1972.
Chaitra 28, 1894.

United Commercial Bank

Balance-Sheet as at 31st December, 1971

CAPITAL AND LIABILITIES	*31st December, 1971*		*31st December, 1970*	
	Rs. P.	Rs. P.	Rs.	Rs.
1. CAPITAL:				
Paid up (Wholly owned by the Central Government)		2,80,00,000.00		2,80,00,000
2. RESERVE FUND AND OTHER RESERVES:				
(a) Reserve Fund	5,18,75,000.00		4,70,00,000	
(b) Development Rebate Reserve	3,60,000.00	5,22,35,000.00	9,10,000	4,79,10,000
3. DEPOSITS AND OTHER ACCOUNTS:				
Fixed Deposits	1,66,85,98,308.73		1,45,25,63,576	
Savings Bank Deposits	78,88,21,238.62		64,14,64,647	
Current Accounts, Contingency Accounts, etc.	91,69,78,909.87	3,37,43,98,457.22	86,40,30,669	2,95,80,58,892
4. BORROWINGS FROM OTHER BANKING COMPANIES, AGENTS, ETC.				
(i) In India	8,72,40,295.39		20,32,30,917	

Includes borrowings from:

	31.12.1971 Rs. P.	31.12.1970 Rs.
Industrial Development Bank of India	1,97,19,519.33	2,14,50,000
Agricultural Refinance Corporation	56,28,500.00	22,64,900
Financial Institutions under Participation Certificate Scheme	99,50,000.00	—
Reserve Bank of India	5,00,00,000.00	17,80,00,000
Other Banks	19,42,276.06	15,16,017
	8,72,40,295.39	20,32,30,917

(ii) Outside India	56,13,177.85	9,28,53,473.24	79,16,199	21,11,47,116
PARTICULARS:				
(i) Secured by part of Investments and assignment of Advances per contra	4,74,41,019.33		14,68,64,900	
(ii) Unsecured	4,54,12,453.91		6,42,82,216	
	9,28,53,473.24		21,11,47,116	
Carried Over		3,54,74,86,930.46		3,24,51,16,008

United Commercial Bank

Balance-Sheet as at 31st December, 1971

PROPERTY AND ASSETS	*31st December, 1971*			*31st December, 1970*	
	Rs. P.		Rs. P.	Rs.	Rs.
1. CASH :					
In hand and with Reserve Bank of India and State Bank of India (including foreign currency notes)		26,10,13,273.13			25,66,98,854
2. BALANCES WITH OTHER BANKS :					
On Current Account :					
(i) In India	Rs. 67,33,639.10			70,51,696	
(ii) Outside India	Rs. 4,33,19,714.05	5,00,53,353.15	31,10,66,626.28	6,74,75,418	7,45,27,114
3. MONEY AT CALL AND SHORT NOTICE :			4,85,00,307.20		1,62,64,000
			35,95,66,933.48		34,74,89,968
4. INVESTMENTS : (at below market value)					
(i) Securities of the Central and State Governments and other Trustee Securities, including Treasury Bills of the Central and State Governments		96,15,40,360.10		80,69,46,113	
(ii) Shares :					
(a) Fully Paid Preference Shares		9,22,042.50		8,38,643	
(b) Partly Paid Preference Shares		Nil		47,500	
(c) Fully Paid Ordinary Shares		39,61,352.13		52,36,947	
(d) Partly Paid Ordinary Shares		42,43,720.00		28,33,620	
(iii) Debentures or Bonds		57,35,107.50		71,87,380	
(iv) Other Investments :					
(a) Securities of Foreign Governments and Foreign Trustee Securities		1,37,00,610.65		1,30,17,865	
(b) Unit Trust of India (Initial Capital)		4,50,000.00		4,50,000	
(v) Gold		—	99,05,53,192.88	—	83,65,58,068

ADVANCES :

(Other than bad and doubtful debts for which provision has been made to the satisfaction of the Auditors.)

(I) Loans, Cash Credits, Overdrafts, etc. :					
(i) In India	Rs. 1,50,95,02,448.02				1,47,59,16,936
Includes Advances against which refinance has been obtained per contra from :	31.12.1971 Rs. P.	31.12.1970 Rs. P.			
Term Advances: Industrial Development Bank of India	1,97,19,519.33	2,14,50,000			
and Agricultural Refinance Corporation	56,28,500.00	22,64,900			
Cash Credit : Financial Institutions under Participation Certificate Scheme	99,50,000.00	Nil			
(ii) Outside India	Rs.	6,08,12,825.75			7,74,17,417
			1,57,03,15,273.77		1,55,33,34,353
(II) Bills Discounted and Purchased (excluding Treasury Bills of the Central and State Governments)					
(i) Payable in India	Rs. 59,93,15,642.32				46,57,20,881
[Includes an amount of Rs. 23,00,00,000 (Previous Year—Rs. 6,00,00,000) classified under Particulars (iii) below-of Usance Promissory Notes lodged with Reserve Bank of India for advances under Section 17(4)(c) to the extent of Rs. 3,00,00,000 (Previous year—Rs. 5,50,00,000) per contra.]					15,24,12,292
(ii) Payable outside India	Rs. 11,90,11,435.33				
			71,83,27,077.65	61,81,33,173	2,17,14,67,526
Carried Over			2,28,86,42,351.42		3,35,55,15,562

United Commercial Bank

Balance-Sheet as at 31st December, 1971

CAPITAL AND LIABILITIES		*31st December, 1971*		*31st December, 1970*	
	Rs. P.–	Rs. P.	Rs.	Rs.
Brought forward		3,54,74,86,930.46		3,24,51,16,008
5. BILLS PAYABLE:		5,28,79,849.40		7,60,12,420
6. BILLS FOR COLLECTION BEING BILLS RECEIVABLE as per contra:				
(i) Payable in India	25,46,60,839.11		26,31,79,205	
(ii) Payable outside India	8,83,61,648.03	34,30,22,487.14	7,86,93,938	34,18,73,143
7. OTHER LIABILITIES:				
(i) Branch Adjustments	10,30,52,565.72		10,23,84,299	
(ii) Rebate on Bills Discounted, Advance Receipts, etc.	39,00,978.90	10,69,53,544.62	45,43,808	10,69,28,107
8. ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS per contra:		24,51,23,663.36		30,17,45,910
9. PROFIT AND LOSS:				
Profit as per last Balance Sheet	47,10,920.62		25,41,865	
Less: Amount transferred to Central Government	47,10,920.62		25,41,865	
Add: Transfer from Contingency Reserve	Rs. —		16,55,934	
Less: Bonus paid to Staff for the years 1968 and 1969 in excess of amount appropriated for bonus	Rs. —		16,55,934	
Add: Profit for the year		1,80,44,792.17	1,42,02,974	
Less: Appropriations made:				
To Reserve Fund	Rs. 43,25,000.00		28,92,054	
To Bonus to Staff	Rs. 81,50,000.00		66,00,000	
To Donation to National Defence Fund and Orissa Cyclone Relief	Rs. 3,10,000.00		—	
		1,27,85,000.00	94,92,054	
Balance to be transferred to Central Government in terms of Section 10(7) of Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.		52,59,792.17		47,10,920
Carried over		4,30,07,26,267.15		4,07,63,86,508

United Commercial Bank

Balance-Sheet as at 31st December, 1971

PROPERTY AND ASSETS		*31st December, 1971*		*31st December, 1970*	
	Rs. P.	Rs. P.	Rs.	Rs.
Brought Forward		3,63,87,62,477.78		3,35,55,15,562
PARTICULARS OF ADVANCES :				
(i) Debts considered good in respect of which the Bank is fully secured	1,55,79,64,323.87		1,59,44,69,187	
(ii) Debts considered good for which the Bank holds no other security than the debtor's personal security	15,84,05,177.41		22,68,13,304	
(iii) Debts considered good secured by the personal liabilities of one or more parties in addition to the personal security of the debtors	57,22,72,850.14		35,01,85,035	
(iv) Debts considered doubtful or bad, not provided for	Nil		Nil	
	2,28,86,42,351.42		2,17,14,67,526	
(v) Debts due by directors or officers of the Bank or any of them either severally or jointly with any other persons	84,98,335.97		62,03,538	
(vi) Debts due by companies or firms in which the directors of the Bank are interested as directors, partners or managing agents or, in the case of private companies, as members	—		—	
(vii) Maximum total amount of advances, including temporary advances made at any time during the year to directors or managers or officers of the Bank or any of them either severally or jointly with any other persons	85,00,724.91		62,55,731	
(viii) Maximum total amount of advances, including temporary advances granted during the year to the companies or firms in which the directors of the Bank are interested as directors, partners or managing agents or, in the case of private companies, as members	—		—	
(ix) Due from banking companies, banks under Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 and foreign banks	1,24,40,168.01		1,47,92,483	
BILLS RECEIVABLE BEING BILLS FOR COLLECTION as per contra :				
(i) Payable in India	25,46,60,839.11		26,31,79,205	
(ii) Payable outside India	8,83,61,648.03	34,30,22,487.14	7,86,93,938	34,18,73,143
CONSTITUENTS' LIABILITIES FOR ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS per contra		24,51,23,663.36		30,17,45,910
PREMISES LESS DEPRECIATION :				
Cost as per last balance sheet	2,80,79,110.79		2,44,39,599	
Adjustment on account of conversion at new parity rate of figures relating to foreign branches on realignment of the parities of major international currencies in December 1971	1,93,311.06		—	
	2,82,72,421.85		2,44,39,599	
Additions and transfers Rs. 25,66,156.58 *Less* : deductions Rs. 1,36,872.93 during the year	24,29,283.65		36,39,512	
	3,07,01,705.50		2,80,79,111	
Less : depreciation to date	45 47,363.87	2,61,54,341.63	39,54,873	2,41,24,238
Carried Over		4,25,30,62,969.91		4,02,32,58,853

United Commercial Bank

Balance-Sheet as at 31st December, 1971

CAPITAL AND LIABILITIES		*31st December, 1971*		*31st December, 1970*	
		Rs. P.	R.s P.	Rs.	Rs.
	Brought forward		4,30,07,26,267.15		4,07,63,86,508
10. CONTINGENT LIABILITIES:					
(i) On Partly Paid Shares	Rs. 58,48,740.00			44,86,140	
(ii) Claims against the Bank not acknowledged as debts	Rs. 25,97,818.06			19,23,043	
(iii) Guarantees Given on behalf of Customers and Correspondent Banks	Rs. 54,01,49,902.30			65,54,67,506	
(iv) Bills of Exchange Rediscounted with the Industrial Development Bank of India and Reserve Bank of India	Rs. 9,13,55,805.07			6,70,23,755	
(v) Forward Exchange Contracts outstanding for the purchase and sale of Bills and Telegraphic Transfers of which upto 17-3-1972 Rs. 13,36,71,423.16 have been delivered	Rs. 20,26,46,262.15			21,76,81,986	

NOTES:

(1) Provision in full for gratuity accruing on retirement of staff has not been made nor has the liability for the same been ascertained.

(2) In accordance with the past practice the Assets and Liabilities of the Foreign Branches (excluding Karachi branch) of the Bank including fixed assets and capital funds have been converted at the basic rate of exchange as on 31st December 1971.

(3) The Income-tax assessments in India for the years 1949 to 1958, which had been reopened as the Income-tax Officer differed with the method adopted in the past by the Department for allowing Double Income-tax Relief have been completed and the tax liability for these years and for the years 1959 to 1968 have been calculated by him according to the new method. As the Bank has disputed the action of the Income-tax Officer, no provision has been made for the additional liability arising from such assessments and other items disallowed in original assessments in respect of which appeals are pending. Provision for taxes for the years 1969 to 1971 has been made on the basis adopted all along in the past. The appeal relating to the year 1959, on the basis of which assessments for the past years were reopened and subsequent assessments were completed, has been disposed of by the Appellate Assistant Commissioner of Income-tax and the Bank's contention in regard to Double Income-tax Relief has been substantially upheld. The Department has gone on appeal against the appellate order.

(4) The Assets and Liabilities of the Karachi Branch of The United Commercial Bank Ltd., stand entrusted to the Custodian of the Bank. Such assets and liabilities continuet to vest in the Custodian of Enemy Property, Pakistan, and since no further information was available about the assets and liabilities in Pakistan after 27th August 1965, these have been incorporated in the Balance Sheet at their net book value (at pre-devaluation parity) as on that date.

(5) (a) Branch Adiustment account at Head Office has been reconciled upto 30th June 1970 and reconciliation upto 31st December 1971 is in progress. Reconciliation statements in respect of balances as on 31st December 1971 in the case of some branch and bank accounts are under preparation.

(b) The tallying of balances in some accounts as per General Ledgers with those as per Subsidiary Ledgers/Registers/Detailed Statements could not be completed at a few Branches.

Appropriate steps are being taken in this regard.

Figures for 1970 have been rearranged where necessary.

TOTAL Rs.	4,30,07,26,267.15	4,07,63,86,805

The above Accounts have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949.

V. R. DESAI (*Custodian*)
D. BANERJEE
UPEN BORDOLOI
RAGHUNATH MOHAPATRA
G. P. SINHA
NALINI AMBEGAOKAR
ASHOK MITRA
Directors

Calcutta,
29th April, 1972.

United Commercial Bank

Balance-Sheet as at 31st December, 1971

PROPERTY AND ASSETS		*31st December, 1971*		*31st December, 1970*	
		Rs. P.	Rs. P.	Rs.	Rs.
	Brought Forward		4,25,30,62,969.91		4,02,32,58,853
9. FURNITURE AND FIXTURES LESS DEPRECIATION (including equipment and vehicles)					
Cost as per last balance-sheet		5,00,22,747.97		4,23,95,304	
Adjustment on account of conversion at new parity rate of figures relating to foreign branches on realignment of the parities of major international currencies in December 1971.		1,87,098.95		—	
		5,02,09,846.92		4,23,95,304	
Additions and transfers Rs. 63,42,423.11 *Less* deductions Rs. 4,10,672.79 during the year		59,31,759.32		76,27,444	
		5,61,41,606.24		5,00,22,748	
Less depreciation to date		2,68,64,927.26	2,92,76,678.98	2,30,56,436	2,69,66,312
10. OTHER ASSETS, INCLUDING SILVER :					
(i) Land and Buildings : Cost as per last balance sheet	Rs. 29,76,200.09			53,87,359	
Additions Rs. 4,21,821.10 *Less* deductions Rs. Nil during the year	Rs. 4,21,821.10			11,26,323	
	Rs. 33,98,021.19			65,13,682	
Less Transfer to Premises account during the year	Rs. 24,52,045.00			35,37,482	
	Rs. 9,45,976.19			29,76,200	
Less Transfer to Furniture and Fixtures account during the year	Rs. 53,387.50	8,92,588.69		—	
				29,76,200	
(ii) Interest accrued on Investments		1,18,91,409.73		1,05,38,567	
(iii) Advance payment of Income-tax for assessments year 1972-73		54,04,768.00		1,24,45,903	
(iv) Stamps and Stationery		1,93,448.29		1,81,269	
(v) Silver		—	1,83,82,214.71	—	2,61,41,939
11. NON-BANKING ASSETS ACQUIRED IN SATISFACTION OF CLAIMS : Land and Buildings (at cost)			4,403.55		19,404
12. PROFIT AND LOSS			—		—
	TOTAL Rs.		4,30,07,26,267.15		4,07,63,86,508

R. C. PATEL
Chief Accountant

S. J. UTAMSING
General Manager

As per our report annexed.

PRICE, WATERHOUSE, PEAT & CO.
P. C. HANSOTIA & CO.
G. BASU & CO.
Chartered Accountants

United Commercial Bank

Profit and Loss Account for the Year Ended 31st December, 1971

EXPENDITURE	Year ended 31st December, 1971	Year ended 31st December, 1970
	Rs. P.	Rs.
1. Interest paid on deposits, borrowings, etc.	13,11,47,279.46	10,26,84,126
2. Salaries and allowances and Provident Fund*	8,54,47,533.55	7,18,44,972
3. Directors' and Local Committee Members' fees and allowances	15,050.00	4,050
4. Rent, Taxes, Insurance, Lighting, etc.	92,88,492.25	81,96,722
5. Law Charges	1,26,822.16	1,09,473
6. Postage, Telegrams and Stamps	47,85,677.77	37,71,827
7. Auditors' fees	2,95,606.80	3,33,751
8. Depreciation on, and repairs to, the Bank's property	47,63,500.35	44,49,648
9. Stationery, Printing, Advertisement, etc**	60,37,270.99	50,07,602
10. Loss from sale of, dealing with, non-banking assets	66,91,354.51	61,37,278
11. Other Expenditure	1,80,44,792.17	1,42,02,974
12. Balance of Profit subject to Bonus		

* Includes remuneration of Chief Executive Officers:

Custodian 1970		Immediate Past Custodian From 1.1.71 To 31.8.1971	Present Custodian From 1.9.71 To 31.12.71
Rs. P.		Rs. P.	Rs. P.
72,000.00	(i) Salary	48,000.00	15,000.00
6,000.00	(ii) Allowances	4,000.00	
6,000.00	(iii) Contribution to Provident Fund	4,000.00	1,250.00
	(iv) Monetary value of perquisites calculated in accordance with Income-tax Rules	6,000.00	1,500.00
9,000.00	(v) Medical Aid	555.00	372.38
625.63			
93,625.63		62,555.00	18,122.38

**Includes expenditure of Rs. 11,87,886.22 (Previous year Rs. 10,93,143.05) on Public Relations and Publicity.

	TOTAL Rs.	26,66,43,380.01	21,67,42,423

The above Accounts have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949.

As per our report annexed.

R. C. PATEL *Chief Accountant*

S. J. UTAMSING *General Manager*

PRICE, WATERHOUSE, PEAT & CO.
P. C. HANSOTIA & CO.
G. BASU & CO.
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G. P. SINHA
NALINI AMBEGAOKAR
ASHOK MITRA
Directors

Calcutta
29th April, 1972

United Commercial Bank

Report of the Auditors

THE PRESIDENT OF INDIA

We have audited the attached Balance Sheet of United Commercial Bank as at 31st December, 1971 and also the relative Profit and Loss Account for the year ended on that date annexed thereto, in which are incorporated the returns of 61 Branches audited by us, 193 Branches audited by other auditors and the unaudited returns in respect of 250 Branches not visited by us, for the exclusion of which from audit, concurrence of the Reserve Bank of India, has been obtained.

The Balance Sheet and Profit and Loss Account have been drawn up in forms 'A' and 'B' respectively of the Third Schedule of the Banking Regulation Act, 1949. Accordingly, they disclose such matters as were required to be disclosed in the case of banking companies prior to nationalisation by virtue of the provisions of the said Act as read with the related provisions of the Companies Act, 1956. Subject to the limitations of such disclosure and on the basis of the audit indicated in the first paragraph and the notes on the accounts, we report that:—

(a) in our opinion and to the best of our information and the explanations given to us and as shown by the books and returns of the Bank:

(i) The Balance Sheet is a full and fair Balance Sheet containing the necessary particulars and it is properly drawn up so as to exhibit a true and fair view of the affairs of the Bank as at 31st December, 1971;

(ii) The Profit and Loss Account shows a true balance of profit for the year ended 31st December, 1971.

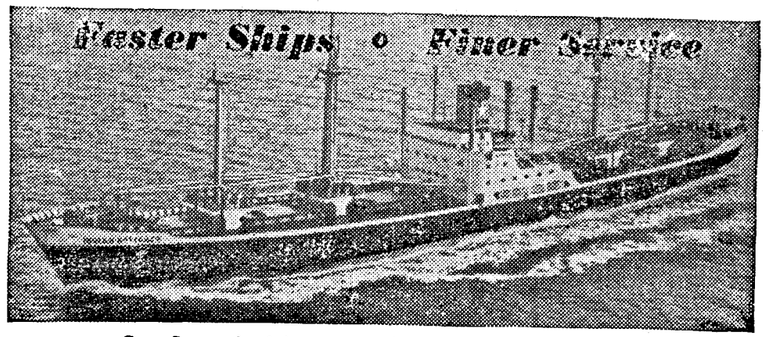
(b) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and have found them to be satisfactory;

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

(d) The returns received from the branches of the Bank have been found adequate for the purposes of our audit.

Calcutta,
29th April, 1972.

PRICE, WATERHOUSE, PEAT & CO.
P. C. HANSOTIA & CO.
G. BASU & CO.
Chartered Accountants



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"INDIA STEAMSHIP HOUSE", 21, OLD COURT HOUSE STREET, CALCUTTA-1

United Commercial Bank

Report of the Directors

The Directors have pleasure in presenting their Third Report along with the Accounts for the year ended 31st December 1971.

Before we take up a review of the Bank's operations during 1971, we express our deep sense of gratitude to our armed forces who fought valiantly and to those who laid down their lives in the cause of upholding the territorial integrity and national honour of the country in the short-lived December war. The Bank as a whole and its branches in the border areas in particular, so conducted business operations as to ensure smooth production and distribution of civil and military requirements and inspire confidence in the Nation's strength and solidarity. It also donated a sum of Rs. 3 lakhs out of its profits for 1971 to the National Defence Fund. In addition, many employees of the Bank contributed voluntarily their one day's gross salary to this Fund and also donated blood.

OPERATIONS OF THE BANK

The operations of the Bank in India and abroad recorded satisfactory progress during the year under review.

Deposits

The deposits and other accounts of the Bank at Rs. 337.44 crores showed an increase of Rs. 41.63 crores as against an increase of Rs. 38.28 crores in the previous year. The aggregate deposits of the Bank in India rose by Rs. 42.51 crores as against a rise of Rs. 36.95 crores in 1970. The number of deposit accounts in India went up from 10,60,000 to 12,41,000 recording an increase of 1,81,000 as against 1,48,000 during the previous year. Particular mention may be made of the Savings Bank Deposits which rose by nearly Rs. 15 crores during the year as compared to the rise of Rs. 11 crores in the previous year.

Of the total deposits of the Bank in India at the end of 1971, 147 branches, opened after 19th July 1969, accounted for Rs. 10.69 crores. A table showing the number of branches opened after 19th July 1969, their deposits and advances as at the end of 1969, 1970 and 1971 is given below :

		(*Rupees in thousands*)		
		31-12-69	31-12-70	31-12-71
1.	Number of Offices opened after 19th July 1969 yearwise	15	70	62
a)	Total number of Offices opened after 19-7-1969	15	85	147
b)	Deposits	37,46	286,12	10,69,46
c)	Advances & Bills	21,73	185,90	4,79,48

II NO. OF OFFICES OPENED IN THE EASTERN REGION AFTER 19.7.1969 INCLUDED IN I (a) ABOVE

	(*Rupees in thousands*) *31.12.1969*		
	No. of Offices	Deposits	Advances & Bills
Rural Centres	3	8,86	17
Semi-Urban Centres	3	4,97	1,55
Urban Centres	—	—	—
Metropolitan Areas	—	—	—
	6	13,83	1,72
	31.12.1970		
Rural Centres	37	79,67	16,67
Semi-Urban Centres	9	30,74	13,40
Urban Centres	—	—	—
Metropolitan Areas	—	—	—
	46	1,10,41	30,07
	31. 12. 1971		
Rural Centres	53	2,53,96	51,88
Semi-Urban Centres	17	1,40,19	26,37
Urban Centres	—	—	—
Metropolitan Areas	—	—	—
	70	3,94,15	78,25

With a view to ensuring involvement of all the members of the staff in the efforts for mobilisation of deposits, a scheme of cash rewards to the members of the staff was introduced in October 1971. As a result of this incentive scheme, the deposits during the last two months of the year increased by nearly Rs. 12 crores (average of Rs. 6 crores per month) as against an average monthly increase of Rs. 3 crores during the previous ten months.

Advances

The Bank's Advances and Bills outstanding on 31st December 1971 amounted to Rs. 228.86 crores, registering a rise of Rs. 11.71 crores during the year as against a rise of Rs. 54.33 crores during the previous year.

The smaller rise in the Bank's credit was due mainly to the slower growth of industrial advances during the year and to the policy followed by the Bank to restrict its credit expansion in a manner so as to reduce the Bank's dependence on the Reserve Bank, particularly during the busy season.

The credit-deposit ratio of the Bank in India which was in the neighbourhood of 81 per cent during the year 1970 was deliberately reduced to around 76 per cent during the year 1971. In bringing about this reduction, care was taken to ensure that the genuine requirements of industry were met.

The debts due by Directors or Officers of the Bank or any of them either severally or jointly with any other persons shown in the Balance Sheet under item (V) 'Particulars of Advances' represented loans and advances granted to officers of the Bank mainly for construction or acquisition of houses under the Bank's Housing Loan Scheme for the members of the staff, for purchase of conveyances like bicycles, scooters, motor-cycles, cars etc. The increase of nearly Rs. 23 lakhs in such advances is due, mainly to the inclusion of the advances granted to clerical staff in the earlier years, consequent on their promotion to officers cadre during the period under review.

PRIORITY AND PREFERRED SECTORS

The Bank formulated certain schemes for development of the priority/preferred sectors and availment of the advances under these schemes would have normally stepped up the Bank's advances to the priority/preferred sectors substantially. However, on account of certain practical difficulties the progress with regard to advances to these sectors has not been up to expectations.

As will be seen from Table A given below, during the year, 12,608 new accounts were brought on the books of the Bank taking the total number of accounts to 52,742 as at the close of 1971 as against 40,134 accounts at the end of the previous year. While the overall limits increased to the level of Rs. 84.92 crores as on 31st December 1971 as against Rs. 81.38 crores at the end of 1970, the availment figure showed a small drop of Rs. 0.93 crore from Rs. 53.67 crores to Rs. 52.74 crores. The decline in availments was mainly due to the fall under the export sector; the outstanding figure being Rs. 10.51 crores as against Rs. 14.57 crores at the end of the previous year.

During the year, 1,100 new Small-scale Industry accounts including Transport Operators were brought on the books of the Bank and the outstanding advances

to this sector at the end of 1971 amounted to Rs. 19.64 crores as against Rs. 17.91 crores at the end of the previous year.

In Agricultural finance, satisfactory progress was achieved by extending financial accommodation in 9,868 new Farm accounts taking their total at the end of 1971 to 34,522. The limits sanctioned and availment figures recorded an improvement of Rs. 1.65 crores and Rs. 1.51 crores respectively over the figures of the previous year. Loans to farmers through the Primary Co-operative Credit Societies increased to Rs. 1.19 crores in limits and Rs. 0.49 crore in balances outstanding at the end of 1971 as against Rs. 0.98 crore and Rs. 0.36 crore respectively at the end of 1970. The number of farmers benefited by such finance was 8,854 as against 3,309 in the previous year.

During the year, the Bank devised a Scheme involving an outlay of Rs. 18 lakhs to provide term loans to small cultivators in 35 villages located in the district of Hooghly (West Bengal) for sinking 350 Shallow Tube Wells and installation of Pump Sets. The Bank also worked out a Scheme involving an outlay of about Rs. 15 lakhs for providing loans to about 125 small farmers for cultivation of Mandarine Oranges at Mohapa village in Nagpur district. More such Schemes to suit the requirements of the various regions, particularly the States comprising the Eastern Region are being worked out.

The Bank took active steps to implement the recommendations of the Committee constituted by the Reserve Bank of India to review the special credit Schemes of banks with particular reference to their employment potential. The Bank is associated with a pilot project started by a Committee of businessmen, bankers and social workers in an effort to work out a way in which the unemployment problem in Calcutta may be mitigated. The main objective of the project is to foster and promote the idea of self-employment among the unemployed educated youth. Our Bank has financed some of the self-employment projects sponsored by this Committee. A novel experiment was made during the Puja festival in Calcutta in October 1971. Pavement Hawkers, some of whom were educated unemployed, were given financial help to set up stalls for sale of garments and other articles usually purchased during the Puja season. About 300 hawkers availed of bank finance aggregating about Rs. 1 lakh. The experience with regard to recovery of such advances has not been unsatisfactory. It is proposed to extend such facilities on a larger scale during the current year and collaborate with any scheme the Government of West Bengal and the Municipal Corporation might initiate for resettling the evicted Pavement Hawkers in designated areas.

During the year, the Bank contributed a sum of Rs. 12.50 lakhs to the Share Capital of the Industrial Reconstruction Corporation of India Ltd., which was established in April 1971 and is at present concentrating its efforts on the rehabilitation of Sick units in West Bengal. The Bank has helped in the reopening of four such Sick units in Calcutta by extending additional credit facilities under the Schemes approved by the Industrial Reconstruction Corporation of India Ltd. This has enabled rehabilitation of about 4,000 workers who became unemployed on account of the closure of these units.

BRANCHES

During 1971, 62 new branches were opened as against 70 branches in 1970 as shown in Table B below. Of these, as many as 35 were in rural and semi-urban centres. Out of 62 branches opened during the year, 23 were opened in the Eastern Region. The pace of opening of branches was slowed down during the third and fourth quarters of 1971, largely due to the inadequacy of trained man-power resources. This constraint on the opening of new branches is being sought to be removed by taking effective and urgent steps for man-power development.

The total number of branches of the Bank in India at the end of 1971 was 498, out of which 142 were located in rural centres, 161 were in semi-urban centres and the rest in urban centres and metropolitan cities. The number of branches in foreign countries remained unchanged at six.

It is proposed to open about 130 branches during 1972. Of these, 95 will be located in rural and semi-urban centres and 35 in urban centres and metropolitan cities. Emphasis is being laid on opening branches in the States in Eastern Region and the Lead Districts in the States of Himachal Pradesh, Rajasthan and Punjab.

LEAD DISTRICTS

The Bank has been allotted 23 districts under the 'Lead Bank' Scheme out of which 13 are in the States of Eastern Region, and 10 are in the three States of Northern Region. For the purpose of identifying growth centres for opening new branches and for assessing the economic activities in the districts, impressionistic surveys were undertaken for all the lead districts. The survey reports for all the 23 districts have since been completed and circulated amongst the bankers so that new offices can be opened in the identified growth centres. Out of the 130 branches proposed to be opened by the Bank in 1972, 57 branches will be in these growth centres.

A special study of Dhenkanal District in Orissa has recently been conducted in collaboration with the Agricultural Finance Corporation Ltd., for formulating special Schemes for economic development with a view to improving the living standards of this backward district. The Bank has undertaken a special study of the Lead Districts for bringing out the relationship between incomes and savings and to evaluate the saving prospects. This study is being undertaken to devise

TABLE A

(*Amount in Crores of Rupees*)

	Financing of	1970 No. of A/cs	1970 Sanctioned Limits	1970 Balance Outstanding	1971 No. of A/cs	1971 Sanctioned Limits	1971 Balance Outstanding
1.	SMALL-SCALE INDUSTRIES	5,095	32.51	17.91	6,195	32.70	19.64
	Of which Transport Operators	997	3.07	2.35	1,908	4.87	3.23
2.	AGRICULTURE	24,654	19.28	13.76	34,522	20.93	15.27
3.	EXPORTS (Pre-shipment and Post-shipment)	375	18.75	14.57	401	20.27	10.51
4.	RETAIL TRADE AND SMALL BUSINESS	7,672	10.18	6.87	9,333	10.07	6.58
5.	PROFESSIONALS AND SELF-EMPLOYED AND EDUCATION	2,338	0.66	0.56	2,291	0.95	0.74
	TOTAL :	40,134	81.38	53.67	52,742	84.92	52.74

special Schemes suited for different classes of the population, particularly in rural areas, for canalising their savings into the banking sector. It is hoped that during the coming year the incentive scheme referred to above and the special studies being made would help in augmenting substantially the deposit resources of the Bank.

WORKING RESULTS

The working results of the Bank for the year have been satisfactory. The gross income, after making usual and necessary provisions, showed a rise of Rs. 4.99 crores as compared to the rise of Rs. 4.13 crores in the previous year. On the Expenditure side, Interest paid on Deposits and Borrowings increased by Rs. 2.85 crores (Rs. 1.82 crores in the previous year). The rise in Establishment expenses was Rs. 1.36 crores as against Rs. 1.59 crores in the previous year. The expenditure on other accounts also increased by Rs. 0.40 crore as compared to Rs. 0.20 crore in the previous year's increase. The Net Profit of the Bank was higher by Rs. 0.38 crore at Rs. 1.80 crores. After transferring a sum of Rs. 43.25 lakhs to the Reserve Fund and providing Rs. 81.50 lakhs for Bonus to staff and setting aside a sum of Rs. 3.10 lakhs for donations, the balance of Rs. 52.60 lakhs has been transferred to the Central Government in terms of Section 10(7) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970. The amount transferred to the Central Government works out to 6.3 per cent on the compensation paid by the Government.

REORGANISATION OF ADMINISTRATIVE AND OPERATIONAL SET-UP OF THE BANK

By a notification dated the 1st September 1971, the Central Government appointed Shri V. R. Desai, Deputy General Manager of the Bank, as Custodian vice Shri R. B. Shah. Shri Desai was also appointed with effect from the same date as a member of the First Board of Directors of the Bank constituted by the Government of India by its notification dated the 18th July 1970.

In the last annual report it was indicated that the Board of Directors had taken on hand the reorganisation of the Bank's administrative and organisational set-up in the context of the growing network of Branches and the widening range of functions and services. The Scheme of reorganisation, which takes into account the need for functional, specialisation, decentralisation of administration and personnel development, was finalised in the first week of February 1972 and was put into operation from 1st March 1972. Under the Scheme, the Head Office set-up has been reorganised on a functional basis with three divisions *viz.*, Administration and Accounts, Banking Operations and Development and Planning, each under the charge of a Deputy General Manager. The branches of the Bank have been grouped into 15 Divisions and they have been placed under the charge of Divisional Managers. These Divisions have been further re-grouped according to the regions into six Zones and placed under the charge of Assistant General Managers.

The Bank, being Calcutta-based, has a special responsibility cast on it for the development of the Eastern Region comprising the States of West Bengal, Orissa, Bihar, Assam, Meghalaya, Tripura, Manipur, Mizoram and Nagaland which are all at present underdeveloped. This region has, therefore, been divided into two and each has been placed under the control of a senior officer of the rank of Assistant General Manager with headquarters in Calcutta. Arrangements are well in hand for filling up the posts at the Head Office requiring specialised knowledge and experience of handling important functions like drawing up of technically feasible and viable Schemes of industrial and agricultural development to suit the requirements of various regions. The Zonal and Divisional offices are also being manned with adequately trained personnel to implement such Schemes and for disposal of credit proposals promptly, particularly those coming from priority sectors.

Facilities for training of newly recruited clerks and probationary officers in banking procedure and practices are being augmented by starting additional training centres and enlarging the capacity at the existing centres. It is also proposed to have roving instructors to visit branches in each State, particularly the new branches established in the Eastern Region for the purpose of imparting training to all the staff at such branches bearing in mind the type of business available at those centres.

The Directors would like to thank the officers and other members of the staff for their continued co-operation and sincere and devoted service to the Institution.

For and on behalf of the Board of Directors,
V. R. DESAI
Custodian

Calcutta,
29th April, 1972

TABLE B

NUMBER OF BRANCHES OPENED DURING THE LAST THREE YEARS

Number of Branches at the end of			STATES	BRANCHES OPENED IN 1971			
1969	1970	1971		Rural	Semi-Urban	Urban/Metropolitan	TOTAL
6	14	22	Assam	6	2	—	8(8)
2	2	2	Meghalaya	—	—	—	—
26	29	35	Bihar	6	—	—	6(6)
11	27	31	Orissa	2	2	—	4(3)
49	63	68	West Bengal	1	4	—	5(5)
3	10	11	Himachal Pradesh	1	—	—	1(1)
17	24	30	Punjab	6	—	—	6(6)
27	30	41	Rajasthan	7	4	—	11(11)
6	6	8	Andhra Pradesh	1	—	1	2
9	10	10	Haryana	—	—	—	—
43	44	45	Gujarat	—	1	—	1
4	4	4	Jammu & Kashmir	—	—	—	—
7	8	8	Kerala	—	—	—	—
30	30	33	Madhya Pradesh	—	1	2	3
36	39	43	Maharashtra	—	2	2	4
7	7	7	Mysore	—	—	—	—
18	20	26	Tamil Nadu	3	3	—	6
36	38	41	Uttar Pradesh	3	—	—	3
1	1	1	Tripura	—	—	—	—
28	30	32	Union Territories	—	—	2	2
366	436	498	TOTAL	36	19	7	62(40)

(Figures in brackets indicate branches in Lead Districts)

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.

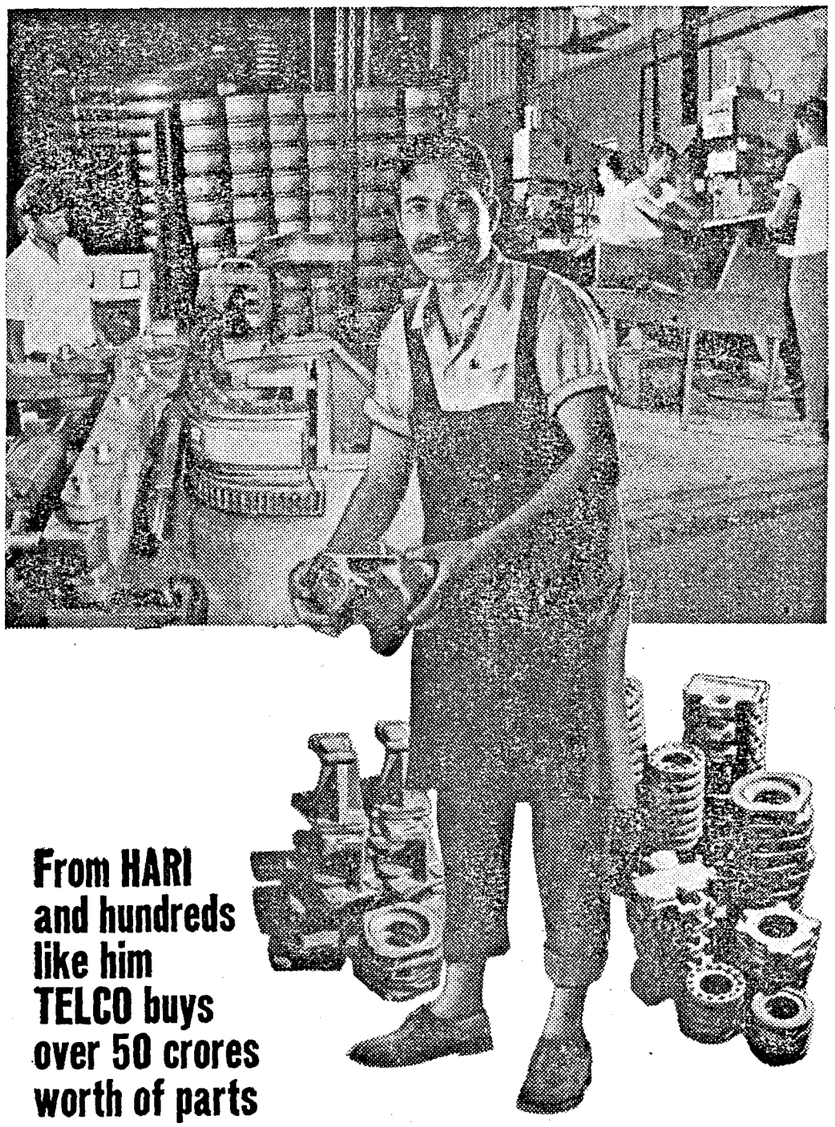
There is a beginning but there is no end to the work of bringing purposeful prosperity to the people of India. Harness the sea, the sun, the atom and from Okhamandal—the land of salt—fertility will flow to the entire country.

TATA CHEMICALS LIMITED

CHTC-10-254

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May 27, 1972 Regd No MH — 1393



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The indigenous content of Telco products is well over 98%. And for their materials and parts Telco depends upon hundreds of small workshops and ancillary industries all over the country. In the early years there were few ancillaries but with Telco's assistance and know-how and in some cases even financial help, a very large number of units of varying sizes, both big and small, scattered throughout the country, are now producing high quality materials for Telco.

Telco products are being exported in ever increasing numbers and this has also paved the way for the export of indigenous ancillary products made by people like Hari.
The more vehicles Telco produces the more orders there will be for Hari and more opportunities for ancillary industries. And so the cycle goes on bringing wealth and prosperity to people throughout the country.

TATA ENGINEERING AND LOCOMOTIVE COMPANY LIMITED

ECONOMIC AND POLITICAL WEEKLY

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JOINT SECRETARY T... 12 JUN 1972 INDUSTR... DEPARTMENT

APPROACH TO THE FIFTH PLAN

PLANNING FOR INDUSTRIALISATION

JOINT SECTOR: NEW DIMENSION

APER PROTECTION FOR SCHEDULED CASTES

INDIAN JOINT VENTURES ABROAD

G N P!



ECONOMIC AND POLITICAL WEEKLY

Founder-Editor: Sachin Chaudhuri

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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

Playing to the Tune

THE Planning Commission's "Towards an Approach to the Fifth Plan", which was duly approved by the National Development Council this week, suggests that the Fifth Plan will virtually consist of two separate parts, the growth part and the anti-poverty part, with little connection between the two. It is explicitly stated that "these [the employment-generating and social welfare] programmes, while they are very important from the point of view of social justice, would nevertheless be a comparatively small part of the total Plan". The larger—growth — part would be concerned with ensuring "adequate development of agriculture, industry and transport and communications". About this part of the Plan the 'Approach' paper has practically nothing to say, from which it might be legitimately inferred that no major innovations or changes are proposed in regard to it. Except for two brief sections on 'self-reliance' and 'outlays and resource mobilisation', the rest of the paper is devoted to what are termed the 'intensive-employment programme' and the 'basic minimum needs programme' which together are to constitute the anti-poverty part of the Plan. Evidently, then, it is here that the Planning Commission sees the Fifth Plan as making a break with the past.

However, none of the specific programmes mentioned is really new. Thus the employment-oriented programmes are minor irrigation, soil conservation, area development, dairying and animal husbandry, forestry, fisheries, warehousing and marketing, small-scale industries, roads and special programmes for small and marginal farmers, etc. Similarly, the basic minimum needs programmes are elementary education, public health and family planning, rural water supply, home-sites for landless labour, rural roads, rural electrification and slum clearance and improvement in the larger towns. All these heads of development are to be found in the earlier plans. Wherein lies the innovation, then? Simply, in the very much larger outlays proposed for these programmes. What the Planning Commission has done is to propose a level of public sector outlay in the Fifth Plan which is high enough to allow for impressively large spending on the employment programme and the basic minimum needs programme and yet leave enough resources to finance *"adequate* development of agriculture, industry, transport and communications" (italics ours). For the present, thus, the newness of the approach to the Fifth Plan is entirely a matter of the assumption about the feasible level of public sector outlay.

This is acknowledged fairly early in the Planning Commission's paper. In the earlier plans, "the assumed conflict between growth and social justice" rested on the view that whatever surpluses could be mobilised were needed for "investments primarily directed at raising the future rate of growth". Now the situation was different. According to the Commission, "the economy now has reached a stage where larger availability of resources makes it possible to launch a direct attack on unemployment, underemployment and poverty, and also assure adequate growth". This is the crucial premise of the approach to the Fifth Plan. And so far it has been merely asserted, not established. It is only when the details of the growth part of the Plan become available that it will be possible to judge what is sought to be given up in terms of, say, investment in steel or machine-building or power generation to make possible the larger outlay on the Plan's anti-poverty part and what the implications of this would be in terms of growth of employment, income and consumption in future periods of time. On the face of it, after the patchy growth experience of the last nearly a decade, the Commission's assertion that suddenly the economy now finds itself in the happy position of being able to "launch a direct attack on poverty" and also "assure adequate growth" must be treated with scepticism.

Unfortunately for the Planning Commission, some of its other assertions in the 'Approach' paper are not exactly calculated to lend credibility to what it has to say. Take, for instance, the section on 'self-reliance'. The Commission is jubilant that the figures of net foreign aid, both including and excluding food aid, in 1971-72 were less than half the corresponding figures for 1965-66. And so, it claims, "with continued restriction of imports and promotion of exports, it will be possible to do even better than the Fourth Plan objective of reducing net aid in 1973-74 to half the level in 1965-66". There is not a sentence, not even a word, to suggest that the Commission is even faintly aware that this alleged progress towards self-reliance has been made possible entirely by the fall in the rate of investment and the virtual stagnation of industrial production.

In its Mid-Term Appraisal of the Fourth Plan, the Planning Commission itself had come to the conclusion that the Fourth Plan's requirements of net aid would be some Rs 470 crores higher than had been estimated at the time of

the formulation of the Plan. But now, hardly six months later, it takes such a rosy view of the achievement on the self-reliance front that it enthusiastically sketches the prospect of not merely reducing net aid to zero by the end of the Fifth Plan but of "elimination of gross aid as well"!

Indeed, if the 'Approach' paper has any worth at all, it is in assuring the reader that the Planning Commission has its heart where the Congress party wants it to be. But is that all that one has a right to expect of the Commission?

Joint Sector

New Dimension?

AFTER promoting a wide range of industries in the public sector, the government abandoned the 'commanding heights' policy in favour of the joint sector approach. Partly because it offered a respite from the predatory public sector, the joint sector became the rage. But apparently this is no longer true. Only recently Duncan Brothers, the Goenka house controlling jute mills, tea gardens and money spinners like Phillips Carbon Black, has offered to sell out its holdings in Balmer Lawrie, a former managing agency house with diverse interests, to Indo Burma Petroleum (IBP), a subsidiary of the government-owned Indian Oil Corporation.

Balmer Lawrie's equity of Rs 1.44 crores is held as follows: IBP 31 per cent, Duncan 22 per cent and Alex Lawrie, controlled by Duncan, 28 per cent. The balance is held by the public. Now, though the Goenkas control 50 per cent of Balmer Lawrie's equity, well-timed reports have recently appeared in the Press that dual control of the company has hampered its growth. Why precisely IBP participation in the management of Balmer Lawrie should have interfered with its growth remains unclear. In fact, Balmer Lawrie gets engineering orders from IOC because of IBP's intrest in it. But evidently the Goenkas have decided in the public interest — and their stake in the public interest is legendary in Calcutta — that dyarchy must end in Balmer Lawrie.

That Balmer Lawrie is in bad shape is clear from the fact that the Rs 100 shares of the company, which was priced above Rs 200 only a few years ago, are now quoted around Rs 94. Balmer Lawrie is evidently a sinking ship, though it does not follow that the dual control of the company or the presence of IBP directors on the board is to be blamed for this. But given the present state of the company, if IBP is to buy up Goenkas' holding in it, the price would have to bear some relationship to the market price of the shares. In this context, the reason for the price of the shares picking up from less than Rs 70 only two months ago to the present Rs 94 is perhaps too obvious to call for comment. To press home their offer, the Goenkas while proposing to sell their holdings to IBP have alternatively offered to buy out IBP's holdings in the company at a price higher than that at which they are prepared to sell their shares of IBP. Neither the Goenkas' buying and selling prices nor the difference between the two are known.

According to Dalal Street sources, the Goenkas acquired a large slice of their Balmer Lawrie holdings at a price in the range of Rs 125 to to Rs 175. This was prior to 1970 when IOC bought IBP from Steel Brothers. It is clear that in Balmer Lawrie the Goenkas struck a bad bargain. But this is the least of the reasons why they, alert to the public interest as ever, want to bale out of Balmer Lawrie. The proceeds of the proposed sale to IBP would be invested in establishing new industries in West Bengal! Now, IDBI, IFCI, IRCI and a host of other financial institutions are waiting to promote industries in West Bengal and public spirited promoters like the Goenkas could surely get public funds for investment in West Bengal and use their own funds to better purpose! Lest scepticism on this score gain currency, the Goenkas have announced that their negotiations with the Wadias over the take-over of Bombay Dyeing have broken down.

According to market circles, a scion of the Wadia family did oppose the sale of the prestigious profit-making textile company. But what is more likely to have held up the deal is that the major holders of Bombay Dyeing shares, or rather the shares of Bombay Dyeing's controlling company, could not agree to the negotiations. The majority of the shares of Bombay Dyeing are held by Nowrosjee Wadia and Sons. Though the Wadia family holds a large chunk in Nowrosjee Wadia, it is known that Shapoorji Pallonji and the Gazdar family together account for about 50 per cent of the company's shares. Whether negotiations for the sale of Bombay Dyeing to the Goenkas have broken down irretrievably is, however, not known. Of course, it needs to be added that purchase of Bombay Dyeing by the Goenkas is not tied up only with the negotiations with IBP over Balmer Lawrie. A part of the proceeds may come from the sale of a jute company to the Birlas. And to this has to be added the group's sizeable foreign exchange earnings.

Whatever the Goenkas' interest in selling Balmer Lawrie to IBP, with 31 per cent control IBP already has sufficient say in Balmer Lawrie's affairs. This is clear from the distaste shown by the Goenkas for dyarchy. Why then should IBP buy out the Goenkas? Besides, is not dyarchy the whole point of the joint sector idea, which is being fostered to reform the private sector and promote professional management? And yet IBP (that is, IOC) is said to have decided "as a matter of government policy" to buy the Goenkas' shares in Balmer Lawrie.

It is pertinent to ask why the public sector should buy out big houses' holdings in companies which they are, for one reason or another, anxious to dispose of. At this rate, the big houses could, theoretically speaking, sell out their interest in selected companies to financial institutions like the LIC and the UTI as well as public sector companies like IOC and in turn buy from them shares of other preferred companies to acquire or consolidate their control over the latter. Thus Indian Iron shares could be conveniently sold to HSL and the realisations used to bolster the finances of, say, a publishing company. In this pattern of exchange, the joint sector concept would acquire a new dimension, with the spheres of influence of the public sector and the big houses clearly demarcated by mutual arrangement.

Congress Party

Jantar Mantar

THE most enduring outcome of the All-India Congress Committee session this week may well turn out to be the decision to put up a new building in the capital to house the AICC. In typical Congress fashion, the decision was the result of a 'stray thought' of an AICC member. The new party president, Shankar Dayal Sharma, promptly issued an appeal for contributions to a building fund and someone else helpfully supplied a figure of Rs 1 crore as the likely cost of the building.

It is indeed a tribute to how well party members and leaders understand the way things work in the Congress today that in no time they had decided to name the new building 'Indira Bhavan' and to lay its foundation stone on November 19 which — as we are all expected to know by now — is the Prime Minister's birthday. This was nothing short of a masterstroke of strategy. For one thing, it effectively prevented any discordant voices from being raised questioning the propriety of the *garibi hatao* party interrupting its impassioned debates on the need to put an end to conspicuous consumption and high living to casually vote itself a multi-million rupee party headquarters. For another, it ensured the success of the drive for contributions.

In fact, in this latter respect the achievement was truly remarkable. According to newspaper reports, within an hour of the party president's appeal for funds Rs 37 lakhs had been pledged for Indira Bhavan. The most outstanding congregation of well-heeled plutocrats in the country that one can think of occurs perhaps at the annual sessions of the Federation of Indian Chambers of Commerce and Industry. Yet it is doubtful that the response at one of these sessions to a similar appeal by the FICCI president would have been either as quick or as munificent as it was at the AICC session attended by, to paraphrase the Union Minister for Steel, ordinary party workers.

However, for the *piece de resistance* one has to thank the spokesman of the Tamil Nadu Pradesh Congress Committee who declared that the Tamil Nadu unit of the party would contribute Rs 1 lakh to the building fund — *even though the party was not in power in the state*! The implications are obvious enough.

Joint Ventures

Murky Cost-Benefit

THE Estimates Committee's report on the working of the Ministry of Foreign Trade provides some interesting information about Indian joint ventures in other countries. Though many important details such as the amount and proportion of Indian equity and the production capacity of the joint ventures are not given, the importance of the report lies in being the first official source of information on the subject.

The study on the same subject by the Federation of Indian Chambers of Commerce and Industry released some months ago was a disappointing performance and did not achieve the FICCI's purpose in sponsoring it. The Minister of Industrial Development had charged that Indian industrialists participating in joint ventures abroad were not remitting dividends, royalties and technical fees earned by them to India and the FICCI study was aimed at refuting this criticism. Unfortunately, the study not only did not touch upon the issue of malpractices involving foreign exchange, it could give details of only some half a dozen joint ventures which had remitted their earnings to India. It is likely that the new group of office-bearers of the FICCI, who are known to be keen to improve the 'image' of the business community, were not able to persuade the Indian partners in the majority of the joint ventures to co-operate in the task of refuting the charges levelled against them. This was perhaps inevitable. What is more difficult to explain, however, is the complete absence of any reference to the allegation made by the Minister of Industrial Development in the Estimate Committee's report. Normally one would expect that a controversial question such as whether Indian parties in joint ventures abroad remit back to India earnings or divert them into unauthorised channels would attract the close attention of Members of Parliament. Why then the silence?

According to the report, a major consideration in government approving joint ventures abroad is the part such ventures play in promoting exports of machinery, components and raw materials. Since export of capital on a large scale has necessarily to be ruled out at this stage, the government insists that Indian participation in these ventures should be in the form of supply of machinery and equipment and technical knowhow. Some of the ventures would continue to help in export promotion by meeting part of their subsequent requirements of components or raw materials from India.

Upto October 1, 1971 the government had approved 126 industrial joint ventures of which 37 had been abandoned and 61 were at various stages of implementation. Of the 28 joint ventures that had gone into production, 14 had started production prior to 1969 and the other 14 had started production after that year. The Indian parties had so far invested about Rs 14.5 crores in the form of equity capital. Sales of components and other materials to these ventures from India for cash payment amounted to Rs 3.7 crores and Rs 1 crore had been remitted to India as dividends and other earnings. Remittances on account of technical knowhow, royalty and managerial fees had amounted to Rs 57 lakhs. The foreign exchange receipts obtained from the joint ventures are for the first time made available unit by unit in the report (Appendix XIV, pp 312-27).

Small Car

Not for the Gander

WHETHER on or off, the small car (once called the people's car) project is apparently destined to be a *cause celebre* in Indian planning. For long years it was the touchstone of the Planning Commission's commitment to priorities in investment. More recently the Commission was persuaded to relax its vigilance and the government decided on manufacture of small cars in both the public and the private sectors. Two units have been approved in the private sector. For the public sector, the government invited proposals from foreign manufacturers and, after reportedly elaborate tests, selected the models proposed by Fiat of Italy and Renault of France. Subsequently the government underwent another change of heart, deciding this time that from the standpoint of social priorities there was after all no case for manufacture of small cars in the public sector.

Much has been made of the latest decision as reflecting the government's new economics, *a la* Mahbub Ul Haq. The small car project has been described as the first 'casualty' of the alleged emphasis in government policy on production of mass consumption goods instead of luxury items. It has been suggested that in place of the small car project the government would permit increased capacity for the manufacture of buses and scooters which would benefit a larger number of people.

This is all very admirable, but there is one aspect of the matter which seems to have been overlooked. If manufacture of small cars is not to be taken up on the ground that it is the government's policy not to permit production of articles of luxury consumption, then this consideration should apply to both the public and the private sectors. In terms of the waste of investible resources and the deleterious effects on the climate of austerity that the government says it wants to foster, it is immaterial whether small cars are produced in the public or the private sector.

From a narrower viewpoint as well, the private sector small car units are going to depend overwhelmingly on public financial institutions for term finance and on one or the other of the nationalised commercial banks for working funds. Indeed, the rationale of bringing practically the entire network of financial institutions under government control has been that this would make investment decisions in the private sector conform more closely to national priorities. But despite all that, in the government's thinking what is sauce for the gander is not sauce for the goose! It would be 'unsocialistic' to set up a beer-making unit

promised a rational long-term policy which would ensure everything — increased cane supply, increased sugar production, remunerative price for the cane grower, reasonable profit for the industry and a fair price to the consumer. The Minister has at the same time hinted at a higher minimum price for sugarcane — to be maintained at least for three years — so as to prevent diversion of area under cane to other cash crops. This means that the consumer would have to pay a higher price next season, irrespective of whether sugar is controlled or free.

The Minister of State, Sher Singh, was criticised in the Lok Sabha for allowing the sugar industry to make "fabulous profits". When a member put a supplementary to a question the Minister pleaded for notice, but the Deputy Speaker pulled him up and asked him "to do homework better and come prepared". The way the Minister defended the government is worth quoting. Some of the sugar factories, he conceded, had made substantial profits. "Profits of sugar factories were dependent on cost of production of sugar which in turn were dependent on cost of cane, recovery of sugar, duration of the season, cost of stores, salary and wages, depreciation, maintenance and repairs, other overheads, return on capital employed and realisation for the sale of sugar... As these factors vary from factory to factory, the cost of production also varies within wide limits." How this peroration satisfied members is a wonder!

Though May is about to end, neither industry nor government has given out statistics of production, offtake and stocks for April. According to press reports, sugar production by the end of April had crossed 3 mn tonnes. Government estimates are that production in the whole season would be only about 3.10 mn tonnes. For the first nine months of the season, 2.95 mn tonnes of sugar have been released for distribution and stocks at the end of March 1972 were lower by a million tonnes at about 2.2 mn tonnes as compared to the position at the end of March 1971. The current season's production, it is now widely accepted, would fall short of requirements by at least a million tonnes.

Considering this, industry and trade have not behaved too badly. After the budget prices declined from Rs 305 to Rs 280 at the end of April. The government's decision to raise the tariff value by Rs 10 to Rs 200 was responsible for the subsequent spurt in prices to Rs 293. After that, in spite of the hot summer months and the marriage season, prices have receded to Rs 283. This good behaviour may have much to do with the general impression that area under sugarcane has increased by about 30 per cent and that production in 1972-73 would be about 4 mn tonnes. More than that, industry and trade have been told that partial decontrol would soon disappear. Industry which roared "hands off sugar" some months ago is quiet as a mouse. If the promised long-term sugar policy is one of decontrol, industry would get a first class chance to mint money, at least in the first few months of the season. So, if the government can stand up to the pressure for higher cane prices, there is no need for a change in policy till the prospects of higher production in the next season become clearer.

Labour

One More Instrument of Order?

Our Delhi Correspondent writes:

THE Union Labour Ministry's bill on compulsory gratuity has run into difficulties. The bill has gone through the Select Committee stage in Parliament; but certain issues have been raised within the government that have put new hurdles in the way of the Ministry's efforts to get the bill passed.

It has been represented by government departments that in case a strike is declared illegal, the services of the workers involved in such a strike should be treated as broken and that in that event the employees should have no claim to gratuity without their first completing five years of uninterrupted service. The Labour Ministry has been pleading that this will be too harsh a punishment, and that the gratuity should be regarded as a benefit for services already rendered by a worker — not a payment contingent on good behaviour during industrial disputes.

Another suggested 'punishment' is that a worker charged with damaging property should not be paid gratuity. The INTUC leaders are reported to have recommended a compromise on the issue, though the other trade unions are likely to reject such a stipulation outright. It is suggested that in case a worker is proved to have wilfully damaged plant or machinery, a judicially determined amount may be adjusted against gratuity as recovery of the damage done.

The riders on the payment of gratuity have been invoked drawing on the gratuity law first enforced in West Bengal. The Labour Ministry is pleading that these stipulations were made really for West Bengal in face of the special conditions prevailing there at the time and that they should not be made applicable now all over the country — or even in West Bengal where conditions, it is claimed, have very much improved.

Industrial Index

Weights Not to Blame

A Correspondent writes:

THERE is a general feeling, often voiced by government spokesmen while referring to the slow growth of industrial production in the last two years, that the official index of industrial production underestimates the real growth of industrial output because it does not allow for the changing share of different industries in total output. In a brief note to the seminar in New Delhi last month on the Data Base of the Indian Economy, organised by the Indian Econometric Society, T N Srinivasan and A Vaidyanathan bring out the fallacy of this view. The authors show that there is no bias in using the base year shares of different industries so long as the index purports to indicate the growth of total value added by the industries included in the index at constant prices.

This is illustrated by the example of an economy with just two industries, textiles and steel. Value added by textiles is assumed to double annually while value added by steel is taken to quadruple, so that the share of textiles in total value added declines from 0.90 in the base year to 0.69 in the third year. Three alternative indices are then computed with the changing shares of the two industries in value added in the first, second and third years as weights, but each index shows the same growth rate.

Srinivasan and Vaidyanathan point out that certain other problems could arise in the construction of an index of industrial production — among them (i) new industries may have come up since the base year, and (ii) technology in an industry or industries may have changed so that the relationship between gross output and value added is changed. The second problem is described as "very complicated", but the first would necessitate a change in the base to the latest year for which data are available. Not so a change in the share of different industries in aggregate value added in the industrial sector.

Progressively Out of the Woods

Hansavivek

COROMANDEL FERTILISERS' plant operated uniformly well throughout 1971. It also showed good improvement over the preceding year: production was about 247,000 tonnes which is 85 per cent of the rated capacity in terms of plant nutrient — marking an increase of about 12 per cent in total tonnage and 9 per cent in terms of plant nutrient over 1970. Production would have been better but for two breakdowns in the ammonia plant, resulting in a loss of 20 operating days' production, and a fire in ammonia preheater, resulting in a shut-down for 18 days. Power dips have already come down appreciably, and further improvement is expected. The 45-million litre water reservoir, commissioned in September 1971, has considerably reduced threat to operations due to municipal water stoppage. About 245,000 tonnes of the product was sold, showing an increase of about 5 per cent in total tonnage sold over 1970. A sizeable quantity had to be moved by road or rail-cum-road owing to transport difficulties. This led to increase of about Rs 36 lakhs in transport and handling costs. Despite 'steep' increases in cost of raw materials and higher Central levies, Coromandel made higher net profit of Rs 168 lakhs (Rs 55 lakhs) which reduced the accumulated deficit to Rs 2.37 crores. The aggregate estimated development rebate to be set aside out of future profits works out at Rs 10.4 crores. The directors say that they have been advised that, with the approval of financial institutions, they could consider recommendation of a dividend much earlier than the year in which development rebate reserve would have to be created, if adequate surplus was generated after the book loss is wiped out. Meanwhile, technical studies on the proposed expansion are in progress.

NATIONAL ORGANIC CHEMICAL INDUSTRIES LTD has secured an import licence for an additional naphtha cracking furnace of high ethylene yield to meet the anticipated additional market demand, mainly in terms of the ethylene glycol requirements of several new polyester plants due to commence operations shortly. A foreign exchange loan of over Rs one crore has been sanctioned by ICICI for the new furnace and other equipment. This unit is expected to be commissioned by early 1973. Last year, the company's production was affected to some extent in the first half owing to some technical problems, but these were overcome. With increased market demand for the full range of its products, NOCIL has produced good results. Substantial increase in sales of PVC resins resulted in the licensed capacity of 20,000 ton-

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

	Coromandel		NOCIL		Woolcombers		Modella	
	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 31-12-71	Last Year 31-12-70
Paid-up capital	958	958	1200	1200	105	105	65	65
Reserves	—	—	158	—	74	58	41	33
Borrowings	3020	3251	3711	4142	67	—	24	16
of which Term borrowings	3020	3251	2487	2807	—	—	12	15
Gross fixed assets	4681	4691	5009	4814	229	221	161	156
Net fixed assets	2862	3321	3767	3917	69	72	66	71
Investments	1	—	180	180	106	12	—	—
Current liabilities	391	862	180	241	141	85	43	13
Current assets	1318	1402	1188	1168	211	164	105	74
Stocks	701	594	770	619	35	32	45	43
Book debts	602	806	384	516	176	93	43	29
Net sales	2680	2511	2672	2190	329	195	160	108
Other income	68	13	44	145	16	7	28	12
Raw material costs	643	503	686	463	112	51	46	26
Wages	115	98	166	153	85	63	27	23
Interest	308	333	288	309	9	3	3	3
Gross profit(+)/loss(—)	615	501	785	524	88	47	46	29
Depreciation provision	447	446	347	333	11	13	8	10
Tax provision	—	—	—	—	53	19	22	10
Net profit(+)/loss(—)	168	55	438	191	24	15	16	9
Development rebate provision	—	—	15	—	41	—	—	—
Transfer to reserves	—	—	82	—	10	7	8	3
Dividend								
Amount	—	—	60	—	13	8	8	6
Rate (per cent)	—	—	5	—	12	7.50	12.50	10
Cover (times)	—	—	1.00	—	1.75	1.88	2.00	1.50
Ratios (per cent)								
Gross profit/sales	22.94	19.95	29.38	23.93	26.75	24.10	28.75	26.85
Net profit/capital employed	4.22	1.30	8.64	3.57	9.75	9.20	12.31	7.90
Inventories/sales	26.14	23.65	28.82	28.26	10.64	16.41	28.12	39.81
Wages/sales	4.29	3.90	6.21	6.99	25.83	32.31	15.62	21.29

nes. The price line for the products was generally maintained — except for some escalations in contracts tied to base material costs following the new excise levies on chlorine and oxygen and increase in prices of naphtha and fuel oil. Prices of certain chemicals were reduced. With better performance, the company is paying a maiden dividend of 5 per cent. As at the year-end, statutory development rebate reserve was estimated at Rs 11.79 crores. Of this, only Rs 15 lakhs have been provided in respect of plant and machinery installed during 1971. Provision for earlier years will be made in subsequent years. Owing to technical problems with the ethylene refrigerations system in February, production of ethylene was reduced for six weeks prior to the planned maintenance shut-down in all plants in March last. Normal opration was resumed in the plants from mid-April. Production capacity of 2-ethyl hexanol in the alcohols plant has been increased to 10,000 tonnes per annum and that of n-butanol reduced to 6,000 tonnes per annum, in view of the expected increase in future demand for the former and surplus position for the latter.

WOOLCOMBERS OF INDIA, based in Calcutta, has purchased 8,000 equity shares of Swan Mills of Bombay and is seeking government approval to acquire further 32,400 shares in that company to make it a subsidiary. A few years ago, Jubilee Mills of Bombay was made a subsidiary by purchasing a substantial shareholding in it. Last year, Woolcombers achieved full production in all sections. The dye plant utilisation also showed further improvement. Both sales and profits were substantially higher compared to the preceding year, and the dividend has been stepped up. The company has exported some quantities of woolgrease to the UK and the US — for the first time from India. The plant for conversion of woolgrease to pharmaceutical quality lanolin is expected to go into production towards the middle of this year. The company's working in the current year too has been satisfactory. The plant capacity is fully booked for both merino and Indian wool for the full year.

MODELLA WOOLLENS has been granted a 'letter of intent' for an additional capacity of one million lb of wool tops and is awaiting licence for import of capital goods. The company has secured an import licence of the value of about Rs 19 lakhs for certain balancing equipment, which would enable it to achieve licensed capacity at its Chandigarh unit. Orders are being placed, and the imported machinery is expected to arrive towards the year-end. Meanwhile, construction of buildings for the installation of balancing equipment and for the expansion has been taken on hand. Production at the Thana plant suffered last year owing to labour unrest. The import licence for rags for the licensing period October 1971 to September 1972 was 'quite inadequate'. Import entitlements have been acquired at a premium of 65-70 per cent. Also, efforts are being made to acquire raw materials available in the country to maintain production. Modella's results for 1971 show substantial improvement over the preceding year. Dividend, stepped up by 2.5 per cent to 12.5 per cent, is covered twofold.

ZUARI AGRO CHEMICALS has had to contend with certain delays in the construction schedule as a result of a strike by the construction workers during March 1971 and lighting and shipping restrictions on account of the war in December last. A two-and-a-half month strike at the works of De Laval of the US resulted in a corresponding delay in the delivery of turbines for the compressors. The corrective measures taken by Toyo Engineering, *viz*, air-lifting the turbines and providing additional Japanese technicians, it is hoped, would enable the company to achieve mechanical completion as originally contemplated. Because of delays in completion of the Goa government's water scheme, water supply will not commence from July next. The deficiency of water during the initial period is proposed to be overcome by drawing water from a reservoir under construction which will impound water from the coming monsoon. The dredging work at the Marmugao harbour for providing facilities for unloading phosphoric acid has also been delayed. The first shipment is now expected to be received in December next, instead of in September as originally planned. This would delay the commencement of compound fertiliser production, but it is stated that all the ammonia produced during the period could be converted into urea and marketed as such. The overall project remains within the original budget estimate, despite increases in cost as a result of higher import duty and other levies by government and the additional expenditure that had to be incurred for accelerating the construction to recover the time lost on account of delays. Zuari stepped up purchase and sale of fertilisers, and its turnover shot up from Rs 89 lakhs to Rs 902 lakhs during 1971. Owing to 'meagre' margin on urea supplied by government, which was totally inadequate to meet the expenses of marketing, the company made a loss of Rs 30 lakhs against Rs 16 lakhs in the previous year.

SHALIMAR PAINTS, a subsidiary of International Paint of the UK, is increasing Indian participation in its capital by offering for subscription 4,11,700 equity shares of Rs 10 each at par. Out of these, 10 per cent shares have been reserved for subscription by whole-time directors and employees of the company, and the balance 90 per cent are being offered to the public. The present issued and paid-up capital is Rs 104 lakhs, entirely in equity shares. Incorporated in 1902, the company was the first large-scale unit to be established in the paint industry in India. The plant, located at Goabaria near Calcutta, has an installed capacity of 14,210 tonnes per annum of paints, varnishes, lacquers and synthetic resins. Shalimar's existing share of the market in the organised sector of the industry is about 13 per cent and it expects to take advantage of the anticipated growth in demand. Efforts are also being made to develop overseas markets; substantial orders have already been secured from the USSR and the Middle-East countries. During 1971, Shalimar's sales amounted to Rs 613 lakhs, profits before tax Rs 31 lakhs, and profits after tax and development rebate Rs 11 lakhs. The directors expect that the current year's pre-tax profits will 'definitely exceed' those for the last year and that they would be able to recommend a dividend of 'not less than 8 per cent' on the enlarged capital. The new equity shares would be eligible for dividend for 6 months for the current year. The entire public issue has been underwritten. The subscription list will open on June 5 and close on June 14 or earlier, but not before June 7. A sum of Rs 5 per share is payable on application and an equal sum on allotment. Sachindra Chaudhuri is the chairman of the company and I M Malkani the managing director. The issue is managed by the Merchant Banking Division of National and Grindlays Bank.

FROM OUR CORRESPONDENTS

NEW DELHI

Admirable Goals, but No Policy Frame

THE National Development Council met this week, after a prolonged recess, to consider the first tentative approach to the formulation of the Fifth Plan. This might be regarded as an earnest of the leadership's determination to give a push to the development process, which has been beset with uncertainties ever since the end of the Third Plan. But this appears to be about all that can be said for the NDC session. The deliberations of the Council failed altogether to yield any new ideas for the development process in the remaining two years of the Fourth Plan or in the Fifth Plan.

The Planning Commission presented its paper titled "Towards an Approach to the Fifth Plan" to the NDC. There could hardly be any difference of opinion on the objectives outlined in the document. The size of the Fifth Plan is proposed to be double that of the Fourth Plan and sizeable allocations are proposed to be made for what are described as the basic minimum needs programme and the employment programme. This part of the 'approach' was thus readily endorsed by the NDC. The problems arose when more specific issues were posed such as additional resource mobilisation, the quantum and manner of distribution of central assistance and the policy-frame and the institutional structure for the Fifth Plan.

The proposed allocation of Rs 3,000 crores for the minimum needs programme and the Rs 7,000 crores for the employment programme, while seemingly very impressive, failed to carry much conviction. Comparison with the allocations provided in the Fourth Plan for similar programmes might actually show that proportionately they do not constitute any significant advance.

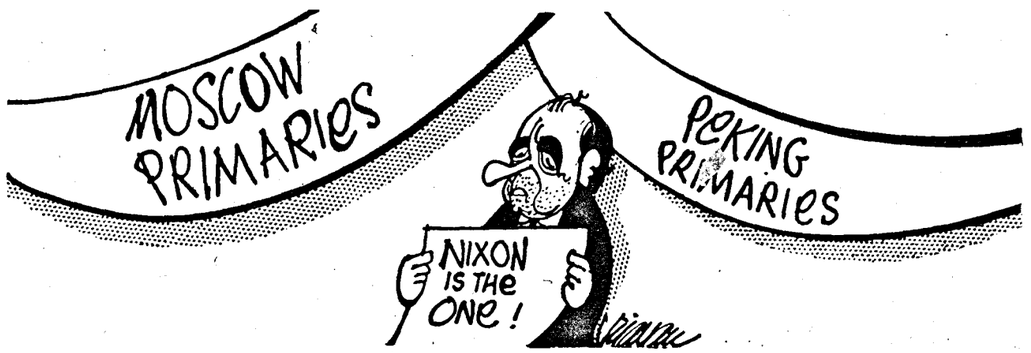
The Chief Ministers, as was to be expected, gave free expression to their reservations about raising their share of resources for the Fifth Plan. Even the Punjab Chief Minister, in spite of the progress that the state has made in agricultural production and the additional incomes that have been generated on that account, bluntly said that he found no scope for raising additional resources by way of taxation. The implication was clear enough — as on the question of procurement prices and land ceilings, the Chief Ministers are still not reconciled to the idea of levying an agricultural income tax or otherwise tapping rural incomes for raising resources for development.

The question of the quantum of central assistance and the manner of its distribution also remained a matter of contention. While the precise arrangements in this connection to achieve the objective of removing regional disparities have yet to be worked out by the Sixth Finance Commission, to be appointed shortly, and the Planning Commission, the Centre is making a bid to enlarge its power of control and supervision of state plans and deployment of resources, particularly those which flow from the Centre to the states. The Centre appears to be getting ready to use the allocations earmarked for the minimum needs programmes and the employment programmes to enlarge the scope of the Centrally sponsored schemes and Central intervention generally in the formulation and implementation of the state plans. In the context of the enhanced prestige and authority of the Central government this may appear quite feasible politically. But whether it will improve efficiency and encourage local initiative seems very doubtful. By enlarging the sphere of central responsibility and operation in the formulation and implementation of the plan, efficiency might actually suffer.

The essential weakness of the 'approach' outlined by the Planning Commission was best brought out by the Chief Ministers of Kerala and Tamil Nadu at the NDC meeting. They called for structural changes in the industrial sector, including wide ranging nationalisation measures. Though the Planning Minister did speak of change in agricutural property relations and ceiling on urban property, the Planning Commission's paper does not raise any of these policy issues and is content with presenting some tentative figures about the size of the Plan, the sectoral allocation of outlays and resource mobilisation. The result was that the NDC had no policy frame before it and the deliberations consisted of reading out prepared speeches by the Chief Ministers.

State Trading in Jute

The Foreign Trade Minister announced in Parliament recently that raw jute trade would be taken over by the government in a phased manner. This is a logical consequence of the decision to fix minimum support prices for raw



jute on a statutory basis. The Agricultural Prices Commission, which made the recommendation in favour of minimum prices being made statutory, has been also urging the setting up of a suitable agency to arrange the purchases of raw jute in the market so as to make the fixation of support prices effective. The Jute Corporation was accordingly set up last year. The present decision merely enlarges the scope of its operations insofar as it is expected to purchase upto 7 lakh bales of raw jute between July and September which is the period of heavy post-harvest market arrivals and also the time when prices are manipulated by the traders to the disadvantage of the grower. It is hoped that in the next two years, the Jute Corporation would be able to exercise a dominant influence on the raw jute trade, eliminating to a great extent the trading interests and the tiers of intermediaries which have been responsible for the wide fluctuations in prices and supplies of raw jute over the years. Since it will help to stabilise prices and supplies the decision to take over raw jute trade will benefit not only the jute grower but also the jute industry.

The government has sought to present the take-over move as part of the emerging arrangements for regulating the prices and supplies of the principal agricultural raw materials for the processing industries. It is now recognised that an attempt should be made to establish a structure of relative prices for agricultural commodities through a system of statutory support prices and trading through public sector agencies. The same system would apply to foodgrains. This will help protect the interests of growers, eliminate trading interests and intermediaries who play no role in the production process, cut trading margins and ensure supplies on a stable basis. Jute and cotton have understandably been the first to be covered by this policy. But it is proposed to be extended.

NORTH

Search for a 'Democratic' Decision

SINCE May 17, when the Punjab Chief Minister Zail Singh staged another *volte face* by announcing the postponement of the controversial Bills on urban and rural land ceilings, spokesmen of the vested interests have been unusually active. The consequent confusion does no credit to any party. Zail Singh is being subjected to pressure from both the landlord lobby, which seeks further liberalisation of the ceilings, and the radical Congressmen, who depict the 'watered-down' Bills as a betrayal of the party's socialist professions.

In the circumstances, a decision from the Union Government alone would help Zail Singh out of the dilemma. This is now eagerly awaited. The Punjab measures have, after all, to be fitted into an all-India pattern. Indira Gandhi informed an MP from Punjab last week that she was personally looking into the allegations against the state ministry on the ceilings question. Her centrist stand, together with her explicit warning to the ultra-radicals, indicate a convenient climbdown. The search is on now for a 'democratic' decision. Already, fear of ministerial instability as a result of the controversy seems to have gripped Zail Singh's mind—though there is no immediate danger to his leadership of the party. A large number of Congress legislators, however, do regard the 10-to-18 acre ceiling as too low for a state which ushered in the Green Revolution and is the nation's granary.

Despite their internal squabbles, the Akalis are out to exploit the opportunity offered them by the 'revolutionary' land reforms. Dilution of Congress policies may also help the Akalis politically. They bank on the support, tacit if not express, of the majority of Akali as well as Congress MLAs who are landowners and hence hostile to the lowering of ceilings. Several Congressmen are, after all, former Akalis with large holdings. The Jan Sangh, too, intends to capitalise on the issue. Describing the Bills as "a drama and a deception", it is planning a "mass agitation" in August. The Jats, who have a substantial representation in the legislature, can also be relied upon to support any move designed to maintain the *status quo*.

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Both Punjab and Haryana are now confronted with the problems of foodgrain plenty. The bumper harvest was quite expected; what has caused some dislocation, however, is the sudden, unprecedented market arrival of freshly harvested wheat. Thanks to mechanical threshers, the farm operations have been speedy and efficient. The result has been a glut of the grain in all the important markets. On May 22, a new record of daily arrivals was set up with 1.53 lakh tonnes of wheat brought to the markets—against the previous record of 1.03 lakh tonnes, a year ago. Since the cost of storing foodgrains is mounting, the spell of hot, dry weather which has facilitated the transport of wheat to the markets has come as a boon to the farmers.

The procurement operations have been in full swing in both Punjab and Haryana, and this region's target is expected to be exceeded by about 5 lakh tonnes. Punjab may yield a surplus of 37 lakh tonnes and Haryana of 12 lakh tonnes. The stocks on the government's hands are, indeed, so large that, with the bins overflowing, school buildings are being used to store the grain. To the students' relief, the summer vacation has been extended by a week because of the surpluses.

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Seldom functioning in a satisfactory way, the four co-operative sugar mills in Punjab are now facing a major crisis. Their accumulated losses seem to underscore that the experiment is a failure. The accumulated losses are Rs 232 lakhs, against the paid-up capital of Rs 235 lakhs. The Bill at Nawanshahar, for instance, has not even been able to repay the outstanding portion (Rs 23 lakhs) of the loan it took from a co-operative bank. Predictably, an official committee has been appointed to save the mills from collapse.

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With Rajasthan MLAs accusing the Himachal Pradesh Government of blackmail, the controversy over the resettlement of the people displaced by the Pong Dam has got sharpened. Seeking shelter behind a letter sent in 1960 by Kairon, then Chief Minister of Punjab, Rajasthan contends that the number of families affected by the submersion of their lands as a result of the dam is only 9,400 — not 20,000 as claimed by the Himachal Pradesh Government. The wide difference in estimates, and hence in the amount of compensation to be paid to the displaced families — which has gone up from Rs 6.71 crores in 1960 to Rs 45 crores — remains unresolved. With thousands of people rendered homeless by the project (the main benefits of which will go to Rajasthan) the Himachal Pradesh Government finds itself in a difficult position. Failure to rehabilitate the uprooted according to various promises would embarrass the Government. Himachal authorities have declared all persons mentioned in joint 'khatas' (records) as 'individual oustees' entitled to land. Rajasthan argues that, if this basis is accepted, a group of persons losing 22 bighas of land in HP would be entitled to 475 bighas in the Rajasthan Canal area. Inevitably, Indira Gandhi's intervention has been sought in this matter too.

Approach to the Fifth Plan

THE Planning Commission's paper "Towards an Approach to the Fifth Plan", which was the main text for discussion at this week's meeting of the National Development Council, aims at the first systematic official formulation of the so-called new thinking on problems of planning and development. The Fifth Plan, according to the document, would not only be twice as large as the Fourth Plan in terms of the public sector outlay but, much more important, it would be qualitatively different from any of the earlier Plans in terms of its objectives, priorities and strategy.

The earlier Five-Year Plans, the paper says, assumed that a fast rate of growth of national income would by itself create more and fuller employment and produce higher living standards for the poor. It was also assumed that the scope of redistributive policies for reduction of disparities in income and wealth was severely limited.

The Poverty Line

The experience of economic development in the last two decades, according to the paper, had been that while the proportion of the poor, defined as those living below a basic minimum standard of consumption, had come down slightly, the absolute number of people below the poverty line today was just as large as it was two decades ago. These people living in abject poverty constituted between two-fifths and one-half of the country's population. If the government were to persist with the earlier strategy of relying on growth alone without directly tackling the problems of unemployment and income distribution, the Planning Commission estimates that it might take another 30 to 50 years for the poorer sections of the people to reach the minimum consumption levels.

The implicit assumption of a conflict between growth and social justice in the earlier Plans were based on the premise that whatever surpluses could be mobilised from the richer classes were needed for investments primarily directed at raising the future rate of growth. While there might have been some justification for this view in the initial years of planning, the economy now had reached a stage, the Planning Commission claims, where larger availability of resources made it possible to launched a direct attack on unemployment, underemployment and poverty, and at the same time to assure adequate growth.

The Commission estimates that at 1960-61 prices, private consumption of Rs 20 per capita per mensem would be needed to assure a reasonable minimum level of consumption. In present day prices, these figures would have to be multiplied by a factor of about 1.86. At present over 220 million people were living below this level, though the size of the problem and the absolute numbers of the poor varied from state to state. The main attack, according to the Planning Commission, would have to be on rural poverty since the urban poor were to a large extent an over-flow of the rural poor. A little less than half of the rural poor were landless labour and a little more than half were small and marginal farmers. The two categories overlap since small farmers also worked as agricultural labour.

The vital ingredient in a direct attack on poverty would be the provision of employment opportunities on as large and wide a scale as necessary. However, the generation of employment (with low per capita incomes) by itself would not be enough to provide a minimum level of consumption for the poor unless prices of essential goods such as foodgrains including pulses, edible oils, standard cloth, sugar and cooking fuels were stabilised. Ensuring stable and reasonable prices for these basic elements of consumption must, therefore, be one of the dominant objectives of the Fifth Plan. Price stability could be ensured only if production policies were also oriented to increasing availabilities of these items. The pattern of investment and the composition of output in the Fifth Plan would need to take account of this. At the same time, there would have to be a much more determined restraint than in the past on inessential consumption of the relatively well-to-do classes so that national resources were effectively mobilised for priorities. A consumption policy of this kind would have to include "an approach towards wages, incomes and profits".

However, even with all possible success in creating additional employment and ensuring stability of prices of essential consumption goods, the poor would not be able, with their level of earnings, to buy for themselves all the essential goods and services. The programmes for providing employment and incomes to the poor would, according to the Planning Commission, have to be supplemented by a national plan for the provision of social consumption in the form of education, health, nutrition, drinking water, housing, communications and electricity upto a minimum standard. Programmes for the provision of the means of social consumption would at the same time be important sources of additional employment so that their significance in a strategy of development involving a direct attack on the problem of poverty would be twofold.

Leaving aside the employment generation potential of an expanded programme of social services in the Fifth Plan, employment-intensive heads of development would include, according to the Planning Commission, minor irrigation, soil conservation, area development, dairying and animal husbandry, forestry, fisheries, warehousing and marketing, small-scale industries, including agro-industries, roads and social programmes such as the Small Farmers Development Agencies, Crash Scheme for Rural Employment and the Drought Prone Areas Programme.

In the Fourth Plan the outlay on these heads of development by the Centre and the States (including institutional finance) is estimated to be about Rs 3,600 to Rs 3,900 crores. In the last year of the Plan the outlay on these programmes would be around Rs 1,075 crores. In view of this, the Planning Commission considers it both feasible and necessary to provide for an outlay on these programmes in the Fifth Plan twice as large as that in the Fourth Plan. In addition, a further outlay of Rs 3,000 to Rs 3,500 crores is envisaged by the Planning Commission in the Fifth Plan on the national plan for providing the basic minimum needs in education, public health, nutrition for pre-school children, drinking water supply, rural home-sites rural roads, rural electrification and slum improvement and clearance in the larger towns. These two sets of programmes would thus involve an outlay of the order of Rs 10,500 to Rs 11,500 crores in the Fifth Plan. While these estimates are necessarily tentative, the Planning Commission regards them as indicative of the order of effort that would be needed to make a substantial impact on employment and to ensure progress towards the objective of *garibi hatao*.

Employment Programmes

The objective of maximum possible expansion of employment in the Fifth Plan raised a number of questions. These

are listed by the Planning Commission as:

(i) the maximum possible employment that could be provided in the rural areas in a way that the assets created increased productivity and welfare of the people;

(ii) the maximum employment that could be provided in urban areas in small-scale industries, trade and services;

(iii) the extent to which the present institutional, administrative, technical and financial constraints on the expansion of productive employment could be removed;

(iv) the extent to which the quantum of employment likely to be created would fall short of that needed to bring the poor upto the minimum levels; and

(v) any further measures that would be necessary to this end.

The general programmes for expanding employment opportunities would have to be supplemented by and co-ordinated with specific programmes to tackle the problem of the educated unemployed. Of course, many of the programmes for tackling rural unemployment as well as those for providing the means of social consumption would create employment opportunities for teachers, doctors, paramedical personnel, engineers, veterinarians, agronomists and other educated unemployed. In addition, the Planning Commission claims, programmes for surveys of natural resources and those in the fields of science and technology would substantially increase employment opportunities for the educated.

The expanded programme of employment generation would have to be supplemented by redistributing the means of production in favour of the poor, in part by providing the self-employed with the wherewithal to achieve greater productivity from land and also through a programme of land redistribution and "other transfers". To this end the Planning Commission calls for decisions on land policy as to the nature of the legislation and the process of implementation. Also, the problem of an appropriate balance in the redistribution of available surpluses as between farmers with small holdings and landless labour would have to be faced.

The employment programme for the rural areas would have to be so designed that it would meet the requirements of the small and marginal farmers and the landless labour after allowing for the effect of the land reform measures as finally decided upon. For this purpose, an assessment would have to be made "during the current year" of the impact of the envisaged land reform measures on the problem of rural poverty.

The credit structure would have to be such as would be capable of providing money to the smallest farmer and recovering it from him. Further, in order to expand to the maximum employment opportunities for rural landless labour and to cut down the degree of underemployment from which small and marginal farmers suffer at present, it would be necessary to reorient and integrate various schemes of rural development (such as minor irrigation, social conservation, area development, animal husbandry, forestry, fisheries, roads and certain special programmes like SFDA and MFAL, Crash Scheme of Rural Employment and the Drought Prone Areas Programme) into a comprehensive programme of land consolidation, land and water development, drainage and other infrastructural activities in the rural areas.

Social Welfare Programmes

As a first step to framing programmes of social welfare for the Fifth Plan, the Planning Commission proposes to identify the items of public consumption that need to be included in the list of basic minimum-needs and, after laying down the minimum acceptable norms for them, to work out a reasonable time-phasing for meeting these needs fully. It would also be necessary to work out (i) the order of financial outlays required to fulfil the above commitments, (ii) the financial mechanism to ensure that these outlays constitute a prior charge on the national resources, and (iii) the administrative innovations that would ensure efficient implementation of the programme.

The Planning Commission proposes the following "short and self-evident" list of basic minimum needs:

(i) elementary education for children upto the age of 14;

(ii) minimum public health facilities integrated with family planning and nutrition for children;

(iii) rural water supply;

(iv) home-sites for landless labour;

(v) rural roads;

(vi) rural electrification; and

(vii) slum improvement in the larger towns.

Elementary Education: The constitutional directive is that children upto the age of 14 should be provided with free and compulsory education within a period of 10 years of the commencement of the Constitution. That date was passed in January 1960. The likely enrolment at the end of the Fourth Plan would be 84 per cent in the age-group 6-11 and 40 per cent in the age-group 11-14, with wide regional disparities, particularly among girls. The Planning Commission claims that it should be possible to cover fully boys in the age group 6-11 by 1975. The problem in regard to full enrolment of girls would, however, pose special difficulties. The constraints, according to the Commission, are mostly social and the non-availability of women teachers in adequate numbers. In respect of the age-group 11-14, it is conceded that even by the end of the Fifth Plan it may not be possible to go beyond overall coverage of 50 per cent. The Commission calls for special efforts at accelerated enrolment to achieve the target of 100 per cent coverage in respect of boys in the early years of the Sixth Plan.

The Planning Commission considers a primary school within 1.5 kms and a middle school within 5 kms of each village an adequate geographical norm. At the same time, expenditure would have to be stepped up on items such as free text-books and midday meals. Adequate provision would have to be made for school inspectors and large expenditure would be necessary on the construction of class-rooms which, incidentally, would also provide employment. The Planning Commission calls for detailed state-wise plans, taking into account the conditions in each state covering the manpower, financial and other requirements for the implementation of the programme by the target date.

Public Health: In regard to minimum public health facilities, the Commission considers generalised norms such as improvement in the doctor-population ratio or the bed-population ratio or per capita expenditure on health as inadequate since the availability of health facilities in rural *vis-a-vis* urban areas had continued to be extremely lopsided. The present standard in respect of medical care in rural areas was one public health centre for a block population of 80,000 to 100,000 supported by 8 to 10 sub-centres, each serving a population of 10,000. Accepting this as the minimum, the Fifth Plan programme would consist in filling up deficiencies in construction of buildings, provision of staff, equipment and drugs in a co-ordinated way. Eventually, the coverage of a sub-centre would have to be reduced to a population of 4,000 to 5,000. The emphasis in rural health would have to be on prevention, family planning, nutrition and detection of early morbidity with adequate arrangements for referring serious cases to the tehsil or district hospital.

Such a multi-tier system could not be built on a national scale on the basis of the present expensive system of prolonged medical education. A new approach towards the raising of suitable medical and para-medical cadres for the lower tiers had to be worked out. It was necessary that health education was woven into the general education system. In order to provide an adequate number of doctors for the Fifth Plan programme and as advance preparation for a more intensive coverage later, it would be necessary to consider the revival of the 3-year medical diploma. Indigenous system of medicine would also have to be utilised for the purpose.

The Family Planning programme would need continued emphasis. Apart from the intensification of methods currently adopted, rapid progress would have to be made in integrating family planning with health and nutrition facilities. It was only in this manner that the concept of small families could be promoted on a durable basis among the people.

As part of the minimum needs programme, it would be necessary to take care of pregnant mothers and pre-school children so as to attack the problem of protein malnutrition at its roots. The old and the handicapped who, being unemployed, would not be brought into the mainstream of economic activity would also need to be taken care of. Outlays would have to be enlarged "to the extent feasible" on special programmes for this segment of the population.

Drinking Water: The Planning Commission estimates that in regard to drinking water about 150,000 villages out of a total of 567,000 villages suffered from either scarcity and health hazards or special problems such as salinity, iron and flourides. In addition, there were villages which did not have an adequate supply of drinking water or where the provision of water supply to Harijans and backward class was inadequate. Currently the states spent about Rs 40 crores annually on rural water supply. This provision had been increased by Rs 20 crores in 1972-73. In order to meet this basic minimum need by the end of the Fifth Plan, it might be necessary to step up expenditure to an average of Rs 100 to 120 crores per annum.

Roads and Electricity: So far roads and electricity in rural areas had more or less been conceived of as part of the productive infrastructure. By the end of the Fourth Plan about 40 per cent of the rural population would have electricity, though there would be very wide regional variations. The time had come, according to the Planning Commission, to recognise that roads and electricity contributed to the quality of life. It was necessary to aim at providing all-weather roads by the end of the Fifth Plan to all villages with a minimum population of, say, 1,500 people. Similarly electricity would have to be extended so that by the end the Fifth Plan at least 30-40 per cent of the rural population was covered in all the states. Planning for roads and electricity would have to be on an integrated basis. Village roads had to be properly linked to district roads and plans for rural electrification would have to be on a minimum cost-maximum population coverage basis, consistent with generation and transmission capacities.

Slum Improvement and Clearance: The approach to the problem of slums would have to consist in a mix of slum clearance and redevelopment *and* environmental improvements. Acquisition of land would be necessary for both types of schemes. A beginning had been made in 1972-73 with a Rs 20-crore scheme for slum clearance and re-housing and slum improvement in eleven cities: Calcutta, Bombay, Delhi, Madras, Hyderabad, Bangalore, Ahmedabad, Kanpur, Poona, Lucknow and Nagpur. In respect of the remaining areas, it would be necessary to identify problem cities and devise suitable programmes of urban development for their improvement.

Immediate Programme

In the light of the above, the immediate programme for action has been formulated by the Planning Commission as follows:

(1) States would be asked to prepare detailed district plans for ensuring full enrolment of all children upto age 11 during the Fifth Plan and spell out the expenditure required on teachers, buildings, text-books, midday meals and special incentives for the enrolment of girls. In regard to the age group 11-14, states would be asked to outline the maximum programmes for possible enrolment by the end of the Fifth Plan, the target being to push up the enrolment percentage to a minimum of 50 per cent in all states.

(2) The implications of reviving the 3-year medical diploma course would be examined in detail. States would be asked to undertake detailed planning to provide a primary health centre in each block with the full complement of sub-centres, adequate staff, equipment and drugs by the end of the Fifth Plan.

(3) States would be asked to draw up detailed plans for providing drinking water supply to all villages by the end of the Fifth Plan.

(4) States would be asked to estimate the financial requirements of providing all-weather roads to villages with a population of 1,500 or more. These plans would have to be ranked in order of priority, having regard to population, availability of main roads to which they could be linked and marketing requirements, so that a phased programme of road construction could be formulated.

(5) The backward states would be asked to work out, consistent with generation capacity, an "economical programme" for rural electrification to cover up to 40 per cent of the population.

(6) States would be asked to prepare master plans for slum clearance and improvement in respect of towns with a population of 5 lakhs or more.

(7) Finally, the states are to be asked to "authorise expenditure for technical investigations and preparation of suitable programmes and projects reflecting the new approach".

Both in regard to the intensive employment programme and the basic minimum needs programme, the Planning Commission emphasises the importance of implementation. There was need to avoid delays, leakage and waste. Part of the problem of implementation arose because programmes were not soundly conceived and properly structured. Co-ordination of the various schemes for rural employment and those for the benefit of small and marginal farmers and landless labour would ensure a more effective and fruitful implementation. There would also have to be considerable decentralisation of planning, decision-making and implementation, calling for an effective system of multi-level planning.

Outlay and Resources

As mentioned above, the Planning Commission envisages an outlay of Rs 10,500 to Rs 11,500 crores on the employment-oriented programmes and the programmes for provision of basic minimum needs. These programmes, the Commission adds, "while very important from the point of view of social

justice, would nevertheless be a comparatively small part of the total [Fifth] Plan". In order to ensure adequate development of agriculture, industry, transport and communications to support the above programmes and to safeguard sustained growth in the period beyond 1978-79, the total outlay, in the Fifth Plan period would be around twice that in the Fourth Plan. To firm up the content of the Fifth Plan, the Planning Commission proposes to work out profiles of investment and output in different sectors". But, it says, in order to carry out these exercises in the proper context, it was essential to have a prior consensus about the orientation of the Plan towards the provision of larger employment opportunities and basic minimum needs. To secure such a consensus was evidently the objective of the "Approach to the Fifth Plan" paper and the meeting of the National Development Council.

To finance an outlay of the required order, the Planning Commission estimates that it would be necessary to raise Rs 6,000 to Rs 7,500 crores by way of additional resource mobilisation, Rs 2,500 crores by the states and the balance by the Centre. This would compare with the resource raising effort of about Rs 4,000 crores undertaken in the Fourth Plan. To fulfil the target of resource-mobilisation, the Planning Commission calls for a comprehensive direct tax reform to (i) check evasion and avoidance of all kinds and make the tax system elastic to income growth and (ii) bring agricultural incomes within the tax net. The Commission urges that the last year of the Fourth Plan must be utilised to push through this comprehensive tax reform.

The resource mobilisation effort would have to take into account the need for mopping up surpluses arising from existing wealth. Large unearned incomes accrued in the urban areas from property and from transactions relating to land. The recent constitutional amendments had, according to the Planning Commission, cleared the deck for "an approach oriented to changing property relationships, both in urban and rural areas". Reforms in the tax system would have to take into account the redistributive aspects and ensure that a significant proportion of wealth as well as income arising from wealth was channelled into public resources.

Self-Reliance

Net aid in 1965-66, the last year of the Third Plan, was Rs 701 crores including food aid, and Rs 472 crores excluding food aid. The corresponding figures for 1971-72 are estimated at Rs 328 crores and Rs 202 crores, respectively. With continued restriction of imports and promotion of exports, the Planning Commission claims, it would be possible to do even better than the Fourth Plan objective of reducing net aid in 1973-74 to half the level in 1965-66. To achieve by the end of the Fifth Plan self-reliance in the sense of zero net concessional aid, the magnitude and kind of effort required on the different aspects relevant to the balance of payments would need to be carefully worked out. It would be necessary to examine the policy, organisation and resource mobilisation implications of this objective. It was only on the basis of such a thorough exercise that it would be possible to say whether the zero net aid position would be achieved without too great a cost in terms of growth and, if not, in what ways the investment pattern needed to be adjusted to fulfil the objective. More optimistically, if the exercise were to reveal that with some additional effort it might be possible to improve on the initial criterion of zero net aid, the Planning Commission would explore to what extent and in what fashion the objective itself would be enlarged in the direction of elimination of gross aid as well. In other words, it is suggested that to start with the exercises connected with the Fifth Plan would proceed on the basis of a zero net aid position by 1978-79 with the clear understanding that the implications brought out in the exercise would be reviewed once again before the final operative decisions were taken.

The objective of reducing net aid to zero implied that gross aid would be required only to the extent of repayments of principal and interest. To the extent that debt rescheduling was available, the requirements of gross aid could be reduced. Where debt repayments had to be met from free foreign exchange, debt relief was in fact equivalent to untied aid. For these reasons, the Planning Commission suggests that debt relief should be emphasised more and more as a preferred form of assistance.

Time Schedule

As an appendix to the Approach document the Planning Commission has worked out the following time schedule for the preparation of the Fifth Plan:

30. 9.72: Preparation of an Approach Paper on dimensional hypotheses for the Fifth Plan, the policy and resource (domestic and foreign exchange) implications of alternative rates of growth (macro and sectoral) and of other objectives such as employment, income distribution, regional balance, satisfaction of basic minimum needs, self-reliance.
10.10.72: Consideration of the Approach Paper by the Planning Commission and approval of guidelines for (a) preparation of a Draft Outline of the Fifth Five-Year Plan and (b) size and content of state Plans.
30. 4.73: First version of Draft Outline.
15. 5.73: Consideration of Draft Outline by Planning Commission.
1. 6.73: Consideration of Draft Outline by the National Development Council.
30. 6.73: Publication of final version of Draft Outline after incorporating the views of the National Development Council.
30. 1.74: Preparation of Draft Plan document after discussions with Ministries and states and after bringing the resources estimates upto date.
15. 2.74: Consideration and approval of Draft Fifth Plan by the Commission and by the Cabinet.
28. 2.74: Consideration and approval by the National Development Council.
31. 3.74: Publication of the Fifth Plan.

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

DAR-ES-SALAAM

Botswana Tries to Break the Ring

A K Essack

PRESIDENTS Kaunda of Zambia and Seretse Khama of Botswana have recently met again. No communique was issued, but there is little doubt that both are very concerned about speeding up the construction of the proposed Botswana-Zambia (Botzam) highway which is to link the two countries. The road is to be built from Francistown in Botswana to Livingstone in Zambia and will be 400 miles long. At the Zambesi river, which marks the border between the two countries, two terminals are to be constructed, one on each bank of the river. Ferry boats designed to carry lorries and heavy cargo are also part of this $ 6 million project. A bush road already exists between Francistown and the Zambian border. The new highway will, however, be an all-weather road.

The road has been visualised by the two governments for some years, but financial and political difficulties have held up the implementation of the project. While visiting Dar-es-Salaam in August, 1970, Botswana's Vice-President Quett Masire said, "Botswana is determined to have a road link, irrespective of other countries' opinions. I am on a trade mission and this is indicative of the desire to open more trade links with Zambia and Africa. The road link will be a much more practical and meaningful exercise..." The *Times of Zambia* commenting editorially, presciently sensed trouble for this project but pointed out that "the road has to be built whether Vorster and his right hand like it or not".

The South African Government, on hearing of this scheme, grew alarmed and tried to change the Botswana Government's mind by adopting a number of tactics. First it tried the gentle approach by attempting to bribe Botswana. It drastically increased custom's union payments to Botswana.

This did not change Botswana's attitude. So, to forestall further developments on the road project, the South African Government alleged that Botswana had no common boundary with Zambia. In fact, Botswana's border with Zambia comprises a 25-yard strip of the Zambesi river and this boundary has never been questioned. Vorster, the South African Prime Minister, is most unlikely to make this an international issue as he does not want to get South Africa involved again on the United Nations stage or at the International Court of Justice at the Hague. The Caprivi Strip, which is part of Namibia (South-West Africa), abuts the Botswana-Zambia boundary. But since the international court has declared the South African occupation of Namibia illegal, any South African claim to the Botswana-Zambia junction based on the the territorial extent of the Caprivi Strip can have no legal basis.

Realising this, Vorster again switched tactics. He wrote a confidential letter to Seretse Khama intimating that he would allow Botswana the use of the Zambesi crossing-point if Botswana formally agreed that the crossing belonged to South Africa. Botswana declined to fall into this trap.

Apart from these political complications, Botswana still has to find firm financial backing for the project. The US Agency for International Development (AID), which had earlier shown an interest in this project, is now dragging its heels. A hundred thousand dollar feasibility report has been completed. So has an initial survey, but probably due to South African opposition the Americans have not yet finally decided to finance the road. Like the South Africans, the Americans do not want Botswana to be freed from South Africa's economic stranglehold. The building of the highway would be a big step in increasing trade with black Africa, thus reducing Botswana's dependence on the minority regimes of southern Africa. The grandiose design of a southern African common market would also become more difficult to carry out. The common market is expected to embrace about 45 million people with South Africa acting as the 'mother country', supplying manufactured goods to countries like Botswana and getting cheap labour and raw materials in return.

At present, Botswana has a largely pastoral economy with cattle-skins and meat products as its principal exports, from which its 600,000 people eke out a meagre living. Like Zambia, it is almost totally surrounded by the white minority regimes of South Africa and Rhodesia and has no outlets to the sea other than those through these two territories. It was Zambia's go-ahead to the TANZAM railway project which encouraged Botswana to think of the BOTZAM road.

This road would be of great value, particularly now that Botswana is on the threshold of a big mining boom. Diamonds, copper and nickel have been discovered in feasible quantities. The Orapa diamond mine is likely to become one of the biggest diamond producers in the world. According to conservative estimates, it will be able to produce large quantities of industrial diamonds for the next 25 years. The Selibe-Pikwe project near Francistown will exploit copper and nickel ore reserves. This project is controlled by Bamangwato Concessions in which the Roan Selection Trust is the principal shareholder. The Botswana Government has a 15 per cent share in the project. Total investment involved is in the region of $ 170 million. What this means for Botswana can only be understood when it is realised that the annual gross national product of Botswana is about $ 60 million. Thus, at present, Botswana's GNP is about one-third that of the investment in this single copper and nickel mining project. There is going to be further investment in building up an infrastructure for the mining projects. Roads, railways, power stations, water supply systems, are all about to be constructed. The World Bank and several countries have decided to give loans to Botswana for these developments.

Botswana realises it is essential that its copper, nickel and diamond exports are never held up by South Africa or Rhodesia. For this reason the completion of the road to Zambia has become an even more urgent necessity.

New Cargo Liner for SCI

THE state-owned Shipping Corporation of India has taken delivery of a cargo vessel of 14,000 DWT. It has been named mv 'State of Meghalaya'. The maiden voyage of the cargo liner will be to Polish ports for lifting bulk urea for discharge at Indian ports. The liner has a high speed of 19.30 knots. It was built by the GDR shipyard, Schiffscommerz. The vessel has been equipped with all modern navigational aids and has MAN engine developing 11,200 BHP.

The acquisition of the vessel forms part of the development plan of the Corporation. The Shipping Corporation thus owns a fleet of 79 ships of a DWT of 1.4 million. The Corporation has also on order 37 ships with a total DWT of 14.48 lakhs with shipyards in India and abroad. By the end of 1975, all the vessels presently on order are likely to be delivered to the Corporation, and its tonnage is then expected to cross the three million DWT mark.

GNP!

Bimal Jalan

IT can only be the intellectual bankruptcy or *ennui* that seems to have gripped the country which explains why a fetchingly written, but rather obvious, essay by Mahbub Ul Haq should have generated the excitement that it has. For the Prime Minister to have quoted it without attribution is certainly noteworthy and one should not begrudge the merriment that people feel at the discomfiture of the mighty, However, it is really extraordinary that learned economists and commentators should see in this event the emergence of a new messiah, or attempt to find the ingredients of "new economics" in the half-baked and half-hearted propositions of a popular article.

The argument over GNP is an example of much ado over a non-issue. No serious economist has argued that you can have a noticeable increase in the standard of living of all the people in poor countries without GNP registering an increase over time. However, it is equally true that while one cannot have development without GNP, one can certainly have GNP without development, Kuwait, one of the richest countries in the world, is an obvious example. From the point of view of planning for development, the real economic issue with respect to GNP, therefore, is not whether to have it or not to have it, but the *time-pattern of growth in GNP.*

Since development of the economy has, to take place over time, there is a choice with respect to measures which would maximise growth in current income *year-by-year* and measures that involve some sacrifice of (potential) current income in order to maximise the *long-run* rate of growth. To illustrate the point with a simple example—a country may thus go in for production of maize, shoes, and artsilk because they have good markets or it can invest the same money in a steel mill which might reduce its dependence on volatile markets abroad and/or increase its long-term productive capacity. Both courses should lead to an increase in GNP, but the growth-pattern of GNP over time would be different. The choice would depend on a number of factors, among them the social discount rate. However, it must be stressed that those who take a longer-term view of development are not necessarily poohpoohing GNP; in fact they would argue that some sacrifice of current income and consumption in favour of long-term development would lead to higher aggregate income over time.

This is the real issue with respect to the growth of GNP, to which neither the GNP-lobby nor the anti-GNP lobby in the current debate has addressed itself. But, one might ask, what about the distribution of current income at any one point of time? Does the anti-GNP lobby not put more emphasis on that? Haq, for example, has argued that "the problem of development must be defined as a selective attack on the worst forms of poverty" and that "if pattern of production (and exports and imports) is geared to satisfying minimum consumption requirements and employ the entire labour force, higher production will itself lead to better distribution". (Incidentally, Haq's article has appeared in various places and is available in three sizes—long, medium, and short. The quotations are from the version appearing in the January issue of *Insight* magazine.) To those of us who despair of the normal processes of development to take care of the poor and the weak, this is a very attractive proposition. But let us examine the point more closely.

Employing the entire labour force to meet the minimum consumption requirements over the period of a decade is easier said than done. Neo-classical growth models notwithstanding, capital is not entirely malleable, and productive capacity for steel cannot be easily transformed into capacity for shirts and *vice versa*. Even if capital and labour were conveniently substitutable along a smooth production function in developing economies, it is still an open question whether spreading capital too thin will not perpetuate the conditions of low productivity and technological backwardness which is the essence of these countries' poverty problem.

Begging the Question

In countries where more than half the people do not have minimum food requirements or minimum standards of housing, where three-fourth of the adult population is illiterate, and where there are only 50 hospital beds per 100,000 population (as against 943 and 926 per 100,000 in centrally planned economies and developed market economies, respectively)—the examples could be multiplied—what does development defined as the "selective attack on worst forms of poverty" mean and involve? It hardly needs to be said that one cannot have more food without irrigation, more hospitals without doctors, more schools without buildings, more buildings without materials, more materials without factories, more factories without machines, and more machines without capital accumulation. This brings us back to the central problem of development—how, in what manner, and in what sequence planned action should be taken in order to increase the productive capacity and technological capability of the economy within the shortest possible time? The problem of endemic poverty cannot be solved without further development of the economy, and there is no point in obfuscating the issue and begging the question by redefining development as "attack on poverty".

There is, of course, something indecent about the extremes of wealth and consumption which exist side by side with widespread squalor in developing countries. Redistribution of current consumption and restructuring of the productive sector geared to that consumption is, therefore, necessary. But can this be brought about by simply redefining the development objective—without inquiring into the current social organisation and property relations that exist in these countries? When some 90 per cent of the manufacturing value-added originates outside the public sector, and some 88 per cent of the total disposable income is in private hands, what means is there for removing the "tyranny of the demand concept"? Would the textile mills switch to production of coarse cloth because minimum levels of consumption have been defined? Or, the farmer produce wheat simply because it is needed by the poor? It is not enough to quote Chinese examples; the question that needs to be faced is whether Chinese or Soviet-type results can be achieved without Chinese or Soviet-type methods and organisation in capitalist societies. It has become fashionable for development economists to ask themselves: "if the Chinese could do it, why can't we?" The answer is simple, if they would look for it.

Along with President Nixon, many of us have discovered China in the year 1972. However, it is a little odd to blame economic theory for the model of development that we adopted. China, Soviet Union and Yugoslavia—the current favourites of disillusioned economists—were all there, and so was "new economics". If some countries have succeeded in generating neither growth nor distribution, the blame is not of economic theory or Harvard advisers, but of the socio-political elite in these countries, which has inherited not only the vice-regal palaces but also the vice-regal modes of thought.

THE FOURTH ESTATE

From the Enemy Camp

Nireekshak

REPORTING war from the enemy camp is the latest breakthrough in the profession. Unthinkable till recently, an American journalist Anthony Lewis of *New York Times* is reporting the Vietnam war from Hanoi. When his first despatch with the Hanoi dateline appeared in the United States, Henry Luce's *Time* commented: "It was a sight not seen for many years in a US newspaper." Somewhat similar was the reaction in this country when *Times of India* reproduced Lewis's despatch on its editorial page, by courtesy of *New York Times*. Many were surprised that it was possible for an American newsman to cover war from a hostile territory.

Self-Imposed Censorship

True, Lewis has Hanoi's permission and guarantee for reasonable safety during his stay in North Vietnam. Yet it is a major breakthrough. Imagine an Indian reporter covering an Indo-Pak war from Islamabad. Even if Islamabad permitted it, not many newspapers in India would be tempted to avail of the opportunity. And in any case, the government of India would be sure to scotch the move at some stage. Self-imposed censorship by newspapers and governments' anxiety to manage the mass media seem to mark the general pattern in our part of the world.

Anthony Lewis's most sensational despatch from Hanoi—which Nireekshak read in *Times of India*—was reporting the North Vietnamese claim that it was clearing mines from the Haiphong harbour entrance and restoring partial ship traffic in the port. The despatch was embarrassing to the US government which lost no time contradicting the story and charging *New York Times* of "acting as a conduit of enemy propaganda" and challenged the right of the American public—in the words of the editor of *New York Times*—"to be informed about what the North Vietnamese are saying". But this did not deter *New York Times* from publishing more despatches from Lewis. The Managing Editor of *New York Times*, A M Rosenthal, in a statement said: "The *Times* will continue to seek and publish pertinent, essential information from every source rather than restrict itself and its readers to official US government statements as Mr Clawson [a Deputy Director of White House Communications] seems to demand." In this instance and also in the case of the Pentagon Papers, *New York Times* has justified the press's claim to be the fourth estate.

Passing the Buck

War apart, newspapermen in this country are prevented from covering peace meets. The incident of the government of India disallowing pressmen from accompanying D P Dhar on his peace mission to Murree and Rawalpindi is still fresh in memory when comes the news that there will be certain restrictions on newsmen covering the Indo-Pak summit later this month. The Press Information Bureau is yet to spell out these restrictions which would be known only a day or two before the summit. It seems that the government wants an undertaking from all newspapermen covering the Indira Gandhi-Bhutto talks that they will not report beyond the official briefing. In that case why allow them to hang round the summit! A handout a day should meet the government's requirement! The government wants to manage the news, but behind the facade of free reporting. In preventing newsmen from travelling to Murree, the blame was put on Pakistan though it was the government of India's own decision. Thanks to *Hindustan Times* and the UNI correspondent, Babu Bhaskar, the government's tactics were exposed.

The editor of *Hindustan Times*, B G Verghese, is the most recent visitor to Pakistan. He is the fourth Indian journalist to visit that country after the December Indo-Pak war. On his return, Verghese has written seven interesting articles in a series called "The Other Side of the Hill". Unlike the other three Indian journalists who had visited Pakistan before him, Verghese did not confine himself to the normal routine of interviewing Bhutto and a few other prominent personalities. He availed of the opportunity to go deep into the mood of Pakistan of today. This is evident from the insights and analysis of his articles which are full of optimism.

Through the Looking Glass

Says Verghese: "It is extraordinary how similar are the hopes and fears of India and Pakistan. To cross the border from one country to the other is literally to walk through the Looking Glass. This is the legacy of prejudice and hate. Yet there is a growing objective realisation that this enmity is irrational and unproductive and that co-operation could bring much contentment and progress on both sides...The subcontinent is a natural geo-political unit and resource region and given trust, trade complementarities can be created where they do not already exist. Pakistan needs ore and steel; India gas. This is only one of a series of mutually profitable exchanges that could be arranged. And interdependence would ensure that both sides play fair in their own self-interest. There is an opportunity today that must be seized to make a beginning towards a lasting peace. There is a completely new situation in Pakistan and on the subcontinent which calls for new thinking. The old stereotypes have been overtaken by events. It is legitimate to proceed with caution. But it would be tragic were history to record that India was unable to rise to the occasion and acted smaller than its size."

President Nixon's visit to Moscow was watched with great interest in this country. The biggest disappointment was the PTI reporter in Moscow. Or were there instructions to him that he should leave the coverage to TASS and Novosty, the Soviet news agencies? It seems that the PTI correspondent did send a few cables, but they were more in the nature of editorial comment rather than factual reporting. So they were killed by the desk. As a result, the important world event was reported in Indian newspapers through the Soviet and Western news agencies.

The US-USSR agreement on the freezing of inter-continental ballistic mis-

siles was perhaps the biggest achievement of Moscow talks. Most newspapers in India welcomed it, but *Patriot*, the pro-Moscow New Delhi daily, had this to say in its editorial: "If his [Nixon's] success in Moscow does not decrease his lust for destruction, what has been achieved there could soon begin to look much less important than it does now." Other papers examined the Soviet-American ABM Treaty more minutely. Said *Statesman*: "A quantitative restriction [on anti-ballistic missiles] will not prevent a qualitative escalation; the existing number of delivery vehicles may be able to carry both bigger and more numerous warheads unless there is a ceiling on payloads and a ban on the development of multiple-warhead missiles."

Hindustan Standard of Calcutta interpreted the treaty differently. According to it, "The agreement does not establish nuclear parity between the two super powers. The edge is clearly in favour of the Soviet Union whose nuclear superiority will not be disturbed by the terms of the Moscow pact. This must have been a bitter pill for Mr Nixon to swallow, for as a Republican hawk he had demanded that his country's objective should be to keep ahead of the USSR in the nuclear arms race. He has waived the claim not only because the responsibilities of office have produced a sobering effect on him, but because his primary aim now is to win a second tenancy of the White House."

Hindustan Times hailed the treaty saying that it is "a major breakthrough in Soviet-US relations" and observed. "The Moscow accord visibly highlights this situation of the super powers' increasingly avoiding mutual confrontation while steadfastly maintaining their respective spheres of influence. Does this mean transition to a new age when the world has been made 'safe' for 'small' wars such as the one in Vietnam in which the US has unloaded more bombs than in all of World War II?"

Most newspapers by now have forgotten those two young Bengali journalists, Deepak Banerjee and Surajit Ghoshal, who at the risk of their lives had entered East Bengal in the early stages of the struggle for Bangladesh and were captured by the Pakistani forces. Patna's *Searchlight* has not. In an editorial recently it indicted the government of India of not showing the sense of urgency in getting the two journalists released from Pakistani jail. The newspaper records External Affairs Minister Sardar Swaran Singh's statement in Parliament that the names of Deepak Banerjee and Surajit Ghoshal have been included in the list of civilians whose repatriation is being sought from Pakistan. But "a routine request", says *Searchlight*, "is unlikely to persuade Islamabad to release these two journalists whose only fault was that they were carrying on their professional assignment...The delay in their release may endanger their life...New Delhi should have felt greater responsibility about finding out the whereabouts of these two journalists and securing their immediate release than it has done so far."

Chief Ministerial Foibles

The Chief Ministers are good sources of news, any newsman will say. Their doings and undoings are carefully watched. Recently *Searchlight* of Patna reported an incident which showed how casual and indifferent is the Bihar Chief Minister, Kedar Pandey, to public engagements. The Bihar Chief Minister was to address a dinner meeting of the Bihar Chamber of Commerce at 8 p m. According to *Searchlight*, he arrived there past 11 p m when his hosts had given up all hope of his arrival and had begun eating. The CM, without any apology, joined them and later adressed them till past midnight as if it was all quite normal.

Free Press Journal of Bombay and *New Age*, official organ of the CPI, carried reports on Maharashtra Chief Minister V P Naik's "royal tiger-hunting" in the jungles of Kolsa between April 18 and 27. According to *New Age*, "The shikar camp of the Chief Minister was a lavish affair. The daily consumption was something like the following: 25 goats, 50 chickens, 500 eggs. The storeroom had a stock of ten bags of rice, ten bags of wheat, two bags of sugar. And it was piled roof-high with Coca Cola bottles. The shikar itself was in right royal fashion. There were 25 jeeps, eight trucks, ten cars and five police vans engaged in it. In all they consumed 1,400 litres of petrol and 600 litres of diesel. Vasantrao being a law abiding chief minister could not brook the prospect of poaching on the Tadoba sanctuary to bag his tiger. So, 300 people were engaged to beat the jungle and come up with one... Still, no tiger turned up and Vasantrao had to go home disappointed. Very bad indeed."

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Protected on Paper

Dipak B R Chaudhuri

Nineteenth Report of the Commissioner for Scheduled Castes and Scheduled Tribes, 1969-70; presented to the Parliament of India in December, 1971; Rs 8.75.
Education of the Scheduled Tribes (1965-66) — A report by J P Naik; ICSSR Monograph; unpriced.
Education of the Scheduled Castes (1965-66) — A report by J P Naik; ICSSR Monograph, 1971.

THE fathers of the Constitution had envisaged the office of the Commissioner for Scheduled Castes and Scheduled Tribes as a key institution in the new Republic of India. Yet, almost one full year elapsed before the Government got round to selecting a substitute — a former party legislator — for Professor Nirmal Bose after he vacated the post. Similarly, the 19th annual report, prepared by Nirmal Kumar Bose and presented to the President on June 29, 1970, was laid on the tables of the Houses of Parliament as much as a year and a half later, in the second fortnight of December 1971. These delays merely reflect the casualness with which the entire problem of scheduled castes and tribes has been approached by the Government.

Article 338 of the Constitution provides for the institution of the high office of a 'Special Officer' — actually designated 'the Commissioner' — to be entrusted with the duty of investigating all matters related to the safeguards provided for the scheduled castes and tribes under the Constitution and of reporting on the working thereof to the President who is to cause the report to be laid before Parliament. The original conception of such an office, to protect the weakest sections of society, came from B R Ambedkar, in a memorandum submitted to the Constituent Assembly in 1947. According to this proposal, the status of the Special Officer was to be similar to that of the Auditor-General or of a Judge of the Supreme Court; and he was charged with the duty of preparing an annual report on the treatment of these minority communities by the public as well as by the governments of the Union and the states and noting any transgression of the safeguards provided or any miscarriage of justice on account of communal bias by the governments or their officers. The scheme also specifically provided for the placement of the Special Officer's reports before both the Union and the state legislatures for discussion.

Most of these proposals were endorsed by the concerned Advisory Committee of the Constituent Assembly. In the discussion on the Report on Minority Rights, the Chairman of the Advisory Committee described the provision for this new office as an 'administrative machinery' for ensuring that the guarantees and safeguards provided were made effective in practice, and categorically stated that the business of the Special Officer was to bring to the notice of the legislatures or the governments the defects or drawbacks in the protection of the rights.

The office of the Commissioner was created in November 1950. Even though the final wordings of Article 338 have not specified the full status of the 'Special Officer' (i e, the Commissioner), it is at least clear that he is to enjoy *independent* status. This has never in fact happened. The Commissioner was never actually invested with independent status or with the necessary powers envisaged under the Constitution.

Instead, the Commissioner was initially given the status of a Secretary of a Ministry of the Union Government. When the first Commissioner raised the question of his independent status, the Union Government decided to invest his office with the same status as that given to any other statutory office. The Commissioner was also declared 'Head of a Department' attached to the Home Ministry for purposes of parliamentary work. The arrangement continued upto 1956-57. The Commissioner's annual reports from 1957-58 onwards reveal a reversal of the government's earlier decision. Thus the 1958-59 report, mentions the recommendations of the Study Team on Welfare of Backward Classes and of the 48th Report of the Second Lok Sabha's Estimates Committee for according an independent status to the Commissioner's organisation. The Estimates Committee was particularly critical of the assignment of non-statutory functions to the Commissioner's office. The first Commissioner himself continued to maintain upto his last reporting year (1960-61), that it was desirable to attach 'adequate statutory, defined powers' to the post.

The question of the status of the Commissioner was raised time and again in Parliament also, and it is interesting that on one occasion the Minister claimed that the Commissioner was administratively under his Ministry and that he was just an officer of his Ministry. Again, notwithstanding the recorded stand of the first Commissioner right upto 1961, a memo of the Ministry of Home Affairs, dated February 19, 1960, claimed that "the Government have obtained the views of the Commissioner on this recommendation (by the Estimates Committee) and reviewed the whole position. They find the Constitution does not contemplate giving the Commissioner for Scheduled Castes and Scheduled Tribes an independent status like that of the UPSC or the Election Commission". The Government also strongly justified the assignment of non-statutory functions of the Commissioner for which he was made directly subordinate to the Ministry concerned. (See 137th Report of the Second Lok Sabha Estimates Committee.)

Thus, the Commissioner's organisation was gradually reduced to the position of a subordinate office of the Union Government. The result was that he slowly became powerless *vis-a-vis* not only the various state governments but also the various offices of the Union government. He has been powerless in practice even to collect the basic data required for an assessment of the situation by him. He has thus found it difficult to fulfil his constitutional duties. The annual reports are records of his bewailings and beseachings year after year.

When he became Prime Minister, the late Lal Bahadur Shastri transferred the office of the Commissioner and the Department of Social Welfare to the newly-created Department of Social Security attached to the Law Ministry.

Subsequently, in July 1967, the office of the Commissioner for Scheduled Castes and Scheduled Tribes was reorganised by placing the field organisation and executive agency of welfare work under a newly-created 'Directorate General of Backward Classes Welfare' in the renamed Department of Social Welfare. This reorganisation was

unpopular with the leaders of the two scheduled groups. The departmental note on the 1967 reorganisation, however, claimed that the matter had been discussed with the Commissioner and that he had agreed to the new scheme. This claim has to be judged in the context of a note, which was circulated by the Commissioner at the time of reorganisation, in which he had clearly stated that he was definitely opposed to the proposed reorganisation. He had even quoted a Law Ministry note (prepared in 1951) that had argued that it is necessary in the light of Article 338 that the Commissioner should have his own staff for ascertaining facts on the working of the safeguards provided under the Constitution.

Despite the handicaps regarding secretariat status and creation of the new Directorate-General, Commissioner Nirmal Kumar Bose did manage to bring out a few valuable annual reports which add much to our knowledge of the problems and the social and economic developments of the 'backward classes'. Yet the national press and social science circles hardly took any notice of all this useful information.

Bose was fully aware of the limitations of his data-collection powers. The very first sentence of the 18th report reads: "One of the difficulties in presenting a report every year arises out of the fact that adequate material is not always available". In another chapter, he observed: "Instances of non-co-operation on the part of certain authorities point to the necessity on the part of the Government to issue instructions to all the Ministries/Departments and also a request to the state governments, to ensure that the Commissioner receives full co-operation from them as regards the supply of the facts of cases referred to them and also the relevant records if asked for without any delay or demur"

In fact, the Fifth schedule of the Constitution requires the Governors of eight states to present annual reports to the President on the administration of the "scheduled areas". In the 18th report of the Commissioner, it was pointed out that several states Governors were delaying submission of such reports by about two years — though the due date for submission is within three months of the close of the financial year. In the latest report, too, Commissioner Bose discloses that the Governor's report on the administration of scheduled areas of Gujarat for 1967-68 was submitted to the Union Government on September 11, 1969 — about 14 months after the due date.

In the circumstances, instead of trying to cover the entire ground relating to the development of the scheduled castes and scheduled tribes Bose endeavoured to "deal more or less exhaustively with selected topics every year" In the 18th report, he dealt with the issues of education, land, and untouchability. Education and untouchability again figure in the 19th report. The latest report adds two valuable chapters on "Housing" and "Impact of Panchayat Raj" as they relate to scheduled castes and scheduled tribes.

Evidently, the changes in the administrative structure brought about by Panchayati Raj and its objective of democratic decentralisation, tend to ignore the special interests of the weaker sections. These interests tend to suffer in the actual implementation of the Panchayat Raj programme. The prevailing economic and social dominance of higher castes and classes and the direct dependence on them of the weaker sectors for their livelihood, have effectively carried these relationships over into the Panchayati Raj system. The progressive objective of the original idea has thus remained on paper. For instance wherever responsibility of primary education has been transferred by government departments to panchayat samitis, the special measures taken for the educational advancement of the weaker sections have in fact been ignored.

A number of other studies and research findings confirm the above conclusions. In the matter of administration of Tribal and Harijan Welfare Programmes, the process of democratic decentralisation and the developmental activities at the village level have often meant a setback for the backward classes. Zilla Parishads and Panchayat Samitis which have been entrusted with Tribal Development Blocks are dominated by powerful vested interests composed mostly of non-tribals. The landlord, the moneylender, the forest and PWD contractor, and the liquor vendor — all dominate the lives of the backward classes and are not enthusiastic about programmes for weaker sections.

The problems of landless agricultural labourers, who come mainly from the two weaker sections, and *jhum* or shifting cultivation, also attracted the annual review of the Commissioner. His staff conducted field surveys during October and November of 1969 in different parts of Assam and UP to assess the present conditions of the scheduled castes and scheduled tribes with special reference to their land problems, their economy, and their indebtedness. The information on bonded labour comes from these surveys and reports of state governments.

After covering all the areas with tribal concentrations of 66.6 per cent or more and with Tribal Development Blocks, only about one-third of the total population in the country are seen to have been benefited. The Commissioner has recommended that the important scheme of *ad hoc* assistance to other tribal pockets, known as sub-blocks, which was introduced in 1966-67, should cover a large number of tribals living outside the TDB as well. Bose has observed that the economic backwardness of scheduled caste persons is one of the important factors responsible for the practice of untouchability; it is, therefore, necessary that steps be taken to improve their economic conditions simultaneously with steps through education and propaganda to remove untouchability.

The 18th report of the Commissioner appended two valuable papers of A B Bose of the Planning Commission on problems of the educational development of the two weaker sections. The 19th report of the Commissioner provides valuable data on progress and obstacles in the educational development of the weaker sections. The information regarding wastage and stagnation in the Nasik schools should be useful to the state educational authorities in their planning. It is not enough to grant scholarships; it is even more necessary to reduce the wastage.

The Indian Council of Social Science Research has decided, meanwhile, to launch a major research programme on the problems of the scheduled castes and scheduled tribes. Ten states have been selected for the purpose. The education of the scheduled tribes will be studied in Assam and Meghalaya. Bihar, Gujarat, Madhya Pradesh, and Orissa, and that of the scheduled castes in Andhra, Maharashtra, Rajasthan, UP, and West Bengal.

The ICSSR has produced two monographs as background material. These have been compiled by its Member-Secretary, J P Naik, giving available data on the education of these communities. It is significant that the Compilation of data done by the Education Ministry in September 1971 provides the relevant data up to only 1965-66. Data of later periods are available at the Planning Commission. Comparative literacy figures would have been useful, whereas Naik has given the school enrolment figures. Also the Census Commissioner is a member of the ICSSR body, and the ICSSR should have better waited for the 1971 census figures before preparing its preliminary monograph — instead of basing its projects on 1961 census data.

Studies in Planning Techniques

V—Planning for Industrialisation

R M Sundrum

The Indian approach to industrialisation has been the subject of a great deal of controversy over the years; there is still no sign of any narrowing of the gap between different schools of thought.

To some extent, the discussion among economists has been one-sided; while those who place great reliance on market forces have been very articulate in their criticism of the policies actually followed in India, an equally cogent statement of the rationale behind these policies is not available. As a result, there has been some confusion of the role of planning in promoting industrialisation.

An attempt is, therefore, made in this paper to present a statement of the strategy followed in India and thus to arrive at the techniques of planning appropriate for the efficient implementation of this strategy. In fact, it is the contention of this paper that planning techniques have to be related to the underlying strategy of development, and should be evaluated in terms of such a strategy. Hence, it is a major objective of the present essay to formulate the chosen strategy in a coherent manner, as a step towards searching out ways to improve the techniques of planning being followed.

This is the fifth and last in the series of studies by the author in planning techniques.

A COUNTRY desiring to promote industrialisation as an important aspect of its development, has a choice of alternative strategies. For example, India could have chosen a strategy in which the basic production and investment decisions are made by individual entrepreneurs on the basis of the price mechanism, i e, a system in which the decisions obey the revealed preferences of consumers. For convenience, this may be described as the Market Strategy. In fact, this strategy has been rejected in India. We may debate the wisdom of this rejection, but what is inconsistent is to criticise the actual policies followed from the point of view of this strategy. Ultimately, the choice of a strategy is a matter of political judgment and in a democracy, every citizen is entitled to hold and express his own views on such political issues. What complicates the discussion, however, is the conviction of so many economists, especially those reared in the Anglo-Saxon tradition, that the market strategy is, in some way, demonstrably superior to any other alternative. This is a mistaken view, arising partly because of a failure to recognise the inherent political judgments in the choice of a strategy of development, and partly because the alternative strategies have generally not been formulated as clearly as the market strategy. We shall therefore attempt to outline some alternative strategies, including the one underlying the actual policies being followed in India, and try to show that they all have the same logical status as the market strategy, and that the differences among them are matters for political, rather than logical, debate.

In examining the logical basis of the various possible strategies, it must be admitted that the case for the market strategy is a powerful one. It is only by recognising this that we can appreciate the price paid by society in opting for some other strategy. The case for the market strategy of industrialisation derives ultimately from the classical prescriptions for free trade. Ever since its first enunciation the comparative cost theory underlying these prescriptions has itself been under attack, but the attack does not seem to have made any serious dent on it; it keeps recurring in various forms, especially in the form of criticisms of the policies followed in developing countries. It is too much to hope that the final demolition of this theory can be accomplished in the present paper, but an attempt must nevertheless be made to indicate some of its weaknesses especially in the application to developing countries. The heart of the case against the comparative cost approach to industrialisation is its 'static' nature. In its static setting, the classical theorem on the advantages of trading according to comparative advantages, and of production policies based on such trade, is an impeccable one. These policies can indeed be shown to maximise current production on the basis of a given factor endowment and a given distribution of income. The difficulty with the theory arises when it is applied in a dynamic setting, as e g, to a country in the process of development. This process involves so basic a transformation of the production and income structure, and so substantial an alteration of the factor endowment that a theory based on a given pattern of comparative advantages becomes hopelessly irrelevant. The main point of the development process is to change the pattern of comparative advantages. This emerges most clearly from the Heckscher-Ohlin view which locates comparative advantages in relative factor endowments, susceptible to change over time, rather than in the Ricardian concept of the 'peculiar properties of the soil', which are presumably more immutable. From this point of view, the practical question for a developing country concerns the way in which a country's comparative advantage should be changed over time, as a result of various policies.

Faced with this problem, economists have looked for some sort of dynamic comparative cost principle. It is not clear what this could possibly mean. Consider, for example, Roy Harrod's suggestion for what he calls "the dynamised version of the law of comparative costs":

> "What tradeable goods should be produced? There is a correct answer to this question, although one which it may be difficult to ascertain either by market forecast or by experience. Prior to the programme for expediting the provision of capital disposal and the growth of non-capital factors, there will have been a certain distribution of productive resources between exported and import-competing goods, including a null assign-

ment to many types of imported goods. The provision of additional capital disposal and of non-capital factors should lower costs in the industries to which they are applied. The conjunction of more capital disposal and other high quality factors with a given quantum of common labour power will reduce costs over certain range of increased output more in the production of some products than in that of others. The additional factors should be applied to the commodities of which the cost of production can be lowered more, over the range in which they can be lowered more. But that is just what is difficult to prognosticate. The introduction of additional capital disposal and other highly qualified factors may be regarded as *fertilising* the productivity of common labour.

I would suggest that it is *a priori* probable that the fertilising effects of the increased supply of these factors will be greater (a) where there are certain specific natural resources that gave the pre-existing factors a comparative advantage, compared with other countries, and (b) in those lines of production to which pre-existed factors were habituated."[1]

The search for a dynamic version of the comparative cost law in the above passage has clearly failed; after a very clear statement of the problem, we are left with *a priori* probabilities which have clearly not advanced beyond the static view of comparative advantages; these views have nothing in common with the powerful logic of the static comparative cost theorem.[2]

Beyond this point, free trade sort of policies part company with the comparative cost theory, on which they are so often based. We have next to consider the case that is sometimes made for free trade policies as particularly conducive to growth, quite apart from the alleged allocative efficiency of following static comparative advantages. Strangely enough, as Hla Myint has shown,[3] this is older than the comparative cost case for free trade and was in fact the basis of the advocacy of free trade by Adam Smith himself. The essence of the argument here is that free trade extends the market for individual industries in particular countries, promotes greater specialisation by wider division of labour, and by making industry more efficient, leads to faster growth. This is a more respectable argument, but if we look carefully into it, it does not provide any guidance as to which country should specialise in what industry; all that it suggests is that each country should 'specialise in some industry. This is why there is no strong economic argument on which to base negotiations for the harmonisation of industrialisation plans among countries seeking economic co-operation. Lacking such guidance, a country could follow free trade policies with the structure of production existing at a given time. This would be fine if there was any reason to accept this structure as particularly desirable; otherwise it would just perpetuate the results of a mere historical accident.

There is, however, another route by which to study the dynamic consequences of free trade policies on growth and development by considering the effects of factor price changes induced by trade on the growth of factor supplies, especially of capital accumulation. This is an analysis particularly suggested by the Hecksher-Ohlin theory of trade, and stimulated by the Samuelson theory of factory price equalisation. While a number of studies have been made,[4] no definitive results are yet available. The most intensive investigation to date is that of Stiglitz.[5] Studying the case of a small country which has a relatively low capital endowment to begin with, he concludes that "if the rate of time preference in the small country is larger than in the 'rest of the world', per capita consumption falls, while if the opposite is true it rises" (p 466). He, however, goes on to argue: "Should we, therefore, conclude that the opening of trade may have lowered social welfare?' Obviously not. The opening of trade has unambiguously increased the consumption possibility set of the economy and therefore the country is unambiguously better off. What has happened is that the opening of trade has changed the pattern of consumption over time, and more consumption may be taken earlier (if the country has a higher rate of time preference than the rest of the world)." This comment must, however, be considered in the situation where the social rate of time preference is lower than the private rate. Free trade will then have lowered welfare from the social point of view. As will be argued later, an important part of the case for some alternative strategy arises precisely from the decision that the social rate of time preference is lower than the private rate.

Before leaving the subject of the relation between specialisation according to free trade and economic growth, we must consider also the question of the uncertainties involved in heavy dependence on, trade. International trade these days is beset with political uncertainty, balance of payments difficulties and keen competition, which render export markets, especially for the primary products of developing countries, very precarious. At the same time, there is an uncertainty as to whether supplies will be available in sufficient quantities of imports as and when they are needed. Reliance on trade opportunities as the basis of a country's industrialisation involves a considerable degree of what we may call 'trade optimism', a question that depends ultimately on a political judgment.

So far, we have not come across any compelling economic arguments, from a dynamic point of view, for basing a country's industrialisation on market forces. We must, however, consider some further arguments. One argument for the market strategy is that "decisions can be made by those most closely concerned with the operation of particular industries",[6] on the basis of the price structure as it confronts them. There are two assumptions here. One is that the individual entrepreneur will make the most efficient decisions, because he is more knowledgeable about the particular industry he is dealing with. The second is that the price mechanism reflects the social interest faithfully. Given these assumptions, it can be argued that the individual entrepreneur in his search for private profit will make decisions which will turn out to be in the best interests of society as a whole, in other words, the argument of the 'invisible hand'.

Regarding the first point, while it is true that the profit motive is a powerful incentive for efficient conduct of industries, it cannot be categorically claimed that the private entrepreneur, will therefore make the best decisions, for he may simply not have the required technical knowledge or managerial ability. We have heard so much about the lack of entrepreneurial skills in the developing countries. It is, therefore, a question of fact, rather than of logic, to find out whether production decisions are better made by individual entrepreneurs than by any alternative methods.

Regarding the second point, there are a number of issues. In the first place, the price mechanism may not reflect the relative scarcities of goods and services because of various market imperfections. Secondly, the price mechanism reflects the structure of demand based on a given distribution of income, and in turn influences the future changes in income distribution in particular ways, so long as income distribution is a by-product of the production system. There is clearly room here for a social judgment on the appropriateness of such a distribution of income, and the production system based on it. Yet again, on questions of investment decisions, there is the problem of how accurately the individual entrepreneur estimates the future course of the price structure, at least over the life of the investment he contemplates.

The upshot of this discussion may be summarised as follows: a country would be well advised to follow the market strategy, if it believed that its dynamic comparative advantage coincided with its initial static comparative advantage; if it was satisfied with the existing production structure; if it had a high degree of trade optimism; if its social rate of time preference coincided with the private rate; if the current distribution of income and its changes were deemed socially acceptable: if it was believed that private entrepreneurs had sufficient technical and managerial skills, that new entrepreneurs would be recruited with sufficient competence and in sufficient numbers to the industries to be developed, and that these entrepreneurs were able to estimate the future evolution of the price structure more efficiently than any other method that could be devised; and if markets were believed to function well enough for the price system to reflect the relative scarcities of goods and services. A consequence of following a market strategy on the basis of these conditions would be that there would be no need for the State to do any planning to promote development.

It is doubtful whether any serious economist really believes that these conditions for following the market strategy are satisfied in a country like India at the present time. The above discussion is like flogging a dead horse but we have discussed the issues at some length partly to isolate certain concepts useful for the later discussion and partly also because some fragments of the case for the market strategy keep recurring in popular discussion. What is more likely is that economists relying on market forces would favour the market strategy with some important modifications. This gives rise to what we may call the Modified Market Strategies.

The principal reason generally advanced for modifying the Market Strategy is the failure of the price system to reflect the true relative scarcities of goods and services, as a result of imperfections in the working of the factor and product markets and of externalities in production and consumption. On the grounds that these distortions in the less-developed countries lead to an inadequate or sub-optimal rate of industrialisation, the modification of the market strategy most widely resorted to has been the imposition of protective tariffs. Where there are tariffs on both imported inputs and final products, the effective rate of protection is a better measure of the extent of encouragement than the nominal tariff on the final product.

In recent years, economists have tended to favour a system of taxes-cum-subsidies to deal with domestic distortions. This, in fact, is the form of a Modified Market Strategy that is recommended to developing countries by Little, Scitovsky and Scott.[7] They generally argue for the sort of industrialisation that is based on a country's comparative advantage; they go on to say that "a country can best learn its comparative advantage by having a price mechanism designed to search out that comparative advantage and by taking investment decisions in the light of it" (p 359). They concede a case for giving special encouragement to industry, beyond the level it would reach under free trade. They argue, however, that such encouragement should be given by policies of promotion, rather than of protection. They favour the promotion of industry in general by the improvement of markets and the provision of public services and the promotion of particular industries by subsidising labour employed in medium- and large-scale industries at rates per worker amounting in all to between 10 and 50 per cent of the unskilled wage bill. Quantitative restrictions are to be abolished on a permanent basis. Tariffs may be retained but only for revenue, not for protection, purposes; therefore, they may be levied at a flat rate of about 10 per cent on all consumer goods imports, but not on capital goods and raw materials; even then, they are to be counter-balanced by equipment excise taxes on domestic production. The balance of payments is to be managed by the 'normal' combinations of borrowing, deflation and exchange rate changes.

The authors admit that private entrepreneurs may have some difficulty in making accurate forecasts of future conditions affecting their decisions. They, therefore, recommend the use of 'indicative planning' by which "the government can see that the private sector is kept informed not only of the former's own investment plan, but also of its views about the probable growth not only of the gross domestic product but also of investment, production, consumption, imports, and exports, in particular sectors; these predictions being made in consultation with the relevant industries" (p 341).

The main concern of the Modified Market Strategy as recommended by these authors is with industrial efficiency. The concept of efficiency considered by them is based on the international price structure, the principal condition of such efficiency being that the domestic rate of transformation (DRT) is equal to the foreign rate of transformation (FRT). Hence the objection to tariffs as a way of dealing with domestic distortions. There is a persistent theme in their approach that high tariffs lead to inefficiencies, though the OECD study of Pakistan concluded that "a substantial amount of the protection received by various industries come in the form of high profits, rather than in the form of major inefficiencies".[8] Their preferred means of promotion for industry is presumably concerned, not with eliciting any particular rate of industrialisation, but only to correct for the extent of price distortions that have discouraged industrialisation in the past. But this is no simple matter. As the authors admit, "it is not at all easy to see how a very rational set of degrees of promotion, which should vary not only from industry to industry but even from firm to firm, can possibly be arrived at if administrators have to take notice of all the virtually immeasurable arguments that have been raised" (p 161).

The Modified Market Strategy would, therefore, adjust for the failure of one of the conditions needed to justify the Market Strategy. But we have argued that these strategies require many other conditions to be fulfilled. It is only when there is a broad-based political judgment that these other conditions are also fulfilled that the Modified Market Strategy becomes a suitable one to follow.

We have seen that the main concern of the Market Strategy and the Modified Market Strategy is not so much with any particular size and structure of the industrial sector that should be developed, but rather with the efficiency as they see it, of whatever industry emerges under their rules of the game. As an alternative, let us consider some strategies which are more concerned with achieving some desired size and structure of the industrial sector. The main question is how such an objective can be defined. The argument that the share of the industrial sector should increase in the course of development

has often been ridiculed as a false conclusion drawn from the historical correlation between the relative size of the industrial sector and the level of per capita income, and further confounded by citing the experience of countries like Denmark and New Zealand. But the statistical argument has become a bit more fashionable these days when clothed in the form of Chenery's regression equations, purporting to show some immutable 'patterns of industrial development'.[9] The attempt to follow these patterns may be described as an Imitative Strategy. There are some serious fallacies in following such a strategy. The basic fallacy is that these patterns have no claim to be optimal in any sense; to follow them would just mean copying the achievements and the errors of those who have gone before us — like the Chinese farmer who burns down a cottage every time he wants roast pig. Further, the conditions facing the less developed countries in the future are likely to be so different from those that prevailed at the time of the past experience summarised in these patterns. Also, a strategy based on these patterns is not a long-term one; we might use the targets suggested by these patterns as cogently for 1975 and 1980 as for the year 1990 or 2000. What we should be searching for is a target for a fairly long period of time that allows for the extra options in planning over such a long period. To do that, we have to delve deeper into the logic underlying the statistical picture.

Having seen the nature of some of the strategies that have been suggested for the less developed countries, and the problems of following them in a country like India, let us now try to define a strategy that is more applicable to India. It is one which is consistent with the broad thrust of the policies that have been followed in India during the period of the Plans, but because such a strategy has not been spelt out very clearly, there are some important divergences between actual policies and those implied by the strategy. In fact, it is the main purpose of the present essay to define a planning approach based on an explicit statement of the underlying strategy, as a basis for evaluating current policies and for searching out ways of improving these policies and making them more consistent with the strategy involved.

The strategy to be considered is based on a particular diagnosis of the nature of under-development in terms of a technological gap between the more developed and the less developed countries. In this view, under-development does not mean just a low level of per capita incomes compared with the developed countries, but a particular technological disparity as the cause of the low level of incomes, rather than such things as fundamental sociological factors, adverse terms of trade, over-population, etc. These other factors constitute formidable difficulties in the way of overcoming the technological disparity but are distinct from, and secondary to, the technological factor as a cause of underdevelopment. The strategy for development is concerned with measures to overcome this disparity. This disparity can be identified basically with the extent to which modern science and technology are harnessed to the production process. The extent to which this disparity affects the economy varies in different sectors. Broadly speaking, the disparity is greater in the industrial sector than in the agricultural sector, and therefore industrial development constitutes a greater problem than agricultural development. This does not mean that agricultural development can be neglected, for it provides the basis for industrial development, both on the supply and on the demand side. Industrial development requires an improvement of the human resources and of the material resources. But while a great improvement of educational levels is needed anyway, the improvement of skills for industrial development cannot be achieved only in the classrooms. To a great extent, it has to be achieved in the process of 'learning by doing'. Therefore, the improvement of human resources for industrial development has to proceed side by side with the building up of productive capacity. In the transitional phase, industrial production will be 'inefficient' compared with the more developed countries, but as productive capacity and the human resources are built up, the transitional phase will come to an end. The country will then have reached a stage when its production system has full access to modern science and technology, as in the developed countries.

The basic aim in this strategy is to increase the productive capacity of the economy as much as possible over a long but finite period of time, which may be thought of as the development phase defined in earlier papers in this series. Hence, for convenience, we may describe this as the Productive Capacity Maximisation Strategy — or PCM strategy for short. Or course, investment for increasing productive capacity can be maximised, by minimising consumption during the period in a sort of Stalinist approach. We shall, however, consider the case where it is the consumption of what are considered to be 'non-essentials' which is minimised, while the consumption of necessities is allowed to grow with the growth of population and according to consumer preferences. As shown in one of the last papers written by the late M Kalecki,[10] this approach gives the following relationship:

$$c_n = q + e(r-q) \qquad \ldots (1)$$

where c_n is the rate of growth of demand for consumption necessities, q the rate of growth of population, r the rate of growth of national income (so that r—q is the rate of growth of per capita income) and e is the average income elasticity of demand for necessities, depending on such elasticities for various classes of the population and on income distribution between these classes.

Although equation (1) shows c_n as a function of r, it can be re-written as follows:

$$r = \frac{c_n - q(1-e)}{e} \qquad \ldots (2)$$

This shows that r is an increasing function of c_n, i e, the higher the value of c_n, the higher the rate of growth of national income that can be achieved without an inflationary rise in the price of necessities consumed by the broad masses of the population. The first implication of this for our strategy is to maximise c_n. The second implication is to reduce q, the rate of growth of population, which will lead to a higher value of r for any given value of c_n. At first sight this leads to the absurd result that all investment resources should be diverted to increase the production of necessities. In fact, however, the value of c_n does not depend only on investment. The increase in production of necessities, especially of staple foods, will be limited by institutional factors, such as feudal land ownership, domination of peasants by merchants and moneylenders, the slow diffusion of improved technology, etc. The value of c_n cannot therefore be raised arbitrarily, and the allocation of investment resources to this sector should be such that c_n reaches the limit set by the institutional barriers at any time.

Once the value of c_n is determined at a high level, the national income can be increased at a fast rate, and even after allowing for the investment needs of the high value of c_n, there will be a growing surplus available for allocating to the consumption of non-essentials, the investment for increasing the production of non-essentials, and infrastructural investment. The next question is to determine the pattern of this allocation. The PCM strategy then chooses to maximise infrastructural investment and to minimise the rate of growth of non-essential consumption and the investment needed for that sector.

Let us consider the justification for such a strategy. Productive capacity is not needed for its own sake, but for the stream of consumption it makes possible. By stressing investment to maximise productive capacity, this strategy therefore seems to emphasise the value of consumption in the distant future compared with consumption now, i e, to be based on a low social rate of time preference, much lower than the private rate. This is a political decision and not one that is logically disputable. Indeed, all indications of welfare economics are that the private rate of time preference tends to exceed the social rate on many counts. But this way of stating the social choice is not quite accurate, for in the strategy we have defined, the low social rate of time preference is applied only to the consumption of non-essentials. As the broad masses of the population have only a limited ability to consume the non-essentials, it is the much wider consumption of non-essentials in the future that is highly valued compared with the limited consumption of these commodities now.

There is yet another aspect of the case for the PCM strategy. As shown in the various theorems on the subject, the 'optimum' rate of saving depends not only on the rate of time preference, but also on the estimated productivity of investment. The PCM strategy is based, not only on the choice of an intertemporal pattern of consumption as determined by a low rate of time preference, but also on a judgment that investments of the sort envisaged will yield large developmental benefits. It has recently become fashionable to decry the importance of capital as a factor in economic development and to concentrate on various social and institutional factors. These social and institutional obstacles to development are certainly important and policies must be followed vigorously to overcome them, especially as some of them are not as immutable as was thought. However, the deficiency of capital, especially in infrastructure, is still a basic problem. Two aspects of capital deficiency in a country like India are worth noting. One is the sheer quantitative deficiency. Table 1 gives some idea of the extent to which infrastructural capital and facilities in India fall short of the amounts available and taken for granted in the developed countries.

The wide gap between India and the developed countries is, of course, partly due to the fact that India is mainly agricultural while the developed countries are mainly industrial. This means that the actual constraint on current industrial production in India, compared with the developed countries, is not as great as that shown in Table 1, but it is still a serious one. India's comparative disadvantage in industrial production must therefore be attributed to a great extent to this largely remediable factor. It is therefore wrong to perpetuate the pattern of industrialisation on the basis of the country's present comparative advantages.

The second aspect of capital deficiency in India relates to the rate at which infrastructural facilities need to be expanded. As discussed in an earlier paper, there are two broad strategies—one to build in response to clearly foreseeable needs and the other to build ahead of demand and, in fact, to stimulate the demand. In the first case, the emphasis is on full utilisation of capacity as it is built up, while in the second, the emphasis is on increasing the capacity even when it is not being fully utilised. Of course, it would be ideal if capacity could be expanded at a high rate and starts being fully utilised as soon as it is installed, but this is not possible. It is the second of the two strategies which is chosen in the PCM strategy. Something must be said to justify this, as the charge of under-utilisation of capacity is one of the most persistent criticisms of Indian policies. One argument is that it would take a longer time to build up capacity, especially in infrastructure, than to stimulate the demand to use that capacity. Another argument, reinforcing the first, is that various infrastructural facilities act synergistically to facilitate production so that capacity in one form would be under-utilised when other forms of capital are inadequate. Yet a third argument is that there is a threshold in the amount of infrastructure and that it is only beyond this that they begin to be fully productive.[11]

The problem here can be considered as an example of the conflict between economies of scale and balanced growth. The argument has been stated by Sci-

TABLE 1: LEVELS OF PHYSICAL AND SOCIAL INFRASTRUCTURE
(around 1965-67)

Indicator	Developed Market Economies	Centrally Planned Countries	India (1965-66)
(1) Electricity capacity (kw per 1000 popn)	927	588	21
(2) Electricity production (kwh per capita)	3,951	1,778	74
(3) Railway density per 100,000 popn	104.2	69.9	11.8
(3b) Railway density per 1,000 sq km	21.8	10.5	18.0
(3c) Railway density per popn distance	47.7	27.1	14.6
(4a) Road density km per 100,000 popn	1,479.4	217.4	58.0
(4b) Road density, km per 1,000 sq km	309.7	32.5	88.3
(4c) Road density per popn density	676.9	84.1	71.6
(5) Commercial vehicles per 1,000 popn	49.8	13.3	0.6
(6) Percentage of population in urban areas	64.7	52.7	18.9
(7) Percentage of adult population literate	94.2	94.8	28.6
(8) Enrolment ratio in 1st and 2nd level education	88	84	51
(9) Numbers in 3rd level education per 100,000 popn	1,422	1,349	251
(10) Physicians and dentists per 100,000 popn	169	204	17
(11) Hospital beds per 100,000 population	926	943	49

Source: United Nations Statistical Yearbooks, N Ginsburg, "Atlas of Economic Development"; for India, Fourth Plan.

tovsky as follows: "Such conflicts can be resolved by sacrificing economies of scale for the sake of balance, by sacrificing balance—at least temporarily—in order to secure the economies of scale, or by striking a compromise between the two. In the first instance, investment will be less efficient, output smaller, and growth slower than they could be; whence it follows that it is always desirable to sacrifice balanced output or balanced growth, at least to some extent. This, indeed, is what usually happens... The several-year investment plans [of planned economies and of economies that plan their investments] of which one hears so much nowadays, may be regarded as plans for unbalanced growth, extending to several years so as to restore balance by the end of the period for which the plans are made. In the interim, unbalance manifests itself by the completion of productive capacity before the demand for its full utilisation has risen... The temporary excess capacity may have to be accepted in most cases as an inevitable cost of (temporarily) unbalanced growth for the sake of securing economies of scale."[12] In the case of infrastructural investment, the period needed to achieve balance at a sufficiently high level starting from the position such as in India, may well extend to decades.

At this point, we must consider what this implies for Industry. While the main item in consumption necessities is foodstuffs, this group also includes some industrial products, mainly textiles and housing materials. The production of these items should therefore be expanded *pari passu* with the maximum extent to which food production can be expanded. Apart from this, the industrial sector has to meet the needs for some of the major types of infrastructure and a large part of non-essential consumer goods. In dealing with these requirements, the approach of the PCM strategy is to stress the capital-goods sector. The building up of the capital-goods sector will lead to two types of advantages. It will enable the rapid expansion of the domestic production of the equipment needed to produce the requirements of infrastructure and other industries. Further, a larger domestic capital-goods sector will be in a better position to produce machinery of a labour-intensive technology more suited to domestic factor endowments, as Park and Todaro have pointed out.[13] And the second advantage is that it will help to reduce the rate of growth of non-essential consumption.

The case for a high allocation of investment to the capital goods sector as an essential condition for promoting long-term growth was fully discussed in the great economic debates that took place in the Soviet Union in the twenties.[14] A model for such an allocation applicable to India was given by P C Mahalanobis in connection with the drawing up of the Second Plan.[15] His model was somewhat simplistic, but the many criticisms that have been levelled against it have been equally simplistic; these criticisms seem more concerned with the theoretical elegance of the model than with whether the policy recommendations were appropriate. The fact that Mahalanobis is a physicist by training and a statistician by practice, or that he had been consorting with economists of socialist countries has really nothing to do with all this. In his formulation, he was trying to introduce one new consideration in making the important planning decision of the allocation of investment as between capital-goods and consumer-goods sectors.

There are a number of ways to go about this. We could start off by saying that we need to have a high rate of growth; this means that we should have a high rate of investment balanced by a high rate of saving. In a closed economy, the rate of saving determines the allocation of investment. In fact, according to the two-sector model of Mahalanobis in its steady state, we have

$$s = \frac{rB_k}{B_c B_k - r(B_c - B_k)} \quad .. \quad (3)$$

and

$$P_k = \frac{sB_c}{B_k + s(B_c - B_k)} \quad .. \quad (4)$$

or more simply

$$P_k = r/B_k \quad .. \quad (5)$$

where s is the savings ratio, r the desired growth rate, P_k the allocation of investment to the capital-goods sector, and B_c and B_k are the reciprocals of the capital-output ratios in the consumer-goods and capital-goods sectors respectively. Now, how can the savings rate be raised in order to accelerate growth? We can proceed along the route of fiscal policy, i e, by levying more taxes and channelling the proceeds to investment. This by itself may not be sufficient. So measures may also be taken to discourage consumption, especially of what are considered as non-essentials, by price policies—e g, by higher taxes on particular commodities. Not enough has been done along these lines in India, but even if they had been followed, it would have been difficult to ensure that they would have made a sufficient impact, because of our ignorance about actual behavioural relationships and the weakness of our tax administration. In any case, the results would be very uncertain, so that it would be difficult to determine the allocation of investment so as to achieve complete balance, sufficiently in advance.

The alternative approach would be to start off with a high allocation of investment to the capital-goods sector, and then pursue policies to bring voluntary savings to the level of investment implied by this allocation. In fact, according to the Mahalanobis two-sector model, if savings were made equal to investment, we would have

$$(\sigma - s_t)\, Y_t = (\sigma - s_o)\, Y_o \quad .. \quad (6)$$

where s_t is savings as a proportion of income at time t, and σ is the ratio

$$\frac{P_k B_k}{P_c B_c + P_k B_k}$$

as determined by the respective capital-output ratios and the allocation of investment to the two sectors. If σ is set at a level, high than s_o, then s_t will go on rising asymptotically towards this value of σ. At the same time, the 'productivity of capital' is given by

$$\frac{Y_t - Y_{t-1}}{I_{t-1}} = B_c - P_k(B_c - B_k) \quad .. \quad (7)$$

The result is that a high value of P_k will let the savings ratio increase steadily, but at the same time, it will reduce the productivity of investment, when $B_c > B_k$ as assumed. However, it is easy to see that the former effect wins out in the long run. Here again, we have to consider what happens if the voluntary savings ratio does not rise as rapidly as implied in (6). The result will be a rise in consumer goods prices and abnormal profits in that

TABLE 2: IMPORT AS PERCENTAGE OF TOTAL AVAILABILITIES

Category	1951	1957	1963
Consumer goods	4.4	2.5	2.5
Intermediate goods	17.4	25.9	12.9
Investment goods	56.5	58.8	36.3
Total	12.8	20.9	14.6

sector, but the real value of savings would have risen and a real amount of investment achieved. Obviously, this is not the ideal solution. While the change in relative prices would roughly be of the order of magnitude required for the desired rate of real growth, it would have been better if it had been achieved in such a way as to yield more revenue to the government than more profits to the producers of consumer goods. This is the price that is paid to achieve the planned rate of growth by this method. In following this method, therefore, a further effort should be made to see that the inflationary price rise is mostly confined to non-essential consumer goods, by distinguishing between the two categories of consumer goods, as suggested, in fact, by the biologist, J B S Haldane.[16]

We now have to consider how the possibility of foreign trade affects the allocation of investment. With foreign trade, the need for a lot of capital-goods to accelerate growth does not necessarily imply expanding the domestic capital-goods sector. It has been argued, e g, that whether it is capital-goods or consumer-goods which are produced at home rather than imported should depend on the comparative advantage position. The relative costs of making or buying capital-goods should certainly be taken into account in deciding the allocation of investment, but as argued earlier, current comparative advantages are not a very reliable guide to estimating these relative costs over any long period in a country in the process of development. What the strategy calls for is an attempt to build up India's comparative advantage in the capital-goods sector. Improvement of such comparative advantage requires action on many fronts, but one of them is to promote growth of the industry as a means to efficiency. This is a central point of the strategy, which is dismissed in a somewhat cavalier fashion by Bhagwati and Desai when they say, in the very last page of their book,[17] "You cannot have 'growth' first and 'efficiency' next; the two processes have to go hand in hand". On the contrary, there is substantial evidence to suggest that growth leads to efficiency[18] and this is what we wish to exploit in our strategy by stressing the capital-goods sector.

There is another aspect of the problem, namely to reduce our dependence on the imports of capital-goods. It is often said that Mahalanobis was unaware of the possibility of importing capital goods. This is a strange comment, in view of his specific statement "India's present dependence on imports of capital goods is a fundamental structural weakness, which must be corrected as quickly as possible" (ref 14, p 51). Further, he says, "It is neither necessary nor desirable that India should try to become completely self-sufficient in the production of machinery" (*ibid*, p 52). The import-dependence of various categories, derived from Padma Desai's study[19] of import substitution, is shown in Table 2. India has been heavily dependent on imports for her investment goods, and even after substantial import substitution, the import-dependence in 1963 was quite high. With this high degree of import dependence, the possibility of accelerating future growth would be severely hampered by the balance-of-payments constraint, and that is why for example, Reddaway supported the policy of a high allocation of investment to this sector.[20]

TABLE 3: FORMS OF EXCHANGE IN THE INTERNATIONAL TRADE BETWEEN DEVELOPED AND DEVELOPING COUNTRIES, 1967

(Billions $ US)

Form of Exchange	Value	Percentage
(1) Exchange of primary products for primary products	11.96	20.3
(2) Exchange of manufactures for manufactures	10.80	18.3
(3) Exchange of primary products for manufactures	35.32	60.0
(4) Exchange of goods for invisibles	0.84	1.4
Total	58.92	100.0

A criticism of this approach is based on the argument that the prospects of expanding India's export earnings have not been as pessimistic as feared, and that the fall in India's share of world trade has been due mainly to India's domestic policies. This criticism is advanced most fully by Bhagwati and Desai. They make rather heavy weather of the fact that this export pessimism was not spelt out in the early draft documents preceding the Second Plan, but was "invented *post facto* to rationalise this shift in investment strategy".[21] To those who have watched the increasing difficulty which the less developed countries have had in expanding their exports to the developed countries, the export optimism of the critics makes strange reading. They have even produced what they call 'somewhat optimistic estimates' of the overall improvement in feasible export earnings in the period 1951-60 on the assumption that India retained its 1948-50 average volume share of the major commodities and arrived at a figure of 16.5 per cent of the actual performance. They recognise that the world demand for India's traditional exports has been sluggish. In that case, for India to have retained its share of the world markets for its exports would have been at the expense of other less-developed countries; the outcome of such zero-sum games is surely not one to gamble on as the basis of a long-range development programme. Anyway, the prospects of traditional exports are not directly relevant to the problem of allocation of industrial investment, for this must be considered subject to the desperate need to increase savings. Hence, if the allocation to the capital goods sector was kept low, and a larger fraction of these goods imported, it follows that it is the industrial consumer goods which must be exported. It is only if the prospects of expanding these exports are bright that there would be a case for a low allocation of investment to the capital goods sector.

We must also take note of the fact that, apart from the dim prospects of export expansion, there is also considerable instability of export earnings, which justifies a concern to reduce our import-dependence for capital goods. Even this has been criticised. For example, I G Patel says, "An argument for autarky of this kind can lay little claim to rationality for it does not make much sense to determine one's day-to-day behaviour on the basis of what might be required in an ultimate emergency; and if the case is one of relative self-sufficiency in some line as a measure of insurance, it is at least arguable that there should be less emphasis on self-sufficiency in the case of things like machinery which can be run down for a few years than in regard to materials and essential consumer goods which exhaust their usefulness over a shorter span of time."[22] This is not a very conclusive argument. As we have stated it, the strategy would ensure the adequate supply of the essential consumer goods, and the choice is only between capital goods and the less essential consumer goods. Secondly, the struggle is not for maintaining a level of output by running down equipment but for growth. Hence if export instability only affected import capacity for the less essential consumer goods, the effect would be short-lived, but if it affected import

capacity for capital goods, it would have a lasting effect on the growth of the economy.

Much of the debate on import-substitution versus export-promotion has been conducted in terms of the foreign exchange and the balance of payments considerations, as if import-substitution was primarily a foreign-exchange saving strategy. In fact, however, it should be considered as a strategy for industrialisation. This is not just a case of moving facilely from one point to another on a transformation curve drawn on paper. It means a long-drawn out process of building up a number of industries and giving them time to improve their efficiency. The whole point of import-substitution as against export-promotion is that an import-substitution policy gives us more time to build up a certain level of efficiency whereas in the export field, you have to reach world levels of efficiency straightaway. Of course, the import-substitution policy involves some sacrifice of consumer welfare in the interim period, but this is part of the price the country has to pay for the development objective.

The preference for import-substitution does not mean a preference for autarky. The main objective is to reduce our dependence on what may be called the traditional form of exchange, which still dominates the pattern of trade between developed and developing countries. This is shown in Table 3 in terms of Hirschmann's classification of the forms of exchange.

Another consideration to bear in mind is the fact we have noted above that the drive for more savings involves a change in relative prices of capital goods, and the essential and non-essential consumer goods. This would be impossible under the various market strategies that have been proposed. To keep the domestic price structure of these relative prices in line with world prices, and yet achieve the sort of changes implicit in a high rate of growth is far too formidable a task to be lightly undertaken. We have, therefore, to give up the idea that the world price structure should guide the pattern of our industrialisation. Instead, we should determine the pattern to our requirements and then search out for the sort of price policies that would bring this about.

This conclusion has an important bearing on some current estimates of the price paid for the Indian pattern of industrialisation. To achieve a pattern of industrialisation different from that which would emerge from a laissez-faire policy the method adopted in India has been to operate some industries in the public sector and to regulate the others left to the private sector by a combination of tariffs, quantitative import restrictions and exchange control, investment licensing and prices control. Critics of Indian policies have persistently argued that these policies lead to inefficiency. There is, no doubt, a lot of inefficiency in the system and it would be useful to have some measures of this inefficiency. However, the prevailing method of measuring this inefficiency seems to be that of calculating various effective rates of protection of importable items. For example, Bhagwati, Desai and Panchmukhi have produced estimates averaging over 300 per cent in 1961 for a select group of Indian industries. The basis of these estimates is a comparison of the value added in these industries at domestic prices and at foreign prices converted at the official rate of exchange. Clearly, this cannot be taken as a measure of inefficiency for it does not allow for the price differences that are inevitable once the country has chosen a pattern of industrialisation different from the free trade pattern. The question to be considered is whether the control system involves a cost greater than the minimum needed to achieve the desired pattern of industrialisation. Such a cost may arise when production in the controlled industries is inefficient in some technical sense, and when entrepreneurs in these industries earn abnormally high profits. What we need are some estimates of such technical inefficiencies and of abnormal profits, in order that measures can be taken to overcome these inefficiencies and to absorb some of the abnormal profits into the public exchequer. Some such estimates made for Pakistan, under a similar system, indicate that the main factor was that of abnormal profits.[8]

The various criticisms of the Mahalanobis' model that have been advanced so far, however, have missed an important weakness of such models. This refers to the way the incremental capital-output ratios (or their reciprocals) are used. The ratio B_k in the capital-goods sector is taken as smaller than in the other industries. In his main calculations, for example, Mahalanobis takes $B_k = 0.20$, and the ratios in the factory sector, the household sector, and the services sector of the consumer goods industry as 0.35, 1.25 and 0.45 respectively. Why are there such differences? One reason is that the output-labour ratios in the various sectors are different. Thus, the

TABLE 4 : CAPITAL-OUTPUT RATIOS IN 11 SECTORS USED IN THE BOKAUS-PARIKH MODE

Sector	Capital Output Sector
(1) Agriculture and plantations	1.511
(2) Mining and metals	2.416
(3) Equipment	0.905
(4) Chemicals	0.875
(5) Cement and non-metal products	0.894
(6) Food, clothing and leather	0.551
(7) Electricity	6.259
(8) Transport	2.222
(9) Construction	0.153
(10) Housing	10.000
(11) Others and margin	0.156

consumer-goods sector is generally more labour-intensive than the capital-goods sector. This means that the policy of a high allocation of investment to the capital-goods sector leads to slower absorption of labour in the beginning to be made up by faster absorption due to faster overall growth later. But even this factor does not explain the fact that the household sector of the consumer-goods industry requires both less capital and less labour than the other sectors of this industry, so that it clearly 'dominates' the other two sectors. It was, therefore, a simple matter for Komiya to derive an 'optimal' solution concentrating all consumer goods production in this sector.[23]

However, if the parameters are to be taken seriously, some additional factor must be used to explain the differences in these ratios. One such factor is the different longevities or durabilities in the Wicksellian sense of the investments made in the various sectors. Industries with a low output-capital ratio are also likely to be those with longer life of capital. To the extent that this occurs in the capital-goods industry, the policy of a high allocation of investment to this industry is just a way of distributing productive capacity over a longer time in the future. It is clearly an aspect that should be taken into greater account in making long-term projections of alternative models.

This aspect of the problem is also neglected in the more elaborate CELP model which has been worked out in detail by Eckaus and Parikh.[24] The great diversity of the capital-output ratios used by them is shown in Table 4. There is no reference to labour. Depreciation of capital is based on the 'one hoss shay' assumption, the life of equipment being 25 years and of construction being 33 years, in whatever sector they are employed. An important aspect of the problem of allocating capital on the basis of its return over time is, therefore, completely neglected, even in their long-term models.

These models are basically different from that implied in the PCM strategy, mainly because their objective function is based on the levels of consumption. In some versions, a requirement is imposed on the rate of post-terminal consumption growth and this acts to some extent in favour of building up capacity for growth at the end of the plan period, but this action works in an indirect manner. For example, a high rate of post-terminal growth is achieved at the expense of the level of this consumption, by an actual reduction of consumption in the last part of the plan period. Again, it is instructive to look at the capital employed in various sectors in what they call their Guidepath-I Reference Solution. There is surprisingly little change over nearly 20 years.

The programming approach in terms of such objective functions obscures, rather than clarifies, some of the key issues of development. The ultimate objective is not so much a high rate of post-terminal consumption growth but a level of the productive capacity that overcomes the handicap that the country now suffers by its underdevelopment, i e, by the inability to exploit modern science and technology in its production system. The main idea is that the country should have greater options to determine the pattern of its consumption and the rate of its growth. In the process of building up this productive capacity, it is useful to distinguish a part of consumption, not only to promote consumer welfare, but also as a necessary element of the development effort. Some distinction such as that between essential and non-essential consumption has to be made. The principal political judgment involved is then the balance to strike between the expansion of productive capacity and the increase of non-essential consumption. Because the availability of even the essential consumer goods is so limited, the scope for choice may well be quite small, but it is within this limited area that the PCM strategy seeks to determine the allocation of investment. Although all production is for consumption, it makes quite a difference to planning in a finite period which of these features in our objective function.

Because the implications of this view of the PCM strategy may not be very clear yet, it may be useful to illustrate it by a simple numerical exercise. Let us assume that the output of essential consumer goods is always such that it satisfies the demand for it, assuming a constant value e, say 0.6, for the income elasticity of per capita demand. Taking population growth also constant at, say, 2 per cent per period, and substituting in Kalecki's equation (1) above, we get

$$C_t = (1.008 + 6r)\ C_{t-1} \quad .. \quad (8)$$

where r is rate of growth of net national product Y_t, and C_t is output of the essential consumer goods. We assume that the maximum rate at which C_t can increase is given by a constant m. In the early stages, savings may be insufficient to provide for the growth of Y_t implied by the maximum possible rate of growth of C_t. In this stage, we assume that all investment is allocated to the capital-goods industry and the essential consumer-goods industry only, and none for the non-essential consumer goods industry. Then the rate of growth of total output, given its relationship with C_t, may be derived from:

$$r_t = \frac{I_{t-1} + 0.008C_{t-1}\left(\frac{1}{B_k} - \frac{1}{B_c}\right)}{\frac{Y_{t-1}}{B_k} - 0.6C_{t-1}\left(\frac{1}{B_k} - \frac{1}{B_c}\right)} \quad ..(9)$$

A development according to this relationship is shown in Table 5 up to the period t = 4, with $B_k = 0.4$ and $B_c = 0.5$.

Thereafter, income growth is limited by the maximum possible rate of growth of C_t. If we take m = 0.05, this implies maximum r=0.07. At this stage, it becomes possible to allocate some investment to increase the output of non-essential goods N_t. However, if the output-capital ratio of this sector is taken as the same as for C_t, i e, higher than B_k, the system is unstable. This is similar to the well known instability of two sector models when $B_c > B_k$. In fact, we will then have

$$\left(s_t - \bar{s}\right) = \left(s_{t-1} - \bar{s}\right)\left[1 + \frac{rB_k}{\bar{s}(1+r)\left(B_c - B_k\right)}\right] \quad .. \quad (10)$$

where $\bar{s} = \dfrac{rB_k}{B_c B_k - r\left(B_c - B_k\right)}$

as in equation (3) above. The expression in square brackets will be positive and greater than 1. Also such an assumption is implausible on capital-theoretic grounds. We shall therefore assume that the output-capital ratio in the production of N_t is B_n, less than B_k. On this assumption, the growth of N_t can be traced easily by using

$$N_t\left(\frac{1}{B_n} - \frac{1}{B_k}\right) = Y_{t-1}\left(1 - \frac{r}{B_k}\right) - C_{t-1}\left[1 - m\left(\frac{1}{B_k} - \frac{1}{B_c}\right)\right] - N_{t-1}\left[1 - \left(\frac{1}{B_n} - \frac{1}{B_k}\right)\right] \quad .. \quad (11)$$

For the illustrative projection in Table 6 from t=5 onwards, B_n is taken as 0.3. It will be seen that the allocation P_k of investment to the capital-goods industry is high and increasing in the first phase and declines in the second phase. It will also be noticed that the savings rate increases rapidly at first, and more slowly later on. The underlying idea in this approach is to take advantage of the instability of the two-goods form of the model to achieve high rates of investment in the early phase, and then to approach a steady state in the later phase on the basis of the stability of the three-goods model.

We have had to discuss the PCM strategy at some length because it is generally not stated in these terms and because so much of current criticisms of Indian policies are not related to this underlying strategy. At the same time, some such clarification is needed to evaluate and improve upon the detailed policies being followed. Having done this, our next task is to derive the planning implications of the strategy. By this we mean the sort of broad economic policies to be followed and the planning framework through which they

TABLE 5 : DISTRIBUTION OF AVAILABLE CAPITAL BY SECTORS IN ECKAUS-PARIKH GUIDEPATH-I REFERENCE SOLUTION

(percentages)

Sector	1966-69	1984-87
(1) Agriculture	32.7	29.9
(2) Mining and metals	8.4	18.4
(3) Equipment	5.5	7.7
(4) Chemicals	4.9	4.6
(5) Cement and non-metals	1.9	1.8
(6) Food, clothing and leather	4.3	2.7
(7) Electricity	4.1	4.8
(8) Transport	15.3	16.2
(9) Construction	1.3	1.3
(10) Housing	17.9	10.3
(11) Others and Margin	3.6	2.2
Total	100.0	100.0

are to be implemented. These may be discussed under various heads as follows:

(1) *Long-term Goals*: The model presented above can be elaborated in various ways. Once the basic model underlying the strategy is adopted, an estimate can be derived of the size and broad structure of the industrial sector likely to emerge at the end of the development phase. To start with, there should be a policy decision about the classification of essential and non-essential goods. With this, the sizes of various industries in each group should be roughly estimated so that they are in some sort of balance with each other. Further, the structure within the capital-goods sector should be adjusted with a view to future growth. Although this is a risky enterprise, some quantification of the probable future size of various industries will be useful to plan their growth in the intermediate period. These estimates do not have to be very accurate and may be revised periodically with better information.

(2) *Savings Policies*: The next most important task is to set out the policies to achieve the growth of savings required by the underlying strategy. Because the strategy calls for a major increase in savings rates, this will involve some basic changes in the country's taxation, credit, investment, interest and monetary policies and the institutions through which these policies have to be implemented. The progress achieved so far has been far from adequate. Without a growth of savings corresponding to what is required, the attempt to follow the strategy will only lead to a disorderly and inflationary situation, with adverse effects on income distribution and even reducing the effectiveness of the instruments of policy. It is possible that without such an increase in savings, the growth of the industrial sector may even be less than if this strategy is not followed.[25] There is a tendency in the plan documents to take the savings propensity in the private sector as a datum. The required rate of savings simply cannot be achieved on this basis. In fact, this savings propensity is amenable to various instruments of policy, and they must be fully deployed to avoid under-utilisation of capacity, especially in the capital-goods sector of the sort that has contributed to the industrial recession in recent times.

(3) *Income Distribution Policies*: Because a more equal distribution of income is one of the major objectives of the country, various policies have to be followed, as suggested in an earlier paper. As the structure of industry depends greatly on the distribution of income, these policies have to be closely related to the industrialisation policies indicated by the chosen strategy. Progress on equalisation will inevitably be slow; therefore, every effort must be made to co-ordinate the long-term trends of industrialisation to the final goals of income distribution, rather than to the current situation. At the same time, income distribution policies should also be related to the required savings effort. It is generally assumed that the savings rate increases with income level. While this may be true at the highest income levels, it has to be checked at the medium income levels. This is particularly important because the strategy defined above calls for economising of the resources used for what have been considered as non-essential consumer goods.

(4) *Price Policies*: According to the PCM strategy, the pattern of industrialisation will be geared to certain long-term goals, significantly different from what would emerge under a laissez-faire system in which the structure of domestic prices remains aligned with the structure of world prices. This implies that in the intermediate phase, a balance between supply and demand requires a different structure of domestic prices. The required change in the price structure has to be estimated carefully, and a policy to ensure such a change has to be made an important instrument of public policy. It is only when such a change is deliberately brought about by suitable tax measures that the scarcities of various commodities will increase the tax yield to the State rather than high profits to the producers.

(5) *Investment Allocation Policies*: The PCM provides a rationale for the broad allocation of investment. Thus, in the early phase, the strategy calls for an adequate allocation to the essential consumer goods sector, and subject to this the maximum allocation to the capital-goods sector. This does not mean that the allocation of investment should be made only on the basis of such a purely macro-economic exercise. Within the allocation suggested by the exercise, every effort should be made to choose the most efficient individual projects in each major sector, so that the overall allocation does not relieve us of the discipline of cost-benefit calculations. The individual investment decisions in each investment planning period should be based on the results of the most intensive project appraisal studies. An important difference would be that the project appraisal can then be based, not only on current economic conditions but also on the goal towards which the economy is being moved. While it may not be possible to ensure full utilisation of capacity from the time it is set up, an effort should be made in the course of such project appraisal studies to minimise the losses due to under-utilisation as much as possible, by suitable phasing of various projects. The overall exercise would then serve as a rough guide, indicating the nature and extent of the preference to be given to the various types of industrial investments.

TABLE 6: MODEL OF INCOME GROWTH AND INVESTMENT ALLOCATION

t	Y_t	C_t	N_t	I_t	P_k	S_t	r_t
0	1.0000	0.7500	0.1500	0.1000	0.4725	0.1000	
1	1.0453	0.7764	0.1500	0.1189	0.4939	0.1137	0.0453
2	1.0989	0.8065	0.1500	0.1424	0.5143	0.1296	0.0513
3	1.1627	0.8410	0.1500	0.1717	0.5334	0.1477	0.0581
4	1.2394	0.8810	0.1500	0.2084	0.3182	0.1681	0.0659
5	1.3262	0.9251	0.1662	0.2349	0.2735	0.1771	0.0700
6	1.4190	0.9714	0.1973	0.2503	0.1917	0.1764	0.0700
7	1.5183	1.0199	0.2289	0.2695	0.1865	0.1775	0.0700
8	1.6246	1.0709	0.2641	0.2896	0.1870	0.1783	0.0700
9	1.7383	1.1245	0.3026	0.3113	0.1865	0.1791	0.0700
10	1.8600	1.1807	0.3448	0.3345	0.1863	0.1798	0.0700
11	1.9902	1.2397	0.3910	0.3594	0.1860	0.1806	0.0700
12	2.1295	1.3017	0.4416	0.3862	0.1858	0.1814	0.0700
13	2.2786	1.3668	0.4969	0.4149	0.1855	0.1821	0.0700
14	2.4381	1.4351	0.5573	0.4457	0.1853	0.1828	0.0700
15	2.6088	1.5069	0.6231	0.4787	0.1851	0.1835	0.0700
16	2.7914	1.5822	0.6950	0.5142	0.1849	0.1842	0.0700
17	2.9868	1.6613	0.7732	0.5522	0.1846	0.1849	0.0700
18	3.1958	1.7444	0.8585	0.5930	0.1844	0.1856	0.0700
19	3.4195	1.8316	0.9512	0.6367	0.1842	0.1862	0.0700
20	3.6589	1.9232	1.0521	0.6836		0.1868	0.0700

(6) *The Role of the Public Sector*: The role of the public sector in industry has generally been based on reserving certain key industries to the public sector, although the First Plan did say that "it is best for the public sector to develop those industries in which private enterprise is unable or unwilling to put up the resources required and run the risks involved, leaving the rest of the field free for private enterprise" (p 422). A demarcation of the line between public and private sectors based on the nature of the industries may be too rigid; it would be preferable to determine the respective roles of the sectors on wider grounds related to the basic strategy of industrialisation. Then individual decisions would be based on the relative merits of public and private sector operation in individual industries. In particular the possibility that some industries consist of units in both sectors should be explored, with the public sector counterpart providing a model or testing ground for the private sector firms. In this connection, it must be noted that, although the public sector took up 36 per cent of fixed investment in manufacturing in the Second and Third Plans, it still accounted for only between 10 and 15 per cent of total output in the factory sector. However, the main problem to be tackled is not so much the question of what industries are to be operated in the public sector, but the efficiency with which they are operated in that sector. Two decades of experience have clearly demonstrated that there is something seriously remiss in the present system of management by the personnel of the administrative service. A new approach to industrial management in the public sector is long overdue. The most common remedy often suggested, and restated, e g, in the Fourth Plan, is that "there is need to develop a cadre of professional managers with adequate expertise in the fields of financial, production, personnel and marketing management" (p 313). It is an over-simplification to suggest that the problems can be solved by choosing the right persons or persons with the right training to be managers; part of the problem is the administrative tendency to run the public enterprises as if they were departments of the government. Perhaps the time has come to make a cleaner break between ownership and management, and search for methods of the private management of publicly owned enterprises.[26]

(7) *Regulation of the Private Sector*: *(A) Short-Term Targets*: The regulation of industrial investments in the private sector has been based on short-term quantitative targets set by the Planning Commission. Target-setting in this manner has been severely criticised;[27] it may therefore be useful to re-examine the case for such targets. In doing this, we must separate the concept of short-term targets from that of long-term targets on the one hand, and also distinguish between the targets set and the procedure used to implement them on the other. The case for long-term targets for some magnitudes is conceded; e g, Bhagwati says, "Clearly targets embodying national objectives are of crucial importance. Among these can be counted: national income, level of employment, consumption ... With these must also be reckoned the objectives of raising the level of savings, improving the export performance and ensuring a steady investment in the capital-goods industries, all of which buttress the grand, forward-looking targets of an increased rate of investment and growth (and therewith employment creation and elimination of general poverty) in the stipulated 25-year perspective spanned by the entire planning process".[28] However, it is doubtful whether long-term targets for such things as the national income and export performance make much sense, for these are magnitudes whose variation is so much outside the control of our own policies. The essential thing is the volume and the broad structure of investment. This is what the PCM strategy lays down. Sometimes this is criticised as 'physical planning'. There are two aspects to this criticism, which are relevant — one, that in physical planning, the types of investment are chosen without reference to their economic justification, and two, that the volume of investment is determined without reference to the availability of a corresponding amount of savings. We have argued that within a prescribed total volume of investment, every effort must be made to choose the economically most efficient combination. A useful principle to apply for this purpose is to ensure some degree of inter-industry balance, such as that provided by an input-output matrix applicable to the level of the economy expected by the end of the perspective planning period. We have also argued that every effort should be made to raise the level of saving to the planned amount of investment.

Once the long-term targets are defined, it is a separate problem to decide how far this needs to be supplemented by shorter-term targets of industrial investment, and how such targets are to be derived. All that can be said is that the short-term targets must be such that they lead to the final targets; within this, there will be considerable degree of freedom in fixing the short-term targets. In exercising this freedom, the short-term targets must be determined as consistently as possible on the basis of inter-industry balances and the current pattern of demand. While the criterion of inter-industry balance is applied quite rigorously for the final targets, it cannot be applied to the same extent for the short-term targets, for different industries develop at different rates. Also, while the final targets are related to the more equal distribution of income planned for the end of the development phase, the progress towards this income distribution will inevitably be slow, and it may not be possible for the short-term targets to be fully consistent with the pattern of demand dictated by the current distribution of income.

The fixing of short-term targets will, therefore, be arbitrary to some extent. But still some targets are needed to avoid critical bottlenecks for key resources, such as foreign exchange, steel, etc. Because of the long time lags involved in securing extra supplies of these resources, their allocation must be tightly budgeted. However, because of the difficulty of getting a sound economic basis for specifying such targets, the present practice of fixing targets in great detail for individual industries may be relaxed, and targets laid down for rather broad groups of industrial investments, governed by the need to stay just within the constraints imposed by the key resources.

(8) *Regulation of the Private Sector: (B): The Control System.* Once even broad targets are laid down, some system of control of industrial investments becomes unavoidable. But when a control system is established to ensure that the targets are met, it can be used to serve other objectives such as regional balance, prevention of concentration of ownership, promotion of efficient entrepreneurs, etc. As a number of recent studies have shown, the control system as it has operated in recent years, has been a total failure in all these respects. Above all, the sheer bureaucratic delays in operating the control system have been a major disaster. It is clear that without a major revision of the administrative procedure involved, planning approach will just prolong the agony and cause unnecessary hardship. However, to

abandon the planning approach because of this administrative problem is like throwing the baby with the bathwater. The control system can, and must, be streamlined so that it acts efficiently and speedily on the basis of clearly stated criteria. To prevent concentration, both initial licensing and subsequent re-sales must be regulated. To give a fair chance to a wider range of applicants, a choice must be made from a list at appropriate intervals instead of a 'first come, first served' policy. To prevent delays, office procedures must be improved and decisions made at a single point instead of being dispersed over a number of offices. To promote regional balance, some decentralisation of the control system to state capitals or regional headquarters must be considered. To maintain a continuing watch on progress, statistical information must be collected and processed promptly. These are all feasible improvements, given the will to make the necessary administrative reforms. And this will must be exercised, for the very fate of the planning approach and the prospects of rapid development hang in the balance.

(9) *Regulation of the Private Sector: (C) The Promotion System.* While the system of short-term targets requires the operation of a control system, the control system alone is not sufficient to ensure the attaining of targets. When the demand for the key resources is excessive, the control system can be relied on to top it off, but when the demand is below the target, the control system cannot raise it to the required level. This is particularly the case when the demand in particular regions is below that desirable for regional balance. This requires a parallel promotion system. The existing promotion system consists of a number of institutions providing financial and technical assistance. The system has not been very successful, as shown by the continued tendency for regional concentration and the protracted recession in industrial activity. Here also a basic revision of policies and administrative procedures is needed.

To conclude, the above discussion shows that planning for industrialisation on the basis of the PCM strategy is not just a matter of allocating sums of money to various heads of investment expenditure. It requires the supporting action of a number of policies to influence the economy to move in a direction consistent with these allocations. While much needs to be done by planners in the more detailed design of these policies, the success or failure of the whole approach depends crucially on the quality of the administration. An administrative machinery still functioning on the lines of British days is not equal to the task. If this machinery cannot be re-modelled to serve the new functions of government, we might as well give up the hopes of rapid development, that the strategy we have chosen dangles tantalisingly before us.

(Concluded)

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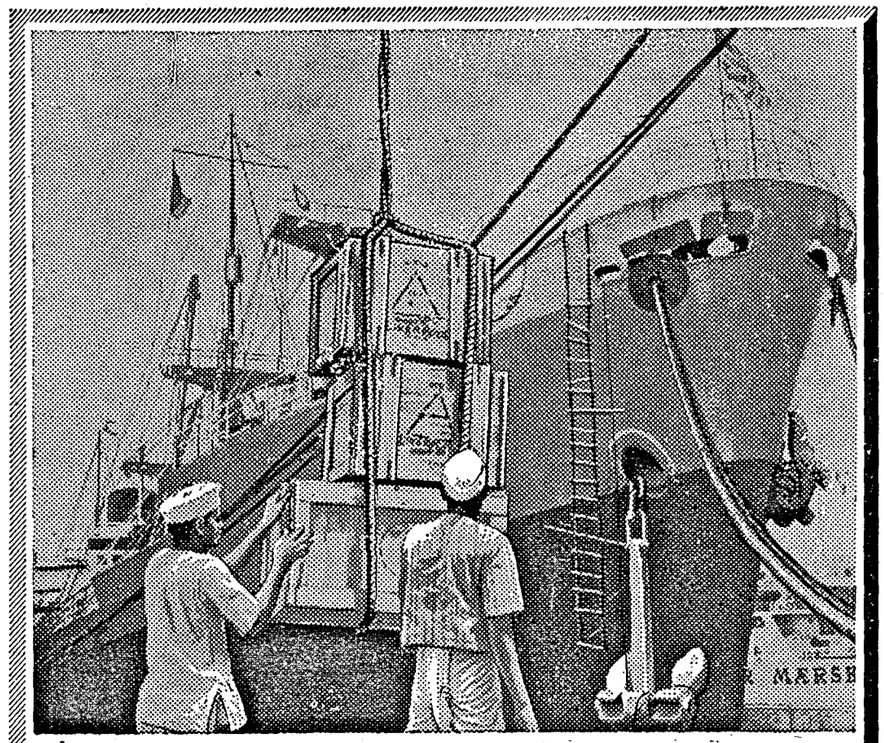
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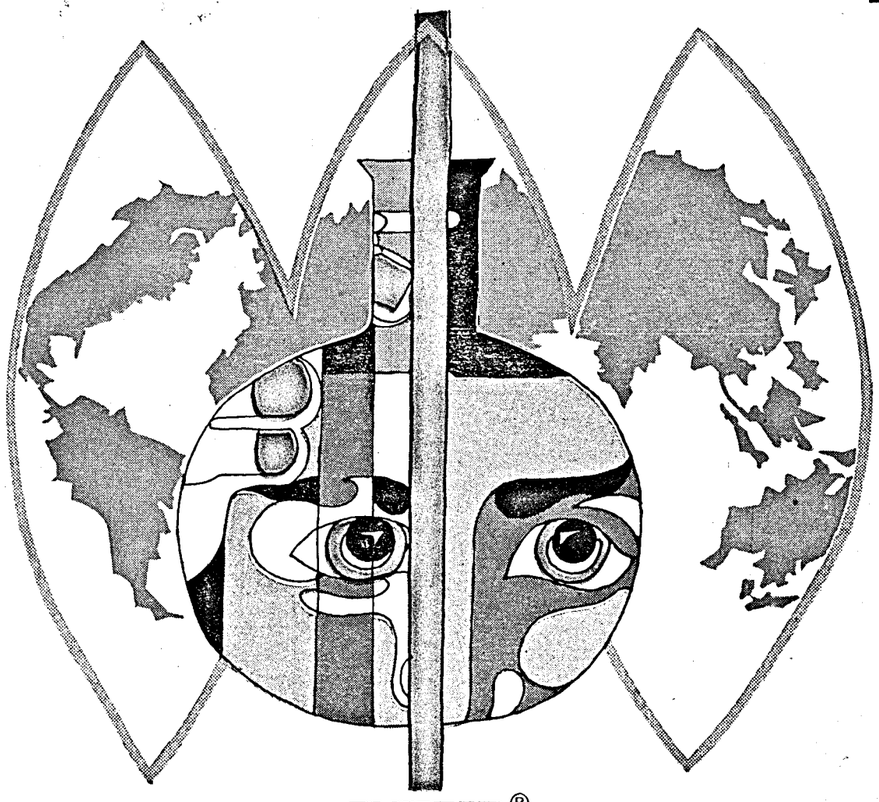
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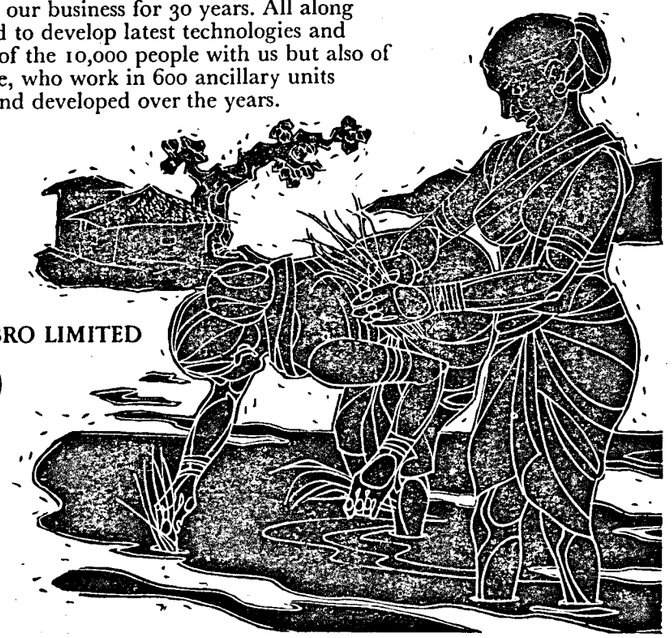
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KRISHNA RAJ

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Business Manager: A Fernandes

Circulation Manager: Shiv Patil

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Second Start in Steel

THE government has, according to newspaper reports, set up what has been described as an inter-departmental committee to prepare an integrated long-term steel development programme. Comment on the merits of the decision will have to await more details, though on the face of it is to be doubted that an inter-departmental body is best suited to undertaking the task in question. Be that as it may, to the extent the decision reflects a revival of concern within the government for long-term planning in steel, it is to be regarded as a hopeful sign.

The facts of the steel debacle which began in the mid-sixties, if not earlier, are fairly well known by now. In the eight-year span between the end of the Third Plan and that of the Fourth in 1973-74, less than 2 mn ingot tonnes would be added to the country's steel capacity. Worse still, production of steel actually *declined* between 1965-66 and 1971-72. These facts are unlikely to come as a surprise to anyone. And yet the all-too-obvious link between the dismal performance in steel and the relative industrial stagnation of the last few years appears to have received precious little attention. For instance, how often does the fact of per capita availability of steel having gone down from 16 kg at the end of the Third Plan to 13 kg in 1971-72 find even passing mention in discussions of the industrial situation. Indeed, there has been greater readiness to see the opposite relationship between steel production and industrial growth, or the lack of it. Thus it has been pointed out, not without a sense of relief, that because of the slump in industrial investment and output the adverse consequences (as measured by the gap between steel production and demand) of the lag in expansion of steel capacity and the cost thereof in terms of foreign exchange expenditure on steel imports have been minimised! Even in more responsible quarters, the concern has been with ensuring that steel production kept pace with demand, or that at least too wide a gap did not develop between the two. Hence the repeated exercises in estimation of demand for steel — even as steel production stagnated. The vision of steel as a prime mover of economic development, which had informed the Second Plan's bold decision to raise steel capacity fourfold from 1.5 mn tonnes to 6 mn tonnes in the Plan period, appeared to have been completely lost.

Are things changing? With Bokaro at last in sight of the light at the end of the long tunnel and with the consultants' feasibility reports on the Vijayanagar and Visakhapatnam plants, as well as the smaller Salem special steels plant, in hand, the Steel Ministry is talking of adding two mn tonnes annually to steel capacity in the Fifth Plan. This is hardly spectacular, for it will still not take steel capacity much above 20 mn tonnes by the end of this decade, if even that. And what is more, as things are even this modest target looks almost a pie in the sky. Briefly the proposed bill of fare is somewhat as follows: expansion of Bhilai from 2.5 mn to 4 mn tonnes, achievement of 4 mn tonnes capacity at Bokaro and completion of the first stage of 2 mn tonnes each of the Vijayanagar and Vizag plants and the Salem plant of 0.5 mn tonnes. Considering that the first stage of Bokaro will finally have taken between 8 and 9 years since construction began in 1964-65, the Steel Ministry's expectation that the new steel plants would be completed by 1977-78 must of necessity be discounted, especially since the Planning Commission has, in the interests of hastening Bokaro's second stage, slashed the Fourth Plan allocation for advance action on these plants from Rs 110 crores to Rs 45 crores (not, of course, that had the original allocation been left intact it would have been fully used).

But before one gets lost in speculation about how long the new plants are going to take to build, there is a far more important (and not unrelated) issue to be considered. This is the cost of building steel plants which appears to have experienced virtually exponential growth in this country. Excluding cost of mines, township and other offsite facilities, Bhilai, Rourkela and Durgapur cost between Rs 1,600 and Rs 1,800 per annual ingot ton capacity. On the same basis, the current estimates for Bokaro are over Rs 4,000 per tonne at the 1.7 mn tonnes stage and, hopefully, Rs 2,800 per tonne at the 4 mn tonnes stage. As for the proposed new plants, the Steel Minister disclosed in Parliament last month that even operating at 100 per cent of capacity the Vizag plant would lose Rs 45 crores annually and the Vijayanagar plant nearly Rs 70 crores. Bokaro, it is evident, has set the standards in regard to the capital cost of future Indian steel plants at levels which are a multiple of those for comparable plants in the UK, Japan or the US (ranging from as low as Rs 900 per tonne or even lower to hardly more than Rs 1,200 per tonne).

Clearly, no viable development of the steel industry can take place unless a way can be found of bringing the cost of building steel plants back to earth

from these outer reaches of space. Here argumentation about the relative cost of expanding existing plants and of putting up new plants is largely irrelevant. For one thing, only a part of the required expansion of steel capacity can be secured through expansion; the rest has got to come from new plants. Further, the factors making for high cost are likely to affect expansion no less than the setting up of new plants.

The most important of these is the cost of equipment. It is, of course, common experience for project costs to go up with the extent of use of indigenous equipment. But what has happened in steel has no parallel in any other industry. It has been estimated that around 1966 the average cost of steel plant equipment was Rs 5,000 or so per tonne. Against this, it was originally estimated that the price of equipment supplied to Bokaro by Heavy Engineering Corporation would be around Rs 7,000 per tonne. Actually, the price of HEC equipment for Bokaro's first stage was finally settled at Rs 13,000 per tonne. This is not all. For the feasibility reports for the Vizag and Vijayanagar plants the price of equipment indicated by HEC is said to be between Rs 18,000 and Rs 20,000 per tonne, no less. HEC's inefficiency is, of course, legion. Not surprisingly, other domestic suppliers of steel plant equipment have happily accepted HEC's prices as norms. Indeed, even foreign suppliers are known to have jacked up prices on the basis of the high cost of Indian equipment. Along with the high cost of equipment, whether supplied by HEC or domestic private sector or bought from abroad, we have accepted (with Bokaro, once again, setting the standard) heavy design features for steel plants which are neither necessary for Indian conditions nor economical. Here the Steel Ministry could do worse than take the dust off Dastur and Company's painstaking cost reduction study done for Bokaro. In any case, immediate attention has to be given to reducing the costs of the Vijayanagar and Vizag plants to levels well below those indicated the feasibility reports.

There are, besides, problems of raw materials (the coking coal difficulties are fairly well known, but thanks to the policy of exporting the best quality lump iron ore our own steel plants will soon have to make do with lower grade ores and ore fines), of deciding the product patterns for the new capacity, of working out and meeting manpower requirements — all of which have to be viewed in a long-term perspective. Otherwise the setting of ambitious paper targets of expansion of steel capacity will serve no purpose. But as things are there is no agency with the necessary technical competence and political weight to undertake these tasks. The so-called inter-departmental committee referred to at the beginning cannot fill the role; above all, it will simply not be able to command the required expertise. Nor is the much talked-of holding company the answer, even if all the virtues claimed for it in respect of operational co-ordination of various aspects of building and working steel plants were accepted at face value.

This is a matter which deserves the urgent attention of the government just now when the country seems ready to make a second start in steel.

Aid

The More, the Merrier

ONE more meeting of the Aid-India Consortium has been held, and in keeping its recently acquired "good boy" status, this country has earned a favourable chit from the Consortium. The year 1971-72 was not among the best in recent years in economic performance. The agricultural harvest was less than good and industrial performance, at 3 per cent growth, was miserable. "Quick" estimates show that national income may have grown by only about 3.5 per cent, against 5-5.5 per cent in earlier years.

But the World Bank is willing to slur over all this. It attributes poor industrial performance to slackness in a few selected industries. It even praises our export performance — a tribute to the misuse of statistics. There is almost no reference to the performance of public sector units and to investment in private sector. Perhaps the Bank has been overawed by the economy's vitality in absorbing, without visible strain, the large inflow of refugees from Bangladesh and by the political finesse with which the Bangladesh crisis was met.

The World Bank is also possibly trying to advertise its independence of US policies. In earlier days, defiance of the US would have left India friendless in World Bank circles. Now the Bank takes pains to emphasise that its judgments are independent of the prejudices of the US administration. Consequently, the Consortium has agreed to the Bank's estimates of India's needs for 1972-73 : $ 700 million as non-project aid (including $ 200 million in debt rescheduling) and $ 500 million as project aid.

But what is deemed to be needed is not necessarily provided. And there are various problems already visible in obtaining the required funds. First, at the global level the US is notably uneager to continue to provide aid at even the old levels; evidence of this is the US reluctance to make its contribution to replenishing IDA funds. In fact many loan approvals of the World Bank are held up for lack of funds with IDA. Secondly, the US is still keeping up its hard stance on India. It is reported to have budgeted for only $ 90 million of aid for India for 1972-73. Thirdly, at the Consortium meeting itself, the US took a hard line, objecting to increasing the debt to be rescheduled from $ 100 million to $ 200 million. In fact this was the reason for the Consortium meeting breaking up without fixing a date for its next meeting, even though this is to be only about a month later.

India has declared the Consortium meeting a great success. Even as we talk more and more about self-reliance (and reduction in aid), every recognition by other countries of an increase in India's needs of foreign aid is considered an achievement. In fact, we are now also pleading for aid in local currency to the extent possible. Increasingly also, aid is not being related to development or growth; it is emerging as a means of keeping us where we are. The question to ask is : what is our estimate of foreign aid requirement in case the economy begins to move fast?

Foreign Companies

Data Gaps

IN any study of the finances of branches of foreign companies and foreign-controlled rupee companies, surely, one of the points on which one would expect information is their remittances abroad by way of dividends and other payments. Not so, according to the Reserve Bank. In its latest study on the subject, covering the year 1968-69, this aspect of the problem is not even mentioned. The study, published in the May 1972 issue of the Bank's *Bulletin*, purports to analyse the financial results of 223 branches of foreign companies and 378 foreign-controlled rupee companies in India. Nowhere does the study try to give any idea of the allocation of profits after tax in respect of the foreign-controlled companies. Even if it were to be accepted that actual remittances of profits abroad are not indicated in the balance sheets of the companies, the distribution of profits after tax as between 'dividend' and 'profits ploughed back' could be given.

Also, it should have been possible to derive from the pattern of shareholding what proportion of the dividend would accrue to the parent companies and would be 'remittable'. Nothing of the sort is attempted. True, the Reserve Bank conducts periodic surveys on India's 'International Investment Position' (the latest one, for 1967-68, was published in the March 1971 issue of the *Bulletin);* nonetheless it is natural to expect data on allocation of profits by foreign companies alongside other aspects of their finances.

This is not, unfortunately, the only fault that one can find with the study. The sample of branches and foreign-controlled rupee companies selected from the different industrial groups is hardly representative. This is particularly true of branches of foreign companies. Of the 233 branches of foreign companies studied, 110 branches are in plantations, 24 in manufacturing, 55 in trading and 34 in other industrial groups. How unrepresentative this is of the actual distribution of branches of foreign companies among different activities will be evident from the Table, taken from a study published in the Company Law Department's *Company News and Notes*. Thus while as many as 110 branches of foreign companies in the plantations group figure in the sample (against a total of 126 such branches in 1969-70), the sample contained only 24 branches of foreign companies engaged in manufacturing (out of 123 such branches in 1969-70). The Reserve Bank is apparently unaware of the shift in the concentration of foreign capital in India from plantations to other areas such as manufacturing.

The same fossilised approach is evident also in the industrial classification adopted for the study. As mentioned above, the sample is classified into four categories: plantations, manufacturing, trading and other industrial groups. Of the 378 foreign-controlled rupee companies in the Reserve Bank's sample as many as 311 were manufacturing companies. Yet no disaggregated picture of the manufacturing sector is presented, with the result that data on foreign petroleum companies, drug companies and textiles and machinery manufacturing companies, among others, are all clubbed together. Is it possible to draw any worthwhile conclusions from such data? The Reserve Bank's Investment Survey, referred to above, at least gives separate data for petroleum companies. A far more meaningful classification was provided in the Reserve Bank's study of foreign collaboration (1968) which gives data for as many as 13 groups/sub-groups of industries.

The penchant for aggregation and obfuscation is to be seen also in the clubbing together of all foreign-controlled rupee companies and presentation of global data for them. No distinctions are made between companies with different proportions of foreign capital holding—e g, between those which are wholly foreign-owned subsidiaries with 100 per cent capital held by the foreign holding companies, those subsidiaries which have between 50 per cent and 100 per cent foreign capital holding and those companies in which the foreign holding is in the 25-50 per cent range. The study published in *Company News and Notes* referred to above brought out that in 1968-69 88 out of 223 subsidiaries of foreign companies were wholly-owned subsidiaries. The Department of Company Law, the Industry Ministry and even many of the Reserve Bank's own studies make a distinction between subsidiaries of foreign companies and other foreign-controlled companies. The distinction is useful because in non-subsidiary companies even if the foreign shareholding is above 25 per cent the foreign investor does not always exercise effective control over managerial or financial matters (Firestone's travails in regard to Synthetics and Chemicals is a classic example).

TABLE: BRANCHES OF FOREIGN COMPANIES, 1969-70

	No	Assets (Rs crores)
(1) Agriculture and allied activities	126	217.0
(a) Tea plantations	123	214.8
(2) Mining and quarrying	8	27.5
(3) Processing and manufacture	123	294.3
(4) Construction and utilities	23	63.4
(5) Commerce	158	632.9
(6) Community and business services	77	47.9
(7) Personal and other services	14	3.1
Total*	529	1285.9

*Excluding 'aviation and shipping'.
Source : *Company News and Notes*, Company Law Board, August 1/16, 1970.

Fishing

In Deep Waters

A Correspondent writes :

UNION CARBIDE's exports of fish have attracted attention, but not for a reason which the company is likely to welcome. It has been alleged that Union Carbide has been exporting fish to the United States at prices lower than those obtainable in the Japanese market. The complaint gains an edge from the fact that, according to these reports, Union Carbide's buyer in the US is the International Fisheries Corporation of New York which is reported to be interconnected with Union Carbide of US which has the controlling interest in the Indian company. It has also been alleged that the US importer sells the fish under its own brand names at prices much higher than what it pays the Indian exporter. Union Carbide has refuted the allegation that the exports to the US at lower prices are a means of making concealed foreign exchange remittances and has claimed that it is willing to export to any destination which offers a higher price provided suitable shipping facilities made available at Visakhapatnam port which is the company's centre of operations. According to the company, none of the shipping companies had so far complied with its requests that ships with refrigeration facilities call at Visakhapatnam on their Japan-bound trips.

Allegations against foreign-controlled companies of charging low prices for exports to their associates abroad or high prices for purchases from them are, of course, not new. The foreign oil companies have been suspected of paying high prices for crude supplied by their associates abroad and from time to time the government has had to make *ad hoc* reductions in the foreign exchange released to them for crude imports. This does create a piquant situation. For, the government is keen to push foreign companies into export-oriented activities. Thus according to the government's present policy, Indian subsidiaries of foreign companies are allowed to expand their operations provided they undertake to export 60 per cent of the incremental output. Another point that needs to be noted is that official regulations do not prohibit remittance of earnings or even repatriation of capital by foreign investors, though the government appears to be concerned about foreign companies persistently drawing upon reserves for remitting dividends. In view of the liberal provisions for remitting profits and other collaboration charges and payments, foreign companies certainly do not need to indulge in under-invoicing of exports to remit their legitimate earnings. In the circumstances, under-invoicing of exports (and over-invoicing of imports) by foreign subsidiaries is no way different from the behaviour other Indian ex-

porters (and importers) who indulge in under-invoicing (and over-invoicing) to finance unauthorised transactions in foreign exchange.

Coming back to fish exports, the prices offered by the Japanese for Indian shrimps are said to be higher than those ruling in the US. The present situation appears to have arisen as a result of the realignment of currency parities in the course of which the Indian rupee got devalued with respect to the Japanese yen but revalued upwards with respect to the US dollar. Even if Japanese prices are for the present higher than those obtaining in the US, the latter continues to be a major market for Indian shrimps. In fact, the complaints against Union Carbide appear to have a different basis from what it might appear to be at first sight. The fishing industry is at present dominated by small operators with limited capital and equipment at their disposal. They do not have sophisticated trawlers for deep sea fishing nor their own refrigeration facilities. These small operators concentrate on off-shore fishing, as a result of which the total catch is reported to be declining, especially along the Kerala coast. Already worried about their export prospects, the small operators have been trying to get all types of assistance from the government and also to build up a case against the entry of big operators like Union Carbide who, they fear, may take away their most lucrative business.

The complaints of the small operators are justified to the extent they are about the area of fishing. The government needs to consider why it should not stipulate that the foreign subsidiaries as well as the big Indian business houses (e g, Tatas, DCM) who are entering fishing in a big way should confine their operations to deep sea fishing, a given minimum distance away from the coast. Fish and fish preparations have a considerable export potential and it would not be in the interests of the country to restrict the entry of big operators into fishing so long as they agree to confine their operations to deep sea fishing, employing modern fishing crafts and advanced technical knowhow that are not available to the small operators who earn their livelihood through offshore fishing.

Coal

Wages, Wagons and Profits

A Correspondent writes:

THE price of coal supplied to railways, the major consumer of non-coking coal, has been the subject of regular annual debates. The collieries forced a showdown on this issue a few years back. The discussions for the current year, which were completed in April, did not provoke as much fierce controversy as in earlier years, but were nevertheless interesting in many respects.

Press reports suggest that the price of coal supplied to railways by collieries in the Bengal-Bihar area is being increased by Rs 2 to Rs 3 a tonne. Singareni coal is to fetch a price higher by Rs 1.7 a tonne; for coal in outlying areas a marginal revision of 37 paise per tonne has been envisaged. It is reported that the total increased expenditure for the railways will be of the order of Rs 1.6 to 1.8 crores.

There has been a steady increase in the price of coal year after year and neither the railways nor the government as a whole seems to be very much concerned about this as the increases are passed on to the railways' customers *via* fares and freights. There are two major reasons for cost increases leading to price increases in the case of coal — railway wagon availability and wage increases. Wagon availability is linked to the efficiency of the railways themselves. Wage increases follow the awards of the Coal Wage Boards.

The line-up in the price battle is interesting. The agitation for an increase in coal prices comes from all collieries, in both public and private sectors, and this is supported by the Ministry of Steel and Mines, the producers' Ministry; the railways, on the other hand, stoutly resist the demand. The curious fact, however, is that out of about 15 million tonnes of coal supplied to the railways, more than two-thirds is supplied by private sector collieries and only the balance by the public sector agencies, such as National Coal Development Corporation (NCDC), Bharat Coking Coal (which produces a small quantity of non-coking coal as well) and Singareni collieries. Thus one wing of the government aligns with the private sector — which is the main supplier and which stands to gain most from any price increase — against another wing of the government, the railways.

The matter becomes curiouser when we note that all these public sector agencies have fully and faithfully implemented the Wage Board Awards, with the result that their cost of production is much higher than that of private collieries. On the other hand, only a few private sector collieries, less than 10 per cent, have fully implemented the wage board awards. Nevertheless all collieries are lumped together and the price increase is considered on a uniform basis. A strong case is put forward by the Ministry of Steel and Mines on the ostensible ground of supporting public sector enterprises, but actually the real beneficiaries are private sector collieries!

It is reported that the demand for higher coal prices was gone into by the Bureau of Industrial Costs and Prices. The question of implementing Wage Board Awards by private collieries and relating the price increases directly with the extent of implementation of these Awards is also said to have come up for consideration. But linking of price increases with implementation of the Wage Board Awards seems to have been finally given up. On the other hand, quite recently, the Union Minister of Labour has stated that the government would take recourse to the Defence of India Rules for ensuring implementation of Wage Board Awards. Surely, the easiest way of disciplining the private sector collieries would have been to link the price increase with the implementation of Wage Board Awards and thereby to deny them the extra profits which they now run away with. The correct policy would be for railways not to purchase coal from collieries which have not given the wage benefits. When the government is not prepared to enforce even this simple measure of discipline, talking of Defence of India Rules which has so far been used only *against* labour and never in its favour, is only an empty threat.

By not regulating wagon movements, the railways, in paying higher prices to the collieries, pay for their own inefficiency. Private sector collieries thus seem to benefit both by railways' inefficiency and by cleverly teaming up with public sector agencies, who provide them a cover of respectability and who fight their cause against the railways.

Sugar

The Show Goes On

THE sugar industry has been known for its readiness to enter into "gentlemen's agreements" and break them as and when it suits it. It pushed up prices from Rs 185 per quintal to Rs 240 during the early part of the season. But then came the war with Pakistan and the declaration of emergency. The industry decided to accept voluntary partial control for the period of the emergency or six months, whichever was shorter. During this period it agreed to hand over 60 per cent of its production to the government for controlled distribution at the

ex-mill and ex-excise duty price of Rs 150 per quintal. The balance of the output was available to be sold in the free market.

Partial control became effective from January 1 this year. Accepting the scheme, the government forecast that the free market price would stabilise around Rs 240 per quintal. But in March prices were pushed up to Rs 305 and the government could do little about it. To some extent the government has been responsible for the up-trend in prices. It has periodically revised upwards the tariff value of sugar — from Rs 135 in October 1971 to Rs 210 by June 1972. The incidence of excise duty has thus increased from Rs 40.50 to Rs 63 per quintal. During the summer months, however, prices did not go up further in spite of restricted monthly releases and the fact that in the cities the ration quota has been cut from 2 kgs to 1.5 kg and later to 1 kg only.

Meanwhile, industry with the help of cane-growers was insistently petitioning the government for an increase in both the minimum price of cane and the levy price of sugar. When there was no response from the government, the industry decided to inform it that the voluntary agreement would expire on June 30. The government was thus forced to announce its policy for the remaining months of the current season. On June 10, industry's spokesmen declared that the levy prices ought to vary from Rs 123 to Rs 180 per quintal. A few days later the industry demanded that the government follow a system of zonal prices. The government itself announced its policy on June 15, instituting statutory partial control from July 1. The country is to be divided into 14 zones and levy prices are to be fixed, ranging from Rs 122.82 to Rs 183.70. In this context it is necessary to recall that the government had been almost forced to adopt decontrol because the Allahabad High Court had struck down the system of levy prices. According to press reports, several factories have already decided to challenge the government order.

That apart, fixing of levy prices by government experts at precise levels such as Rs 134.01 or Rs 152.98 smack of sham accuracy. Instead the number of zones could be easily reduced to four and the levy prices fixed as follows: zone I Rs 125; zone II Rs 135; zone III Rs 150; and zone IV Rs 175. Perhaps even better might have been a single levy price at about Rs 140.

A study of the financial results of 11 sugar companies made by the ICICI shows that their operating profit in 1970-71 increased by three times over 1969-70. A similar study of 42 sugar companies shows an almost 2.5 times rise in profits. And this happened in spite of a 10 per cent fall in production and seven months of depressed prices. On this basis the results for 1971-72 are expected to be still better.

Inflation

Who Pays ?

IN his annual statement to shareholders, the chairman of Hindustan Lever, V G Rajadhyaksha, refers to a major problem faced by all partially planned economies — that of ensuring that the relative profitability of different industries (or, more generally, different economic activities) is such as to achieve the socially desired allocation of investment resources. In their anxiety to keep down the prices of basic producer-goods (e g, steel, cement) or of essential consumer goods (e g, coarse cloth, life-saving drugs), governments resort to price controls while prices of less essential commodities are left free to be determined by the market. In a general inflationary situation this makes the essential consumer goods (and basic goods) industries less profitable than the rest and, therefore, less attractive to entrepreneurs and investors alike. An even less desirable situation arises when the price controls on essential goods cannot be effectively enforced so that while prices are pegged at the point of manufacture, the goods in question are not available to the consumer except in the 'black' market at prices much higher than those fixed by government. In this case, the objective of price control is defeated and yet fresh investment in the industry and expansion of production are thwarted.

Serious as the problem is, it does not admit of easy solutions. Given the extreme inequality of distribution of incomes and the abysmally low purchasing power of as much as one-half of the total population, the gap between social and private cost-benefit calculus is inevitably too wide to be bridged either by physical controls (which Rajadhyaksha disapproved of) or by a regimen of taxes and subsidies.

Understandably, Rajadhyaksha is concerned primarily with the impact of price movements on his company. It is his contention that "the burden of inflation in the case of your Company has been borne not so much by the consumer of its products, or by its employees, as its shareholders". On the face of it, the picture is a sombre one — after adjusting for the rise in the wholesale price index, while Hindustan Lever's turnover between 1961 and 1971 expanded by 45 per cent, its profits actually declined by 33 per cent. It follows axiomatically that the company's costs went up faster than its sales realisation, but how much of this is to be blamed on inflation *per se*? Is it not true that some of the company's investment decisions are at least partly responsible for the decline in profitability?

The last few years have been marked by persistent and large increases in the prices of manufactures. In this context, it would have been useful indeed had Rajadhyaksha given us a systematic account of trends in costs and selling prices in respect of Lever's different product groups. He does not attempt this, unfortunately. The company's efforts to improve operational efficiency — for instance, the introduction "over the last few years" of a system of management by objectives (MBO) — are mentioned in general terms. It is also claimed that the consumer has been to a great extent protected from the impact of the rise in costs, though it is difficult to be convinced that Levers actually sells its soap at "a price subsidy".

Rajadhyaksha says that "between 1960 and 1970 the average cost of management employees rose by 70 per cent and the cost of non-management employees by 131 per cent, while the wholesale price index rose by 82 per cent". This could be taken to suggest that while non-management employees managed to more than protect their real earnings, management employees actually suffered a loss of earnings in real terms — a rather startling thing to have happened. Or could the explanation be that the management cadre of the company expanded rapidly over the period so that at the end of it a larger proportion of management employees, being younger and newer entrants, were on the lower rungs of managerial salary scales, thereby depressing the average cost per management employee? Again, a significant part of the increase in the average cost of management employees, it is likely, took the form of perquisites the monetary value of which, as everyone knows, is grossly undervalued by both companies and the Income-Tax Department (it being customary, for instance, to value use of the company's car at Rs 1,800 per annum).

CAPITAL VIEW

Summer and Summits

Romesh Thapar

WHAT can one report from the Capital these days? Nothing really, apart from the Nandini Satpathy exercise in unfortunate Orissa. And that's now a happening made to order. Boring, to say the least.

For several weeks, an extraordinary 'heat wave' has driven the policy-makers, the file-pushers and the over-lapping secretariats into a kind of stupor. The dust hangs in the air, radiating further heat. There's no cool in the evenings. The airconditioners, where they exist, are ineffective. The desert-coolers, more sensible at this time of dry heat, are also fighting a losing battle. And water is reduced to a trickle in the taps. It's clear that we really didn't have a system that works. The summer months are proof. And it certainly gets worse every year, despite all the urban planning chatter we hear.

To make matters even more paralytic, huge chunks of the government are absent, junketing within the country or outside. Ministers, Secretaries, Assistants, Specialists, Advisers, wives and what have you are touring. We shouldn't really deny the 'servants of the people' this break in service because the heat is of a kind that really makes nonsense of work. The English were realistic; they took the government to the hills. Where is that idiot politician who said airconditioning is a luxury?

It's good to know that someone in the hierarchy at least had the good sense to change the venue of the Indo-Pak summit from the oven that is Delhi to the heights of Simla, even though the hill station appears to be on the verge of a water famine. We hope that, by then, the so-called 'heat wave' will recede and the monsoon will start moving along its appointed path.

Interest in this summit is hardly discernible. Maybe, this is due to the deliberate underplay in the Press and the wise decision not to speculate on President Bhutto's likely attitudes. A very complex psychological stituation has to be dealt with at the summit. Indira Gandhi will need all her skill to assert her fundamental positions regarding the future and yet not tend to dictate. There are too many people around who have a stake in the failure of the summit. We would do well constantly to remind ourselves of this.

A sample of the kind of tactics that are employed was demonstrated by the planted and tendentious story about India 'handing over' a certain number of POWs (including General Niazi!) to Bangladesh. The intention was to excite the Pakistanis to withdraw from the summit and significantly, an Indian news agency was used to push the story with a Dacca dateline. Leading newspapers will have to watch their step and realise that lack of vigilance on sources of news is today tantamount to playing the game of our enemies, within and without. In fact, a probe into this POW story, and the news agency set-up, would have a salutary affect.

Indo-Pak summitry invariably sparks activity among the communalist sections of India's 60 million Muslims. On this occasion, they have seized upon the projected reform of the so-called Aligarh Muslim University to launch a widespread agitation in the North. The idea obviously is to organise a 'situation' around the end of the month. These calculations are likely to misfire as the very much more significant *detente* with Sheikh Abdullah and his friends is likely to have a more pertinent bearing on the summit.

The attempts to make mischief between India and Bangladesh, the fanning of the old and now irrelevant passions which thwarted Indo-Pak understandings, and the sinister moves somehow to revive communal clashes within India (now embracing the third largest concentration of Muslims in the world!), is part of a single effort to disrupt the trend towards peace and co-operation in the subcontinent. Unless we see these happenings in this light, we will not be able to understand them or confront them.

We are certainly getting back to hard realities. The summit compels us to assess the future of the subcontinent and the various possibilities or alternatives that open before it. The heat takes us back to 1965 and 1966 when the pattern of a sluggish monsoon was similar. We live on the edge of disasters, and this should make us firmly determined to think rationally, in a coherent perspective about our interlocked problems, national and international. In other words, communal emotions and activities will have to be blasted.

We will need several patient summits before we get things sorted out on the subcontinent — and they may well stretch into the winter. Let us hope that patience prevails and that climatic disasters do not compromise and embarrass us.

June 19



COMPANIES

For Greater Flexibility...

Hansavivek

MAHINDRA UGINE STEEL COMPANY applied for an industrial licence for substantial expansion of capacity some two years ago; it is still waiting for government decision. The existing plant facilities do not provide for any flexibility in terms of inter-dependence between the different production shops. The company is going ahead with its 'balancing scheme' to achieve full utilisation of the existing capacity. It is also intended to diversify MUSCO's activities. As a first step in this direction, the Memorandum of Association is being amended to include a wide variety of businesses. Among these, manufacture of cold drawn and ground bars and sections, polished steel, silver steel, bright bars and shaftings, ball and roller reces, wheels, tyres, axles, welded, seamless and extruded ferrous and non-ferrous tubes, sections and profiles, manganese-alloys, electro-metallurgical and electro-chemical products. Also proposed are the businesses of mechanical, electrical and marine engineering and the manufacture of chemical products and plant, equipment and machinery required by the iron and steel industry, and the establishment of agencies for the sale of any materials. The management intends to establish as soon as possible a merchanting division to handle some of these products to pave the way for diversification into new fields of business.

During its ninth year ended December 1972, MUSCO showed good improvement in production, sales and profits. Ingot output rose by 10 per cent to 37,691 tonnes — in spite of inadequate availability of heavy melting scrap, overall deterioration in the quality of melting scrap, and continuing shortage of certain essential inputs. The output of saleable finished steel increased by 22 per cent to 31,828 tonnes because of cogging and re-rolling of bought-out ingots and blooms. Last year, the company established the manufacture of stainless steel bars, high temperature steels, valve steels, peeled carbon, free cutting and alloy steel bars.

The company has switched over completely to the reducing balance method of computing depreciation for all items of fixed assets. This has necessitated an additional provision of Rs 150 lakhs. During the first quarter of the current year, sales at Rs 267 lakhs were about Rs 22 lakhs higher compared to the same quarter last year. It is stated that utilisation of the spare capacity of the rolling mill may not be possible to the same extent as that of last year owing to difficulties experienced in procurement of adequate quantities of bought-out ingots and blooms. The effective outstandings against firm orders stood at 15,100 tonnes as at the end of March last, spread over for delivery upto the end of the year.

MOTOR INDUSTRIES COMPANY received an industrial licence in August 1971 for carrying out its fifth expansion — partly in Bangalore and partly in a new factory at Nasik. Kreditanstalt fuer Wiederaufbau, Frankfurt am/ Main, West Germany, has agreed in principle to provide the company with

The Week's Companies

(Rs in Lakhs)

	Mahindra Ugine		MICO	
	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 31-12-71	Last Year 31-12-70
Paid-up capital	367	367	375	375
Reserves	199	97	788	678
Borrowings	557	611	200	209
of which Term borrowings	557	601	130	154
Gross fixed assets	942	915	1490	1283
Net fixed assets	560	761	729	702
Investments	—	—	17	16
Current liabilities	134	158	410	263
Current assets	697	474	1027	808
Stocks	405	354	538	460
Book debts	134	109	341	264
Net sales	1041	822	1971	1619
Other income	5	5	29	17
Raw material costs	336	209	503	430
Wages	69	54	587	424
Interest	47	49	11	18
Gross profit(+)/loss(—)	334	261	534	381
Depreciation provision	82	63	170	124
Tax provision	—	—	215	105
Net profit(+)/loss(—)	252	198	149	152
Development rebate provision	155	81	43	43
Transfer to reserves	*	*	72	59
Dividend				
Amount	P 5 E 32	P 5 E 22	66	66
Rate (per cent)	P 9.3 E 10	P 9.3 E 10	17.50	17.50
Cover (times)	0.72	1.00	2.09	1.90
Ratios (per cent)				
Gross profit/sales	32.08	31.37	27.09	23.53
Net profit/capital employed	22.44	18.42	10.93	12.04
Inventories/sales	38.90	43.07	27.29	28.41
Wages/sales	6.62	6.57	29.78	26.19

* Profits adjusted against arrears of preference dividends and depreciation.

DM 21.36 million out of West German project aid; matters pertaining to the rupee financing are also in an advanced stage of settlement. Only after all aspects of financing are completed will the directors be able to take steps for the issue of bonus/rights shares which the shareholders have been long expecting. Meanwhile, MICO turned out good results for 1971, with a fair improvement in sales, margins, and profits. The unchanged dividend, at 17.5 per cent, was covered more than twofold. Exports, increased from Rs 80 lakhs to Rs 122 lakhs. The current year's potential for exports, however, does not appear to be bright — owing to the general setback to the "economy of many countries in the world"!

ENGLISH ELECTRIC proposes to issue 2,50,000 equity shares of Rs 10 each at a premium of Rs 3 per share as rights to the existing Indian shareholders in the proportion of one new equity share for every two equity shares held as on August 17 next. The company has produced good results for the year ended March 1972. According to preliminary figures, profit before tax aggregated Rs 1.49 crores against Rs 1.07 crores in the year before. After-tax profit was Rs 60 lakhs (Rs 49 lakhs). The Board has recommended a dividend of 18 per cent.

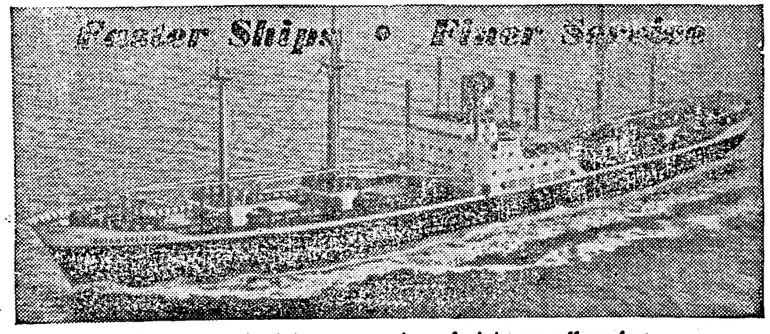
JESONS ELECTRONICS, a new company, is setting up a project at Ghaziabad in UP for the manufacture of 60 million dry batteries per annum in technical and financial collaboration with Yai Dry Battery of Japan which has been making dry cells for the last 80 years. Of the total estimated project cost of Rs 1.98 crores, Rs 65 lakhs will come from share capital. The promoters and their associates have taken equity shares of Rs 20.5 lakhs and equity shares of the value of Rs 5 lakhs have been reserved for the Japanese collaborator. The company is offering for public subscription, through a Prospectus, equity shares of Rs 24.5 lakhs and 9.5 per cent redeemable cumulative preference shares of Rs 15 lakhs. The entire public issue is fully underwritten. The subscription list is to open on May 19 and close on May 30 or earlier, but not before May 23.

Jesons would be the first unit in Northern India to make metal jacket leak-proof dry cells, which are preferred by most users to the conventional type. According to Raunaq Singh, a director, although the plant is scheduled to go on stream only by April next, the company has already negotiated in advance sale of 60 per cent of its production to a "world renowned radio manufacturer". Demand for dry batteries has been steadily rising and is likely to go up to 1,100 million cells per annum by 1974-75, whereas actual production in 1971 was around 500 million pieces against the installed capacity of 600 million pieces. The managing director, R J Agarwal, expects the company to pay a maiden dividend of 10-12 per cent for 1974-75, the first full year of production.

A Correction

Among the authors of 'Uncertainty Analysis in Capital Investment Decisions — Some Aspects' (June 17, p 1186), the name of Venkutai H Patil was misprinted as Venkutai H Patel. The error is regretted.

—*Ed*



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Institutional Intervention in Company Affairs

K T Merchant

TILL a couple of years ago, financial institutions like the LIC did not take any interest in the management of companies in which they held shares. The managements had their way as the Board of Directors mostly consisted of their own nominees, all belonging to the small 'charmed circle', there being hardly any really 'independent' directors. In rare cases, where there were 'independent' directors, they were in a helpless minority and quite ineffective. Thus, the interests of the small shareholders were neither represented nor safeguarded. The Company Law Board was and is supposed to be a watchdog and is expected to act in their interests but it interpreted the law narrowly, took a technical view of things and more often than not rubber-stamped the decisions of the management. All this, coupled with the general apathy of the vast majority of scattered shareholders and the strong entrenched position of managements which always armed themselves with a large number of proxies, enabled managements to ride roughshod over opposition, when there was any. Directors nominated by the government, banks and institutions which had given loans to the companies concerned sat on the Boards for the specific purpose of safeguarding the repayment of the loans and did not bother about any other aspect of management. As one of the leading institutional lenders told this author, they were not there to manage the company for others.

When the managing agency system was abolished with effect from April 3, 1970, the government did not give any guidelines or envisage any alternative pattern of management with the result that the erstwhile managements brought into being a new set-up of presidents, vice-presidents, chairmen, vice-chairmen, managing directors and functional directors (for different departments like technical, finance, marketing, etc) with very high salaries and all sorts of perquisites. Most of them have hardly any qualifications, yet they are styled professional managers on the specious plea that they have worked or have been associated with their companies for a number of years. In many cases, this has become a family affair and sons or relations without much experience come to occupy very responsible positions. If a thorough study were made, it will be revealed that the new set up is much more costly and more detrimental to the interests of the small shareholders and the community at large, as it has raised the cost structure still further, and that without eliminating any of the disadvantages of the managing agency system.

The Shareholders' Associations, especially the one in Bombay, are dominated by share-brokers and as such their interests are not the same as those of the small shareholders, as can be judged from their utter passivity at crucial junctures at annual general meetings of companies. Auditors, who are nominally appointed by shareholders at annual general meetings to report to them on the accounts and financial management of the company, are usually nominated by managements. They confine themselves to the narrow limits of the law and rarely report on important points which, morally, they ought to bring to the notice of the shareholders — e g, writing off of huge sums as depreciated investment. They defend themselves by saying that they have met all the legal requirements and thus join hands with managements in converting the minimum legal requirements into the maximum service expected of them. It is by now common knowledge that but for this kind of attitude on the part of auditors, scandals like the Dalmia and Mundhra affairs would not have occurred and very prosperous companies reduced to bankruptcy. If auditors performed their duties towards the shareholders as they ought to most of the sins of omission and commission of managements would come to light in the normal course whereas now they do so only when there is a split in the management (all directors are to be assumed to be part of management) and a proxy fight takes place. This happened when Kilachands and Firestone in Synthetics and Chemicals, and Chinais and Kapadias in National Rayon fell out and much dirty linen was washed in public. This brought to the notice of the shareholders many sins of omission and commission of managements vitally affecting their interests. But at such times the gimmick of higher dividends is resorted to by managements to distract the attention of shareholders, and to throw a smoke-screen round their doings exposed during the proxy war.

In the circumstances, the common shareholders were happy to note the increasing interest recently taken by institutional shareholders like the LIC in the affairs of companies. This was first seen in their success in preventing Larsen and Toubro from giving a fabulous salary to their managing director. The two recent cases in which LIC has taken a keen interest are National Rayon and Synthetics and Chemicals. With a view to safeguarding the interests of the common shareholders, it intervened to prevent the proxy wars being carried to their logical conclusion. Such intervention by LIC ought to be for, and on behalf of, shareholders to set matters right and not merely to patch up differences between the two factions within the management and to maintain the *status quo*.

In the case of National Rayon, the dispute had gone to the Company Law Board as both sides had complained against each other and invoked action under sections 250 and 409 of the Companies Act. The Company Law Board, after hearing both the sides and studying the report of their Inspection Officer under section 209, appointed two government directors under section 408 of the Companies Act, one of whom was T A Pai, then Chairman of the LIC, who had played a leading part in bringing about a compromise and preventing an open fight at the annual general meeting last year. But the shareholders have been kept in the dark about the findings of the CLB which are not easily accessible to them. A request by the present writer for a copy of the report was met with the reply that it would be duly published in the department's journal, *Company News and Notes*, a copy of which would be sent to him. This is still to arrive.

Both sides published a few extracts from the CLB's findings favourable to themselves in their proxy fight so that the correct picture was not available to shareholders. The fact that apart from nominating two directors under section 408, no further follow-up action has yet been taken by the CLB to compel the management to reimburse the financial losses suffered by the company on account of negligence as reported in the Inspection Report (*vide* para 32 of the CLB award dated May 7, 1971) seems to show that the CLB have failed to

protect the interests of the shareholders and the public at large. One fails to understand the inaction or apathy of the CLB especially in view of its categorical statement in para 31 of the abovementioned award that "the disclosures in the Inspection Report under section 209 and the actions of the present Board of Directors clearly indicate that the affairs of the company are being conducted in a manner prejudicial to the interest of the company and to the public interest."

It is, therefore, absolutely necessary that the CLB's findings must be published and made easily accessible so that shareholders can have a correct picture regarding the allegations and counter-allegations and be in a position to judge for themselves.

A very important point in this connection is that the so-called compromise formula about the constitution of the Board effectively gagged the mouths of shareholders at the annual general meeting as they were not allowed to criticise the management in the light of facts exposed during the proxy war. One of the government directors had promised to bring about radical changes in management. However, nothing concrete seems to have been achieved though a year has passed. Shareholders are still in the dark about the whole question of radical transformation of management. Last year, despite adverse financial ratios, the dividend was increased to Rs 32 by the management as a sop to the shareholders, while the other side had proposed a still higher dividend. Surprisingly, despite the continued adverse financial results, dividend has been stepped up this year by Rs 8 under the guise of a Silver Jubilee Bonus — this time a clever device to please and win over the shareholders by the other side. One wonders what role the government-nominated directors played in this regard. One understands that after the amendments to the articles of association at the last annual general meeting, Kapadias' attempt to capture the management were foiled in the Board by a majority of only one. But one cannot say as to how long such a precarious majority will last.

Regarding the promised radical changes in management, the only information one gets from the Report is contained in four brief lines on p 3 under the heading 'Management'; "The Board is seized of the question of providing a well-knit organisational set-up for the company with a view to facing new challenges and achieving better results. To that end Messrs Kirloskar Consultants Ltd have been appointed to go into the matter. Their report is still awaited. Shri R Rajgopalan, an eminent management consultant, was also appointed to go into the set-up of financial administration. Shri Rajgopalan has submitted his report and his recommendations are under study". After one whole year of operation of the so-called compromise formula, which prevented shareholders from seeking information on the basis of the facts brought to light during the proxy fight, this is all that they are told. Nothing is said about the financial losses suffered by the company as a result of financial mismanagement. The annual report is silent about this except for a small para on p 4 under the heading "Alleged Losses" informing the shareholders that "some shareholders, through their solicitors, served notice on the Company to take steps to recover the amount alleged to have been lost in past years due to the negligence of the persons then in management. The Board, after the consideration, have written to the then Managing Agents, *viz*, Messrs Chinai & Co Private Ltd, in the matter and are awaiting their comments". This kind of dilatoriness makes one sceptical about the effectiveness of the Board of Directors in safeguarding the interests of small shareholders. It was expected that the Board would have studied the report of the Inspection Officer of the CLB and the order dated May 7, 1971 and initiated suitable action to get the losses reimbursed to the company.

In the case of Synthetics and Chemicals also the intervention of the LIC effectively prevented the shareholders from putting questions to the management on the basis of information revealed during the proxy fight. A committee was appointed with leading officials from the financial institutions as members. The committee submitted its report a few days back. When at the annual general meeting of the company on June 12 the present writer suggested that the shareholders be taken into confidence and told about the main recommendations of the committee since the committee had been appointed by and on behalf of the shareholders, the Chairman of the company took shelter behind a technicality to argue that the committee had been appointed by the Board and that it was to report only to the Board. As such, the Board would consider the report and then inform the shareholders. In all probability, this would mean that nothing would be known to shareholders till the next annual general meeting. If the Board were serious about it, it could have considered the report and taken a decision on it in time for this year's annual general meeting. The report is known to be a brief one and it was submitted on June 9. Annual general meetings of companies are usually preceded by a meeting of the Board of Directors and so this brief report could have been placed before the Board and the shareholders informed of the recommendations of the committee. The attempt by the management to postpone consideration of the issue makes one suspect that the report is adverse to it.

In the light of the above facts, it is not clear what purpose so-called intervention by the LIC serves. Things happen behind the scenes and in meetings of the boards of directors; no inkling of these is available to the shareholders who are effectively prevented from raising issues or asking questions at annual general meetings on the specious plea that the past should not be raked up and that the compromise arrived at would set everything right. But in these calculations the possibility of the two sides coming to an understanding seems to have been ignored. In that eventuality, the LIC and government nominated directors find themselves in a small and helpless minority.

Intervention by institutions like the LIC ought not to be to maintain the *status quo* but to effectively check mismanagement and safeguard the rights and interests of small shareholders. For this, it is necessary that they should make their policy clear, categorically assert that they are intervening in the interests of and on behalf of the shareholders. Moreover, they should not arrive at face-saving formulas behind the scene but should take the shareholders into confidence. They must also insist that reports by committees and/or experts or consultants be made available to shareholders and not be regarded as confidential documents to be considered by the boards of directors alone. They should also see that the necessary changes in management are brought about in as short a time as possible and not let matters drag on for more than a year as has happened in both the cases referred to above.

Another related issue is that of the role of directors nominated by LIC and/or government who would be always in a minority on the boards of companies. To what extent and in what way can they exert the necessary influence on the managements? Alertness on the part of shareholders and a vigilant public opinion alone can help.

NEW DELHI

No Policy on Agricultural Prices

WITH the exodus of Ministers and Members of Parliament from the capital the public debate of recent months on questions such as land ceilings and the approach to the Fifth Plan has been stilled. Among those who left New Delhi in a hurry were three Ministers, two of Cabinet rank and one a Minister of State, who thought that the presence of all three was essential at Stockholm for the conference on pollution, if only to tell the conference that the problems posed before it were of no particular importance or interest to this country at its present stage of development. Meanwhile, the tension in political and ministerial circles over a possible Cabinet reshuffle also evaporated as soon as the Prime Minister left for her foreign visits. The reshuffle is now not expected till after the Indo-Pakistan summit at Simla.

Anxiety over Prices

The debate on the broad approach to the Fifth Plan, which was stated to be the primary purpose for which the Planning Commission presented its paper "Towards an Approach to the Fifth Plan", has proved to be a non-starter in the circumstances. It may now revive, if at all, only when the Planning Commission's draft of the full-fledged approach document, promised for September, becomes available. Meanwhile, anxiety over the price situation is beginning to show strongly in certain official and Planning Commission circles which go so far as to question the wisdom of the recent preoccupation with ceilings on land and urban property and the large allocations for special employment programmes as the principal parameters of the *garibi hatao* programme of the Congress. These doubts have become particularly vocal after the publication of the latest wholesale price index which shows an increase of 6.2 per cent in the past 12 months compared to a rise of only 1.4 per cent in the corresponding period of 1970-71. If the present trend in prices persists, as appears most likely, the current year may end up with a price rise of as much as 9 to 10 per cent.

The sharpest increase in prices has been recorded in foodgrains, the rise being 12 per cent in last 12 months. This is very disquieting when seen against the fall of 4 per cent in the foodgrains index in the corresponding period of 1970-71. Several factors have gone to push up foodgrains prices, but the principal one is the high procurement price, particularly of wheat. Meanwhile, the Agricultural Prices Commission has been persuaded to grant increases, even though modest, in the statutory minimum prices of other crops. In the last few months the Commission has submitted four reports on statutory minimum prices for jute, sugar, cotton and the kharif crops. In all these it has recommended an increase in statutory minimum prices. The Commission's reasons for recommending the increase are different in each case. In the only case where the Commission attempted to bring down the high levels of procurement prices, those of wheat, the political leadership did not think it advisable to accept its recommendation.

The APC has suggested an increase of about Rs 2 per quintal in the statutory minimum price of raw jute to keep the raw jute prices in alignment with prices prevailing in Bangladesh. In the case of sugarcane, the increase is intended to raise and stabilise sugarcane production in competition with production of wheat and rice. The increase in the statutory minimum price of cane supplied to sugar mills comes to about 12.5 per cent on an average and is brought about by adjustment of both the recovery content and the price per quintal. The basic level of recovery attaching to the minimum price has been reduced from 9.4 per cent to 9 per cent and the price at that level has been increased from Rs 7.37 to Rs 8 per quintal. For cotton, the minimum statutory price has been fixed for *kapas* instead of for lint as used to be done in the past on the ground that the very purpose of the statutory minimum is to protect the farmer. By knocking off the lowest range of conversion ratio from *kapas* to lint, the statutory minimum for *kapas* has been revised upwards. For kharif cereals, the minimum price for rice has been increased by Rs 2 per quintal while it has been maintained for the coarse grains at last year's level.

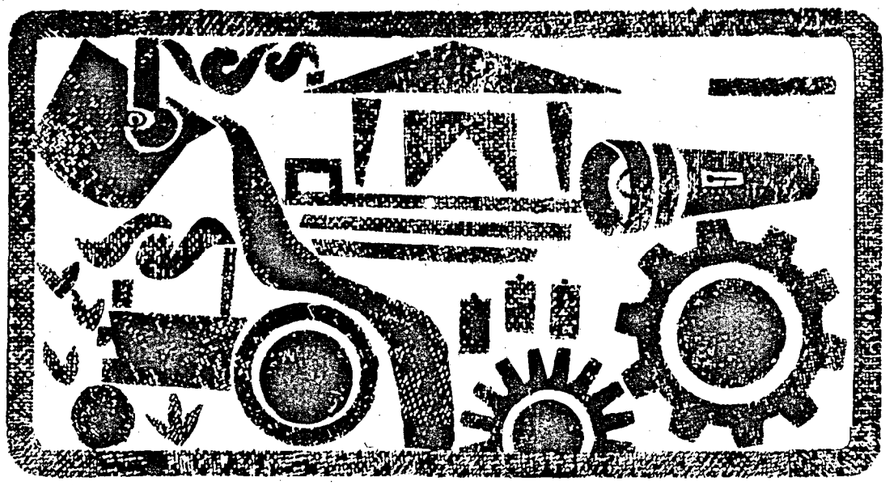
The basic intention of the APC in recommending these moderate increases in the statutory minimum prices is to establish a structure of relative prices which will prevent, to the extent it is possible to do so with this device, acreage shifts in favour of one or the other crop resulting in imbalances in agricultural production. The pull of wheat, because of the technological advance in its production and its profitability, was the principal factor which the APC had in mind in making these upward revisions. It is argued that the fixation of statutory minimum prices, even at a level higher than in the past year, should have no adverse impact on the general price level since their influence will be very limited. What influences the price level is not the statutory minimum prices so much as the procurement prices.

It is in regard to procurement prices that the APC has been trying to achieve, though without success so far, a certain measure of levelling down. The tendency on the part of the government, under the influence of the farmers' lobby, has been to obliterate the distinction between the statutory minimum and the procurement prices and treat the latter as in fact the minimum support prices. This happens once the commitment is made that all the producer brings to the market would be purchased at the fixed procurement price. Such commitments have been freely given by the Food and Agriculture Ministry and the Union Government While moderately increasing the statutory minimum prices in the case of a number of crops in an effort to prevent acreage shift adverse to their production, the APC is now seeking to resist the tendency to jack up the minimum support prices further to the level of procurement prices. Hence its anxiety to keep the distinction between the statutory minimum price and the procurement price.

Major Policy Change

If the APC is to achieve its purpose, however, there has to be a major policy change in the whole concept and manner of fixing procurement prices. Fixing a statutory minimum which will guarantee the farmer that level of prices for all that he produces has certainly to be done through by an agency like the APC on the basis of data about cost of production and returns. But the use of the same agency for fixing procurement prices, particularly when the supply situation is not too tight and public sector agencies are in the field for the purposes of open market purchases, would appear to raise some questions. Fixation of procurement prices through the

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Towards a Cultural Policy: A Minority Viewpoint

Sudhir Chandra

UNDER the sponsorship of the ministry of education and the auspices of the Indian Institute of Advanced Study, a seminar groped for a week 'towards a cultural policy for India'. In spite of the initial doubts of many participants, the seminar was able to produce a statement that represented a substantial measure of consensus, a real achievement indeed. The discussions in the seminar, the draft of the statement and the final form of the statement, however, raised important issues which, it seems, admit of very difficult solutions, if at all they can be solved by pure human volition. The statement, at any rate, did not offer very sound solutions, and left many ends loose.

On Egalitarian Lines

A significant strain that ran through the pronouncements of almost every participant was that the formulation of a cultural policy for India would depend on our view of the society that we want for ourselves. Equally significant was near unanimity about the desirability of socialism as the ideal pattern for our society. Which in plain words meant that the base of society had to be changed before a specific kind of superstructure could be raised. The idea, as the statement put it, was to reconstruct society on egalitarian lines. Having thus committed themselves the formulators of a cultural policy should have felt logic-bound to at least hint at the possible strategy of the desired social reconstruction. They attempted this neither during the long discussions nor while drafting the statement.

The discussion on three papers dealing with education made it clear. Everybody agreed that educational reforms could at best tinker with social structure, and that a system of education was linked with the social system. Yet, in spite of this realisation, everybody wanted to bring in major educational reforms in order to restructure society. This found expression in the final draft of the statement which called for nationalisation of education and the abolition of the present elitist education as a means to usher in an egalitarian society and stop 'brain drain'. No one bothered how education could be nonelitist and egalitarian if the society was elitist and nonegalitarian. Besides, the assertion that the introduction of nonelitist education would *ipso facto* end 'brain drain' clearly implied that the consequent decline in our educational standards would be an effective disincentive to foreign countries to attract our scientists and scholars.

This exercise in putting the cart before the horse would have been amusing but for the fact that the participants were educated men and many of them held positions of responsibility in the country. This particular circumstance made the exercise alarming. Instead of taking their clue from an analysis of the processes of social change, these intellectuals referred to the new confidence and to the formidableness of progressive forces at the moment. One of them even argued how a single individual, to the utter shame of the country's intellectuals who had always obstructed her, had generated that confidence. In a spell of contrition, as it were, they seemed to think that all that needed to be done was to strengthen the government to the extent of making it totalitarian and the egalitarian social reconstruction would descend from the top. They ignored the constraints within which any individual or party must necessarily work. They also ignored how economically powerful groups manage to safeguard their vital interests in every possible garb — even the garb of socialism — by manipulating political power at the top without directly exercising that power. This is all the more easily manageable in a democracy.

Spurious Egalitarianism

Moreover, nationalisation of education may mean substantial negation of the rich cultural diversity that we are committed to preserve and promote. And abolition of privileged educational institutions would mean — unless of course we have elevated the level of millions, which is bound to take a very long time if our performance in regard to our old pledge for universal primary education is an index — that in the name of a spurious egalitarianism we shall have destroyed whatever excellence we have been able to attain so far. Also disturbing is the implication that since the country will need excellently educated men even after it has destroyed quality at home, men and women will be sent abroad to equip themselves to serve the country's various needs. Given the socio-economic fabric that we have, it is not the best talents in the country who will be sent to foreign universities. More often than not the sons and daughters of the wire pullers will get this chance, thereby perpetuating the inegalitarian system of which their fathers and mothers are the prominent beneficiaries. There can be no safeguard against this unless the right sequence of developments follows. And the right sequence is: a social reconstruction bringing in its wake an overhaul of the educational system Once this reconstruction has been achieved, there will exist no need to attempt a massive levelling down.

Nihilism and Alienation

The silence about the mode of achieving this social reconstruction, whether calculated or otherwise, created the suspicion that the statement would strengthen without doing a whit about egalitarianism, the totalitarian trends that are already visible in the country. For, without suggesting a strategy of social transformation, it pleaded, in its draft form, for nationalisation of education, nationalisation of agencies of distribution and exhibition of films as a first step towards the nationalisation of the film industry, and condemned the trends of nihilism and alienation in our arts and literature in order to emphasise that creative activity could not be divorced from national values. With the state empowered to regiment the minds of its citizens through a uniform system of nationalised education, people will no longer have the advantage of different systems competing with one another and fertilising the thought processes of men. Radio and television — the most extensive mass media — already under government control, and films following suit (so might the newspapers if the current trend continues), where will be the opportunity for dissent to grow and revitalise national life except through stray geniuses who also would find going inordinately hazardous in their underground cells? And to plug every possible source of dissent and to complete the hegemony of the state over every aspect of human life, artistic creativity must not be divorced from national values. Who will, in such a situation, prescribe national values? Particularly when two such powerful concepts as nihilism and alienation are condemned as socially undesirable.

It is remarkable that only a tiny minority of the participants could visualise the drastic consequences of the original draft. The minority, fortun-

ately, was vocal and insistent. The result was that the clause of participatory management was inserted in the proposal about nationalisation of education; nationalisation of agencies of distribution and exhibition of films as a first step towards the nationalisation of the film industry was altogether dropped; reference to nihilism and alienation was deleted and the sentence about the undesirability of a divorce between artistic creativity and national values was, at the instance of a prominent artist, substantially toned down to form part of a sentence that dealt with the excellence of artistic production.

These were definite gains in view of the original recommendations of the draft statement. But more significant was the fact that in spite of being in a very small minority, the advocates of the freedom and dignity of the individual were able to extract these concessions. It seemed that whatever language these proponents of 'social reconstruction' might employ, they were not prepared to face the charge of recommending what might lead to regimentation and totalitarianism. They tried to argue that this interpretation of their proposals was not correct, and having discovered that in the arena of argument they had been worsted, they tardily conceded these points. Obviously, whether as a matter of expediency or as a result of conviction, even the intellectuals, who would strengthen totalitarianism in the name of egalitarianism, had to accept willy-nilly the logic of freedom and democracy. This is cheering. But not so cheering. The ponderous verbiage used to advocate 'democratic socialism' makes it difficult for most people to perceive how democratic and socialistic this democratic socialism would be.

The crux of the matter is: can you hope for a massive voluntary act of simultaneous self-abnegation from those who enjoy positions of power and plenty in the country? If you cannot, are you prepared for a bloody revolution? And how will you plan a violent revolution in a country of India's size? More important than that, has any revolution in the world so far succeeded in establishing egalitarianism in one stroke — or at all? And if social reconstruction on such a grand scale is possible neither by violent revolution nor by the use of the ballot paper, is it not a gain to retain and vigilantly safeguard your freedom and dignity to the best of your capability in this ever losing tussle and refuse to succumb to totalitarian trends in the fond hope of being able to live in the millennium that all visionaries have been imagining without realising? Better the gradual actualisation of equality and social justice than the certainty of being condemned to live in an 'animal farm'.

SINGAPORE

Bangladesh's First Contacts with South-East Asia

Harish Chandola

THE number of joint communiques issued during the recent visit of the Bangladesh Foreign Minister, M Abdus Samad, to countries of South-East Asia should indicate that the visit went off well. Burma, which rigidly adheres to its policy of not saying anything publicly, relaxed its caution a little this time and issued a joint communique on May 25, 1972, on the conclusion of the four-day visit of Samad to Rangoon; Malaysia issued one on June 6; and surprisingly Singapore, which shuns involvement in such formal exercises, also issued on June 8, the day Samad concluded his visit to this region.

Samad's visit could only be described as an attempt to establish first contacts with these countries, all of whom have recognised Bangladesh but none, of whom has yet sent a diplomat to Dacca. By undertaking this visit, Samad has assured himself that these countries are friendly to Bangladesh and though they are engrossed in their own problems, they have goodwill for the newborn country.

Samad knew in Rangoon that the birth of Bangladesh made Burma particularly happy. When Pakistan controlled that area, it used to create problems for Burma, by inciting the Muslims of the border Arakan region to form fanatic organisations like Razakars which caused conflicts with the Buddhist majority. Pakistan also used to indirectly encourage the smuggling of Burmese rice from the rich Akyab area. Now Bangladesh would not do these things. The other reason given by the Burmese leaders to Samad for Burma feeling happy over the creation of Bangladesh was however somewhat strange. They told him that Burma had as its neighbours either very large countries, like India and China, or countries where war and insurgency raged, like Laos and Thailand. They were therefore happy to see the coming into being of a manageable neighbour, Bangladesh, which could truly be treated as an equal and which at least for the time being was free of a major conflict.

Burma had recently played a role helpful both to Bangladesh and China. First China had sought Burma's help in withdrawing the staff of its Consulate in Dacca. Later, in March and April, Bangladesh had obtained Burma's help in bringing back the Bengali members of the staff of the Pakistan Embassy in Peking, including the Ambassador, K M Kaisar. Bangladesh is looking forward to recognition from China. Its application for membership of the United Nations will come up for consideration in September this year, when the General Assembly meets. But it as yet does not know how China, one of the five Permanent Members of the Security Council, is disposed to Bangladesh's admission to the UN. Bangladesh therefore wants Burma's help in finding out in Peking if China will react favourably to Bangladesh's overtures to establish relations with China. This help the Foreign Minister is reported to have sought during his visit to Rangoon.

There is a good deal of optimism in Dacca about China recognising Bangladesh soon. This optimism is based on the reports of K M Kaisar who was Pakistan's envoy in Peking until a few months ago and who being a Bangladesh man has now left the service of Pakistan and joined the Dacca Government. Kaisar's reports, it is said, have stated that China was critical of the policies of the Soviet Union and India towards Bangladesh, but not of Bangladesh itself. One has now to wait and see what reaction Burma obtains in Peking to Bangladesh's desire to establish relations with China. Only then will one know if Kaisar's hair-splitting assessment of China on the one hand continuing its criticism of India and on the other wanting friendship with the Bangladesh government is correct.

Samad was received very cordially in Kuala Lumpur. Since it recognised Bangladesh three months ago, Malaysia has on its own made several gestures of help to that country. Malaysia was the first Islamic country to recognise Bangladesh. It also sponsored Bangladesh's admission into the World Health Organisation. Malaysia has also promised to sponsor Bangladesh's admission to the UN and all its specialised agencies. Soon after the independence of Bangladesh, Malaysian students who were earlier studying there on Pakistani scholarships and who had left the country during the fighting, began returning to this new country to complete their courses. Had the Malaysian Government not encouraged them to return they would have gone elsewhere to complete their studies. Malaysia has also promised to send two rubber experts to Bangladesh to help it develop rubber plantations. Under Pakistan, a few rubber plantations were started in Rangamati and Chittagong areas. Bangladesh intends to bring more area under rubber and Malaysia has offered it help in doing so. The two countries have also decided to co-operate in the field of jute and rice technologies. Malaysia had earlier decided to nominate its ambassador to Rangoon to be its concurrent High Commissioner to Bangladesh. Bangladesh, it appears, was not happy with that and has asked for the appointment of a separate Malaysian High Commissioner to Dacca.

In the joint communique issued in Singapore, the two countries agreed to establish diplomatic relations at High Commissioner level. But the Singapore Foreign Minister is reported to have made it clear to Samad that while Bangladesh was free to appoint a diplomat of whatever rank it wanted in Singapore, Singapore was not at the moment planning to send a diplomat to Dacca. Later, Samad announced that Bangladesh would soon be sending a Trade Commissioner to Singapore.

Samad's main argument during his visit to the three countries was that Bangladesh was part of South-East Asia, and that the countries of this region should accept it as such. But it appears that this argument was not accepted anywhere. Leaders of Malaysia and Singapore told reporters that they considered Bangladesh as part of the Indian subcontinent and not of South-East Asia. Samad had a strange argument for getting his country accepted as a South-East Asian nation. He had informally said that Pakistan had been made a member of the South-East Asia Treaty Organisation (SEATO) because Bangladesh which was part of South-East Asia was then a part of Pakistan. But this argument was not taken seriously.

The timing of Samad's visit to this region made some political observers here think that he was making this tour to balance the effect of the Pakistan President, Bhutto's visit to Arab and African countries, which have not recognised Bangladesh. These observers seemed to think that Samad by making this visit intended to show that while Pakistan was still lobbying for Arab and African support for Pakistan's position on the conflict on the Indian subcontinent, Bangladesh was already winning friends, particularly among its South-East Asian neighbours.

Trouble in the Family

With his own community (people of Bangladesh origin) however the Minister had some awkward moments in Singapore. A tea reception was held here for the Minister, the expenses of which were paid by a businessman of Bangladesh origin in Singapore. The invitations to the reception were sent out in the name of the Bangladesh Ambassador to Jakarta who was here. He had invited members of the Bengali community in Singapore, including citizens of India and Singapore. This had led people to wonder if the reception was a calculated attempt of the Ambassador to enlist the loyalty of all Bengalis living abroad to Bangladesh? The Ambassador had also arranged that the two factions in the Bangladesh community here should present two separate addresses of welcome to the Minister. One address was by a businessman who presented the Minister with a donation of Singapore $ 5,000 for the Bangladesh Prime Minister's Relief Fund, and the other was read by a salesman of a bookshop. The salesman had brought cyclostyled copies of his address which he distributed among the guests and it talked of traitors and "Pakistani quislings" among the Bangladesh community in Singapore, against whom the salesman said he and his friends were struggling in this very city. This address was evidently an attempt to start a witch-hunt in the small Bangladesh community here on the basis of individual feelings. The Minister too deplored this and said he would have been happy if just one welcome address had been presented.

THE FOURTH ESTATE

Spare the Rod...

Nireekshak

VIOLENCE by political opponents or criminal elements is happily rare in this country, but there have been instances when violence or threat of violence has been used to intimidate newspapers and journalists. Some three years ago, in Maharashtra, a PTI reporter, Iyer, was allegedly murdered while investigating a big smuggling racket in which a central cabinet minister was said to be involved. In Punjab, during the days of Sardar Partap Singh Kairon, newsmen were often beaten up or threatened if they wrote things unpalatable to the powers-that-be in that state. But, by and large, such physical pressures on the press have been rare though there is a tendency towards their increasing use.

The most recent example of physical pressure being used on a newspaper is that of *Alai Osai*, an independent Tamil evening daily published from Madras, whose office and printing press were attacked on June 16 by some 100 political agitators who, it is said, were unhappy with the paper's anti-DMK stance. A director of the newspaper, who happened to be on the scene, was assaulted by the mob which also ransacked the news-room and the composing room, smashed up vehicles belonging to the newspaper and set fire to a few of them.

Impartial observers have blamed DMK for the vandalism and police for its inefficiency. However, the strongest condemnation has come from the leftist-dominated Indian Federation of Working Journalists. It has demanded that the Tamil Nadu government should immediately pay compensation to the newspaper and the staff for the losses suffered by them.

Many in the profession will recall that the trend of organising demonstrations before newspaper offices was first set by the IFWJ itself. Such demonstrations had begun with legitimate trade union grievances but later on political issues also figured in them. Nireekshak remembers one such demonstration led by V K Krishna Menon to the *Statesman* office in New Delhi on the issue of bank nationalisation. In Bombay, the Shiv Sena emulated the

example and used political agitation as a means to threaten newspapers. The *Indian Express* was its main victim. Now DMK is making use of the same weapon in the south.

Nevertheless, it is a dangerous trend which can threaten the freedom of the press. The IFWJ and the National Union of Journalists should come out more unequivocally to condemn political vandalism which is increasingly being used to threaten newspapers' freedom. In this they (IFWJ and NUJ) should not discriminate between political parties or newspapers or journalists.

With Nandini Satpathy's departure from the Union Ministry of Information and Broadcasting, the big newspapers are feeling a little more relaxed. The newsprint controversy has receded into the background while the press ownership diffusion bill is as good as dead, according to an authoritative source. As a result, *Statesman*, which had withheld increments to its staff for nearly six months has allowed the increments with retrospective effect. The *Indian Express* management, or Ramnath Goenka to be more precise, has made up his mind on his group's next Editor-in-Chief in succession to Frank Moraes who retires this November on his 65th birthday. The former editor of *Hindustan Times*, S Mulgaokar, is said to be his choice. Mulgaokar is the most professional among the editors of the leading newspapers. He has been a desk-man and a field-man and is, above all, a good layout-man. He changed the face of *Hindustan Times* in the late 50's. And now one looks forward to his making the *Express* a livelier newspaper. Moraes will continue to be associated with the paper as its West European correspondent based either in London or Paris.

Ever since A B Nair was made to quit the Managing Directorship and editorship of *Free Press Journal* the newspaper has been in one financial jam or the other. Karnani, who has taken over as Managing Director, has been making frequent air-dashes to Bombay and has partly succeeded in giving a new lease of life to the paper. New appointments and better pay scales for existing employees are now on the cards. And the performance of the staff in recent months no doubt justifies this. *Free Press's* local coverage has improved tremendously. Madhu Shetye, its enterprising reporter, has the local administration in the dock with some excellent pieces of investigative reporting. Two of his exposures have been about the CIDCO and the alleged bunglings in the Maharashtra Rajya Text Book Bureau. However, R K Karanjia apparently has different views about the paper and has resigned from its board of directors to which he was elected only last year. The indicates that many more changes in the *Free Press* set up are in the offing.

Speculation on the forthcoming Indo-Pak summit has been making front page. From *Patriot's* and *Motherland's* "tough line" to *Hindustan Times'* "optimistic approach" and in between *Statesman's* news items predicting "hard bargaining at Simla" there have been enough reports to cause confusion. Yet the optimism generated by the summit is such that few newspapers predict the possibility of a complete failure. Taking its cue from Nixon and Brezhnev, who during the US-Soviet summit exchanged expensive presents like an American Cadillac and a Russian speedboat, *Times of India*, has in a lighter vein suggested that presents exchanged between Bhutto and Indira Gandhi should be carefully selected. According to *Times*, a Kashmiri shawl from the latter would be the best. *Motherland* reports yet another fabulous feast — a 20-course dinner in the capital organised in honour of the new Congress president, Shankar Dayal Sharma, and Yashpal Kapoor, MP. According to *Motherland*, "Nearly 500 guests, the socialist elite of Delhi, including some cabinet ministers and chief ministers, turned up for the show in a way reminiscent of the historic dinner by a Maharashtra Congress MLA some time ago." After listing in detail the mouth-watering menu, the Jan Sangh paper adds: "Ironically, the dinner followed hours after the Lok Sabha was given a grim account of famine in Orissa where a woman had turned cannibal and also after the Prime Minister's oration at the NDC meeting in the morning where she had exhorted her partymen to do something for the poor and do it quick."

REVIEW

Industrial Conflict and Political Revolt

N R Sheth

Industrial Conflict in Malaya: Prelude to the Communist Revolt of 1948, by M R Stenson; Oxford University Press, London; pp x + 271; £2.50.

IN the book under review, the author describes the development of labour politics and trade unionism in Malaya during the 1930s and '40s in the context of the social, economic and administrative changes in the country. The study is based on sources of recorded information such as the Press and company documents as well as interviews with people concerned with industrial relations.

The author first provides a historical background of the development of industrial labour in Malaya which in the beginning consisted largely of Indian and Chinese immigrants. The Indian workers who were mostly recruited under indentures were bound to employers through labour contractors in a feudal relationship. While the Chinese immigrants were somewhat more independent, they were recruited as members of all-inclusive social organisations. The supply of labour was manipulated by employers according to their needs, since the government hardly intervened in labour problems.

This traditional system began changing towards the end of the nineteenth century in the wake of expansion of industry, decline of indenture and mobilisation of local labour for industrial activity. Subsequently, political changes in China and India generated social and political awareness among immigrant labour. A trend towards unionism began in the 1920s, although the emphasis was mainly on political ideology and social welfare rather than on pro- and social welfares' rights. The Depression of the 1930s gave rise to a chain of events. Workers were increasingly influenced by progressive ideas in the outside world through modern means of communication. Spontaneous labour associations and work-stoppages became the order of the day. The deep-seated social and economic grievances of workers came out into the open. Union leadership went into the hands

of the Chinese-dominated Malayan Communist Party (MCP) and educated Indians, both of whom were responding to political changes in their respective homelands.

Employers were understandably reluctant to respond to workers' demands. Government played a dubious role. On the one hand, it intervened in labour disputes with a view to solving them; on the other, it used police to round up "agitators" who created trouble for employers. Conciliatory legislation was enacted to handle labour disputes, but it could not be implemented due to the dominance enjoyed by employers and the colonial government's anxiety to control workers under the excuse of protecting them during the Second World War.

Short-Lived Success

During the Japanese occupation of Malaya (1941-45), MCP became stronger due to Chinese hostility towards Japan. With the reinstatement of the British rule, MCP evolved a policy of pursuing civil struggle to acquire political power. Hence it organised a large number of trade unions which indulged in frequent strikes and demonstrations. However the British Military Administration used high-handed methods to curb MCP activities. During the post-war period, although workers' bargaining power increased, the general economic crisis in the country blocked any significant gains on their part. However, the trade union movement continued to gain influence among the workers under the command of MCP and culminated in the formation of a strong Pan-Malayan General Labour Union.

However, this success of trade unionism proved to be short-lived. The MCP failed to attract local Malay labour. The British regime realised the growing force of MCP and hence built up an alliance with the local aristocracy as well as labour against the communist-controlled trade unions. The government propounded a progressive policy towards unions and at the same time advocated the need for independent unionism to counteract communist dominance over labour. On their part, employers brought strong pressure on government to resist union demands, enforce law and order, and restrict union activity. The employers' strength arose mainly from centralised financial control over industry by European houses. The economic situation in 1947 helped employers to resist union demands which they had to concede in earlier years.

Simultaneously, sections of the working class were disillusioned with the MCP-led unions due to their failure to deliver the goods. There was thus a division among the ranks and leadership of the communist unions. The communists then decided to resort to an armed struggle against the British. They tried to dislocate industrial activity by stoppages and violence. The government decided to adopt decisive measures to curb the violence and disruption. However, the communist attempts at armed revolt met with limited success, as it could not convince workers, or even union leaders, of the need for armed struggle. The government successfully re-established the restrictive, paternalist pre-war regime by promulgating emergency regulations and a Trade Unions Ordinance. With this, the majority of workers were left unorganised.

This is as far as the main story goes. In a postscript, the author describes the development of labour organisations in the post-1948 era and discusses the prospects of the labour movement in the seventies. A new, orderly form of trade unionism emerged in Malaya in the fifties and began articulating the workers' economic and organisational interests. Employers also learnt to accept the inevitability of trade unionism and responded to workers' demands. However, unions have so far achieved only moderate success, as they have little political influence. Apart from this, the author observes, "the industrial workers have had... little moral claim to greatly improved conditions in a society where the majority are peasants with an even lower standard of living" (p 241). One wonders how far this opinion would be accepted by workers and trade unionists in developing societies. The author believes that trade unionism in Malaya at present is in a condition of crisis, as it cannot achieve much for workers in the face of the prevailing economic stringency. His suggestion for the success of trade unionism is that unions should more effectively act as welfare agencies and co-operate with employers and government in raising output. Perhaps this solution can help unions to keep their membership strength. Whether this is an accepted organisational objective for trade unions in countries such as Malaya is open to question. The argument "let us first raise the size of the cake at the current level of distribution; we shall later quarrel on distribution" is as simplistic as it is attractive. Consistently with this argument, the author winds up his study with the following remarks:

> "There is no example in any European or other society of rapid agricultural or industrial expansion being initiated in conditions of widespread effective, popular control of government and strong, militant, independent worker organisations. To the extent that they are undergoing a process of economic transformation similar to, if more difficult than, that of many European countries in the nineteenth century, it is unlikely that Malaysia and Singapore will prove exceptions to the rule" (p 251).

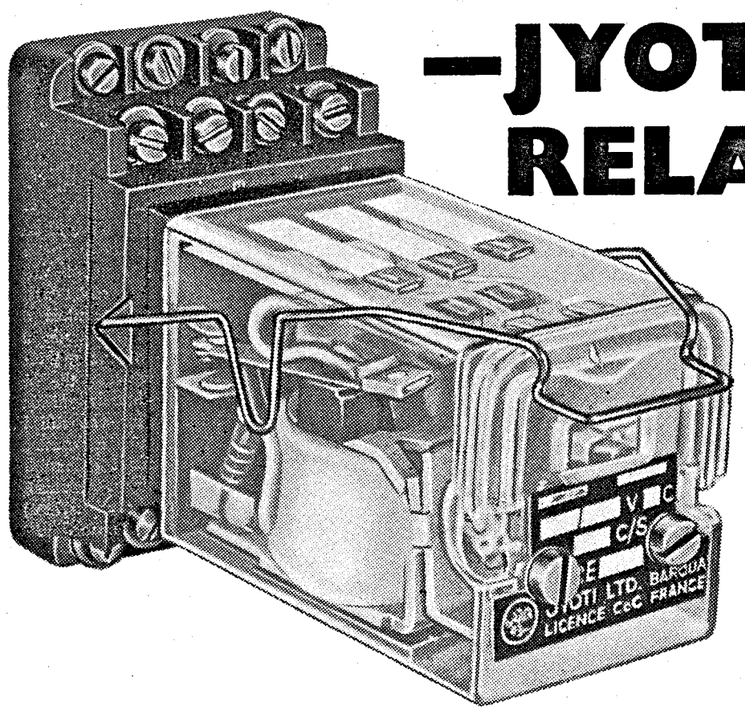
Begging the Question

This indeed is begging the question. Stenson's formulation is logically unexceptionable in terms of economic history. But this is not sufficient, since social realities cannot be wished away. The phenomena of "widespread, effective, popular control government" and "strong, militant, worker organisation" are facts of life in some societies (typically, India) in the process of development. The economic aspirations of people in these societies have to be achieved in the context of existing governmental and trade union structures, not by uprooting these structures.

On the whole, the book under review is a scholarly historical study. For those of us who still believe that trade unionism is a function of one or the other overriding condition (such as poverty, employers' intransigence, politician's urge for power, etc) this study is an excellent education in the complex interaction of a variety of social, economic, political and historical forces.

One wishes that the author had tried to make the book more readable than it is. Those who have a limited knowledge of Malaya are likely to get lost in the maze of historical data running through the book. The author assumes considerable acquaintance with the social and economic background of the employers and *sultans*. Moreover, for a long time one has to struggle hard to figure out the status and role of the British in Malaya. One is left blissfully vague about the precise membership of MCP and the unions affiliated to it. Long abbreviations stare you in the face wherever you are; one wonders why the author did not care to put the legend on abbreviations in the alphabetical order. The legend does not include a few abbreviations such as WFTU (p 138). I still need to be properly introduced to a fellow called Brazier (p 80) about whom there are lavish reports in the seventh chapter.

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REVIEW OF AGRICULTURE

June 1972

Land Ceilings as Tax on Agriculture
P N Junankar

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Allocative Efficiency in Agriculture
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Consumption Availability and Foodgrains Prices
S K Ray

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Stereotype Norms

THE so-called new economic policy and the new goals that have been set for the Fifth Plan have yet to make an impression on thinking in the Ministry of Agriculture. The report of the Ministry for 1971-72 makes as much clear. What distinguishes the Approach to the Fifth Plan in the government's own view is not the proposed doubling of public sector outlay as the acceptance of the objective of meeting the 'basic minimum needs' and providing employment as an essential part of overall growth strategy. Agricultural policy and programmes should be expected to be the first to show the impact of the changed emphasis. After all, agriculture supplies the major ingredients of the basic minimum needs — foodgrains, edible oils, cotton — and numerically the overwhelming majority of the two-fifths to one-half of the total population who live below the 'poverty line' are to be found in the agricultural sector. Any 'direct attack on poverty' through widespread employment creation will vastly expand the demand for agricultural goods, particularly foodgrains, and require a reorganisation of agriculture.

The Agriculture Ministry's evaluation of past performance and its outlining of future programmes for increased production are, on the other hand, encased in stereotype norms. The expansion of agricultural production, from which it derives such obvious satisfaction, continues to rest essentially on the narrow base of HYV wheat, has been concentrated in Punjab, Haryana and Western UP, and has been limited by and large to the bigger farmers. Moreover, with most of these farmers covered by HYV, the impact of the latter on production is tending to level off. More significantly, the increase has been sustained by a high level of prices supported by government procurement operations. The programme for rice, still the major crop, is yet trailing behind. One does not know — the Ministry's claims notwithstanding — how much of the increase in rice production from 40 million tonnes in 1968-69 to 43 million tonnes expected this year is attributable to the HYV programme and how much to favourable weather conditions and the larger farmers taking to systematic application of inputs. The Ministry's report has trotted out stock explanations for the lagging HYV rice programme: that rice remains a kharif monsoon crop and HYV must have measured water administration, that HYV rice is less fine which fetches lower prices in the market and hence renders it less attractive to farmers. The report does mention a fetchingly named 'mini-kit' programme consisting of distribution of a 2-kg package of two types of HYV rice seeds to 18,000 to 20,000 farmers, backed by the necessary additional extension staff. A better bet may be the inducement to Punjab farmers to grow kharif rice, which may be reinforced by the marketing problems that further expansion of wheat production is likely to come up against immediately. Production of pulses has been stagnant and the report has no special ideas for raising it, apart from repeating the cliche that pulses are an important source of protein particularly for the low-income groups and that "efforts to bring about substantial increase in [their] production . . . have been stepped up". What about the pull of high support-price cereals which have taken acreage away from pulses — and from cash crops, for that matter? Oilseeds, sugarcane, cotton and jute have also failed to show any breakthrough in production, though it is accepted that a sustained package programme can make a sizeable impact on their yields.

It should be clear by now that if foodgrains production has to be raised by about 4 or 5 per cent annually over the next decade (against the 2.9 per cent or so achieved between 1949-50 and 1970-71) so as to reduce the percentage of those below the poverty line to 15, and if this is to be achieved without the cash crops losing ground, use of high-yielding varieties and improved cultural practices would have to become far more widespread than it is today. Price policy adjustments such as those reflected in the recent upward revision of minimum support prices of rice, cotton, jute and sugarcane, have a role to play. But, far more important, an extension effort of a quite different scale and quality will be required. Where is this to come from? The Agriculture Ministry at any rate shows little awareness of the magnitude of the task at the village level, even less concerned does it seem about the sorts of institutional constraints that have stood in the way of the effective functioning of the extension network. These constraints will be felt all the more as attempts are made to reach out to the small farmers with credit and inputs, which will have to be done as these farmers must be brought increasingly within the compass of the new technology.

Land Ceilings as a Tax on Agriculture

A Note

P N Junankar

In this note I have tried to show that land ceilings are conceptually equivalent to a wealth tax on agriculture.

The case for ceilings on equity grounds is very strong and that on efficiency grounds is also fairly strong.

Thus if we treat ceilings as 'just another tax' some of the opposition to it may weaken.

THE current discussion on land ceilings has concentrated on the distributional (equity) aspects of the measure. In this paper I would like to discuss the implications of ceilings on agricultural land in a broader context. I will look at both the equity and efficiency aspects of the imposition of land ceilings. Although I am aware of gross simplification, I shall assume that any measures passed by the Government are implemented effectively. It is well known that implementation of land reforms requires efficient administration and legislation that is retroactive. In the next section I will suggest that legislation on land ceilings is analogous to a form of (wealth) taxation and can therefore be studied in that context. This is, apparently, the first time that the subject is being looked at in a public finance context.

I

Ceilings and Taxation

Agriculture is in a favourable position *vis-a-vis* industry since it is not subject to any direct taxes. Assume that (a) all land is homogeneous and farmers face competitive conditions so that input and output prices are given, (b) there are non-increasing returns, (c) there is a positive discount rate and (d) there is certainty. Then there would be a one-to-one correspondence between 'permanent income' (the present value of the future stream of income) and the size of the farm. Now assuming no compensation, we can construe ceilings as a tax on permanent income when the tax rate is zero before some critical value and one after it. Since most of the existing suggestions include compensation as one of the features it implies that the tax rate after the critical value is greater than zero and less than one if the compensation paid is partial. It is feasible to work out a system of progressive taxation such that the amount of compensation paid decreases at the margin with the excess of the acreage over the ceiling.

II

Effects of the Tax

In this section I will look at the effects of a land ceiling on (a) equity and (b) efficiency.

(a) *Equity:* There are three aspects to keep in mind. Firstly, equity within agriculture, secondly, equity, between agriculture and industry (remembering that agricultural income is not taxed otherwise), and thirdly, equity on an individual basis. It should be noted that since income from non-agricultural sources is taxed we can compute, given our assumptions, the wealth tax equivalent. Agricultural income is not taxed which is *one* source of inequity. In the Table below I list the likely effects of the imposition of a land ceiling, ignoring the sources of revenue used for compensation purposes. Once we worry about where the finances for compensation come from we are unable to say anything unambiguously.

Thus we can say that, if we ignore the sources of finance for compensation payments, a land ceiling would lead to a more equitable distribution (except in case 2 when there is no change). This seems to have been the main justification for land ceilings. I will now turn to the aspect of efficiency which has not got as much attention in the literature.

(b) *Efficiency*: The effects of a ceiling (tax) on efficiency will be considered under two heads:

(i) Static/short-run
(ii) Dynamic/long-run

The static case is easy to deal with. Given our assumptions of homogeneity, certainty and no technical change a ceiling (tax) is a once for all event and therefore has no dis-incentive effects. As long as changes in the ceiling (tax) or the compensation rates are unforeseen there would be no problems. As it is a once for all tax there would be no shift of resources from agriculture to industry. People would not move from agriculture to industry because of our assumption of effective retroactive legislation. The compensation payments received would move to industry, but they *may* have been collected in industry and hence there would be no net changes. If the compensation payments were collected in agriculture there would have been a once for all shift from agriculture to industry. In addition, there is fairly good evidence for an inverse relation between farm size and productivity. Thus a land ceiling combined with redistribution would lead to an overall improvement in agricultural productivity. Thus on static grounds the case for a ceiling (tax) is very strong.

TABLE: LIKELY EFFECTS OF IMPOSITION OF LAND CEILING

(1)	Within Agriculture (2)	Between Agriculture and Industry (3)	Individual Basis (4)
(1) No compensation (with or without redistribution)	x	x	x
(2) Compensation (full) without redistribution	—	—	—
(3) Compensation (full) with redistribution	x	x	x
(4) Compensation (partial) with or without redistribution	x	x	x

Notes: x indicates an 'improvement', i e, treatment is more equitable. — indicates 'no change'. 'Redistribution' refers to the land collected in excess of the ceilings which it is assumed would be given to small land owners, tenants, or landless labour. Industry refers to all non-agricultural activities.

The dynamic/long run case is more difficult to analyse. It is impossible to say a *priori* what the effects on savings, investment and innovations would be because of changes in distribution within agriculture. What can be said is that since agriculture is not taxed at all now and if the Government wished to tax it either by an agricultural income tax or a ceiling (wealth tax) both of these methods would have various repercussions. A wealth tax is likely to have fewer adverse incentive effects than an income tax.

Thus land ceilings have no dis-incentive effects in the static case (unlike an agricultural income tax) while the long-run case is indeterminate. In fact we have reason to believe that ceilings would improve agricultural productivity.

III

Conclusions

In this note I have analysed the subject of land ceilings at a fairly high level of abstraction to derive some firm conclusions. I do not think those conclusions would be contradicated for a more 'realistic' model. Since there is a well recognised body of literature on the theory of public finance it seems to me that we can apply its principles to the subject in hand.

In this note I have tried to show that land ceilings are conceptually equivalent to a wealth tax on agriculture. As we saw earlier the case for ceilings on equity grounds is very strong and that on efficiency grounds is also fairly strong. Thus if we treat ceilings as 'just another tax' some of the opposition to it may weaken.

Ceiling on Agricultural Land-holding

Its Economic Rationale

C H Hanumantha Rao

A redistribution of land and capital resources from the large to the small and marginal farms is likely to raise total output and employment owing to the larger availability of labour per unit of land and capital among smaller farms. More equitable distribution of land would thus result in more employment and income for small farmers apart from contributing to the more efficient use of the available resources.

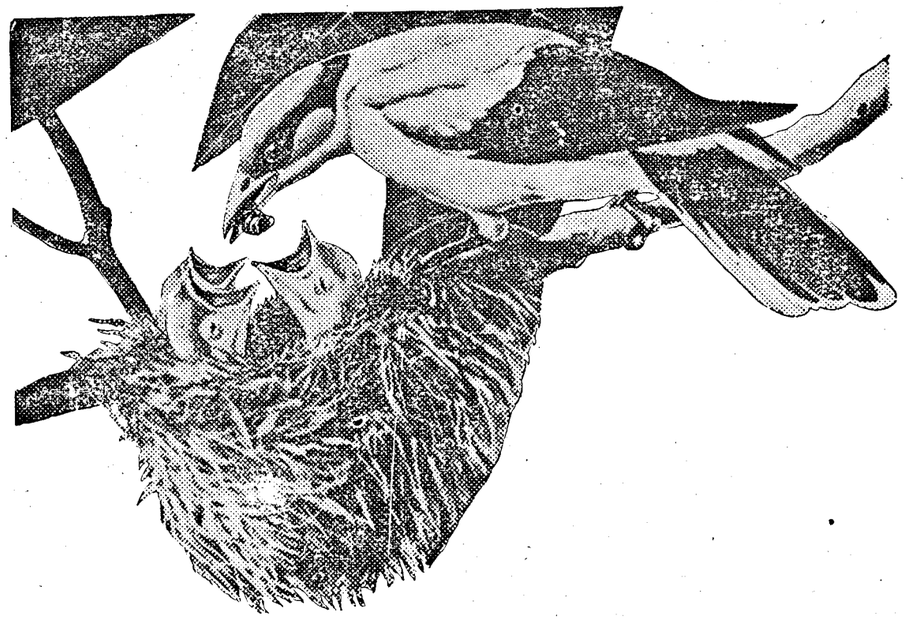
The contribution of the proposed ceilings on agricultural land-holdings consists not so much in the 'surplus' land that is likely to be made available for distribution among the landless as in arresting or slowing down the growth of capitalist farming in agriculture. A substantial contribution of the current drive for ceilings is to be found in the sale of land by the big land owners and in their reluctance to acquire more land in future.

If this be made the major objective of ceilings — as it ought to be — then ceiling on ownership holdings as presently contemplated will have to be combined with ceiling on operational holdings and ceiling on the future acquisition of land.

APART from the requirements of social justice, the case for a ceiling on agricultural land-holding in the present Indian context derives from considerations of economic efficiency as well. The supply of land as a source of income is extremely scarce in relation to the demand for it or, to put it differently, the man-land ratio in agriculture is very high owing to the meagre opportunities for employment in the non-agricultural sector. Considerations of equity and welfare require that the scarce commodity — in this case land — be rationed out among the members needing it. But scarcity is not a sufficient condition for a factor to be rationed out in this manner. In the industrial sector, for instance, quite a few material factors are scarce in supply and yet no one advocates that they be employed in small family-managed units by breaking up the existing firms. Nevertheless, such a break-up is advocated for agriculture because, unlike in the modern manufacturing sector, the technological conditions of agricultural production are such that land can be cultivated equally or even more efficiently in small units. Land as a factor of production is perfectly divisible. So are other inputs like water, labour, improved seeds, fertilisers, etc. Machines like tractors may not be required on a large scale where the man-land ratio is quite high. But if necessary, the size of such machines can be ordered to suit the farm size, or, alternatively, they can be hired. Another factor favouring a farm ceiling is that the entrepreneurial or managerial talent required for farming is not in short supply. As such, the additional units created are likely to be managed equally or even more efficiently when compared to the existing large units, if credit is extended to them on reasonable terms from the financial institutions.

SMALL FARMS MORE EFFICIENT

It is not surprising, therefore, that the research work done in the last decade and a half on the economics of farm size has revealed small farms to be more efficient than large farms. The percentage of area irrigated, the cropping intensity or the percentage of cropped area to the area held, the labour input and the output per acre were invariably higher among small farms when compared to large farms. Large farms were found to combine more land with less labour — a technique which is out of line with the factor endowments obtaining at present in India. If large farms cannot use as much labour per acre as small farms



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TABLE 1 : INTENSITY OF LAND-USE ACCORDING TO THE SIZE OF OPERATIONAL HOLDING FEROZEPUR (PUNJAB), 1968-69

Holding Size Group (acres)	Average Size (acres)	Percentage of Area Irrigated	Percentage of Cropped Area to Operated Area	Percentage of Cropped Area to Net Area Sown	Percentage of Gross Irrigated Area to Net Irrigated Area	Labour Input Per Acre Held	Output (Rs) Per Acre Held
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
0-5	4.99	100.00	164.36	164.36	164.36	265.85	1,446.82
5-10	7.90	92.49	148.30	135.06	151.18	305.09	580.67
10-20	15.07	92.61	135.11	144.36	140.44	316.57	823.81
20-30	25.01	86.74	142.09	147.46	149.82	305.89	786.54
30-50	39.24	85.60	128.80	139.00	139.64	215.18	724.61
50-75	58.55	78.17	97.14	117.27	118.16	161.57	579.65
75-100	86.80	89.40	117.16	122.11	130.14	182.64	1197.41
100-above	129.22	67.28	73.38	121.42	109.07	158.19	669.29
Overall	30.40	85.34	124.19	136.86	137.05	30.92	770.36

Source : A S Kahlon, "Studies in Economics of Farm Management, Ferozepur District (Punjab), 1968-69", College of Basic Sciences and Humanities, Punjab Agricultural University, Ludhiana.

owing to the high cost of labour or to the managerial and supervisory bottlenecks associated with labour-intensive techniques, then a redistribution of land from the larger to the smaller farms would raise total output and employment. This was the basic conclusion we had arrived at by analysing farm management data pertaining to the mid-fifties in the book "Agricultural Production Functions, Costs and Returns in India". It was observed in this study that if such a redistribution was considered politically not feasible, then an alternative way of making effective use of land among large farms was to intensify the use of capital inputs including machinisation. Such a tendency, i e, the development of capitalist farming was already in evidence in the early sixties. The development of capitalist farming could result in large farms using more capital and less labour per acre when compared to the small farms. This would adversely affect employment and income of the poorer sections and would amount to misallocation of resources because output can be raised by redistributing the available land and capital among the small and marginal farms with surplus labour. Therefore, in the context of the growth of capitalist farming, efficiency of farm size should be judged not by output per acre but by the factor proportions, e g, land-labour and capital-labour ratios. In a situation where there is widespread unemployment and underemployment, farms using more capital in relation to labour cannot be regarded as efficient even if they produce more output per acre. And such a technique would not be in keeping with the requirements of distributive justice.

Some of the latest available evidence regarding the efficiency of land-use in relation to farm size in Ferozepur (Punjab) — the seat of green revolution — shows that the percentage of holding irrigated, the cropping intensity with respect to operated area, the net area shown as well as the net irrigated area (columns 4, 5 and 6 of Table 1) and the labour input per acre (total of family and hired) decline with the increase in the size of holding. These facts point to the same tendencies which were noticed in this district in the mid-fifties. In regard to output per acre held, however, there does not appear to be any systematic tendency in relation to the farm size. Thus in regard to the traditional techniques of land-use, e g, irrigation, multiple cropping and the application of labour, small farms continue to be more efficient than the large farms. However, large farms have stepped up output per acre by taking a lead in the adoption of the new technology and by intensifying the use of capital inputs. Table 2 shows that the percentage of cropped area under the High-Yielding Varieties is highest among farms above 75 acres. The lowest magnitudes in this regard relate to farms below 10 acres. The lowest figures of labour input as well as the highest figures of fertiliser input per acre relate to the two largest holding size groups. Column 5 of this Table shows that the ratio of expenditure on fertilisers to the exepnditure on labour (including the imputed value of family labour) rises with the increase in the size of holding. Farms above 75 acres account for the highest output per cropped acre. These facts bring out sharply the increasing substitution of capital for labour among

TABLE 2 : EXPENDITURE ON LABOUR AND FERTILISERS AND OUTPUT PER CROPPED AREA ACCORDING TO THE SIZE OF OPERATIONAL HOLDING—FEROZEPUR, PUNJAB, 1968-69

Holding Size Group (Acres)	Percentage of Cropped Area under High-Yielding Varieties	Expenses (Rs) on Labour Per Cropped Acre	Expenses (Rs) on Fertilisers Per Cropped Acre	Ratio of Expenditure on Fertilisers to Labour	Output (Rs) Per Cropped Acre
0-5	—	109.83	6.34	0.06	880.24
5-10	17.86	127.53	16.53	0.13	391.54
10-20	29.14	132.02	23.69	0.18	609.74
20-30	25.92	130.83	33.54	0.26	553.54
30-50	31.60	106.16	32.40	0.31	562.57
50-75	19.27	111.51	22.04	0.20	596.72
75-100	39.63	93.61	60.91	0.65	1,022.71
100-above	64.06	91.87	35.39	0.39	912.01
Overall	30.43	115.94	32.43	0.28	620.29

Source : A S Kahlon, "Studies in Economics of Farm Management, Ferozepur District, (Punjab), 1968-69" College of Basic Sciences and Humanities, Punjab Agricultural University, Ludhiana.

large (capitalist) farms.

It is clear from the above that a redistribution of land and capital resources from the large to the small and marginal farms may raise total output and employment owing to the larger availability of labour per unit of land capital among smaller farms. More equitable distribution of land would thus result in more employment and income for small farmers apart from contributing to the more efficient use of the available resources.

Impact of Long-term Growth

It is often argued that even though redistribution of land may increase output and employment in the short-run, the growth of output and employment may slow down in the long-run owing to the reduction in savings and investment as the small farmers consume away a larger proportion of their income than do the large farmers. Even if we assume that the so-called "trade-off" exists between better distribution and growth (i e, an improved distribution of income may slow down the growth of output), this proposition remains uninteresting because the "growth rate" is an aggregate magnitude which abstracts entirely from the distribution of gains. For, it is quite possible that as a result of improved distribution even if the overall growth of output is slowed down, the share of the poorer classes may remain higher in the long-run when compared to what they would have obtained in the absence of redistribution and with a higher growth rate. In such a case, the slower growth implies a cut into the share of the richer classes. Therefore, the concept of "trade-off" between growth and distribution has little meaning when certain sections gain at the expense of others. It is not like a trade-off, say between income and leisure when an individual (or a class) sacrifices some leisure in return for additional income or *vice-versa*.

However, the proposition that improved distribution on must slow down the overall rate of growth is itself open to serious doubts. If better distribution reduces investible surplus because it increases the consumption by the poor, it may, for the same reason, raise their efficiency. When the consumption levels of the poor are very low, the efficiency of labourers may increase significantly with rise in their consumption. Rise in the efficiency of labour would mean an improvement in the output-capital ratio. It is not inconceivable, therefore, that the decline in savings, if any, as a result of improved distribution may be more than compensated by improvement in the output-capital ratio, so that output may grow faster with an improved distribution. Further, such a growth process ensures that the gains of development accrue to the poorer sections.

A more fundamental objection to the "trade-off" proposition is that it assumes that the institutional and behavioural patterns would remain unaffected by so radical a change as redistribution of land. A community which can effect a radical redistribution of income and wealth is usually capable of bringing about the required changes in institutions and behavioural patterns for mobilising more savings by cutting down inessential consumption. Such a community can also introduce and absorb technical changes which would not otherwise be possible. The experience of other countries suggests that the phases of radical redistribution have been dynamic in respect of other innovations as well, so that growth has in fact been higher in periods following redistribution.

The contribution of the proposed ceilings on agricultural land-holdings consists not so much in the 'surplus' land that is likely to be made available for distribution among the landless us in arresting or slowing down the growth of capitalist farming in agriculture. A substantial contribution of the current drive for ceilings is to be found in the sale of land by the big land owners and in their reluctance to acquire more land in future. Insofar as large land owners lease out land to the small tenants and share-croppers, the latter may automatically acquire ownership rights with the imposition of ceilings at fairly low levels.

A strong tendency for the development of capital farming has been in evidence in certain high-growth pockets of the country where the green revolution has made the greatest impact. Considerations of equity as well as of efficiency require that such tendencies are curbed. If this be made the major objective of ceilings — as it ought to be — then ceiling on ownership holdings as presently contemplated will have to be combined with ceiling on operational holdings and ceiling on the future acquisition of land. Despite a ceiling on ownership holding, a capitalist farmer can outbid the small and marginal farmers in the land market and enlarge his operational holding by leasing in land. It is not without significance that in Punjab and in certain other regions of the country, large farmers as a group lease in much larger area from the small farmers than they lease out to them. A ceiling on operational holding at the same level as that on ownership holding may improve the bargaining position of the small and marginal farmers in the land and capital market and may thus help to improve their income and employment. Similarly, a ceiling on the future acquisition of land at a substantially lower level than the existing ceiling would tilt the land market, and with it the capital market, in favour of small farmers. A family should be permitted to buy land in future only to the extent that its total holding after such acquisition will not exceed, say, 5 or 7.5 acres or a certain proportion of the existing ceiling. This measure should be combined with the provision of loans from the public financial institutions on liberal terms for the purchase of land.

Alfred Herbert (India)

ALFRED Herbert (India) is setting up a Rs 1.87-crore project at Bangalore for manufacture of intermixes, shear strip type tyre presses and tube presses for automobiles, and presses for cycle tyre and tube manufacture — most of which are not made in the country to date. Technical knowhow will be obtained from Francis Shaw of UK. The project is expected to go on stream by November 1973. The cost of the project is expected to be met with share capital (Rs 30 lakhs), deferred payments on plant and machinery (Rs 48.25 lakhs), term loans (Rs 24 lakhs), short term bank borrowings (Rs 33.78 lakhs) and retained earnings (Rs 51.32 lakhs). AH(I) is at present a wholly-owned subsidiary of Alfred Herbert of the UK. The paid-up capital is Rs 30 lakhs and existing reserves amount to about Rs 47 lakhs. It is proposed to raise additional capital of Rs 30 lakhs by offering, under a Prospectus, two lakh equity shares of Rs 10 each at a premium of Rs 5 per share. Of these, 10,000 shares have been reserved for subscription by employees of the company and the public is to be offered the balance 1.9 lakh shares. The subcription list will open on May 24 and close on June 5 or earlier, but not before May 29. Incorporated in West Bengal in 1919, AH(I) has been engaged right from its inception in the marketing and rendering of technical services of imported and indigenous machine-tools, industrial machinery, rubber and plastic machinery, pulverising equipment, machine shop equipment, small tools, etc.

Farm Size and Productivity

A Fresh Look

N Bhattacharya

G R Saini

This paper attempts to examine disaggregated farm management data for individual farms, separately for each sample village, and to apply rigorous tests for the correlation between farm size and gross value of output per acre.

Also examined is the correlation between gross cropped area and gross value of output per acre of gross cropped area.

IN earlier communications to this journal, Rudra [10, 12] suggested that the inverse relationship between holding size and productivity observed in Indian agriculture could be a spurious statistical relationship, arising due to the process of aggregation over villages involved in presenting farm management data. He also stressed the need for careful statistical tests of significance, particularly tests based on rank correlation co-efficients.

The aim here is to examine disaggregated farm management data for individual farms, *separately for each sample village*, and to apply rigorous tests for the correlation between farm size and gross value of output per acre. For the sake of interest, we also examine the correlation between gross cropped area and gross value of output per acre of gross cropped area.

The data relate to Ferozepore district in Punjab for the years 1955-56, 1956-57, 1967-68 and 1968-69 and to Muzaffarnagar in UP for the same years and also for 1966-67. Our investigation throws light on the changes in the size-productivity relationship in these regions brought about by the "green revolution".

I
Introduction

The inverse relation between holding size and productivity per acre in Indian agriculture was revealed by the Farm Management Studies [1], and many efforts were made to explain this phenomenon which had important consequences for economic policy (See, for instance Sen [2, 5]; Mazumdar [3, 7]; Hanumantha Rao [4, 8]; Khusro [6]. Some other references are available in Saini [13]).

The existence of the inverse relation has been widely accepted and attributed, among other factors, to higher intensity of cropping for the smaller holdings where the proportion of irrigated land is relatively high.

Sen [5] had expressed doubts about the statistical basis of the observations around which the discussion was taking place. Rudra [10] carried forward the work of Rao [9] and showed that the inverse relation between farm size and productivity did not exist in any of the 20 completely surveyed villages from Punjab, Haryana and Western UP analysed by him. Rudra [12] applied rank correlation tests to the averages of productivity given in the Farm Management Studies [1] separately for farms in different size-classes. He showed that the size-productivity correlation was not significant in many of the cases. (However, too many of his rank correlation co-efficients were negative and and any overall test would give a 'significant' verdict.) Besides challenging the uncritical use of linear regression methods and advocating rank correlation methods in this place, Rudra raised a fundamental question by suggesting that the inverse relation between size and productivity did not exist *within* any particular village but arose when the data for different villages were aggregated in the Farm Management Studies [1]. This called for rigorous examination of disaggregated data.[1]

Hanumantha Rao [11] pointed out that in Rudra [10] the measure of productivity—value of output per acre of gross cropped area — was different from that usually employed, and this choice might be responsible for Rudra's finding.

Saini [13] analysed disaggregated data for many regions and years; fitted regressions of the form $\log y = \alpha + \beta \log x$, where x = farm size and y = value of output; and showed that, on the whole, the estimates of β were significantly less than unity. But his work did not clear up the doubts raised by Rudra, because for any given region and year, Saini used the observations from all the villages for fitting the regression.

It was in this background that we undertook this analysis of disaggregated farm management data, selecting two regions affected by the "green revolution", viz, Muzaffarnagar in UP and Ferozepore in Punjab. We analysed data obtained from these regions in the fifties as well as in the late sixties with a view to examining how far the relationship between farm size and productivity has been affected by the "green revolution". For the sake of interest, we have examined two relationships throughout: (i) between farm size (A) and value of output per acre(V/A) and (ii) between gross cropped area (G) and value of output per acre of gross cropped area (V/G).

II
Methodology

Rudra's doubts about the effects of aggregation on the size-productivity relationship can be cleared by carrying out separate analyses for the different sample villages and testing the correlation between size and productivity *within* each village. Admittedly, the sample size is small, about 10, for any given village and statistical tests of significance would lack the power of detecting departures from the hypothesis of zero correlation. But this cannot be avoided; and when the tests have been carried out separately for all the sample villages for any region and year, one can combine these tests by standard statistical procedures to obtain an overall view and this combined test would be more meaningful and possibly more 'powerful' than the usual test based on all the observations from all the villages.

The first step was to plot scatter diagrams showing (i) V/A against A and (ii) V/G against G, on arithmetic scale and also on double-log scale, separately for the holdings within each sample village. In most cases, the correlation was quite small and it was difficult to choose between the linear relationships and the log-linear relationships. We fitted both, so that there were four sets of regressions. What is

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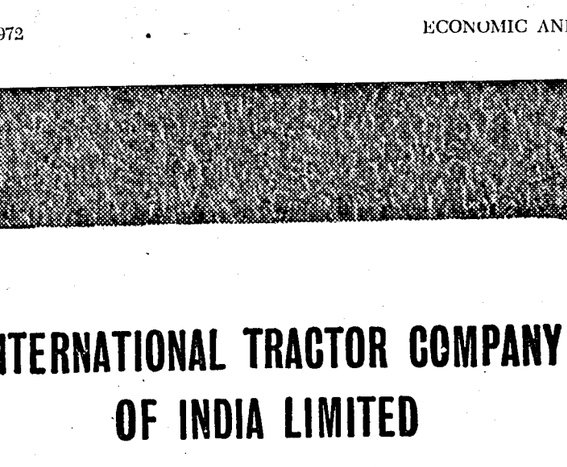


TABLE 1 : SIGNIFICANCE OF LINEAR AND LOG-LINEAR REGRESSIONS OF GROSS VALUE OF OUTPUT PER ACRE (V/A) ON FARM SIZE (A) AND OF THE RANK CORRELATION CO-EFFICIENT BETWEEN THESE VARIATES

Village No	No of Sample Farms (n)	Linear Regression			Log-Linear Regression			Rank Correlation Co-efficient
		Slope (b)	Correlation Co-efficient (r)	t (d f n—2)	Slope (b)	Correlation Co-efficient (r)	t (d f n—2)	(τ)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
				(a) Muzaffarnagar 1955-56				
1	10	— 0.2	—0.058	—0.164	—0.006	—0.022	—0.063	—0.067
2	10	—13.2	—0.660	—2.485*	—0.385	—0.899	—5.808***	—0.556*
3	10	— 1.1	—0.104	—0.296	—0.084	—0.081	—0.023	—0.111
4	8	2.6	0.250	0.636	—0.030	—0.037	—0.091	—0.077
5	10	— 5.9	—0.561	—1.916	—0.452	—0.695	—2.738*	—0.467
6	10	— 3.4	—0.222	—0.644	—0.130	—0.251	—0.734	—0.244
7	10	—25.4	—0.667	—2.532*	—0.459	—0.808	—3.882**	—0.644**
8	10	— 0.8	—0.097	—0.276	0.004	0.018	0.051	0.022
9	9	— 4.1	—0.392	—1.127	—0.150	—0.424	—1.240	—0.444
10	10	1.4	0.399	1.230	0.113	0.341	1.026	0.200
All	97	— 4.0	—0.288	—2.930**	—0.248	—0.456	—4.446***	—
				(b) Ferozepore 1955-56				
1	10	— 1.5	—0.252	—0.736	—0.163	—0.289	—0.855	—0.244
2	10	— 3.9	—0.698	—2.756*	—0.468	—0.689	—2.686—	—0.689**
3	10	— 1.5	—0.385	—1.179	—0.143	—0.479	—1.542	—0.333
4	10	+ 1.3	+0.452	1.432	0.269	0.622	2.247	0.378
5	10	1.3	0.376	1.156	0.243	0.227	0.659	0.511*
6	10	1.8	0.365	1.110	0.232	0.333	0.999	0.244
7	10	— 0.3	—0.173	—0.498	—0.068	0.229	—0.664	—0.244
8	10	+ 0.03	0.022	0.061	—0.057	—0.186	—0.535	—0.111
9	10	0.06	0.029	0.081	—0.043	—0.097	—0.277	0.244
10	10	1.4	0.400	1.233	0.102	0.147	0.420	0.156
All	100	— 0.03	—0.010	—0.098	—0.058	— 0.094	—0.934	—
				(c) Muzaffarnagar 1956-57				
1	10	— 1.6	—0.390	—1.198	—0.111	—0.414	—1.285	—0.289
2	10	— 3.0	—0.395	—1.180	—0.100	—0.412	—1.279	—0.378
3	10	— 6.9	—0.529	—1.765	—0.353	—0.573	—1.978	—0.511*
4	8	+ 1.3	0.145	0.359	0.004	0.021	0.051	—0.071
5	10	— 3.7	—0.546	—1.842	—0.465	—0.704	—2.801*	—0.511*
6	10	3.8	0.234	0.682	0.017	0.039	0.111	0.111
7	10	—19.3	—0.737	—3.083*	—0.262	—0.751	—3.220*	—0.244
8	10	—12.4	—0.641	—2.360*	—0.217	—0.567	—1.947	—0.511*
9	9	— 0.4	—0.028	—0.075	0.047	0.092	0.246	0.056
10	9	1.9	0.472	1.417	0.076	0.234	0.637	0.222
All	96	— 2.6	—0.216	—2.140*	—0.165	—0.326	—3.342***	
				(d) Ferozepore 1956-57				
1	10	— 2.7	—0.469	—1.503	—0.098	—0.516	—1.704	— 0.333
2	10	— 5.2	—0.830	—4.215**	—0.341	—0.738	—3.097*	—0.378
3	10	— 2.6	—0.438	—1.379	—0.162	—0.499	—1.628	— 0.156
4	10	0.9	0.317	0.945	0.197	0.435	1.367	0.155
5	10	1.4	0.363	1.101	0.192	0.802	3.802**	0.289
6	10	1.7	0.509	1.673	0.178	0.443	1.397	0.289
7	10	— 0.3	— 0.180	—0.519	—0.120	— 0.208	— 0.601	— 0.111
8	10	0.06	0.034	0.097	—0.110	—0.288	—0.850	— 0.244
9	10	— 3.7	—0.580	—2.016	—0.276	— 0.739	—3.102*	— 0.467
10	10	0.06	0.040	0.113	—0.008	0.030	0.085	— 0.067
All	100	— 0.9	—0.193	—1.950	— 0.172	—0.275	—2.835**	—
				(e) Muzaffarnagar 1966-67				
1	10	—80.6	—0.467	—1.494	—0.215	—0.636	—2.333*	—0.733**
2	10	—267.3	—0.528	—1.757	—0.298	—0.442	—1.395	— 0.289
3	10	—556.9	—0.543	—1.830	—0.362	—0.478	—1.538	— 0.289
4	10	6.3	0.054	0.153	0.090	0.265	0.777	0.111
5	10	—27.0	—0.128	—0.366	—0.101	—0.268	—0.786	— 0.067
6	10	—90.6	—0.570	—1.962	—0.317	—0.596	—2.100	— 0.333
7	10	—81.6	—0.320	—0.956	—0.116	—0.384	—1.175	—0.422
8	10	—99.9	—0.627	—2.274	—0.266	—0.613	—2.194	—0.467
9	10	12.4	0.163	0.467	0.030	0.182	0.525	0.200
10	10	—87.6	—0.418	—1.301	—0.197	—0.421	—1.312	— .289
11	10	—204.7	—0.553	—1.878	—0.332	—0.730	—3.022*	— 0.511*
12	10	—37.8	—0.213	—0.616	0.117	0.134	0.383	— 0.156
13	10	—36.5	—0.215	—0.623	—0.128	—0.279	—0.823	— 0.156
14	10	18.1	0.132	0.376	0.046	0.148	0.422	—0.067
15	10	—29.4	—0.237	—0.688	—0.055	—0.211	—0.611	— 0.156
All	150	—80.4	—0.245	—3.070**	—0.135	—0.248	—3.111**	—

(Continued)

TABLE 1 (CONTINUED)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
				(f) Muzaffarnagar 1967-68				
1	10	—22.8	—0.118	—0.337	—0.073	—0.171	—0.491	—0.289
2	10	— 8.0	—0.051	—0.145	0.047	0.283	0.836	0.044
3	10	—76.7	—0.321	—0.960	—0.098	—0.484	—1.562	—0.200
4	10	—31.1	—0.202	—0.584	—0.019	—0.062	—0.177	—0.067
5	10	—139.7	—0.855	—4.656**	—0.180	—0.787	—3.613**	—0.556*
6	10	2.2	0.009	0.027	0.053	0.100	0.286	0.156
7	10	—227.3	—0.374	—1.139	—0.203	—0.381	—1.168	—0.333
8	10	—159.8	—0.641	—2.365*	—0.272	—0.659	—2.481*	—0.422
9	10	0.2	0.001	0.003	—0.027	—0.117	—0.333	—0.378
10	10	—268.2	—0.669	—2.543*	—0.402	—0.764	—3.345*	—0.467
11	10	—233.4	—0.549	—1.857	—0.292	—0.545	—1.840	—0.422
12	10	—32.4	—0.425	—1.329	—0.079	—0.386	—1.182	—0.333
13	10	—81.4	—0.503	—1.647	—0.110	—0.511	—1.680	—0.378
14	10	—145.7	—0.603	—2.137	—0.157	—0.852	—4.595**	—0.600*
15	10	57.7	0.307	0.911	0.126	0.449	1.419	0.378
All	150	—68.2	—0.260	—3.276**	—0.092	—0.245	—3.075**	—
				(g) Ferozepore 1967-68				
1	10	24.4	0.180	0.519	0.019	0.036	0.102	0.067
2	10	62.7	0.440	1.386	0.154	0.262	0.766	0.244
3	10	—15.2	—0.171	—0.490	—0.097	—0.224	—0.652	—0.022
4	10	4.0	0.061	0.174	0.060	0.144	0.411	0.244
5	10	— 3.3	—0.074	—0.209	—0.032	—0.100	—0.284	—0.200
6	10	29.1	0.496	1.616	0.188	0.429	1.343	0.156
7	10	—31.3	—0.350	—1.056	—0.180	—0.393	—1.208	—0.289
8	10	—12.2	—0.125	—0.355	—0.121	—0.242	—0.705	0.022
9	10	—64.3	—0.667	—2.532*	—0.507	—0.759	—3.299*	—0.644**
10	10	17.5	0.350	1.056	0.142	0.339	1.018	0.200
11	10	— 2.7	—0.060	—0.149	—0.052	—0.089	—0.243	—0.022
12	10	— 8.8	—0.167	—0.479	—0.018	—0.054	—0.152	—0.156
13	10	— 7.9	—0.351	—1.059	—0.140	—0.536	—1.798	—0.467
14	10	22.0	0.577	2.000	0.203	0.580	2.016	0.600*
15	10	—24.7	—0.324	—0.969	—0.156	—0.486	—1.574	—0.244
All	150	— 2.3	—0.029	—0.351	— 0.028	—0.046	—0.557	—
				(h) Muzaffarnagar 1968-69				
1	10	—13.5	—0.150	—0.429	—0.094	—0.424	—1.325	—0.467
2	10	25.0	0.286	0.844	0.005	0.050	0.143	—0.022
3	10	—33.0	—0.386	—1.183	—0.021	—0.232	—0.674	—0.378
4	10	—19.8	—0.536	—1.797	—0.053	—0.560	—1.910	—0.511*
5	10	17.5	0.373	1.136	0.023	0.271	0.797	—0.244
6	10	—57.1	—0.537	—1.802	—0.119	—0.547	—1.848	—0.378
7	10	—43.8	—0.314	—0.936	—0.067	—0.371	—1.129	—0.022
8	10	3.9	0.062	0.176	—0.008	—0.061	—0.172	—0.067
9	10	—66.4	—0.461	—1.468	—0.140	—0.528	—1.758	—0.378
10	10	—148.1	—0.789	—3.636**	—0.215	—0.688	—2.683*	—0.511*
11	10	—29.1	—0.242	—0.706	—0.044	—0.189	—0.545	—0.111
12	10	—14.7	—0.268	—0.788	—0.059	—0.352	—1.062	—0.289
13	10	—108.9	—0.442	—1.392	—0.149	—0.455	—1.443	—0.067
14	10	—12.2	—0.126	—0.360	—0.002	—0.019	—0.053	—0.333
15	10	4.9	0.056	0.159	—0.009	—0.060	—0.170	—0.022
All	150	—20.5	—0.145	—1.788	—0.042	—0.168	—2.073*	—
				(i) Ferozepore 1968-69				
1	10	— 6.1	—0.034	—0.097	—0.142	—0.158	—0.454	—0.067
2	10	—83.4	—0.535	—1.791	—0.336	—0.486	—1.575	—0.289
3	10	11.9	0.265	0.777	0.033	0.101	0.287	0.111
4	10	—13.4	—0.161	—0.462	—0.033	—0.074	—0.211	—0.156
5	10	—25.0	—0.453	—1.439	—0.168	—0.346	—1.043	—0.200
6	10	22.9	0.273	0.804	0.203	0.356	1.080	0.244
7	10	6.3	0.095	0.269	0.085	0.298	0.883	0.156
8	10	0.1	0.001	0.003	—0.072	—0.146	—0.418	—0.022
9	10	—27.9	—0.646	—2.393*	—0.329	—0.680	—2.624*	—0.422
10	10	20.6	0.508	1.670	0.180	0.380	1.161	0.156
11	10	4.9	0.094	0.268	—0.075	—0.110	—0.314	—0.022
12	10	—13.6	—0.162	—0.463	—0.041	—0.083	—0.237	—0.156
13	10	4.3	0.203	0.586	0.061	0.129	0.368	0.022
14	10	5.1	0.149	0.427	0.009	0.035	0.100	—0.289
15	10	— 3.5	—0.052	—0.148	—0.082	—0.154	—0.442	—0.289
All	150	— 1.4	—0.018	—0.221	—0.027	—0.039	—0.471	—

Note : Asterisk(*) denotes significance at *two-sided* 5 per cent level, (**) at 1 per cent level, (***) at 0.1 per cent level.

TABLE 2: SIGNIFICANCE OF LINEAR AND LOG-LINEAR REGRESSIONS OF GROSS VALUE OF OUTPUT PER ACRE OF GROSS CROPPED AREA (V/G) ON GROSS CROPPED AREA (G) AND OF THE RANK CORRELATION CO-EFFICIENT BETWEEN THESE VARIATES

Village No	No of Sample Farms (n)	Linear Regression			Log-Linear Regression			Rank Correlation Co-efficient (τ)
		Slope (b)	Correlation Co-efficient (r)	t (dfn—2)	Slope (b)	Correlation Co-efficients (r)	t (dfn—2)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
				(a) Muzaffarnagar: 1955-56				
1	10	—0.2	—0.144	—0.418	—0.092	—0.345	—1.039	—0.067
2	10	—2.7	—0.471	—1.342	—0.246	—0.667	—2.532*	—0.289
3	10	—1.1	—0.163	—0.468	—0.185	—0.171	—0.491	—0.067
4	8	—0.6	—0.159	—0.396	—0.160	—0.302	—0.776	—0.286
5	10	—2.8	—0.528	—1.762	—0.333	—0.640	—2.356*	—0.556*
6	10	—2.0	—0.271	—0.794	—0.176	—0.401	—1.238	—0.200
7	10	—11.7	—0.764	—3.355**	—0.388	—0.771	—3.424**	—0.844**
8	10	—0.1	—0.027	—0.080	0.027	0.104	0.296	0.067
9	9	—2.2	—0.408	—1.409	—0.186	—0.444	—1.311	—0.222
10	10	1.1	0.250	0.729	0.026	0.075	0.213	0.022
All	97	—1.8	—0.281	—2.849**	—0.097	—0.421	—4.524***	—
				(b) Ferozepore: 1955-56				
1	10	—0.1	—0.024	—0.068	—0.027	—0.008	—0.024	0.022
2	10	—2.2	—0.624	—2.260	—0.400	—0.642	—2.371*	—0.511*
3	10	—1.2	—0.403	—1.245	—0.185	—0.560	—1.911	—0.156
4	10	0.3	0.097	0.275	0.220	0.382	1.169	0.200
5	10	1.7	0.533	1.782	0.381	0.383	1.174	0.556*
6	10	0.9	0.463	1.477	0.279	0.449	1.423	0.289
7	10	0.2	0.107	0.304	0.021	0.059	0.167	—0.022
8	10	0.2	0.162	0.464	0.008	0.048	0.136	0.022
9	10	0.5	0.427	1.335	0.090	0.279	0.822	0.067
10	10	0.4	0.193	0.556	0.027	0.079	0.223	0.244
All	100	0.2	0.072	0.204	—0.043	—0.053	—0.528	—
				(c) Muzaffarnagar: 1956-57				
1	10	—1.3	—0.487	—1.579	—0.165	—0.706	—2.819*	—0.200
2	10	0.3	0.058	0.165	0.014	0.041	0.116	—0.022
3	10	—0.9	—0.257	—0.751	—0.108	—0.224	—0.650	—0.333
4	8	0.7	0.210	0.526	0.100	0.265	0.673	0.214
5	10	—2.6	—0.567	—1.947	—0.448	—0.711	—2.859*	—0.422
6	10	2.0	0.233	0.679	0.013	0.030	0.085	0.156
7	10	—6.3	—0.371	—1.131	—0.108	—0.302	—0.896	—0.133
8	10	—5.1	—0.557	—1.899	—0.232	—0.531	—1.771	—0.422
9	9	1.7	0.179	0.480	—0.171	0.265	0.726	0.278
10	9	1.3	0.346	0.977	—0.048	—0.130	—0.348	0.056
All	96	—0.6	—0.086	—0.839	—0.097	—0.195	—1.927	—
				(d) Ferozepore: 1956-57				
1	10	—0.1	—0.045	—0.126	0.007	0.032	0.090	0.022
2	10	—2.2	—0.700	—2.772*	—0.274	—0.676	—2.593*	—0.378
3	10	—1.1	—0.442	—1.394	—0.154	—0.615	—2.206	—0.335
4	10	2.2	0.679	2.618*	0.504	0.773	3.449**	0.467
5	10	1.4	0.434	1.364	0.272	0.371	1.131	0.333
6	10	0.5	0.267	0.783	0.093	0.366	1.111	0.067
7	10	—0.1	—0.072	—0.204	—0.055	—0.099	—0.282	—0.156
8	10	0.3	0.236	0.687	—0.0005	—0.002	—0.006	—0.156
9	10	—1.6	—0.518	—1.714	—0.269	—0.909	—6.169***	—0.422
10	10	0.01	0.013	0.036	0 010	0.054	—0.152	—0.111
All	100	—0.1	—0.035	—0.345	—0.062	—0.100	—0.996	—
				(e) Muzaffarnagar: 1966-67				
1	10	22.7	0.135	0.385	0.061	0.130	0.370	0.111
2	10	—507.8	—0.548	—1.851	—0.447	—0.656	—2.456*	—0.378
3	10	—228.2	—0.545	—1.838	—0.377	—0.507	—1.666	—0.422
4	10	—34.7	—0.530	—1.766	—0.112	—0.555	—1.887	—0.378
5	10	15.8	0.231	0.672	0.020	0.067	0.189	0.200
6	10	—21.8	—0.218	—0.631	—0.113	—0.261	—0.765	—0.200
7	10	—22.9	—0.148	—0.423	—0.054	—0.147	—0.421	—0.289
8	10	—47.4	—0.450	—1.425	—0.199	—0.486	—1.575	—0.244
9	10	7.5	0.164	0.472	0.03	0.163	0.467	0.244
10	10	—87.1	—0.584	—2.037	—0.231	—0.742	—3.133*	—0.378
11	10	—59.4	—0.418	—1.302	—0.248	—0.643	—2.373*	—0.467
12	10	—9.1	—0.144	—0.411	0.210	0.223	0.647	—0.067
13	10	—80.1	—0.655	—2.450*	—0.224	—0.697	—2.749*	—0.600*
14	10	—13.4	—0.133	—0.380	—0.050	—0.236	—0.687	—0.022
15	10	—5.1	—0.069	—0.197	0.001	0.004	0.012	—0.067
All	150	—56.7	—0.235	—2.946**	—0.160	—0.322	—4.134***	—

(*Continued*)

TABLE 2 (CONTINUED)

Village No	No of ample Farms (n)	Linear Regression: Slope (b)	Linear Regression: Correlation Co-efficient (r)	Linear Regression: t (dfn—2)	Log-Linear Regression: Slope (b)	Log-Linear Regression: Correlation Co-efficient (r)	Log-Linear Regression: t (dfn—2)	Rank Correlation Co-efficient (τ)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
			(f) Muzaffarnagar: 1967-68					
1	10	11.5	0.135	0.387	0.030	0.086	0.244	0.022
2	10	2.3	0.035	0.100	0.096	0.426	1.331	0.156
3	10	—19.3	—0.261	—0.764	—0.077	—0.388	—1.192	—0.111
4	10	33.9	0.311	0.925	0.149	0.495	1.612	0.333
5	10	—32.3	—0.668	—2.542*	—0.078	—0.583	—2.027	—0.600*
6	10	—19.5	—0.152	—0.436	—0.040	—0.077	—0.218	—0.111
7	10	—87.5	—0.316	—0.943	—0.170	—0.324	—0.968	—0.156
8	10	—41.8	—0.334	—1.004	—0.144	—0.371	—1.131	—0.244
9	10	—21.9	—0.206	—0.595	—0.092	—0.313	—0.932	—0.111
10	10	—148.1	—0.478	—1.537	—0.298	—0.626	—2.270	—0.200
11	10	—52.8	—0.327	—0.977	—0.123	—0.295	—0.875	—0.244
12	10	—12.5	—0.382	—1.167	—0.052	—0.273	—0.803	—0.156
13	10	—41.2	—0.312	—0.929	—0.079	—0.281	—0.829	—0.289
14	10	—64.2	—0.480	—1.548	—0.166	—0.800	—3.771**	—0.333
15	10	62.0	0.443	1.397	0.286	0.629	2.290	0 422
All	150	—18.8	—0.144	—1.772	—0.31	—0.082	—1.005	—
			(g) Ferozepore: 1967-68					
1	10	11.5	0.222	0.644	0.035	0.073	0.206	0.067
2	10	31.4	0.473	1.520	0.214	0.374	1.141	0.333
3	10	—1.2	—0.037	—0.104	—0.032	—0.088	—0.257	—0.022
4	10	10.2	0.247	0.721	0.117	0.294	0.869	0.156
5	10	5.2	0.159	0.456	0.051	0.144	0.413	0.200
6	10	16.2	0.482	1.556	0.178	0.370	1.125	0.156
7	10	—7.7	—0.249	—0.726	—0.103	—0.271	—0.797	—0.200
8	10	10.9	0.291	0.860	0.095	0.193	0.556	0.111
9	10	—43.6	—0.667	—2.530*	—0.472	—0.756	—3.270*	—0.689**
10	10	16.8	0.481	1.552	0.199	0.517	1.706	0.422
11	10	—6.6	—0.164	—0.470	—0.175	—0.210	—0.607	—0.156
12	10	—8.0	—0.211	—0.612	—0.045	—0.131	—0.373	—0.200
13	10	—4.6	—0.315	—0.939	—0.127	—0.439	—1.380	—0.511*
14	10	19.8	0.535	1.792	0.217	0.498	1.624	0.378
15	10	5.3	0.135	0.385	—0.012	—0.042	—0.116	—0.022
All	150	4.2	0.092	1.123	0.029	0.050	0.607	—
			(h) Muzaffarnagar: 1968-69					
1	10	8.3	0.224	0.650	0.014	0.072	0.205	—0.067
2	10	8.3	0.214	0.618	—0.010	—0.100	—0.286	0.022
3	10	3.5	0.124	0.355	0.033	0.389	1.195	0.022
4	10	25.9	0.650	2.420*	0.043	0.372	1.132	0.289
5	10	27.6	0.615	2.207	0.095	0.630	2.293	0.467
6	10	—18.7	—0.334	—1.002	—0.065	—0.275	—0.808	—0.067
7	10	—0.6	—0.006	—0.018	0.014	0.054	0.154	—0.067
8	10	26.7	0.355	1.074	0.053	0.210	0.606	0.022
9	10	—31.6	—0.539	—1.809	—0.146	—0.622	—2.248	—0.422
10	10	—8.1	—0.076	—0.216	—0.013	—0.055	—0.155	—0.156
11	10	—47.6	—0.366	—1.114	—0.151	—0.447	—1.415	—0.244
12	10	19.9	0.573	1.979	0.114	0.604	2.141	0.378
13	10	29.4	0.208	0.603	0.041	0.174	0.500	0.067
14	10	—25.7	—0.458	—1.457	—0.076	—0.437	—1.374	—0.378
15	10	34.3	0.552	1.870	0.060	0.352	1.064	0.378
All	150	2.5	0.032	0.393	0.004	0.014	0.176	—
			(i) Ferozepore: 1968-69					
1	10	8.9	0.148	0.424	—0.003	—0.003	—0.010	—0.022
2	10	—18.5	—0.234	—0.681	—0.173	—0.227	—0.661	—0.067
3	10	4.4	0.209	0.605	0.110	0.306	0.910	0.200
4	10	—7.0	—0.160	—0.458	—0.018	—0.043	—0.121	0.022
5	10	—10.1	—0.236	—0.688	—0.061	—0.108	—0.307	—0.022
6	10	19.5	0.728	3.003*	0.250	0.602	2.133	0.422
7	10	—0.9	—0.032	—0.090	0.044	0.142	0.405	0.022
8	10	14.5	0.411	1.274	0.134	0.295	0.873	0.022
9	10	—14.8	—0.278	—0.818	—0.172	—0.310	—0.922	—0.289
10	10	19.5	0.336	1.009	0.198	0.332	0.995	0.200
11	10	3.9	0.085	0.240	—0.037	—0.044	—0.125	—0.067
12	10	16.9	0.271	0.797	0.176	0.352	1.065	0.111
13	10	17.4	0.538	1.804	0.162	0.288	0.849	0.067
14	10	15.1	0.608	2.164	0.128	0.590	2.069	0.422
15	10	—9.7	—0.126	—0.359	—0.142	—0.201	—0.581	—0.200
All	150	10.3	0.199	2.467*	0.101	0.152	1.867	—

Note: Asterisk (*) denotes significance at *two-sided* 5 per cent level, (**) at 1 per cent level, (***) at 0.1 per cent level.

TABLE 3: VALUES OF $\chi^2 = -2 \sum \text{LOG}_e P_1$ FOR COMBINING THE VILLAGE-WISE TESTS OF SIGNIFICANCE APPLIED IN TABLES 1 AND 2†

District Year	df of χ^2	The t-Tests of Significance: Regression of V/A on A: Linear	Regression of V/A on A: Log-Linear	Regression of V/G on G: Linear	Regression of V/G on G: Log-Linear	The Tests on τ: V/A and A	V/G and G
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
			Muzaffarnagar:				
1955-56	20	35.16*	62.24***	37.46*	36.52*	43.11**	41.99**
1956-57	20	40.19**	48.69***	27.88	35.57*	41.06**	26.73
1966-67	30	56.56**	60.24***	53.86**	62.96***	66.72***	57.65**
1967-68	30	68.66***	75.90***	45.81	52.67**	69.41***	40.77
1968-69	30	52.82**	54.55**	24.57 (44.07)*	27.65 (37.10)	58.60**	29.17
			Ferozepore:				
1955-56	20	21.56	25.52	16.90 (18.44)	19.84 (22.18)	28.98	16.42 (27.54)
1956-57	20	35.03*	37.80**	27.11	35.17*	24.84	26.62
1967-68	30	31.46	39.38	24.54 (34.44)	29.87 (32.50)	39.68	36.32
1968-69	30	31.86	33.30	18.12 (44.18)*	18.03 (38.78)	31.55	20.54 (33.24)

† Results based on upper tail probability are given inside parentheses. Asterisks indicate statistical significance as in Tables 1 and 2.

more important, the scatter diagrams did not reveal non-linearities. Nevertheless, we supplemented the regression analyses by computing Kendall's rank correlation co-efficients between V/A and A and between V/G and G, separately for each sample village.

Tables 1 and 2 present the results. Denoting the regress and by y and the regressor by x, we fitted least squares regression of the form $y = a + bx$ for each village, computed the correlation co-efficient r, and applied the t-test for the null hypothesis of zero correlation (or regression) co-efficient.[2] For the sake of interest, we also present in these Tables the results of the usual analysis based on the observations from all the villages taken together. The rank correlation co-efficients τ are also presented for each sample village. Two-sided tests were applied for judging the significance of all the results in Tables 1 and 2.

Table 3 presents the overall χ^2-tests applied for combining the village-wise tests in Tables 1 and 2 for the different regions and years. For each computed value of t we found the probability p of Student's t with n—2 d f falling below the computed value. Only the *lower tail probability* was used here, taking the alternative hypothesis as one-sided, *viz*, that the true correlation was negative. If p_i denotes this probability for the i-th sample village, then we used $\chi^2 = -2\Sigma \log_e p_i$ (with degrees of freedom equal to twice the number of sample villages) for combining the village-wise t-tests. The hypothesis of zero correlation is rejected if this χ^2 is significantly large (Fisher [14] pp 99-101).

A similar procedure was applied for combining the tests based on τ, but as the underlying sampling distributions were discrete, a device was necessary to make the p_i's uniformly distributed over (0, 1) under the null hypothesis. Let us write $S = \tau . n(n-1)/2$, where n is the number of sample holdings in a village. Then the test of significance of τ reduces to a test of significance of the 'score' S. The device can be explained through an illustration. Suppose, for instance, n = 10, so that $n(n-1)/2 = 45$, and computed $S = -17$. Then the lower tail probability p_i cor-

TABLE 4: AVERAGES OF WITHIN-VILLAGE CORRELATION AND RANK CORRELATION CO-EFFICIENTS

District Year	Average Correlation Co-efficient between: V/A and A	log (V/A) and log A	V/G and G	log (V/G) and log G	Average Rank Correlation Co-efficient between: V/A and A	V/G and G
(1)	(2)	(3)	(4)	(5)	(6)	(7)
			Muzaffarnagar:			
1955-56	—0.211	—0.286	—0.268	—0.2[illegible]	—0.238	—0.244
1956-57	—0.240	—0.304	—0.121	—0.204	—0.213	—0.083
1966-67	—0.298	—0.289	—0.261	—0.290	—0.242	—0.197
1967-68	—0.333	—0.326	—0.200	—0.180	—0.256	—0.108
1968-69	—0.232	—0.278	0.116	0.061	—0.221	0.016
			Ferozepore:			
1955-56	+0.014	—0.064	+0.093	0.047	—0.009	0.071
1956-57	—0.123	—0.128	—0.015	—0.070	—0.102	—0.067
1967-68	—0.012	—0.073	0.092	0.035	—0.034	0.002
1968-69	—0.030	—0.062	0.151	0.131	—0.082	0.055

TABLE 5: ANALYSES OF COVARIANCE FOR TESTING HOMOGENEITY OF SLOPES AND INTERCEPTS OF THE LINEAR AND LOG-LINEAR REGRESSIONS OF PRODUCTIVITY ON FARM SIZE/GROSS CROPPED AREA FOR DIFFERENT VILLAGES

District / Year	No of Villages	No of Holdings	Total SS	Residuals for Models: $y_{ij} = \alpha + \beta x_{ij}$	$y_{ij} = \alpha_i + \beta x_{ij}$	$y_{ij} = \alpha + \beta_i x_{ij}$	F for Testing: $H_o(\alpha_i = \alpha_2 = .. = \alpha_k)$	$H_o(\alpha_1 = \alpha_2 .. = \alpha_k; \beta_1 = \beta_2 .. = \beta_k)$
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(a) regressions V/A $= \alpha + \beta$A								
Muzaffarnagar:								
1955-56	10	97	$1775X10^3$	$889X10^3$	$1386X10^3$	$1628X10^3$	4.79***	1.16
1956-57	10	96	$1385X10^3$	$595X10^3$	$847X10^3$	$1321X10^3$	3.56***	3.36***
1966-67	15	150	$3210X10^5$	$1943X10^3$	$2395X10^5$	$3018X10^5$	1.99	1.37
1967-68	15	150	$2030X10^5$	$1006X10^5$	$1186X10^5$	$1893X10^5$	1.54	3.01**
1968-69	15	150	$6007X10^4$	$2466X10^4$	$2840X10^4$	$5880X10^4$	1.30	5.28***
Ferozepore:								
1955-56	10	100	$3475X10^2$	$1507X10^2$	$1801X10^2$	$3474X10^2$	1.73	4.93***
1956-57	10	100	$6013X10^2$	$1256X10^2$	$1630X10^2$	$5788X10^2$	2.64**	14.71***
1967-68	15	150	$6634X10^4$	$3081X10^4$	$3718X10^4$	$6628X10^4$	1.77	4.05***
1968-69	15	150	$6959X10^4$	$3447X10^4$	$3747X10^4$	$6957X10^4$	0.74	3.99***
(b) regressions log (V/A) $= \alpha + \beta$ log A								
Muzaffarnagar:								
1955-56	10	37	4.1700	1.8590	2.4929	3.3000	2.92**	3.32***
1956-57	10	96	3.7079	1.4880	1.8145	3.3142	1.85*	5.18***
1966-67	15	150	5.2614	3.3982	3.8517	4.9384	1.14	1.94*
1967-68	15	150	2.2676	1.1857	1.4594	2.2676	1.98*	3.91***
1968-69	15	150	1.0767	4.4152	0.4820	1.0463	1.38	6.52***
Ferozepore:								
1955-56	10	100	3.0571	1.4136	1.6566	3.0301	1.53	0.51
1956-57	10	100	3.3254	0.7482	0.8909	3.0733	1.70	13.81***
1967-68	15	150	4.0208	1.6250	1.9564	4.0123	1.75	6.30***
1968-69	15	150	5.9438	2.5323	2.7630	5.9348	0.78	5.76***
(c) regressions V/G $= \alpha + \beta$G								
Muzaffarnagar:								
1955-56	10	97	$5409X10^2$	$3073X10^2$	$3965X10^2$	$4983X10^2$	2.48*	1.42
1956-57	10	96	$6858X10^2$	$3778X10^2$	$4316X10^2$	$6807X10^2$	1.20	2.78**
1966-67	15	150	$2968X10^5$	$1826X10^5$	$2387X10^5$	$2804X10^5$	2.63**	0.98
1967-68	15	150	$9210X10^4$	$5227X10^4$	$5940X10^4$	$9019X10^4$	1.17	2.52**
1968-69	15	150	$3064X10^4$	$1355X10^4$	$1586X10^4$	$3061X10^4$	1.46	4.67***
Ferozepore:								
1955-56	10	100	$2145X10^2$	$903X10^2$	$967X10^2$	$2134X10^2$	0.62	5.74***
1956-57	10	100	$2622X10^2$	$667X10^2$	$828X10^2$	$2619X10^2$	2.14*	11.93***
1967-68	15	150	$3168X10^4$	$1581X10^4$	$1966X10^4$	$3141X10^4$	0.21	3.19***
1968-69	15	150	$3487X10^4$	$1963X10^4$	$2121X10^4$	$3350X10^4$	0.69	2.68**
(d) regressions log (V/G) $= \alpha + \beta$log G								
Muzaffarnagar:								
1955-56	10	97	3.4900	1.8163	2.1002	2.8720	1.34	2.49**
1956-57	10	96	3.1241	1.6679	1.8594	3.0054	0.97	3.39***
1966-67	15	150	4.8405	2.8881	3.4171	4.3393	1.43	2.15**
1967-68	15	150	2.1448	1.1180	1.3961	2.1448	2.13*	1.85*
1968-69	15	150	1.0329	0.4398	0.5177	1.0327	1.52	5.78***
Ferozepore:								
1955-56	10	100	6.3321	4.3325	4.5243	6.3141	0.39	2.03**
1956-57	10	100	2.6247	0.6915	0.7591	2.5984	2.33*	14.15***
1967-68	15	150	3.5252	1.6272	1.4536	3.5165	1.40	4.98***
1968-69	15	150	4.6917	2.5015	2.6579	4.5837	0.54	3.57***

Note: Degrees of freedom are k—1 and n—2k for F's in col (8) and 2(k—1) and n—2k for those in col (9). Asterisks denote significance at different levels as in Tables 1 and 2.

responding to this S is obtained as the sum of the probabilities P(S =—45), P(S =—43) ,..., P(S =—19) plus a *random proportion* of P(S = — 17), all probabilities being computed under the null hypothesis of independence.

In some cases where the correlations seemed to be positive, the tests were combined in an alternative manner by taking the p_i's as the *upper tail* probabilities; here the alternative hypothesis is that the true correlation co-efficient is positive. These results are also included in Table 3.

In the second part of this communication we investigate the effects of aggregation over villages. Denoting the true regression for the i-th sample village by $y = \alpha_1 + \beta_1 x$, i = 1,... 10 or 15, we applied standard analysis of covariances tests of homogeneity of the village-wise regression lines for each region and year. This means we examined whether or not the size-productivity relationships for the different villages could be specified by a simple relation $y = \alpha + \beta x$. The scatter diagrams mentioned above suggested a more realistic model where α's were different for different villages but the β's were constant. Because of variation in soil fertility and other factors, the regression lines for different villages seemed to vary markedly in respect of height above the x-axis, but not so much, apparently, in respect of the slope. Standard analysis of covariance procedures were applied to test the suitability of this model. These analysis of covariance tests involve the subtle assumption that the deviations of individual farm observations from the true linear regressions have the same variance for each sample village. This seemed to be more realistic for the logarithms of V/A and V/G than for the original variables.

III
Results

We first examine the *within village* relationship between farm size A and productivity V/A on the basis of the results exhibited in Tables 1 and 3. Later we consider the relationship between gross cropped area G and value of output per unit of gross cropped area V/G (*vide* Tables 2 and 3). Such examination is facilitated by the simple averages of the within village correlation co-efficients and rank correlation co-efficients set out in Table 4.

It should be noted the farm size A and gross cropped area G were measured in acres for the years 1955-56 and 1956-57 but in hectares for 1966-67, 1967-68 and 1968-69. So all the regression co-efficients in Tables 1 and 2 are not comparable between the two sets of years.

We used official farm management data with one correction: For holding number 10 of village no 3 in Muzaffarnagar, for the year 1956-57, the figure for A was changed from 4.34 to 27.05 acres after scrutinising the data. The value of G, it may be noted, is 39.23 acres.

Most of the village level t-values in Tables 1 and 2 are non-significant, as the sample sizes are very small. We shall, however, take an overall view for each region and year. One approach could be to count the number of positive and negative values in the columns of correlation co-efficients and to apply the sign test. Using a two-sided test, we can say that the size-productivity correlation is significant if at least 9 out of 10 or at least 12 out of 15 village-wise co-efficients in a column have the same sign. The combination of probabilities tests in Table 3 are, however, more powerful.

Correlation between A and V/A: The within village correlation and rank correlation co-efficients are, on the average, about — 0.2 or —0.3 for Muzaffarnagar in all the years; and in every case, the χ^2-tests in Table 3 give a clear 'Significant' verdict. The negative correlation between farm size and productivity is therefore clear for this region in the sense that such correlation is observed *within* most of the sample villages and could not have arisen due to the aggregation over villages.

In Ferozepore, however, the average correlations are closer to zero and far from significant, excepting for 1956-57, when the correlation was about —0.1 and two of the three types of co-efficients were significant according to Table 3. But, on the whole, the size productivity correlation is not at all clear for this region.

There is little evidence of any time-trend in the within village correlation or lack of it in either region. Apparently, the green revolution did not affect the picture in either region upto the year 1968-69.

Interestingly, the three measures of correlation seem to have equal values, broadly speaking. Actually, the correlation co-efficient between the logarithmic variables tends to be slightly larger, numerically, than the other two types of co-efficients.

Correlation between G and V/G: The position is different if farm size be measured by gross cropped area (G) and productivity by value of output per unit of such area (V/G).

For Muzaffarnagar, the average within village correlation seems to be significantly negative for all the years upto 1967-68, although there are exceptional results. Thus, the correlation was a little low for 1956-57 and two out of the three types of correlations were not significant for this year. For 1968-69, on the other hand, all the three measures of correlation are, on the average, positive and one of them significantly so, by the one-sided test.

In the case of Ferozepore, the correlations are again closer to zero, but mostly positive. An exception is the average correlation between log G and log (V/G) for 1956-57; this is actually significantly negative. The results for 1968-69 deserve special attention. The average correlation co-efficients are of the order of 0.15, although the average rank correlation co-efficient is only —0.055, and the average correlation between G and V/G turns out to be statistically significant.

On the whole, the correlation between G and V/G tends to be less clearly negative or more clearly positive than that between A and V/A, and in 1968-69, the former correlation seems to have *become* positive in both the regions. This means a change from negative correlation to positive correlation in the district of Muzaffarnagar and from near zero correlation to positive correlation in the district of Ferozepore.

IV
Effects of Aggregation

The above findings from separate village-wise analyses may not at first sight be different from those obtained by the usual approach. But this impression is not wholly correct. This can be seen by comparing the average within village correlation co-efficients in Table 4 — their significance can be seen from Table 3 — with the correlation co-efficients and associated t-values in the all-village rows in Tables 1 and 2. There are some notable differences in the magnitude of the correlation: thus, the correlation co-efficient between A and V/A in Muzaffarnagar during 1968-69 was —0.145 if all the 150 holdings be considered together, but the *average* within village correlation was —0.232. The former was non-significant — it would be significant at 5 per cent level if a one-sided test were used — while the latter was significant at the 1 per cent level according to the χ^2 in Table 3. Also the average within village correlations

between G and V/G are *numerically* larger and statistically clearer in several cases, e g, for Muzaffarnagar 1967-68 and 1968-69. Again for Ferozepore in 1956-67, the all-village correlation between log G and log (V/G) appears to be numerically larger but it is far from significant, while the average within village correlation is statistically significant. Such instances point to the insensitive character of the test based on the all-village analysis.

Table 5 sums up the analysis of covariance tests mentioned in Section 2. It can be seen that in most cases the hypothesis of equality of slopes (β's) is tenable while that of homogeneity of village-wise regressions (i e, equality of both α's and β's) is usually rejected. Thus, the intercepts are frequently different from village to village and the usual model is $y_{ij} = \alpha_i + \beta x_i$ where i denotes village number and j the holding number. This could in fact be anticipated, as different villages have very different levels of productivity owing to soil fertility and other factors. Actually, the variation in α's explains a much higher proportion of the variation in productivity than does the influence of farm size or gross cropped area.

Whether the model is $y_{ij} = \alpha_i + \beta x_{ij}$ Or $y_{ij} = \alpha_i + \beta_i x_{ij}$, that is whenever $H_o(\alpha_1 = \ldots = \alpha_k; \beta_1 = \ldots = \beta_k)$ is rejected the usual test of size-productivity correlation (Saini [13]) is invalid as the data from all the villages are mixed together without any attempt to take account of between village variation in the regression line. Also, whenever the α's vary appreciably from village to village, this usual approach gives an insensitive test.

An important lesson can be drawn from the above for regression analyses based on farm management data. Even if one does not carry out completely separate village-wise analyses (as done here), it may often be necessary to introduce dummy variables representing changes in the intercept from village to village, as the general level of the variable may fluctuate from village to village. If this is not done, the analyses will frequently be invalid and the true relationships distorted by the aggregation over villages.

V

Concluding Remarks

We have only made a beginning here of a careful statistical analysis of size-productivity relationships. The analysis can easily be extended to other regions. One can bring in irrigation and other variables and/or carry out separate analyses for different crops, with a view to explaining the observed correlations between size and productivity. One can also analyse in the same manner farm business income per acre of farm size and see how this varies with farm size. This would reveal the effects of the green revolution on the distribution of income among cultivating families.

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Notes

1 Conceivably, the *within village* correlation could be close to zero but the between village relationships might be different and might produce a spurious relationships might be different and all the viillages are mixed together. By *between village* relationship we mean the relationship between the village-wise averages of the dependent variable and the corresponding *averages* of the independent variable.

2 Throughout this investigation, we ignored the complications of the sample design of the Farm Management Studies and applied methods valid for simple random sampling with replacement.

Tata Iron and Steel

TATA Iron and Steel Company is making a public issue of 8 per cent mortgage debentures (1983-87) of a total amount of Rs 15 crores to raise part of the finance required to renovate and modernise its works at Jamshedpur. The subscription list will open on June 26 and close on June 29 or earlier, but not before June 28. The debenture issue, the biggest by a private sector company so far and TISCO's first to be offered to the public, is fully underwritten. Five major public sector financial institutions have jointly agreed to underwrite the issue to the extent of Rs 10 crores, without stipulating any condition for conversion of any part of debenture subscription into equity shares. Interest will be payable half-yearly, and the debentures will be redeemed at par by drawing of lots in five equal annual instalments commencing June 30, 1987. Some two years ago, TISCO proposed a Rs 20-crore debenture issue which ran into rough weather owing to insistence by the public sector institutions upon the right of conversion into equity shares of a part of the proposed issue as a condition of their support to the issue. The company's management opposed this on the grounds that the issue was not intended to finance any large new project but was only a continuing programme of replacement and improvement, that the company had a very low term debt-to-equity ratio (0.05:1), and that government's price policy precluded any appreciable increase in distributable profits out of which the additional dividend on converted debentures could be paid.

On the Allocative Efficiency under Risk in Transforming Traditional Agriculture

Uma K Srivastava

Vishnuprasad Nagadevara

Agricultural sectors in the less-developed countries of Asia, Africa, and Latin America are undergoing a spread of new seed varieties and an intensive application of fertiliser and irrigation inputs. It has been observed that, in the allocation of modern inputs, farmers apply a discounting factor on the expert advice because yields diverge considerably from those claimed by the agricultural scientists.

It may be hypothesised that, in recent years, farmers may not be efficient in resource allocation in the pure profit maximisation sense as they are in a transition process of adopting new techniques whose outcomes are not so certain from the traditional wisdom, but they may still be found to allocate resources efficiently if the risk elements are taken into account.

This paper aims at evaluating the allocative efficiency under: (i) the classical profit maximisation criterion with no risk of any sort, and (ii) an alternative criterion incorporating risk because of the probabilistic nature of estimates of production co-efficients. The data used in this paper pertain to the production of two varieties of wheat, Mexican and Local (Desi), in Punjab (Ferozpur) for 1967-68 and 1968-69. The sample size comprised 150 farmers selected on a stratified random basis.

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IN the context of allocative efficiency[1] in traditional agriculture, T W Schultz hypothesised that "there are comparatively few significant inefficiencies in the allocation of factors of production" [13]. This hypothesis has been widely supported empirically by cross-section production function analysis of Chennareddy [2], Hopper [6, 7], Sahota [10], Welsch [15], Wise and Yotopoulos [17], Yotopoulos [18], and Saini [11]. However, the use of the classical profit maximising framework to test the allocative efficiency of traditional agriculture implicitly assumes that factors of risk and uncertainty are not significant in explaining resource allocation. Factors of risk and uncertainty have, of course, been emphasised theoretically in case of both modern and traditional agriculture [5, 16].

Risk elements faced by farmers could be of several types. Dillon and Anderson have recently developed a framework to evaluate the effect of risk factors owing to the probabilistic nature of production co-efficients estimated from the cross-section samples [3]. This framework provides an alternative criterion for evaluating the allocative efficiency in terms of expectation of an opportunity loss suffered by an average farmer relative to the expected profits. When some of the evidence of earlier studies was reprocessed under this alternative framework, the results indicated only a mixed support to Schultz's hypothesis [3].

The aspect of risk incorporated by Dillon and Anderson is even more relevant in the context of a rapidly transforming traditional agriculture. Agricultural sectors in the less-developed countries of Asia, Africa, and Latin America are undergoing a spread of new seed varieties, an intensive application of fertilisers and irrigation inputs. It has been observed that farmers apply a discounting factor on the expert advice in the allocation of modern inputs because yields diverge considerably from those claimed by the agricultural scientists [9].

Objectives and Data

Most of the previous studies referred above have been conducted during a period in which the techniques of production have been static. It may be hypothesised that, in recent years, farmers may not be efficient in resource allocation in pure profit maximisation sense as they are in a transition process of adopting new techniques whose outcomes are not so certain from the traditional wisdom, but they may still be found to allocate the resources efficiently if the risk elements are also taken into account. This paper aims at an evaluation of allocative efficiency under: (i), the classical profit maximisation criterion with no risk of any sort, and (ii) an alternative criterion incorporating risk because of probabilistic nature of estimates of production co-efficients.

The data used in this paper pertain to the production of two varieties of wheat, Mexican and Local (Desi), in Punjab (Ferozpur) for the years 1967-68 and 1968-69. The sample size comprised 150 farmers selected on a stratified random basis. The breakdown of the sample size in terms of producers of two varieties of wheat is as follows: 37 farms produced only local variety, 12 farms produced only Mexican variety, and 101 farms produced both in the year 1967-68;[2] during 1968-69, 11 farms produced exclusively local variety, 60 farms produced Mexican variety only, and 79 farms produced both the varieties.

Allocative Efficiency in Classical Profit Maximisation Framework with No Risk

We have fitted the unrestricted form of the Cobb-Douglas production function to the four sets of data mentioned above. The production function is specified as follows:

$$Y_i = A_i X_{1i}^{\beta_{1i}} X_{2i}^{\beta_{2i}} X_{3i}^{\beta_{3i}} X_{4i}^{\beta_{4i}} X_{5i}^{\beta_{5i}} \quad (1)$$

$i = 1$ (Mexican variety: 1967-68)
$i = 2$ (Local variety: 1967-68)
$i = 3$ (Mexican variety: 1968-69)
$i = 4$ (Local variety: 1968-69)

Where

Y = Crop output (rupees)
X_1 = Area under crop production (hectares)
X_2 = Human labour (adult man days)
X_3 = Bullock labour (bullock pair days)
X_4 = Interest on fixed capital and depreciation on farm machinery
X_5 = Value of seeds (owned and pur-

TABLE 1: PRODUCTION FUNCTIONS FOR MEXICAN AND LOCAL VARIETIES OF WHEAT

Wheat Variety	Year	Model	Estimated Equation	R^2	df	$\sum_{i=1}^{3} \beta_i$	F-Statistics
Mexican	1967-68	I	$\ln Y_1 = 5.2520 + 0.4948^{***} \ln X_{11} + 0.1308 \ln X_{21} - 0.0192 \ln X_{31} - 0.0375 \ln X_{41} + 0.4069^{***} \ln X_{51}$ (0.1061) (0.1038) (0.0248) (0.0677) (0.1020)	0.8749	104	—	
		II	$\ln Y_1 = 5.1248 + 0.4634^{***} \ln X_{11} + 0.1197 \ln X_{21} - 0.0167 \ln X_{31} + 0.4061^{***} \ln X_{51}$ (0.0916) (0.1016) (0.0264) (0.1018)	0.9068	105	—	
		III	$\ln Y_1 = 5.1610 + 0.4796^{***} \ln X_{11} + 0.1135 \ln X_{21} - 0.0246 \ln X_{41} + 0.4107^{***} \ln X_{51}$ (0.1043) (0.1012) (0.0655) (0.1018)	0.9066	105	—	
		IV	$\ln Y_1 = 5.0808 + 0.4608 \ln X_{11} + 0.1070 \ln X_{21} + 0.4099^{***} \ln X_{51}$ (0.0913) (0.0893) (0.1013)	0.9064	106	0.9777 (0.0316)	342.45***
Local (Desi)	1967-68	I	$\ln Y_2 = 5.0770 + 0.4960^{***} \ln X_{12} + 0.2148^{***} \ln X_{22} - 0.0262 \ln X_{32} - 0.0171 \ln X_{42} + 0.3243^{***} \ln X_{52}$ (0.0854) (0.0767) (0.0255) (0.0519) (0.0255)	0.8653	132	—	
		II	$\ln Y_2 = 5.0429 + 0.4879^{***} \ln X_{12} + 0.2118^{***} \ln X_{22} - 0.0249 \ln X_{32} + 0.3222^{***} \ln X_{52}$ (0.0779) (0.0753) (0.0248) (0.0560)	0.8563	133	—	
		III	$\ln Y_2 = 4.9289 + 0.4862^{***} \ln X_{12} + 0.1919^{***} \ln X_{22} + 0.0004 \ln X_{42} + 0.3344^{***} \ln X_{52}$ (0.0848) (0.0734) (0.0080) (0.0561)	0.8563	133	—	
		IV	$\ln Y_2 = 4.3941 + 0.4864^{***} \ln X_{12} + 0.1920^{***} \ln X_{22} + 0.3345^{***} \ln X_{52}$ (0.0779) (0.0727) (0.0547)	0.8563	134	1.0129 (0.3449)	266.14***
Mexican	1968-69	I	$\ln Y_3 = 3.9288 + 0.2403^{***} \ln X_{13} + 0.7195^{***} \ln X_{23} - 0.0189 \ln X_{33} - 0.0014 \ln X_{43} + 0.1000^{***} \ln X_{53}$ (0.0905) (0.1126) (0.0216) (0.0735) (0.0266)	0.8988	133	—	
		II	$\ln Y_3 = 3.8433 + 0.2248^{***} \ln X_{13} + 0.7001^{***} \ln X_{23} - 0.0312 \ln X_{33} + 0.1360 \ln X_{53}$ (0.0865) (0.0920) (0.0287) (0.0332)	0.8421	134	—	
		III	$\ln Y_3 = 3.7033 + 0.2152^{***} \ln X_{13} + 0.6892^{***} \ln X_{23} + 0.0041 \ln X_{43} + 0.1372^{***} \ln X_{53}$ (0.0890) (0.1132) (0.0728) (0.0336)	0.8912	134	—	
		IV	$\ln Y_3 = 3.7062 + 0.2162^{***} \ln X_{13} + 0.6929^{***} \ln X_{23} + 0.1320 \ln X_{53}$ (0.0862) (0.0918) (0.0332)	0.8912	135	1.0413 (0.0316)	368.48***

(*Continued*)

TABLE 1 (CONTINUED)

Wheat Variety	Year	Model	Estimated Equation	R^2	df	$\sum_{i=1}^{3} \beta_i$	F-Statistics
Local (Desi)	1968-69	I	$\ln Y_4 = 0.1017 - 0.5549^{***} \ln X_{14} + 1.2548^{***} \ln X_{24} - 0.0087 \ln X_{34} + 0.0153 \ln X_{44} + 0.3570^{*} \ln X_{54}$ (0.2207) (0.2431) (0.0805) (0.1538) (0.1954)	0.6544	84	—	
		II	$\ln Y_4 = 0.1276 - 0.5522^{***} \ln X_{14} + 1.2595^{***} \ln X_{24} - 0.0095 \ln X_{34} + 0.3637^{*} \ln X_{54}$ (0.2145) (0.2404) (0.0796) (0.1841)	0.6543	85	—	
		III	$\ln Y_4 = 0.0763 - 0.5415^{***} \ln X_{14} + 1.2253^{***} \ln X_{24} + 0.0174 \ln X_{44} + 0.3560^{*} \ln X_{54}$ (0.2205) (0.2093) (0.1572) (0.1877)	0.6542	85	—	
		IV	$\ln Y_4 = 0.1031 - 0.5363^{***} \ln X_{14} + 1.2268^{***} \ln X_{24} + 0.3630^{*} \ln X_{54}$ (0.2125) (0.2076) (0.1743)	0.6542	86	1.0535 (0.6806)	54.23***

Notes: * Significantly different from zero at 10 per cent level of probability.
*** Significantly different from zero at 1 per cent level of probability.

chased), value of fertilisers and manures (owned and purchased), and irrigation charges (rupees)

While the variables X_1, X_2, and X_3 are the usual inputs in the agricultural production function, X_4 and X_5 are included to serve as a measure for the mechanical and biological inputs. The variable X_5 has been the most important expanding input during recent years. The empirical estimates are presented in Table 1 (equation I). It can be seen in Table 1 that in all the four sets of data variables X_3 and X_4 are not significantly different from zero even at 10 per cent level of probability. Therefore, we have fitted alternative models with the omission of insignificant variables: (1) equation II drops out X_4 but includes X_3, (2) equation III drops out X_3 but includes X_4, and (3) equation IV leaves out both X_3 and X_4 because in no case did these variables turn out to be significant. The sum of the elasticities in equation IV was tested against unity to verify scale returns. In all the cases, sum of the elasticities is not statistically different from 1.0, indicating constant returns to scale. Also, the per hectare output was found to be statistically invariant with the farm size (Appendix Table) in all the four data sets, signifying constant returns to scale relative to farm size.

There is an unusual feature to be noted that the partial elasticity of production for land input (X_1) in case of local wheat in 1968-69 is negative. This can be explained in the light of changes in other inputs in relation to land. An idea of such a change in the allocation of inputs can be had from the geometric mean levels of inputs presented in Table 2. It can be seen (Table 2) that, in general, there has been a decrease in the levels of all the three inputs in the production of local variety of wheat and that there has been an increase in input use in the production of Mexican variety of wheat in 1968-69 over the previous year (1967-68). The direction of change in the allocation pattern has been consistent with the increased profitability, but there has been an overreaction in many cases resulting in inefficiencies in resource allocation when evaluated under classical profit maximisation criterion. A comparative picture of the marginal value productivities and factor costs at geometric mean levels of inputs is presented in Table 3. The profit maximising criterion requires the use of factors up to the point where marginal value productivities are equal to the factor costs.[3] We have presented the ratio of marginal value productivity to factor cost for each input. A deviation of this ratio from unity points the direction of misallocation of a resource. It can be seen that it was profitable in 1967-68 to allocate more of land and seed and fertiliser inputs in case of Mexican wheat. However, the resources were efficiently allocated in local wheat except for the seed fertiliser and irrigation inputs. Similarly, profit could have been increased in 1968-69 by allocating less of land inputs and more of labour inputs in Mexican variety, and labour and seed, fertiliser inputs in case of local variety of wheat. Moreover, it can be seen that, while the farmers have allocated larger proportion of their non-land inputs to the production of Mexican variety, land inputs have not been reduced in the same proportion in case of local variety, resulting in negative marginal productivity of land input in 1968-69.

The allocative efficiency of farmers between two varieties of wheat can also be visualised in terms of unit-cost relationship evaluated at geometric mean level. We have fitted the following form of cost function for this purpose :

$$C_i = a + bY_i + cY_i^2 \quad (2)$$

TABLE 2 : GEOMETRIC MEAN LEVEL OF INPUTS AND OUTPUTS

Wheat Variety	Year	Output (Rs)	Land Input (hectares)	Human Labour (days)	Seed, Fertiliser, Manure and Irrigation
Mexican	1967-68	2580.0	1.5	65.3	316.0
	1968-69	5150.0	2.63	190.0	1440.0
Local (Desi)	1967-68	4070.0	2.57	128.0	384.0
	1968-69	968.0	1.19	56.0	199.0

TABLE 3 : MARGINAL VALUE PRODUCTIVITIES AND FACTOR COSTS AT GEOMETRIC MEAN LEVEL

Wheat Variety	Year	Land			Labour			Seed, Fertiliser, and Irrigation		
		MVP (Rs)	Factor Cost (Rs)	MVP/ Factor Cost	MVP (Rs)	Factor Cost (Rs)	MVP/ Factor Cost	MVP (Rs)	Factor Cost (Rs)	MVP/ Factor Cost
Mexican	1967-68	1152.4	323.87	3.558	4.29	5.42	0.791	3.38	1.00	3.38
	1968-69	428.90	1465.55	0.293	18.90	5.92	3.192	0.62	1.00	0.60
Local (Desi)	1967-68	781.64	882.32	0.886	6.12	5.66	1.081	3.55	1.00	3.55
	1968-69	—454.5	500.82	—0.907	21.44	5.33	4.022	1.80	1.00	1.80

TABLE 4 : COST FUNCTIONS FOR TWO VARIETIES OF WHEAT

Wheat Variety	Estimated Equation	d f	R^2	Marginal Cost*
Mexican 1967-68	$C_1 = 27.50+6489^{**}\ Y_{11} - 0.0000070^{**}\ Y^2_{11}$ (0.0449) (0.0000012)	107	0.861	0.6114
Local (Desi) 1967-68	$C_2 = 695.37+0.5745^{**}Y_{22} - 0.0000013\ Y^2_{22}$ (0.1264) (0.0000025)	135	0.8047	0.5634
Mexican 1968-69	$C_3 = 403.29+0.9259^{**}Y_{13} - 0.0000054\ Y^2_{13}$ (0.1269) (0.0000066)	136	0.7501	0.8682
Local (Desi) 1968-69	$C_4 = 125.12+1.3313^{**}Y_{24} - 0.0000916^{**}\ Y^2_{24}$ (0.1596) (0.0000235)	87	0.7111	1.3130

Notes : * Evaluated at geometric mean level of output.
** Significantly different from zero at 1 per cent probability level.

i = 1 (Mexican wheat: 1967-68)
i = 2 (Local wheat: 1967-68)
i = 3 (Mexican wheat: 1968-69)
i = 4 (Local wheat: 1968-69)
where
C = Total cost of production (both actual and imputed)
Y = Crop output (rupees)

The quadratic form of cost function presented above was found to be an appropriate fit in all the four cases and the estimates are presented in Table 4. We have worked out the marginal cost of one rupee worth of output at geometric mean level of output in all the four data sets. It is found that the marginal cost was lower in the production of Desi variety as compared to Mexican variety in 1967-68, but it was much higher in 1968-69. Furthermore, the marginal cost of production of local variety of wheat in 1968-69 exceeds the break-even point and the average farmer is producing at a loss. In the profit maximisation framework, this indicates an inefficiency in the allocation of resources, and profit could have been maximised by a reallocation of resources.

ALLOCATIVE EFFICIENCY UNDER ALTERNATIVE CRITERION INCORPORATING RISK

When the risk factors are operative, it may be hypothesised that farmers maximise utility instead of profit. In such a case the allocative efficiency has to be evaluated in terms of individual farmers' utility function. But this approach is not feasible at this stage because (i) the choice of a particular form of utility function is itself debatable as the different types of utility functions used by economists (Bernoulli, Von Neumann, Tinbergen, Baumol, and Igiri) imply different degrees of risk and there is no empirical work available to form a basis of choice of farmers utility function, and (ii) the utility function for an average farm does not have any sensible meaning for individual farmers as the attitudes toward risk differ according to the wealth position of the producing unit [1]. Therefore, we do use profit maximisation framework, but a departure from the previous approach has been made by taking production elasticities not as point estimates but having probability distribution.

Following Dillon and Anderson [3], we have used the concept of expected opportunity loss to evaluate the allocative efficiency of average farm as our production co-efficients are only sample estimates with an associated probability distribution. Opportunity loss L suffered by non-optimal operation of the average farm can be written as follows:

$$L = \tilde{\pi} - \bar{\pi}, \qquad (3)$$

where
$\tilde{\pi}$ = Optimal profits
$\bar{\pi}$ = Profits at the geometric mean level of inputs

Optimal profits have been worked out in our case by constrained maximisation (under budget constraint). Thus the optimal level of inputs have been determined by setting the partial derivatives $(\partial\tilde{\pi}/\partial X_i)$ of the following equation equal to zero:

$$\tilde{\pi} = PY - \sum_{i=1}^{3} q_i X_i + \lambda \left(C - \sum_{i=1}^{3} q_i X_i \right) \qquad (4)$$

where
P = Output price
q_i = Price of input i
C = Average farmers budget allocation for the three inputs included in equation IV (Table 1)
λ = Lagrange multiplier

The budget constraint has been included because of two reasons: (i)

TABLE 5 : EXPECTED LOSS AND INDEX OF INEFFICIENCY OF OPERATION AT GEOMETRIC MEAN INPUT LEVELS

Wheat Variety	Year	EL (Rs)	Index of Inefficiency $EL/E\tilde{\pi}$
Mexican	1967-68	91.46	0.0819
	1968-69	92.68	0.0425
Local (Desi)	1967-68	17.84	0.0182

APPENDIX

RELATIONSHIP BETWEEN OUTPUT (WHEAT) PER HECTARE AND FARM SIZE

Wheat Variety	Year	Estimated Equation	R^2	d f
Mexican	1967-68	$\ln Y_1 = 7.9103^{**} + 0.8922^{*} \ln X_1$ (0.3130)	0.8809	108
	1968-69	$\ln Y_1 = 7.5606^{**} + 1.0306^{*} \ln X_1$ (0.0592)	0.7370	137
Local (Desi)	1967-68	$\ln Y_2 = 7.4201^{**} + 0.9464^{*} \ln X_1$ (0.0438)	0.8903	136
	1968-69	$\ln Y_2 = 6.7011^{**} + 0.9285^{*} \ln X_1$ (0.1173)	0.4159	88

Notes : * Not significantly different from 1 even at 10 per cent probability level.
** Figures are in log to the base e.

it is known that all the groups of farms in India and other developing countries are forced to settle for a second-best solution due to a lack of financial resources [4,13,14], and (ii) it has been shown in the literature that given the constant returns to scale and linear input costs (with no budgetary limitations), optimal levels of inputs and output become indeterminate [8,13]. The size of budget C in our case has been put to be equal to the actual sum spent by the average farm on the three resources included in our production functions. The actual profits of the average farm are worked out by

$$\bar{\pi} = (PY - \sum_{i=1}^{3} q_i \bar{X}_i),$$

where $\bar{X}$'s the geometric mean levels of inputs allocated by the farm. Thus, the opportunity loss can be written as follows:

$$L = A \left(\prod_{i=1}^{3} \tilde{X}_i^{\beta_i} - \prod_{i=1}^{3} \bar{X}_i^{\beta_i} \right) \qquad (5)$$

where B_i's are the elasticities of production taken from equation IV of Table 1. The measure of allocative efficiency suggested by Dillon and Anderson [3] is the index calculated by taking the ratio of expected loss to expected profit. It is expressed as follows:

Index of Inefficiency

$$= EL/E\tilde{\pi} = EL/EL + E\bar{\pi} \qquad (6)$$

In the above expression E denotes the expectation. In this framework, our average farmer would be completely efficient if the index of allocative inefficiency is equal to zero. Any deviation of the above index from zero would denote allocative inefficiency. The percentage of potential profits foregone can be worked out by multiplying the value of index by 100.

Since the β_i's in our production function are probabilistic estimates, the loss L can be expressed as a function of random variables β_i.

i e, $L(\beta_1, \beta_2, \beta_3)$.

If the joint probability distribution of the β_i's is denoted by $f(\beta_1, \beta_2, \beta_3)$, the expected loss can be written as follows [3]:

$$EL = \int_{-\infty}^{\infty}\int_{-\infty}^{\infty}\int_{-\infty}^{\infty} L(\beta_1 \beta_2 \beta_3) \times f(\beta_1, \beta_2, \beta_3)\ d\beta_1 d\beta_2 d\beta_3 \qquad (7)$$

We have evaluated the above integral by Monte Carlo procedure using pseudo-random sampling from the appropriate multivariate distribution of the β_i's. In order to ensure that the sampled β_i's are strictly positive, we have truncated the distribution symmetrically and confined to the area in the positive quadrant. We have taken an average value from 1,000 replications of Monte Carlo procedure[4] to estimate EL and also $E\tilde{\pi}$. The estimates of EL and the index of allocative inefficiency $EL / E\tilde{\pi}$ is presented in Table 5. We have not worked out the expected loss and the index of inefficiency for Local (Desi) wheat production in the year 1968-69 because the elasticity of production for land is negative. The average farmer in this case is *prima facie* inefficient in the allocation of resources.

It will be seen in Table 5 that the absolute value of the index of inefficiency is greater than zero but much smaller in all the three cases than the value, |0.2|, considered by Dillon and Anderson [3] as an indicator of allocative inefficiency. However, the interpretation of size of index of inefficiency is a matter of subjective judgment and open to debate. But the fact is that the percentage of potentially achievable profit foregone is very small: 8 per cent, 4 per cent in Mexican during the years 1967-68 and 1968-69 and 2 per cent for Desi wheat production during 1967-68. Thus, under this criterion, the average farmer is by and large efficient in resource allocation.

CONCLUDING REMARKS

It was hypothesised in this paper that the average farmer may not be efficient in the allocation of resources when he is in the process of adopting newer techniques of production and modern inputs. When we evaluated efficiency of an average Punjab wheat farmer under classical profit maximising conditions, it was found that there are inefficiencies in resources allocation both in Mexican as well as Local (Desi) wheat production. In most cases, farmers have overreacted in allocating resources in the direction of profitable opportunities resulting in allocative inefficiencies. When the resource-use efficiency was evaluated in terms of index of allocative inefficiency (an alternative criterion), it was found that both Mexican and Local (Desi) wheat farmers are by and large efficient in resource allocation. This analysis indicates that the judgments on the allocative efficiency which are based on classical profit maximising conditions may be misleading — particularly when production co-efficients are probabilistic.

Notes

1 Allocative efficiency was defined in terms of classical profit maximising conditions.
2 There were 113 farms in the sample which produced Mexican variety. But the data was incomplete in case of three farmers so we had only 110 observations.
3 Factor costs were taken on average basis.
4 The average value derived from 1,000 replications of Monte Carlo procedure is considered to give a stable estimate of EL.

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Observations on Agricultural Technology in a Developing Economy

G C Mandal

Facts reviewed in this article reveal that the introduction of machine (tractor) service in agricultural technology influences the nature of farm enterprise in a way that leads to increase in the labour-input per acre. That is, reduction of labour input per unit of output — or reduction of the percentage of the labour-input in the total input structure — is likely to be accompanied by more intensive employment of labour in multiple cropping made possible by the short-period-maturity HYV, and result in a more valuable composition of farm products.

Facilities for obtaining mechanical services on custom basis are likely to lower the charges of farming operations compared to those carried out by human and animal labour. This would further widen the scope for diversification of farm enterprises, and the saved labour could become a factor of growth.

If land-ceilings are rigidly enforced, so that holding sizes become small and standardised, the consequent increase in self-employment would reduce the wage-labour market. But inadequacy of timely labour in many urgent farming operations might still make itself felt. In such a situation, farmers could form co-operatives for supplying themselves with mechanical aid which would otherwise be beyond their reach.

[The pilot investigation in the district of Purnea, Bihar, mentioned in the paper, was conducted by Ramnandan Prasad.]

THE search for the most appropriate technology is a crucial task in the growth of agriculture in a developing economy which is generally characterised by low per capita income and predominance of agriculture as a means of livelihood.

A technology may be broadly defined in terms of the proportions in which land, labour and capital are combined in the production of a unit of output. In detail, all the various physical inputs could be specified, such as land, human labour, animal labour, seeds, fertilisers, services of machinery of different types, irrigation-services by different methods, and transportation by different methods. A technology represents a set of inputs entering into a unit of output resulting from the inputs. To each technology corresponds a particular level of net profit — i e, the value of a unit of output minus the aggregate value of inputs producing that output. The efficiency of a technology is measured by the surplus generated by it per unit of output. Therefore, the values of different products as well as the values of inputs have to be taken into account. The values of inputs would obviously reflect the relative scarcity of the inputs and would serve as a signal, in conjunction with the values of products, as to which technology should be adopted in a particular situation of resource-product-relationship.

Recent times have witnessed the rise of various technological ideologies — mostly favouring capital-intensive techniques in a developed economy, where capital is abundant in relation to labour and labour-intensive technology in an underdeveloped economy where labour is supposed to be abundant in supply in relation to capital.[1] It is, however, necessary to probe deeply the nature of the labour-surplus or labour abundance in an underdeveloped economy before a policy-prescription can be made on a suitable technology for its agriculture.

Physical Constraints and Institutional Setting

First of all, the land-man ratio may not be the same all over the country. It may differ from region to region, district to district, and zone to zone. Labour is more scarce relative to capital in areas where the land-man ratio is higher and less scarce in areas where the land-man ratio is lower. Again, in a region or district where the average size of farm is larger, the abundance of labour, might be less perceptible in relation to the demand of individual employers — even though physically real in terms of man-days — than in areas where the average farm size is small. Similarly, in a region or district where the average farm size is smaller, capital supply in farming appears to be more limited than in areas where the average farm-size is bigger.

Secondly, the relative availability or the demand-supply situation of factors such as labour and capital is not merely a physical question of resource-constraints, as also to a large extent a question of institutional setting. For example, in two regions the land-man ratio may be the same, but if there is concentration of land in the hands of a few big farms in one of the two regions than in the other, labour would appear to be more scarce in the former region than in the latter — in spite of the equality of land-man ratio. In other words, the distribution of land is an important factor in determining the nature of the demand-supply relationship of labour and capital in agriculture. Bigger farms present increased demand for labour for wage-employment as a substitute for self-labour, and by a competitive bid for labour they may make shortage of labour at certain points of time perceptible. Smaller farms, using mostly their own labour, do not present a competitive bid for labour; so that in areas dominated by smaller farms capital-

Table 1: Change in Technology and Labour Use in Philippine Agriculture

		1966	1970
A	*Central Luzan-Laguna*		
	Tractor users (percentage)	14	48
	Area planted to HYV Paddy (percentage)	0	67
	Yield (mt/ha)	1.9	2.7
	Total man-days/ha	64	67
	Hired man-days/ha	37	41
	Percentage of hired labour	58	62
B	*Laguna*		
	Tractor users (percentage)	37	76
	Area planted to HYV (percentage)	1	93
	Yield (mt/ha)	2.4	3.4
	Total man-days/ha	86	80
	Hired man-days/ha	48	57
	Percentage of hired labour	57	72

TABLE 2: COST OF PRODUCTION, OUTPUT AND NET RETURN OF RICE PER HECTARE IN THE VILLAGE OF MAGTANGOL, NUEVA ECIJA, PHILIPPINES

Items	Expenses (Pesos)	Percentage to Total
Human labour	63.86	34.23
Animal labour	13.13	7.04
Tractor charges	34.05	18.24
Seeds	16.48	8.83
Manures and fertilisers	44.18	23.68
Insecticides	5.10	2.73
Rents and taxes	1.38	0.74
Feed	3.95	2.12
Interest	0.77	0.41
Irrigation charges	3.68	2.00
Total	186.58	100.00

Total area under rice=58.50 hectares
Value of output (Pesos) per hectare =1519.04 (3520 kg)
Net return (pesos)=1332.46 per hectare
One peso=$0.15 (US dollar)

shortage rather than labour shortage may be more real. Apart from this, peak-time shortage of labour in farming is widespread even in a labour-abundant economy.

Is it invariably the labour-intensive technology (interpreted to signify the absence of mechanisation) that is the most appropriate for the agriculture of a developing economy — in the sense that it secures fuller utilisation of labour? Recent findings show that a labour-intensive technology, defined as a technology associated with a high labour-capital or high labour-output ratio, may not be more productive of labour-employment per acre of land than a capital-intensive technology defined as a technique associated with low labour-capital or high capital-output ratio.

EMPIRICAL DATA

Reference may be made to the following illustration (see Table 1) cited from a survey of 76 farms of the Central Luzan Laguna area and 153 farms of Laguna area in the Philippines conducted by the International Rice Research Institute.[2]

It is evident from Table 1 that, as a consequence of the increase in the number of tractor-users from 14 per cent to 48 per cent during 1966-70, man-days per hectare increased in the Central Luzan area from 64 to 67. In Laguna area, however, though man-days per hectare slightly decreased when the percentage of tractor-users increased from 37 to 76, the hired man-days per hectare appreciably increased. Thus tractorisation made a positive contribution to employment. Instead of displacing labour, it saved labour for the expansion of enterprise and output.

Even in India, farm mechanisation is reported to have created new employment in the farm economy. In a study, C Hanumantha Rao has shown that, "cropped area per 100 agricultural population, percentage of area irrigated, and cropping intensity, increase with the increase in the rate of tractorisation (number of tractors per 10,000 agricultural workers), thus indicating that tractorisation was induced by greater requirements of draft power".[3]

The present writer, during his stay at the Central Luzan State University, conducted a survey of 27 farm-households in 1970-71 in a village located near the University campus.[4] The farmers under survey had a cultivated area of 2 to 3 hectares and were mostly share-tenants. These farmers were growing mostly HYV rice such as IR-8, IR-5 and IR-20. The findings of the survey relating to the input-structure for rice and the corresponding output are given in Table 2.

The input-level of the rice-farming, shown in Table 2, is not high. What is remarkable in the composition of inputs is that they include tractor charges even though the farms are quite small and the farmers are share-tenants. The farms under study were taking advantage of tractor-ploughing operations on custom basis. The benefit consisted in timely and speedy operations, which implied taking advantage of the most suitable time for transplantation and sowing and a preparatory tillage for the next crop.

A S Kahlon and D S Gill, in their paper 'Economics of Mechanizing Farm Operations in Punjab', showed that on a 25-acre farm in Patiala the intensity of cropping could be increased from

TABLE 3: PATTERN OF CROP-ENTERPRISE ON FARM A AND FARM B

Name of Crop	Area under Each Crop (Acres) Farm A	Farm B
Paddy (Ordinary)	35	30
Paddy (HYV)	4	
Wheat (Ordinary)	24	
Wheat (HYV)	Nil	4
Jute	11	10
Mustard	5	5
Masur (Pulses)	2	3
Khesari (Pulses)	7	2
Gram	5	
Total	93	54
Gross irrigated area (acres)	76	34
Intensity of cropping (percentage)	186	135
Output per acre, net (Rs)	643.74	446.78

140 per cent to 200 per cent and the net income from Rs 9,044 to Rs 18,396 by the introduction of mechanical power involving employment of 35 man-work-units per acre of cropped area instead of 40 man-work units with bullock power.[5]

Apparently, while in respect of a single crop tractor-power might reduce or displace labour, in regard to the farm economy as a whole it leads to further utilisation of human labour. For a single crop, the tractor is a substitute for human labour, but for the farm economy as a whole it is complementary to human labour.

A pilot investigation was conducted by the Visva-Bharati Agro-Economic Research Centre into the operations of two farms of the block Krityanandnagar in the district of Purnea, Bihar. One of the farms (later denoted as Farm A) has cultivated a holding of 50 acres, operated by tractors owned by the farm

TABLE 4: PATTERN OF INPUT ON FARM A AND FARM B, 1970-71

Items of Input	Farm A Value (Rs) Per Acre	Per Unit of Output*	Per Cent of Total Inputs	Farm B Value (Rs) Per Acre	Per Unit of Output*	Per Cent of Total Inputs
Labour						
Human labour	162.66	0.25	46.5	160.70	0.36	62.3
Animal labour				11.00	0.02	4.3
Machine (tractor) services	75.86	0.12	21.6	24.31	0.05	9.5
Irrigation	16.90	0.03	4.7	5.20	0.01	2.0
Seed	27.92	0.04	8.0	24.38	0.05	9.5
Fertilisers	60.46	0.09	17.2	25.79	0.06	10.0
Pesticides	4.54	0.006	1.1	1.94	0.004	0.8
Land revenue	3.00	0.004	0.9	3.25	0.009	0.6
Total	351.34	0.54	100.0	256.57	0.56	100.00
Surplus per acre	292.40			190.21		

Note: *Units are in rupees

TABLE 5 : HUMAN LABOUR, ANIMAL LABOUR AND MACHINE SERVICE INPUT PER ACRE ON FARM A AND FARM B 1970-71

Crop	Farm A Human Labour Input per Acre (Rs)*	Animal Labour Input per Acre (Rs)*	Machine Service Input per Acre (Rs)*	Farm B Human Labour Input per Acre (Rs)*	Animal Labour Input per Acre (Rs)*	Machine Service Input per Acre (Rs)
Paddy (IR-8)	150	nil	54			
Wheat (Ordinary)	56	nil	44			
Wheat (HYV)				104.75	6.50	18
Paddy (Ordinary)	118	nil	46	118.50	7	18
Jute	122	nil	35	189.65	6.25	18
Mustard	42	nil	40	57.10	6.50	18
Masur	44	nil	33	62.43	6.41	18
Khesari	23	nil	26	45.60	6.25	18
Gram	29	nil	31			

Note : *Wage rate is Rs 2 per man-day.

itself. It was also making use of a mechanical thresher and using a tractor for transportation purposes. The other farm (later denoted as Farm B) has a cultivated holding of 40 acres. Only the preparatory tillage was operated with hired tractor services. The pattern of crop enterprise on the two farms is indicated in Table 3.

It is evident that the intensity of cropping is greater on the more mechanised Farm A than on the less mechanised Farm B.

Table 4 indicates the pattern of input on the two farms. It may be seen from Table 4 that the total input per acre on the more mechanised Farm A is Rs 351.34, and on the less mechanised farm B is Rs 256.57. The higher level of enterprise on Farm A *vis-a-vis* Farm B is explained mainly by the excess of machine services, fertiliser use, and irrigation cost. Technology of Farm A is less labour-intensive (and more capital-intensive) than that of Farm B, as reflected in input-output ratios or percentage of labour to total inputs. It is, interesting, however, to note that per acre input of human labour is somewhat higher on Farm A than on Farm B. Input of human and bullock labour combined is, of course, higher on Farm B than on Farm A.

Turning to human labour and machine (tractor) service input in individual crops of the two farms, as given in Table 5, we find that the human labour input per acre of Farm A for IR-8 paddy is worth Rs 150 (75 man-days), for wheat (ordinary) Rs 56 (28 man-days), for paddy (ordinary) Rs 118 (59 man-days) and for jute Rs 122 (61 man-days), and for other minor crops it is much less. On Farm A, mechanisation is not confined to tillage but is extended to threshing and transportation as well. Threshing is done by a diesel operated thresher and transportation is done by a tractor fitted with a trailer. On Farm B, human labour input per acre for ordinary paddy is worth Rs 118.30 (59 man-days), for HYV wheat Rs 105 (52 man-days), for jute Rs 190 (95 man-days), and for other minor crops much less.

Farm A dispenses with animal power altogether, while Farm B incurs a cost of Rs 7 per acre for ordinary paddy, Rs 6.50 for HYV wheat, Rs 6.25 for jute and around Rs 6.40 for other minor crops on account of the use of animal power. Tractor replaces animal power completely on Farm A. It is remarkable that while human labour input per acre for each of the individual crops, excepting ordinary paddy, is substantially higher on Farm B than on Farm A, the overall human labour input per acre for all crops taken together is rather less on Farm B than on Farm A. Farm A is yielding a higher rate of surplus than Farm B.

Farm A and Farm B represent two technologies of different capital intensity — the former higher, the latter lower. However, both of these technologies seem to involve larger labour-input per acre than observed in the case of absolutely non-mechanised farms of the district of Monghyr (excepting North Monghyr) and Shahabad (see Table 6).[6]

TABLE 6: MAN-DAYS PER ACRE ON SELECTED NON-MECHANISED FARMS OF MONGHYR AND SHAHABAD, BIHAR

Area	Man-Days per Acre of Paddy	Overall Man-Days per Acre of Net Cultivated Area
North Monghyr	27	94
Central Monghyr	42	79
South Monghyr	37	20
Shahabad	21	60*

Note: *Estimated on the basis of individual crop-data.

If one compares the input-pattern of ordinary variety paddy and that of high yielding paddy, one will find that HYV paddy is more labour-intensive than ordinary variety on per acre basis. HYV, however, is less labour-intensive than the ordinary variety, as reflected in percentage of labour and input-output ratios. In fact, this is clearly shown by data obtained from the survey of HYV IR-8 paddy and local paddy in East Godavari, Andhra Pradesh conducted by the Agro-Economic Research Centre, Andhra University (see Table 7).[7]

Table 7 shows that the wage paid for human labour is Rs 158.48 per acre for HYV paddy, while for local paddy it is only Rs 128. Animal labour input is, however, less for HYV paddy (Rs 26.29 per acre) and more for local paddy (Rs 37.09). On the other hand, input-output ratios indicate that one unit of output absorbs 0.13 units of human labour in the case of HYV paddy, whereas a unit of local paddy absorbs 0.20 units of human labour. For HYV paddy, human labour constitutes only 27 per cent of the total inputs, while for local paddy it constitutes 32 per cent of the total inputs. HYV paddy is

TABLE 7 : PATTERN OF INPUTS AND INPUT–OUTPUT RATIOS ON SELECTED FARMS IN EAST GODAVARI FOR RABI IR-8 PADDY AND LOCAL PADDY, 1968-69

Items of Input	IR-8 Paddy Value (Rs) per Acre	Per Unit of Output	Per Cent of Total Inputs	Local Paddy Value (Rs) per Acre	Per Unit of Output	Per Cent of Total Inputs
Human labour	158.48	0.13	27	128.63	0.20	32
Animal labour	26.29	0.02	5	37.09	0.06	9
Tractor charges	36.44	0.02	6	20.80	0.03	5
Irrigation charges	64.82	0.05	11	45.54	0.07	11
Seed	14.20	0.01	2	12.34	0.02	3
Fertilisers and manures	226.05	0.18	39	122.34	0.19	31
Pesticides	22. 0	0.02	4	6.55	0.01	2
Land revenue	16.44	0.01	3	16.22	0.03	4
Interest	10.83	0.008	2	6.71	0.01	2
Total :	578.25	0.45		396.22	0.62	
Output per acre	1238.40			633.66		
Surplus per acre	660.15			237.44		

generating a much higher rate of surplus than local paddy.

Conclusions

Because of diverse local situations as well as variety of individual farm situations, it is possible to conceive of the existence of diverse technologies in the economy. Different individual farms can adopt technologies differing in the degree of capital intensity from one another. The character of inter-farm competition is not such as will expel from the economy those farms which do not conform to a specific standard of efficiency. A small farm has the advantage of home-labour for the adoption of labour-intensive technique. A big farm has the advantage of large capital resource for the adoption of capital-intensive technique, saving labour which it lacks; a medium farm, owning smaller capital resource would supplement labour with a labour saving technique of mederate capital-intensity. Each category of farm continues to live on its own peculiar island of technology, enjoying a surplus feasible within its peculiar resource-constraints. The rates of surplus appropriated by these different categories of farmers are different, depending upon the character of the technology; but these surpluses enable all the different farms to survive at different levels of efficiency.

Facts reviewed above reveal that the introduction of machine (tractor) service in the agricultural technology tends to influence the nature and pattern of farm-enterprise in a way that leads to increase in labour-input per acre. Reduction of labour-input per unit of output or reduction of the percentage of labour-input in the total input-structure is likely to be accompanied by more intensive employment of labour in multiple cropping and in the various farming operations and cultural practices.

What does it imply if HYV crops are labour-intensive? The implication is that, the possibility of devoting less physical resource — both land and labour — to the production of a given amount of output would open upon opportunity for multiple-cropping, with the result of a more valuable composition of farm-products. Facilities for obtaining mechanical services on custom basis are likely to lower the charges of farming operations compared to those carried out by human and bullock labour. This would further widen the scope of the diversification of farm enterprises. Thus saved labour becomes a factor of growth.

Specifically, tractors appear to be an important ingredient of a progressively dynamic farming technology, compensating for the inefficiency of ill-nourished physically poor man power and animal power. Improving efficiency of agricultural labour by better nourishment and better environmental conditions would take time. This is also true for animal power. The farm-economy needs an elemental mechanical base for adding speed and energy to multiple cropping, the possibility of which has been accentuated by the HYV programme of crops with short-period maturity.

If drastic land-ceilings are rigidly enforced toward an equitable distribution of land, then holding-size of all farms would be small and standardised. In that case, increase in self-employment would reduce the size of the wage-labour market and the competitive bid for labour. But inadequacy of timely labour in many urgent farming operations might still continue and be reflected in falling overall farm-enterprise and output. In such a situation the farmers could form co-operatives for supplying themselves with mechanical aid which would have otherwise been beyond their reach.

Notes

1 For example, see Earl O Heady, 'Priorities in the Adaption of Improved Farm Technology' in "Economic Development of Agriculture", Iowa State University Press, 1966, and S Ishikawa, "Direction of Technological Change in Agricultural Production in the ECAFE Region during the 1970's", paper presented at the Fifth U N Inter-Regional Seminar on Development Planning held in Bangkok, September 1969.

2 Randolph Barker, William H Mayers, Cristina M Crisostomo, and Bart Duff "Employment and Technological Change in Philippine Agriculture", mimeograph, International Rice Research Institute, October 1971.

3 C H Hanumanth Rao, 'Farm Mechanisation in Labour-Abundant Economy', *Economic and Political Weekly*, Volume VIII, Number 5-7, Annual Number, 1972, pp 393.

4 The results of the survey were mimeographed under the title "A Farm Finance Survey in the Province of Nueva Ecija", Central Luzan State University, Nueva Ecija, Philippines, March 1971.

5 A S Kahlon and D S Gill, 'Economics of Mechanising Farm Operations in Punjab', *Journal of Research*, Volume V, Number 3, September 1968.

6 (a) Studies in the Economics of Farm Management for Monghyr (Bihar), Combined Report for 1957-58, 1958-59, and 1959-60.

(b) Studies in the economics of farm management for Shahabad (Bihar), for 1961-62, both issued by the Ministry of Agriculture, Government of India. Man-Days are estimated by converting hours into days at the rate of eight hours a day.

7 Quoted in C Parthasarathy and D S Prasad: "Season-wise Progress of High Yielding Varieties in Andhra Pradesh and the Role of Economy Variables", mimeograph, Department of Co-operation and Applied Economics, Andhra University, Waltaire, June, 1971.

Modi Rubber

MODI Rubber, a new company promoted by Modi Industries, is setting up a Rs 18-crore project at Modipuram near Meerut in UP for annual production of 5 lakh tyres and tubes each for automobiles with technical collaboration from Continental Gumni Werke of West Germany. The plant is expected to go into production by the end of 1973 or early 1974. It is intended to utilise 77 per cent of the capacity for production of tyres and tubes for trucks and heavy vehicles, which are in short supply in the country. According to the Planning Commission's estimates, demand for tyres is expected to be 7.2 million numbers in 1974, against the anticipated production of 5.4 million numbers. The project is proposed to be financed with equity share capital (Rs 6 crores) and loans and debentures from financial institutions and commercial banks (Rs 12 crores). The promoters and their business associates have subscribed 40 per cent of the equity capital and the financial institutions will subscribe Rs 65 lakhs. The balance Rs 2.95 crores is being offered to the public through a prospectus. The subscription list will open on June 21 and close on June 29 or earlier, but not earlier than June 26. On each Rs 10 share, Rs 2.50 will be payable on application, another Rs 2.50 on allotment, and the balance Rs 5 in two equal calls with a minimum interval of 2 months between each. The entire issue has been underwritten by financial institutions and brokers. According to K N Modi, Vice Chairman, the company is expected to have sales of Rs 15.36 crores in 1974 and Rs 21.75 crores in 1976. Profits after taxes and full provision for depreciation and development rebate should be around Rs 1.51 crores in 1975 and Rs 2.47 crores in 1976. Modi holds out promise that shareholders can feel sure of getting 'good dividends' on their investment and also reap benefits of 'substantial appreciation in the value of shares.

Small Farmer and Long-Term Finance

R M Mohana Rao

P Jagannadha Acharlu

Small farmers form a sizeable proportion of rural households. Yet studies on the green revolution have shown that it has been limited to the few who have the resources or the access to institutional finance.

The problem of credit to small farmers is mostly a problem of short-term finance in irrigated-areas while it is more a problem of long-term finance in the dry-areas where the needed infrastructure has not been made available through public investments. Even in areas newly brought under irrigation through public investments, small farmers need long-term finance for levelling, bunding, terracing, soil conservation, etc.

Most Committees, with the exception of the Rural Credit Review Committee of 1969, however, concentrated their attention upon short-term and medium-term credit and neglected the issue of long-term finance especially in relation to the small farmer. Against this background, an attempt is made in this paper to evaluate the scanty published data on long-term finance in relation to the small farmers.

The analysis is mainly limited to the advances of land development banks for 1969-70. Available data are examined to seek answers to the following questions. (1) What is the percentage of small farmer-households that borrowed from land development banks vis-a-vis *others? (2) What is the proportion of small farmers to the total borrowers from land development banks? (3) Is there any relationship between the area owned by small farmers and the advances made to them? (4) What is the relative share of small farmers in the total advances?*

[The authors are grateful to B Prasada Rao for his valuable suggestions.]

SMALL Farmers account for a sizeable proportion of rural households. Agricultural transformation through the green revolution will be meaningful only when this significant section of small producers are also partners in this process. But studies on the green revolution show that it has been confined to limited areas[1] with irrigation facilities as well as to limited numbers who have the resources or the access to institutional finance. Most small farmers, who lack resources of their own or have no access to the institutional finance, are outside the mainstream of the green revolution. This observation is based on the interpretation of the green revolution in terms of the area under the High Yielding Varieties Programme. Even if one interprets the green revolution very broadly to encompass use of chemical fertilisers etc, its use is seen to be concentrated in a few areas.[2]

Though the divisibility of modern inputs facilitates their application by small farmers, the risks involved in dry areas are great enough to deter them from using the inputs. If the green revolution is to be really green, the social imperative is to bring the small farmers into its fold. This requires equipping the small farmer with the resources needed to develop the needed infrastructure, like irrigation facilities, to help him participate in the process of the green revolution.

In the context of long-term finance and for the purposes of this paper, the small farmer is defined in terms of factor-endowments. Any effort to improve his lot in agriculture necessitates widening his agricultural base. Geographical limitations stand in the way of a physical increase in the size of the farm since land reforms offer limited scope to achieve this. It can be possibly achieved through intensive use of land. This alone provides scope for optimum utilisation of the factor-endowments on small farms. But development of small farms for intensive use could be achieved only through capital investments of a long-term nature. Because of the small size of the small farmer's holdings, long-term finance becomes crucial for optimum utilisation of this factor endowment. It is also a pre-condition for obtaining maximum benefits from the new technology and for fruitful utilisation of the short-term resources made available.

The problem of credit to small farmers is mostly a problem of short-term finance in irrigated-areas whereas it is more a problem of long-term finance in the dry-areas where the needed infrastructure has not been made available through public investments.[3] Even in areas newly brought under irrigation through public investments, small farmers need long-term finance for levelling, bunding, terracing, soil conservation, etc.

Most of the Committees, with the exception of the Rural Credit Review Committee of 1969,[4] concentrated their attention upon short-term and medium-term credit and neglected the issue of long-term finance especially in relation to the small farmer. The earliest attempt at a comprehensive study of the problem in its various dimensions was attempted by the All India Rural Credit Survey Committee. The Committee emphasised.[5] the need for special attention to the credit needs of the small farmer, but it did not suggest any concrete steps to facilitate the flow of finance to them — particularly, long-term finance.

The credit policy of the Government, as envisaged in the First and Second Plans, was mainly directed at implementing the valuable recommendations of the Rural Credit Survey Committee and it laid special emphasis on short — and medium-term credit.

The first Committee which examined the problem in greater detail and made specific recommendations for better flow of farm finance to small farmers was the V L Mehta Committee on Co-operative Credit. The Committee observed that "With the extension of irrigation facilities, when farmers switch over from dry to irrigated farming, there is likely to be an appreciable demand for medium and long-term agricultural credit."[6] The Committee also observed that co-operative finance did not reach the small farmer proportionately, and suggested outright grants to the co-operative central banks and to the primary societies, as an incentive to finance the small cultivators. Un-

fortunately, it did not make such recommendations to meet the long-term credit requirements of small farmers. Even the Working Group, constituted by National Co-operative Development Council in 1964, did not take notice of the long-term credit requirements of small farmer. It was the Rural Credit Review Committee that suggested concrete steps in this direction.[7]

Against this background, an attempt is made to evaluate the published data on long-term finance in relation to the small farmers. Published data on this aspect is very scanty.[8]

Our analysis is mainly limited to the advances of land development banks for 1969-70.[9] For this purpose, holdings below 5 acres are considered 'small holdings'. Hence the details reported under the first two groups, *viz*, ownership holdings below 1 hectare and between 1-2 hectares, are combined. As the Reserve Bank's statements do not provide details on the number of rural households and the extent of the area owned by various groups, these details are obtained from the estimates of the National Sample Survey (1961).[10] Available data are examined to seek answers to the following questions.

(1) What is the percentage of small farmer-households that borrowed from land development banks *vis-a-vis* others?
(2) What is the proportion of small farmers to others among the total borrowers from land development banks?
(3) Is there any relationship between the area owned by small farmers and the advances made to them?
(4) What is the relative share of small farmers in the total advances?

Data relating to number of rural households and borrowers of land development banks are presented in Appendix I and II. At the all-India level, the coverage of long-term finance is very insignificant, i e, only 0.5 per cent of the total rural households borrowed from the land development banks. Of all the states, Gujarat and Andhra Pradesh are in the lead, covering 2 per cent and 1 per cent of the total rural households, respectively, while the coverage is very poor in Bihar, Assam, Kerala, Rajasthan, Madhya Pradesh, Tamil Nadu and Uttar Pradesh.

As for relative coverage of small farmer households as against others, the percentage of coverage is only 0.25 for small farmers, while it is 1.32 for others. Even in the states with higher coverage, like Gujarat and Andhra Pradesh, the relative coverage of small farmer households is very low compared to others. It is 0.5 per cent for small farmers and 4.2 per cent for others in Gujarat, while it is 0.6 per cent and 2.6 per cent respectively in Andhra Pradesh. The position is much worse in other states. This makes it clear that, relatively speaking, the coverage of small farmer households is very poor compared to others in all the states with slight variations from state to state.

Looking at the borrower-households, one gets the impression that small farmers are neglected. To put it more pointedly, while 75 per cent of the rural households are small farmer households, the account for only 36 per cent of the total borrowers of land development banks, while the remaining 25 per cent of the rural households account for 64 per cent of the total borrowers. There are, however, variations among different states. Kerala ranks first, where 94 per cent of the total borrowers are small farmers, followed by Tamil Nadu (65), Assam (61), Uttar Pradesh (43), Andhra Pradesh and Bihar (42). The position is bad in respect of Madhya Pradesh (7), Rajasthan (10) and Gujarat (14).

The problem is also examined by comparing the proportion of advances made to small farmers with the land owned by them. At the all-India level, the advances to small farmers are more than their share of land. They borrowed 25 per cent of the total advances while the area owned by them was only 22 per cent of the total area. Among various states, Kerala ranks first with 91 per cent of the advances going to small holders as against 54 per cent of the land held by them. The other states with high proportion of advances compared to the land held by the group are, Andhra Pradesh, Tamil Nadu, and Rajasthan. On the other side, are states like Bihar where the proportion of advances is less by 20 per cent compared to their share of the land.

If, the analysis is restricted to advances only, small farmers' share is lower in MP and accounts for only 4 per cent of the total advances, followed by Gujarat (8), Rajasthan (9), Bihar (17), Andhra Pradesh (27), and Uttar Pradesh (30), whereas, in other states, the proportion of advances to small farmers is very high, *viz*, Kerala with 91 per cent, followed by Tamil Nadu (49), and Assam (46).

The above analysis suggests that a relatively lower proportion of small farmer-households are covered by land development banks, while their relative share in the total number of borrowers and in the total advances is very encouraging. But as the latter inferences go against the general impressions based on the loaning policies of the land development banks, they need to be examined a little more carefully.

The procedure of land valuation and the purpose for which loans are allowed by the land development banks are not conducive for free flow of long-term finance to small farmers. The land valuation procedures, as adopted by most of the land development banks, are either on the basis of the average sale statistics of land for a fixed period or a multiple of the land revenue prevailing in the concerned state as the case may be. These thus have limitations. First, to lessen the value of stamp duty and for other reasons, land values tend to be under-quoted in the sale deeds. Secondly the land revenue is not revised in most states and remains at a low level. In states where small farmers were assessed at concessional rates for purposes of land revenue, their eligibility in terms of the security they can offer will be reduced. In addition to the above limitations, acceptance of only 50 to 60 per cent of the value of land as security without due regard to the appreciation in value through investments, greatly reduces the value of security the small farmer can offer. This affects his borrowings from the banks.

As for the purposes to which loans are made, the insistence on the principle since 1969-70 that 70 per cent of the loans should be for 'easily identifiable purposes' and that not less than 90 per cent of the loans should be issued for productive purposes, need examination. If the land valuation procedures were to remain as they are with the land development banks, hardly any small farmer with 5 acres or less of land will qualify for loans under the category 'easily identifiable purposes'. One can argue that small farmer can avail of a loan for an oil engine which costs around Rs 2,500 with his limited security. But he cannot use it except for hire without a well which is jointly or individually owned. It is hardly likely that a small farmer in a dry region would be eligible to a loan for a well and an oil engine. In some areas where the costs are high, it becomes difficult for him even to qualify for the amount needed to dig a well.

In areas under ayacut development, credit needs for levelling, bunding and soil conservation will be more. Excepting the successful banks eligible for special loans from the Agricultural Re-

Appendix I

RURAL HOUSEHOLDS AND BORROWERS OF LAND DEVELOPMENT BANKS

State	Total			Small Farmer			Others		
	Number of Rural Households (in '000s)	Number of Borrowers	Percentage Columns 2 to 3	Number of Rural Households (in '000s)	Number of Borrowers	Percentage Columns 5 to 6	Number of Rural Households (in '000s)	Number of Borrowers	Percentage Columns 8 to 9
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Andhra Pradesh	65,41	70,133	1.055	51,20	30,148	0.588	15,21	39,965	2.627
Assam	20,24	303	0.015	17,17	186	0.011	3,07	117	0.381
Bihar	85,03	3,858	0.453	70,38	1,620	0.023	14,65	2,238	0.153
Gujarat	31,41	63,720	2.028	18,43	8,786	0.476	12,98	54,934	4.232
Kerala	24,92	3,046	0.122	23,41	2,857	0.122	1,51	189	0.125
Madhya Pradesh	54,88	14,863	0.270	30,13	1,051	0.035	24,75	13,812	0.558
Rajasthan	29,56	7,443	0.252	12,85	723	0.056	16,71	6,720	0.420
Tamil Nadu	67,64	30,863	0.453	59,53	20,092	0.337	8,11	10,771	1.328
Uttar Pradesh	1,33,72	70,337	0.526	1,03,59	30,427	0.293	30,13	39,910	1.324
Total	5,13,81	70,337	0.514	3,86,69	95,890	0.248	1,27,12	1,68,656	1.326

finance Corporation, the others find it difficult to advance for such purposes. The relative scarcity of funds for these purposes affects the small farmers in preparing the land for irrigation. It thus becomes difficult for them to adopt modern technology.

The above discussion shows that, by and large, the policies and procedures observed are not conducive to better flow of long-term finance to the small farmer.[12] Further, an examination of the records of some primary land development banks in Andhra Pradesh show that the details furnished by them under 'the size of ownership holdings', are more details of hypothecated, rather than actual size of, holdings. Though the loan application form contains such columns, no attempt was made to check the accuracy of the particulars relating to ownership holding. Even these particulars are not compiled in a register to furnish the figures relating to ownership holdings. This indicates that the details of distribution of members and advances by ownership holdings furnished by the banks might be the details of land hypothecated rather than land owned. This might be the case with respect to the other primary land mortgage banks in Andhra Pradesh and possibly in the other states also. If this is true, small farmers' share will be much lower than the data indicates.

To conclude, there is need for a second look at the data published by the Reserve Bank of India on the relative share of advances to different individuals by size of ownership holding in respect of co-operative central land mortgage banks.

Notes

1 Parthasarathy observes: "the impact of the green revolution is as yet limited. It is limited by and large to irrigated areas". G Parthasarathy, "Green Revolution and the weaker sections", Thackers, Bombay, 1971, page 10.

2 Falcon observes: "For example, in India approximately 80 per cent of the total fertiliser consumed in 1968 was concentrated in 25 per cent of the districts, with most of the latter being those with irrigated systems". Walter B Falcon, "The Green Revolution-Generation of Problems", Paper presented at the summer meeting of American Agricultural Economics Association, Columbia, Missouri, August 1970, page 6.

3 Falcon laid special emphasis on this aspect. He observed "Perhaps most promising as an aid to the small operator is the provision of adequate supplies of irrigation water". *Ibid*, page 29.

4 The Rural Credit Review Committee observed that "One of the features of the working of the land development banks on which increasing attention is being focussed relates to the extent to which they finance small farmers". Reserve Bank of India, Report of the All India Rural Credit Review Committee, Bombay, 1969, page 780.

Appendix II

SMALL FARMERS' SHARE IN LONG-TERM FINANCE, 1969-70

State	Total Rural Households (in '000s)	Percentage of Rural Households with Less than 5 Acres	Total Area Operated (in '000s)	Percentage of Area Operated by Small Farmers	Total Borrowers	Borrowers with Less than 5 Acres	Total LT Advances (in '000s)	Percentage of Advances to Small Farmers
Andhra Pradesh	66,41	77	2,82,19	16	70,113	42	20,68,21	27
Assam	20,24	85	46,49	50	303	61	9,30	46
Bihar	85,03	83	2,45,36	37	3,858	42	3,16,8	17
Gujarat	31,41	59	2,32,15	9	63,720	14	21,08,30	8
Kerala	24,92	94	33,14	54	3,046	94	99,43	91
Madhya Pradesh	54,88	54	4,17,89	10	14,863	7	6,47,37	4
Rajasthan	29,56	43	3,65,52	7	7,443	10	3,45,19	9
Tamil Nadu	67,64	88	1,31,07	41	30,863	65	14,90,72	49
Uttar Pradesh	1,33,72	77	4,05,89	39	70,337	43	17,07,33	30
Total	5,13,81	75	21,59,70	22	2,64,546	36	87,92,67	25

5 Reserve Bank of India, The General Report of the Committee of Direction-All India Rural Credit Survey, abridged edition, 1955, page 60.

6 Government of India, Committee on Co-operative Credit, New Delhi, May 1960, page 18.

7 The Committee made specific and useful recommendations, such as drawing up special schemes suitable for small farmers, such as with long periods of repayment, joint loans, etc. In addition, in the areas covered by Small Farmers Development Agencies, it suggested grant to the Land Development Banks at 3 per cent of the actual amount lent to the small farmers during the year and substantial grants for the appointment of special staff for disbursing credit to small farmers and effective supervision over it. Reserve Bank of India, Rural Credit Review Committee, Bombay, 1969, pp 537-589.

8 Studies undertaken by Agro-Economic Research Centres in different states might throw some light on these aspects. But the report on the study of the loans advanced by selected Land Mortgage Banks in Andhra Pradesh, conducted by the Agro Economic Research Centre, Waltair, classify loans advances on the basis of hypothecated land but not by size of holding of the borrowers. The reports of the other centres are not readily available to us.

9 Loans by size of ownership holding are published only from 1969-70. Reserve Bank of India, *Statistical Statements relating to the Co-operative Movement in India, 1969-70, Part-I, Credit Societies*, Bombay, 1971, page 152.

10 Inclusion of house sites also under land ownership gives inflated figures on the number and area owned by rural households owning below 1 hectare. Cabinet Secretariat, Government of India, National Sample Survey, Number 144, 17th round, September 61-July 62, 1968, p 2 and pp 152 to 160.

11 The Reserve Bank of India's Rural Debt and Investment Survey of 1962 shows that the proportion of rural households borrowing for capital expenditure on farm business in 1961-62 was 8.7 per cent. In the case of asset group upto Rs 2,500 the proportion comes to 5.1 per cent.
Reserve Bank of India, All India Rural Debt and Investment Survey, 1961-62, June 1965, p 15.

12 Reserve Bank of India, Report of the All India Rural Credit Review Committee, 1969, p 778.

Effects of Consumption Availability Fluctuations on Foodgrains Prices

S K Ray

The purpose of this paper is to examine the extent of fluctuations in major foodgrains prices in the past caused by their corresponding consumption availabilities.

Some single-equation models are developed to explain the price behaviour of foodgrains and cereals group and of the individual crops rice and wheat, by identifying the real and trend factors in their corresponding price movements.

FROM 1955, prices of foodgrains as a whole, of cereals separately, and of the individual crops, *viz*, rice and wheat, recorded a steep upward trend with nominal declines on two or three occasions. Foodgrains production continuously lagged behind demand and the shortages of individual commodities made their impression on their prices. The individual commodity price fluctuations around their respective trends followed a pattern closely related to the corresponding fluctuations in their consumption availabilities. Voluminous PL-480 wheat, imported to increase total foodgrains supply, did not help arrest the upward trend.

The mechanism by which prices adjust to general supply and demand changes in India is not yet fully established. Many factors are held responsible to explain the past price behaviour of agricultural commodities in India: fall in production, hoarding by traders, imports under PL-480, deficit financing by government, increase in per capita income, rise in total population, increase in urban employment, wages, etc.. Statistical evidences, available in published literature, through which the effects of these various factors can be measured are inadequate.

Mellor and Dar [1] used three variables to explain the behaviour of the foodgrains price index from 1952-53 to 1963-64: (i) current year's supply-demand gap, (ii) previous year's supply-demand gap, and (iii) money supply. The economic implication of this result is that since cultivators' stocks serve as private buffers and since cultivators' storage policies are closely related to the year's crop size, the influence of it is carried forward one year. Divatia and Pani [2] used a Nerlovian type expectation model to explain the variations in cereals prices. The hypothesis on which the model developed was "that the imbalance between supply and demand is reflected in the stock position of traders and that prices or price variations are set by the traders depending on the expected level of stocks of commodities or the difference between stocks of commodities held and the stocks desired to be held by them during any period". The suggested equation by the authors, estimated from 1951-67 data, is not a statistically good fit, however, and therefore provides little confidence in their result.

On the other hand, several studies suggest that the relationship between current prices and availability is more direct. Herrman [3] concluded that current availability and money supply with the public are the main causes for variations in cereals and pulses prices from 1950 to 1963. Joshi [4] used the ratio of money supply to current availability to explain the variations in foodgrains and rice prices. Thamarajakshi [5, 6] also used current availability and per capita income to explain the variations in prices of rice and wheat between 1952-53 and 1967-68.

Thus while evidence is mixed, there is general agreement that as the past was a period of chronic shortages in foodgrains and there was hardly any stock with the government to influence prices, whatever quantities were made available to the public were straight consumed. Therefore, there was a one-way causation from consumption availabilities to prices. Also, while the upward price trends in major foodgrains were due to rises in real income and various fiscal and monetary measures taken by the government, price fluctuations as such were mostly due to changes in consumption availabilities.

Our interest here is primarily to identify and measure the effects of various factors responsible for past fluctuations in major foodgrains prices. One possible approach is to remove the trend from the time series of price data and then to correlate the residuals with the various factors which we consider responsible for price fluctuations around the trend. However, the conclusions emerging from this two-stage estimation technique will obviously be influenced by the nature and form of the function chosen to eliminate the trend in prices. Moreover, the trend in prices might be due to one or more factors that are identifiable. In that case, an appropriate approach would be to develop single-equation estimation models by including both the trend and the other factors in the estimating equation. This approach not only eliminates the scope of any distortion in the analysis but also helps to examine, simultaneously, the interplay of the trend and the other factors in the price movements. This technique has been adopted here for explaining the price behaviour of foodgrains as a whole, of the cereals group, and of the individual commodities, *viz*, rice and wheat.

Other things being equal, the prices of a commodity over a period of years will record an upward or a downward trend according as the rate of change in its demand is greater or less than its corresponding rate of change in supply. The fluctuations around this trend arise when demand or supply, or both, fluctuate around their respective trends.

The past situation in India was one of chronic food shortage. While demand increased rapidly, supply was erratic and continuously lagged behind demand. The consumption availabilities of various food crops recorded wide fluctuations in the past[1] and none recorded any noticeable upward trend. On the other hand, both real income and money supply registered steep upward trends, with their corresponding repercussions on individual item demand. Growth in demand can, therefore, be held responsible for the upward trend in prices.

The above argument, based on the forces of market demand and supply, was probably not the only cause for the upward trend in prices. The causes of the upward trend in price level are clouded by the controversial inflationary implications of foodgrains import under PL-480 agreement from the US. Some economists believe that the rise in prices is due to the effects of the PL-480 counterpart funds on the country's money supply. This suspicion has some credence because the upward trend in money supply almost coincided with the imports under PL-480 and the trends of these two are too striking not to suggest their probable association. The controversy is worst confounded by another important factor. This is the inflationary effect of large-scale deficit financing incurred by the government to meet Plan expenditures.

Since the growth in demand is also reflected by the trend in country's money supply, inclusion of the latter as an independent variable in the equation seems appropriate to explain the trend-like movement in prices.[2] In fact, a major part of the variations in foodgrains prices, from 1952 through 1968, could be explained by the rise in money supply alone. The upward trends in the prices of these commodities were explained mostly by the money supply.

If we assume that the upward trends in prices are largely due to the money supply then the residuals around these trend lines are likely to have some functional relationship with their cor-

TABLE 1: MONEY SUPPLY AND GROSS PER CAPITA AVAILABILITIES AND PRICES OF FOODGRAINS AS A WHOLE, CEREALS AS A GROUP, AND RICE

Year	Money Supply (Rs billion)	Gross Per Capita Availability (kg/year)			Price Index (Annual Average, 1952-53=100)		
		Foodgrains	Cereals	Rice	Foodgrains	Cereals	Rice
1951	—	143.8	121.7	58.0	—	—	—
1952	18.0	140.4	118.8	58.0	99.1	99.0	100.0
1953	18.3	150.3	127.4	60.5	99.6	100.0	102.0
1954	19.6	166.7	141.3	70.8	80.8	84.0	86.0
1955	22.2	161.7	135.8	65.6	69.7	73.0	76.0
1956	23.4	157.3	131.6	68.7	89.8	92.0	93.0
1957	24.1	162.9	136.7	70.4	98.6	102.0	104.0
1958	25.3	148.9	127.6	60.1	102.8	105.0	108.0
1959	27.2	170.6	143.3	69.7	103.5	104.0	102.0
1960	28.7	163.7	139.8	68.5	103.0	105.0	109.0
1961	30.5	170.4	145.3	73.3	99.7	102.0	105.0
1962	33.1	168.5	145.8	74.2	105.3	106.0	109.0
1963	37.5	161.0	139.3	67.6	111.0	112.0	122.0
1964	40.8	164.3	145.8	73.2	137.5	134.0	133.0
1965	45.3	173.0	150.7	75.5	148.8	145.0	135.0
1966	49.5	146.7	129.6	58.5	167.4	165.0	166.0
1967	53.5	144.5	130.2	55.5	218.9	207.0	201.0
1968	57.8	166.6	146.2	66.6	207.4	205.0	211.0

Source: Bulletin on Food Statistics.

TABLE 2: MONEY SUPPLY AND AVAILABILITIES AND PRICES OF WHEAT

Year	Money Supply (Rs billion)	Per Capita Availability of Wheat			Price Index (fiscal year average)
		Gross (kg/year)	Domestic (kg/year)	Import Content of Total Availability (Per Cent)	
1951	—	24.0	16.4	—	—
1952	18.0	21.0	15.0	32.8	100.0
1953	18.3	22.8	17.7	20.0	92.9
1954	19.6	21.2	18.5	2.4	75.2
1955	22.2	21.3	20.5	5.3	72.3
1956	23.4	22.5	19.5	12.3	88.3
1957	24.1	26.1	20.5	27.2	87.7
1958	25.3	24.3	16.9	26.9	105.3
1959	27.2	28.6	20.6	29.2	96.2
1960	28.7	28.6	20.8	35.3	90.0
1961	30.5	28.9	21.7	24.2	91.0
1962	33.1	30.7	23.3	23.4	89.8
1963	37.5	28.8	20.3	30.5	98.8
1964	40.8	32.8	18.1	36.1	129.9
1965	45.3	33.9	22.0	39.8	138.1
1966	49.5	34.5	18.3	45.5	158.5
1967	53.5	32.5	19.5	38.4	201.8
1968	57.8	34.5	27 6	26.3	185.1

Source: Bulletin on Food Statistics.



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TABLE 3: ESTIMATED AND REPORTED PRICES OF FOODGRAINS AS A WHOLE, CEREALS AS A GROUP, RICE AND WHEAT, 1952 TO 1968

Year	Foodgrains*		Cereals*		Rice*		Wheat**	
	Reported Prices	Estimated Prices	Reported Prices	Estimated Prices	Reported Prices	Estimated Prices	Reported Prices	Estimated Prices
1952	99	103	99	101	100	101	100	93
1953	100	100	100	100	102	99	93	93
1954	81	82	84	83	86	88	75	81
1955	70	76	73	79	76	88	72	79
1956	90	89	92	93	93	94	88	76
1957	99	92	102	97	104	90	88	81
1958	103	100	105	101	108	103	105	91
1959	104	105	104	108	102	111	96	104
1960	103	92	105	96	109	104	90	90
1961	100	100	102	102	105	105	91	92
1962	105	103	106	104	109	106	90	91
1963	111	125	112	123	122	124	99	109
1964	138	141	134	137	133	136	130	141
1965	149	145	145	141	135	138	138	155
1966	167	169	165	165	166	167	158	162
1967	219	211	207	204	201	203	202	190
1968	207	211	205	206	211	206	185	172

Notes: * Calendar year average.
** Fiscal year (April to March) average.

responding consumption availabilities. Simple reasoning would lead one to believe that current prices are governed by current availabilities and that the relationship would therefore be direct. However, there has been an expressed desire on the part of the government to assure a minimum quantity of foodgrains to the public and to improve upon it over time. This desire to provide more food through domestic production and imports probably creates an expectation on the level of foodgrains supply for consumption and hence on prices. The actual change brought about in consumption availability is, however, a partial realisation of the expected change. This may happen because of a significant fall in domestic production or difficulty in getting grains from abroad or both.

If we assume that the prices deviation from the trend line as a function of expected availability and actual change in consumption availability brought about in any period over the previous year is proportional to the corresponding expected change, then an appropriate single equation model, to explain the price behaviour of the commodities under study, should have the following functional form:

$$P_t = f(M_t, A_t, A_{t-1})$$

Where P_t = price index
M_t = money supply[3]
and A_t = gross per capita availability[4]

The above is broadly the frameline on which we have attempted to explain the past price behaviour of foodgrains as a whole, of the cereals group, and of the individual commodities rice and wheat. The linear relationship of the above functional form is used to derive single-equation models for the prices of these commodities.

For foodgrains as a whole, for cereals as a group, and for the rice separately, the estimated equations — obtained from data relating to 1952 through to 1968 (Table 1) — are as follows (standard error in parenthesis):

		R^2
Foodgrains :	$P_t = 299.80 + 3.23M_t - 0.75\ A_t - 1.04A_{t-1}$ (0.13) (0.16) (0.16)	0.98
Cereals :	$P_t = 277.32 + 3.40M_t - 0.73\ A_t - 1.24\ A_{t-1}$ (0.11) (0.17) (0.16)	0.98
Rice :	$P_t = 190.32 + 2.81\ M_t - 1.14\ A_t - 1.27\ A_{t-1}$ (0.13) (0.27) (0.26)	0.98

Where P_t = annual average (calendar year) price index (1952-53 = 100)
M_t = money supply in Rs billion
and A_t = gross per capita availability in kg/year

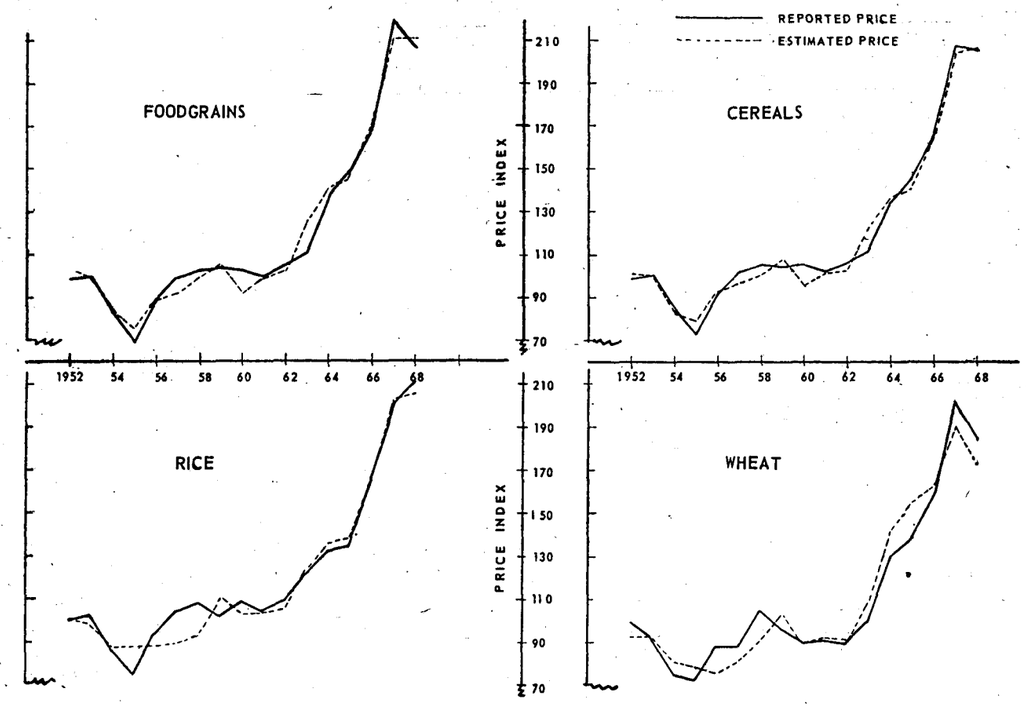
All the co-efficients in the above equations are highly significant and are of appropriate signs. Also, consistent with the observations made by Mellor and Dar, and Divatia and Pani, the weight of the lagged availability on prices in the above equations is higher than the corresponding weight of the current availability.[6]

A similar approach, attempted to explain the past price behaviour of wheat, ran into the serious problem of serial correlation and multicollinearity. The correlation between lagged and current gross per capita wheat availability was 0.90, while that between lagged or current gross per capita wheat availability and money supply was 0.91. The effect of these on estimated equation resulted in biased co-efficients with high standard errors.

Some explanation needs to be given for these high correlations between lagged and current gross per capita wheat availability and between gross per capita wheat availability and money supply. Past data on gross wheat availability includes a significant import content. This was not so much due to a great demand for wheat as due to shortages in aggregate foodgrains supply.[7] In the past, whenever production fell short of requirements, the government in its endeavour to provide adequate supplies to the consumers, imported grains from abroad. Since wheat was the only grain readily available in the world market and concessional imports from the US under PL-480 were attractive, the country imported massive quantities of wheat. Demands for other grains in short supply were met by supplying more of wheat, and there was thus forced substitution of wheat for other grains through various control measures.[8] The increasing shortfalls in domestic foodgrain production, were met mostly by imported wheat — which smoothed out most of the fluctuations in wheat availability based on domestic production. This is evident from the fact that, while the correlation between lagged and current gross per capita wheat availability is very high, that based on the corresponding domestic availability only is quite low.

Two explanations can be offered for the high correlation between gross per capita wheat availability and the money supply. First, PL-480 aid operations themselves might have resulted in a direct increase in money supply. On this viewpoint, there is a long-standing controversy in the country. One school, led by B R Shenoy [7], argues

FIGURE: COMPARISON OF REPORTED WITH ESTIMATED PRICES (1952 TO 1968)



that the PL-480 aid mechanism has been used to inject two streams of monetary flow into the economy for a single inflow of grain from abroad. Out of these two monetary inflows only one was matched by the sale proceeds actually mobilised from the public and the second stream represented an addition to money supply with the public. This observation is based on the argument that the sale proceeds are used as and when they accrue and finally when counterpart funds are to be disbursed from the earmarked uses, the Central government must be meeting that demand by borrowing from the Reserve Bank.[9] However, several recent studies have refuted this view [8, 9]. These studies unanimously agree that PL-480 imports have helped the government to mobilise additional monetary resources. Srivastava [10] estimated that, between 1956-57 and 1968-69, PL-480 support to the Central budget averaged at 5.72 per cent of the total. However, these studies also point out that government spending, together with US use of rupees, and Cooley loans, have more or less cancelled out such gains to the economy. Therefore, there has been a two-way impact of PL-480 operations on money supply in this country.

A second explanation could be that, in view of additional food (wage goods) availability, the government might have borrowed money from the Reserve Bank of India to increase its development expenditure. In this case, the net bank credit to the government sector would increase — resulting in an increase in money supply with the public. Srivastava [9] observed that the magnitude of investment sustained by PL-480 wheat was much larger than was indexed by the quantum of net support. This shows that, owing to availability of food aid, the government sustained its investment expenditure at a higher level than it could otherwise have done, without at the same time adversely affecting the cost of living. This opportunity was seized and the additional expenditure was financed by increasing the magnitude of net bank credit to the government sector. This explanation is supported by the increased deficit financing throughout the programme period — except during 1960-61.

Gross per capita wheat availability is not by itself always an appropriate variable to explain fluctuations in wheat prices in India. Indian consumers prefer domestic wheat to imported wheat. Imported wheat was generally sold through fair-price and ration shops at subsidised prices. Gross wheat availability — a significant part of which was made up by imported grain and sold at controlled prices — inflated the actual supply position in the markets which were more dependent on domestic supply. It therefore seems reasonable to include the domestic per capita wheat availability and not the gross availability in the price equation for wheat. In fact, 94 per cent of the variations in wheat prices, from 1952 through 1968, were explained when money and domestic per capita wheat availability were used as independent variables in the price equation. The estimated equation from the 1952-68 data (Table 2) is: (standard error in

parenthesis)

$$P_t^* = 164.52 + \underset{(0.25)}{3.40}\ M_t - \underset{(1.08)}{3.25}\ A_t^* - \underset{(1.28)}{5.08}\ A_t^* - 1 \quad (R^2 = 0.94)$$

where A_t^* is per capita availability of wheat from domestic production, and P_t^* is the average price based on the Indian fiscal year, April to March.

Use of the April-to-March price average seems appropriate, since the domestic produce starts arriving in the markets from the beginning of April.

To examine the effect of imported wheat on market prices of wheat, an additional variable I_t was introduced in the above equation where I_t = (Availability of imported wheat) /(Gross availability of wheat). The estimated co-efficient of I_t however, turned out to be insignificant; the value of R^2 remained at the same level.[10] The conclusion which follows suggests that management and distribution policy of imported wheat by the government was such that it was not allowed to disturb the normal market operations. This result provides added support to our assumption of the two markets for wheat.

CAUSES OF PRICE FLUCTUATIONS

The actual causes of price fluctuations are probably much more complicated than the simple relationships derived here. For example, the availabilities and prices of different types of grains, within the cereals group, are generally believed to affect rice and wheat prices. The estimated equations completely ignored the effects of substitution on rice and wheat prices.

Comparisons of the estimated and reported prices, however, provide sufficient confidence on the estimated equations derived here. The derived relationships predict prices very well, inasmuch as the estimated prices closely fit the historical record of prices. (See figure and Table 3.) The slight discrepancies found between the estimated and reported prices are not of any serious magnitude to question the basic assumptions underlying the price-quantity relationships derived here.

The implicit average price flexibility and price elasticity co-efficients, derived from the estimated equations, are obtained as follows:[11]

	Price Flexibility	Price Elasticity
Foodgrains	—2.38	—0.42
Cereals	—2.24	—0.45
Rice	—1.32	—0.76
Wheat	—2.08	—0.48

The estimated co-efficients for wheat refer to the domestic variety. For foodgrains and cereals, if we assume a Cobb-Douglas type demand model with per capita income and price as determining the entire variations, then the implicit income elasticity co-efficients for foodgrains and cereals are obtained as 0.58 and 0.55.[12] The income elasticity co-efficients, commonly used for foodgrains and cereals in India, all range between 0.5 and 0.6. The derived income elasticity co-efficients thus provide further confidence in the estimated equations.

The estimated equations provide us an opportunity to evaluate the government operations in foodgrains in the context of its price stabilisation objective. For this, per capita availabilities in the respective price equations are kept constant at their mean levels and the money supply variable is allowed to take recorded values. The estimated prices, thus obtained, mostly explained the upward trends in the prices of items considered here. Thus, even if the per capita availability was stabilised at a constant level by the government, past prices would have recorded a steady increase due to the inflationary effects of demand and other forces operating in the economy. However, the objective of stabilisation would have been achieved had the government followed a systems approach for controlling the demand and supply by holding an adequate level of foodgrains stock.

PRICE STABILISATION

When year-to-year fluctuations in production are wide and unpredictable, price stabilisation is possible only through successfully controlling demand and supply. To maintain stability at a desired level, any excess supply above the stability requirement must be procured and stored for lean years when supply falls short of stability requirement. Thus an effective way by which stabilisation can be achieved is by maintaining government stocks, building them up from years of relative abundance, and releasing from them in years of relative shortages. It is only the existence of these stocks that can provide the government a position of strength to influence prices.

Past government management in foodgrains did not follow this operational rule. The concern was more about equitable distribution of whatever was available on yearly basis; the need for stabilisation over years did not get adequate attention. This was evident from the past data on foodgrains stocks held by the government, the average size of which was hardly adequate to smooth out the normal production irregularities commonly experienced in the country. The ease with which foodgrains were imported and distributed, with apparent unawareness of utilising them as a provision against future production shortfalls, adversely affected the level of domestic production. Barnum [11], through a nine-equation stochastic simulation model for market prices in India, concluded that, during 1957-64, import of 28 million tonnes of PL-480 foodgrains depressed the path of domestic production and increased markedly the path of availability. A similar conclusion was also arrived at by Mann [13]; straight consumption, of whatever was available through imports in addition to domestic production on yearly basis, induced a decline in grain prices to domestic producers and, consequently, a decline in domestic grain production.

BASIC MALADY

The past, however, did provide opportunities to build up an adequate level of foodgrains stock. If the relatively comfortable situation in the 1950s and the concessional imports under PL-480 were utilised to build up reserve stocks, government could have reasonably buffered the sharp production shortfalls which occurred in the 1960s. The possibilities of such opportunities were very nicely illustrated through examples by Raj Krishna [12], Cummings [4] and Barnum [11]. Although none of these authors examined the costs and benefits of such a programme, the logic of the proposition was clearly demonstrated: to make provision for lean years, fat years must be trimmed above the tolerance limits and the excesses put into the store. Past government management in foodgrains failed to seize these opportunities; the hand-to-mouth operation technique did not provide it a strong cushion to tide over the crises years. This probably was the basic malady in past government operations in foodgrains.

Notes

1 The correlation between the current and previous year per capita gross availability of foodgrains, cereals, rice and wheat, calculated from 1952-68 data were obtained as follows:

	R^2
Foodgrains	0.26
Cereals	0.41
Rice	0.33
Wheat	0.90

The reason for high correlation obtained for wheat is discussed later.

2 Mellor and Dar wrote: "the monetary policy is usually decided upon by one authority and the reasons for such activity are well defined. Thus, if the increase in money supply are caused by rising investment and demand for money, the thinking and discussion by the monetary authorities at the time of a new liberal money policy should also show this need. On the other hand, if the decision to increase money supply are other than that of a rising demand for money, an excess money supply situation will be clearly indicated." Reviewing the basic facts and figures and the magnitude of deficit financing by the government, Mellor and Dar concluded that money supply certainly appears to be a separate and independent variable for the determination of foodgrain prices in India.

3 Money supply as published in the *Reserve Bank of India Bulletin* and defined as "composed of a currency component, *viz*, currency notes and coins with the public excluding the balances of the Central and state governments and cash on hand with scheduled and reporting non-scheduled banks and co-operative banks and a deposit component (demand deposits of banks and other deposits with the Reserve Bank). Money supply thus defined constitutes the monetary liability of the banking system. Since the liabilities and assets of the banking system always balance, any change in the monetary liability is to be reflected either in the financial assets or non-monetary liabilities of the banking system." ('Analysis of Money Supply in India', *Reserve Bank of India Bulletin*, Volume XV, Number 7, July 1961, p 1046.)

4 Unless otherwise stated, the computation of gross per capita availability is based on the total of net domestic production available for human consumption, imports, and change in government stock. Gross per capita availability here thus differs from the actual consumption availability, as the latter also includes changes in private stocks on which no data are available in India.

5 Zero-order correlation co-efficients between the independent variables in each of the above equations are found out to be insignificant.

6 In distributed lag type of model, the lagged variables generally have descreasing weights on the dependent variable. Mellor and Dar found two-year lagged demand-supply gap variable had insignificant effect on prices. See also Divatia and Pani [2] for an elaborate explanation.

7 The correlation matrix between per capita availability of rice, wheat and coarse grains obtained from 1952 to 1968 data was as follows:

	Rice	*Wheat*	*Coarse grains*
Rice	1.00		
Wheat	0.18	1.00	
Coarse grains	0.12	—0.43	1.00

From this it appears that gross per capita supply of wheat was more influenced by availability of coarse grains than of rice.

8 In statutorily controlled areas the quantum of foodgrains supply to ration card holders fixed by the government from time to time always had a wheat component.

9 Shenoy wrote: "The final disbursement by the US AID from the counterpart funds would demand the monetisation of Special Securities, e g, the creation of money by the Reserve Bank of India against the treasury bills, for redeeming the Special Securities as the cash balance being at the minimum the government will have no funds to redeem the Special Securities" [7].

10 The estimated equation was: (Standard error in parenthesis).

$$P_t^* = 169.38 + \underset{(0.37)}{3.50}\, M_t - \underset{(1.32)}{3.52}\, A_t^* - \underset{(1.33)}{5.04}\, A^*_{t-1} - \underset{(0.34)}{0.13}\, I_t \quad (R^2 = 0.94)$$

11 These are derived by using the following type of expectation model: (Mellor and Dar).

$P_t = b\, A_t^*$ and $(A_t - A_{t-1}) = r\,(A_t^* - A_{t-1})$

which in reduced form becomes

$$P_t = \frac{b}{r} A^t + \frac{b\,(r-1)}{r} A_{t-1}$$

Thus for foodgrains

$$\frac{b}{r} = -0.75; \quad \frac{b\,(r-1)}{r} = -1.04$$

and therefore, $r = 2.39$ and $b = -1.79$

With average value of P_t and A_t for foodgrains at $\bar{P}_t = 120.17$ and $\bar{A}_t = 159.85$

$(\bar{A}_t / \bar{P}_t)\ (d P_t / d A_t) = -2.38$ and

$(\bar{P}_t / \bar{A}_t)\ (d A_t / d P_t) = -0.42$

12 These are obtained as one minus price elasticity.

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The Educational Situation

A R Kamat

It may well be said that in contrast to most other sectors of development the country has indeed done better in the educational sector and in fact has overfulfilled the targets of enrolment and turnout in certain sub-sectors like higher education, including engineering and technology. But the whole educational struture betrays serious weaknesses of a fundamental character which appear to be more or less inherent in our economic-political system.

A number of surveys clearly show that the spread of literacy and education is much more in evidence among the affluent and socially advanced sections of society. Elite formation during the post-Independence period is, therefore, very important for assessing the educational situation. In terms of social differentiation, the fall-out from our educational system can be briefly described as follows: (i) emergence and consolidation of a 'super' elite at the top — consisting of the old urban intelligentsia and a sprinkling of the more enterprising elements of rural stock — in technology, industry, business and in the higher echelons of the bureaucracy and the defence services; (ii) formation of a fairly large 'common' or 'regional' elite, consisting of the urban middle and lower salaried groups, skilled and semi-skilled technicians and professionals and of the newly emerging rural groups; and (iii) continuance of stark illiteracy in the rest of society at the base of the pyramid, with a slow and sluggish movement among small sections towards basic literacy and rudimentary education. It becomes obvious that this situation is full of strains, full of contradictions and confrontations.

THE educational development of a country is vitally connected to all other aspects of development and the educational situation in a given period is an inseparable part of the general socio-economic situation in that period. An overall view of the educational progress in India during the post-Independence period and an analysis of the present educational situation will, therefore, add to the knowledge of the socio-economic situation. Such an analysis also helps towards a better understanding of the present phase of social transformation in India.

There are, of course, many difficulties in such an attempt. The available data are not always classified in a manner which can be conveniently used for this purpose. Then, one is faced with wide discrepancies between the aggregative data from different publications such as the Annual Reports of the Ministry of Education and the Reports of the decennial Population Censuses. Moreover, since education is mostly a state subject there are differences in its organisation in different states, and consequently variations in classification. The figures are therefore not strictly comparable as between the states except for broad purposes. Even so, an attempt will be made here to piece together the available material — the figures from government sources, *the Report of the Education Commission* (1964-68), information culled from sample surveys, books and publications on the subject and a general feel of the situation — to arrive at some general formulations. They are believed to be broadly valid for the country as a whole. It should be stated at the outset, however, that this is an exercise in social analysis of the educational situation and it does not discuss the issues which have a bearing on educational technology.

I

Surveying educational progress since Independence it is clear that there has been a great deal of expansion of education at all stages: primary education, secondary education, higher education — both undergraduate and post-graduate, engineering and technology and other professional education, and also research in science and the humanities. Enrolment has increased considerably at all stages not only in absolute numbers but also relatively to the rapidly increasing population. (See Table at end of article.)

Educational progress during the post-Independence period is quite impressive by any standards. It may well be said that in contrast to most other sectors of development the country has indeed done better in the educational sector, and in fact has overfulfilled the targets of enrolment and turnout in certain of the sub-sectors like higher education including engineering and technology. During this period new agencies and institutions have come up to serve specialised fields, such as the University Grants Commission and the National Council of Educational Research and Training.

There has also taken place a great deal of deliberation and discussion on the educational development of the country as is evidenced in the number of committees and commissions that have worked during the last twenty-five years. Apart from the Sargent Committee with its "Report on Post-War Educational Development in India" prepared in 1944, there was the Radhakrishnan Commission on University Education (1948-49), followed by the Kher Committee (1951) concentrating mainly on the administrative aspects of primary education, and the Secondary Education Commission which reported in 1953. But the most comprehensive effort in this respect is that of the Education Commission (1964-66) under the chairmanship of D S Kothari. "The Report of the Education Commission" has considered in great detail almost every aspect of Indian education at all stages and has made a string of recommendations for the educational development of the country. That there is general awareness of the crucial importance of educational development for the country's socio-economic progress is clear from the deliberations of these committees, as well as from the documents

of the Planning Commission. For instance the chapter on education in "The Third Five Year Plan" opens with the following preamble:[1]

> "Education is the most important single factor in achieving rapid economic development and technological progress and in creating a social order founded on the values of freedom, social justice and equal opportunity. Programmes of education lie at the base of the effort to forge the bonds of common citizenship, to harness the energies of the people, and to develop the natural and human resources of every part of the country."

II

In spite of this recognition of the central role of education in national development and the substantial growth in education during the era of Independence the situation is far from being either satisfactory or hopeful. It is not merely that the oft-repeated aims and objectives have not been achieved and the targets set for such important sectors as literacy and elementary education have not been fulfilled. But the whole structure betrays serious weaknesses of a fundamental character which appear to be more or less inherent in the system.

Universal elementary education for everyone in the age-group 6-14 which the Constitution had stipulated for fulfilment before 1960 is far from being realised even in 1972. Even the primary education age-group 6-11 is not yet fully covered; the near-eighty per cent enrolment in primary schools is believed to be inflated by at least about twenty points.[2] No significant dent has been made in adult illiteracy as is clear from the fact that the overall literacy including those in schools was 17 per cent in 1950-51 and is believed to be 30 per cent in 1970. So on the one hand India has over 70 million learners at different levels of schooling, perhaps the largest in the world, excluding China. On the other hand we also have the distinction of having the largest number of illiterate people, almost 350 million of our present estimated population of 550 million; and this number is not decreasing but increasing with the years, thanks to a rapidly growing population.

Apart from the sluggish pace of the progress of literacy and primary education, whatever advance that has been made during the last twenty years is extremely uneven as between regions, sexes and different social strata. Against the general average of 75 to 80 per cent enrolment in the 6-11 age-group, even if we ignore the inflation in figures referred to before, the corresponding average is as low as 30 to 40 per cent for Madhya Pradesh, Bihar, eastern Uttar Pradesh, Rajasthan, Kashmir and also for Orissa. The degree of illiteracy in the different states more or less corresponds with the rate of enrolment in primary schools. And the regions where the two are lowest appear to be marked out by low economic growth and unsatisfactory land relations.

Then there are great disparities, as regards both literacy and primary-school enrolment, between urban and rural areas, and between different regions in the same state such as eastern UP and western UP and western Maharashtra and Marathwada. It is well known that literacy is very low amongst women as compared to men, particularly in the rural areas. The ratio of girls' enrolment to total enrolment in the 6-11 age group is considerably lower than 50 per cent in many states and this disparity between the sexes is even greater in the rural areas and in educationally backward states and regions. The fight against female illiteracy can hardly be said to have begun in these areas.

The socio-economic analysis of educational advance in the post-Independence period is available from a number of village surveys. From this it is clear that the spread of literacy and education is much more in evidence among the more affluent and socially advanced sections of society than among the poorer and more backward sections. In terms of caste, the traditionally advanced castes like the Brahmins are almost all literate and have progressed much further in higher education; the 'middle' castes have registered significant educational progress; but the Scheduled Castes and Tribes and other backward sections of the population are lagging considerably behind. Literacy is crawling at snail's pace and female education has not even touched these sections of society, particularly in the rural areas. Among the agricultural population it is the richer and middle sections of peasantry that are advancing in education while the poor peasants and landless labour are still largely illiterate and uneducated. Analysis in terms of income classifications tells the same story. Thus the backwardness in literacy and education is closely related to the economic and social backwardness and bears the same hallmarks of a society divided against itself.

It is not as though these disparities in development are not known to those who are in charge of planning education. Shukla sums up the position in this respect admirably.

> "All past experience shows that at the point of planning policy, greatest stress is laid on universal mass education, education of women, rural areas, scheduled castes and tribes. At the point of fixing quantitative targets, proportionate expansion of all sectors is provided for. At the point of actual execution, highest achievements are all in the field of urban education, secondary and college education, men's education, upper caste education and so on. The policy-wise 'priority' sectors, including adult literacy, fall much behind target".[3]

III

The other ills and shortcomings of the present educational situation will now be mentioned briefly; the omission of details does not mean, however, that they are unimportant. They are in fact the symptoms, displayed in the educational sphere, of the same stalemate which is being experienced in other spheres, and particularly, in the socio-economic situation in the country.

It is well known that there is considerable wastage and stagnation at all levels of education. It is especially high at the primary stage where, it is estimated, that more than fifty per cent of the children enrolled in class I drop out before reaching class IV. This has significance for the attainment of functional literacy which is the aim of primary education, since it is generally believed that children who fail to reach class IV invariably lapse into illiteracy in later life. By any standards this is an appalling waste of human effort and also of the resources devoted to primary education. It should also be mentioned in this connection that the incidence of wastage is the highest precisely in those regions of the country and in those sections of the population where the spread of education and literacy is the lowest.

In spite of repeated resolutions and recommendations by committees and commissions there is no fundamental change in the organisational structure, the curriculum content, the teaching methods or the examination system except for some valiant attempts at some peripheral points in the system. The languages to be taught and the medium of instruction at different stages of education constitute another important issue which is getting more and more vexed with years. While official thinking at the Centre still clings to the three-language formula, it was, in fact, never accepted in practice by the Hindi-speaking states in the north and has now been unceremoniously rejected by Tamil Nadu in the south. There is no firm policy or practice on the teaching of English in schools and its role in higher education. Consequently the medium of instruction in the universities is shifting to the regional language through sheer pressure of circumstances and therefore in a most unplanned, hap-hazard manner.

An expanding educational system is always confronted with the problem of maintaining and raising the quality of education. This demands conscious efforts for the improvement of the teaching material and teaching methods and measures to attract qualified personnel in adequate numbers to the teaching profession. While the educational standards at the microscopic top, that is, in elite institutions, are maintained and perhaps even improved, there is a universal feeling, both in the academic as well as the outside world, that the standards of the average product turned out by our educational institutions have been falling in the post-Independence era. The atmosphere in many of our institutions is marked by a lack of interest in teaching and learning, and by frustration and apathy on the part of teachers and students. To quote the "Report of the Education Commission" on the situation in higher education.[4]

> "The existing situation in higher education broadly alternates between slackness and strain — slackness durthe session, strain at the time of examinations. In many of the weaker colleges and universities, a majority of teachers teach mechanically and listlessly".

The lowering of standards is matched by the growing corruption in examination practices, and misbehaviour on the part of the candidates at the time of examination. For the mass of students who pass out from secondary schools and colleges, however, the trials and tribulations do not terminate with the acquisition of a certificate or a degree. They have to wait through an indefinite period of unemployment until they can land themselves suitable job.[5] It is estimated that fifteen per cent of the matriculates and ten per cent of the graduates are unemployed at any given point of time and the average waiting period is about one and a half years and half a year respectively.[5] The plight of the non-professional graduates — those in arts, science and commerce — is of course much worse than the professional ones. It should be noted, however, that in 1968 tens of thousands of fresh engineers discovered that they could not get employment. It is clear from the successive five-year plan documents and from the many speeches and writings on the problem that educated unemployment has been a continuing problem and with each passing year it is becoming more and more serious.

IV

If what is described above is a more or less faithful picture of the present educational situation one is naturally faced with the questions: What has led to the present situation in education? How is this paradox of expansion, development and progress on the one hand, and deterioration, failure and frustration on the other to be explained? What are the social forces that have caused the present educational crisis?

But before we probe further into the present it is necessary and pertinent to look into the past. Soon after conquering the Indian empire the British rulers decided to introduce the so-called English education, ie, education based on the advance of knowledge and science in England and taught in English at the secondary and higher levels. The main idea was to create an Indian elite who could serve in subordinate positions in administration and who would generally look up to the British and support them in ruling the vast Indian empire. This opportunity was eagerly grasped by sections of the former elite of Indian society for their own reasons: first, it enabled them to establish themselves in positions of power, pelf and prestige under the new dispensation; second, it was only through acquisition of Western knowledge that they could hope to revive and regenerate their prostrated society and to build up public opinion to make a bid for political rights and self-rule. That the British imperial rulers were not at all interested in the mass education of Indian is clear from the fact that they decided against Indian languages as vehicles of education beyond the elementary stage, and they did not concede for over a hundred years, even in principle, the idea of universal primary education. The number of secondary schools, colleges and universities started by the government was so small that the initial efforts in the educational sphere on the part of the newly formed English-educated Indian elite were for establishing their own educational institutions for the 'cheapening and spread' of English education. Through their own schools and newspaper they started an schools and newspapers they started an indigenous thought-process of self-regeneration against the alien thought-process of abject surrender propagated by the government and missionary institutions. They successfully used western thought and ideas for a linguistic, religious and cultural revival. In the process they discovered a new sense of national identity and thus laid the foundation for the Indian national movement.

Modern education in India which thus began its career in the earlier part of the nineteenth century went on at a slow pace for almost a hundred years. A substantial part of it developed outside government institutions, through private effort, financed mainly through fees and supplemented by government aid on a modest scale. The educational developments of this long period are an important part of our social history; but we shall not go into them here. For our purpose, however, it is useful to view the educational situation in India, as it was in 1921-22, shortly after the First World War, but before the advent of the Montford reforms by which much of the responsibility for education in the provinces was transferred to Indian ministers.

In 1921-22 there were 61 lakh pupils in primary schools, 11 lakh in secondary schools and 66 thousand in colleges in the whole of British India (excluding Burma), in a population of about 23 crores.[6] It is clear that there was no mass education. According to the Hartog Committee's report, during the period from 1892 to 1922 literacy in India increased from 13.0 to 14.4 per cent for males and from 0.7 to 2.0 per cent for females. Gokhale's insistence on universal primary education was a cry in the wilderness; even many of his Indian contemporaries did not approve of it. About 20 per cent of the students in colleges were training for the professions — law, medicine, engineering, etc — while most others were pursuing an arts degree. The whole of secondary education was mostly non-vocational. In any case vacational education had hardly any job-potential in the conditions of industrial backwardness forced on the country by its masters.

Viewed from another angle the spread of education until then was confined, to a large extent, to the advanced castes and social groups, and in the case of higher education, particularly in professional higher education, to the more affluent sections among them. They filled all available professional and white-collar positions. The civil service, high and low, became the most prestigious and important avenue of employment for them in the absence of any sizeable

economic development in the country. It is true that under British rule the doors of education were opened, at least formally, to all castes. This enabled a small number from the middle castes, and a still smaller number from the lowest castes, including the 'untouchables' (the Scheduled Castes), to rise and be absorbed in the literate occupations and particularly in government service. But they were a rather small proportion of the new elite. Since even a modestly comfortable or lucrative job required at least a secondary education, and preferably a degree and since, the British rulers had systematically avoided assuming responsibility beyond the absolute minimum, especially in the early period, the starting of new high schools and colleges with private management met an unfulfilled social demand. The 'cheapening and spread' of liberal education, the running of schools and colleges, initiated by the pioneers of political and social awakening in India, had, over the years, imperceptibly but inevitably become a professional interest of a section of the intelligentsia.

V

The period from 1921 onwards upto the eve of Independence is fundamentally different from the earlier period. First, the national movement took on a mass character bringing into its sweep wider sections of the population including the industrial workers in towns and the peasantry in the countryside. Secondly, the realisation of a socialist revolution in the USSR gave a new dimension to our thinking not only in the political field, but also in the social field and therefore in education. Finally, after the introduction of Dyarchy in 1921 and provincial autonomy in 1937, there came a new political awareness of what a widened franchise can imply for different social strata, in terms of effectively using even limited political power to forward general as well as sectional social interests. It was becoming evident by the beginning of the Second World War that political in India would soon change hands. This gave rise to an altogether new perspective, that of an independent India, in all spheres including education.

Under Dyarchy from 1921, education was tranferred in the provinces to Indian ministers belonging to the elected element in the legislatures, but their powers of raising resources were severely limited. The situation somewhat improved with the popular ministries assuming power in the provinces in 1937 for a short period and again in 1946 when they resumed working. The ideal of full literacy and universal primary education was hardly realisable under these conditions. Even so, education was spreading to wider sections of people and was assuming a mass character for the first time, raising the expectations of the people to still higher levels. Such was the enthusiasm generated by the developing national movement in this period that there were popular mass campaigns for adult literacy in cities like Bombay the like of which have yet to be seen in the post-Independence decades.

During this period rapid increase was taking place in enrolment at all stages, primary and secondary schools, and colleges and universities. An analysis of this expansion shows that the increase was proportionately much more in secondary and higher education than in primary education.[7] Unemployment among matriculates and graduates reached alarming proportions during the depression period of the mid-thirties, comparable or perhaps even worse than what it is today, as is attested by the reports of the Sapru and other inquiry committees. And it was relieved only with the availability of *ad hoc* war-time jobs during the early forties. An important consequence of the mass character of education and the demands of the growing national movement was the introduction of regional languages as media of instruction at the secondary stage in many provinces and the beginning of modernisation of text-books used at primary and secondary levels.

Education was spreading to new social strata who looked upon it as the sure, and perhaps the only, means of improving their condition and of acquiring economic status and social prestige. A small but significant nucleus of a new elite was now forming in the socially middle castes and to a lesser extent in the castes still lower in the social ladder including the Scheduled Castes. This elite was becoming conscious of the power which adult franchise would give them after the capture of power and which could be effectively used for building up social and political pressures to realise their objectives.

At the same time the question of radically changing the entire educational system and replacing it by a national system of education befitting an independent nation, was coming to the forefront. National education was not a new slogan but its content was different when it was first raised with the slogan of Swaraj in the first decade of the twentieth century and again in the days of the non-co-operation movement in the twenties. Now it meant education for all and its structure and contents should be so devised as to achieve a rapid social and economic transformation of the entire people. The lop-sidedness and 'bookish' character of the colonial educational system under British rule had long become targets of severe criticism. The insistence on diversification, the experiment in the Wardha Scheme of basic education, the demands for the qualitative improvement of secondary and higher education, and for the provision of adequate facilities for scientific research, all expressed the same common objective.

All this is clearly evident from the many writings on education of this period and is reflected in the many plans for national reconstruction. It was also the subject of the Report of the Sargent Committee on education appointed by the then British.[8].

VI

Thus the problems in education with which India was faced at the time of the transfer of power in 1947 were, as in every other sphere, the problems arising from the extremely retarded and lop-sided development under a long period colonial rule. On the other hand, mass political awakening had kindled high expectations in the minds of the people. The ideal was therefore nothing short of a complete overhaul which would usher in and rapidly develop a system of national education in tune with the modern age and independent national status. Naturally it meant, among other things, universal free elementary education, removal of adult illiteracy, adoption of Indian languages as media of instruction at all stages, a rational policy on languages to facilitate inter-state and international communication, restructuring secondary and higher education by introducing vocationalisation and diversification, raising standards at all levels, modernisation of the contents and methods of teaching and examination, development of research facilities and devoting special attention to the educational advance of women and the Scheduled Castes and Tribes. The popular urge for mass education was duly recognised in the constitution which directed the state in Article 45 to provide education by 1960 to all children upto the age of 14. The other demands of the national ideal in education find their echo in some of the developments of the initial post-Independence period, in the founding of a number of National Laboratories and other institutes of research, the starting of the Indian Institutes of Technology and other institutions of higher learning, the establishment of the University Grants Commission and National Council of Educational Research and Training, and the appointment of several committees and commissions to investigate and report on different stages of education including the most comprehensive effort of the Education Commission of 1964-66. The actual achievements of the last twenty odd years, described at the beginning of this paper, however, fall far short of popular expectations. The lop-sided character of the educational system inherited from the British rulers it has not been changed but accentuated. We have a situation where

> "primary education receives less resources than it should in a largely illiterate society; secondary education is non-vocational, pushing its products into higher education for improving employment prospects; and university education is indiscriminately subsidised and of low, decelerating standards".[9]

As a consequence the ills of the educational situation have grown and have assumed the proportions of an all-pervading crisis.

It will be useful at this stage to have a closer look at the educational developments of the post-Independence period. It is clear that even the limited spread of education has brought about fundamental changes in the social situation, particularly in the rural areas. In the old days, education, especially that beyond the mere acquisition of literacy, was mostly confined to the traditionally advanced castes like the Brahmins. It has now spread to the 'middle' castes, to the more affluent sections of the farming communities; they have now acquired literacy and are pressing forward to the higher stages of education. The rural elite now consists of the newly educated young men from these communities; the sons of rich peasants now dominate the political, social and cultural life in villages and small towns. These middle strata are occupipg positions of strength in political and social life at all levels, acquired through adult franchise. They reinforce these positions through educational progress and use them to advance their interests in education as in all other spheres. The acquisition of secondary and higher education helps them to improve their income and occupational status. The fee concessions for the 'Economically Backward Classes' (e g, in Maharashtra), more favourable grant-in-aid conditions for newly started secondary schools and colleges, and other similar legislative action, as also their actual operation, clearly illustrate this process. The other relatively affluent sections of village society, like the trading community, have allied themselves with the upper stratum of the peasantry in this respect. It is true the benefits flowing from this policy of 'democratisation' of education trickle down, to some extent, to the lower and also to the lowest strata of the rural population like the Scheduled Castes and Tribes. But as pointed out earlier the pace of progress of education amongst them is so slow that except perhaps in regions like Maharashtra and Kerala they have not been able to form a sizable elite of their own; nor are they able to join the main elite which has emerged in the village on socially equal terms. Consequently they do not count for much in terms of political, social or cultural prestige or influence. Being in a minority, adult franchise also does not help them in this respect except in a marginal manner.

VII

A relevant question is: what is happening to (the old elite) the advanced castes which had a much longer start in Western education and which was already entrenched in strategic positions in society, both urban and rural, during the pre-Independence period? In the first place, numerically, they were in a small minority in urban as well as rural society and, with the formation of the new rural elite with a much superior numerical strength, they have lost most of their political, social and cultural prestige and influence in the rural areas. This process was further accelerated by a considerable migration from amongst them to the cities and larger towns; a contributory factor for this movement was the enactment of tenancy reforms. Because of their tradition of learning and their social position they still manage to occupy most of the literate occupations including government and private white-collar jobs which are mostly urban or semi-urban. But their former monopoly of these occupations and services is being systematically eroded by the emerging new elite which has benefited from educational advances and changes in the pattern of political power. For the more ambitious amongst them there were, after Independence, and especially after the industrial advance during the second and third five year plans, new opportunities of highly-paid situations in the form of senior positions in technology, industry, business and trade, the professions, the defence services, and even in the civil service which has considerably expanded during this period. This has brought about a fundamental change in the educational outlook of the top layer of the old elite; it now sends its children to expensive English-medium schools, since this type of education helps entry to elite institutions of higher education and thus to the better-paid positions mentioned above. The advanced elements of the hitherto educationally backward 'middle' castes which have their base in the affluent peasantry have not been slow in realising these new job opportunities. They have become aware of the job-potential of expensive English-medium education. The recently started 'public schools' under government auspices and private auspices (like by the sugar factories in Maharashtra) illustrate this trend.

The large less-affluent sections of the old elite, however, has inevitably to be satisfied with the chapter education of indigenous variety, imparted through regional media in average and below average secondary schools and colleges. Their lot is to take the lower salaried jobs, from technical and skilled to clerical and semi-skilled. Large sections of this old elite at the lower levels feel frustrated and resentful as they find it difficult to adjust themselves to the fact that they have lost much of their former social prestige and social leadership, where they are no longer socially related to those in positions of political power and government authority and where they have to jostle for positions with the new elite which has emerged from the middle castes and is of rustic origin but which is well-connected with the new ruling class.

Elite formation during the post-Independence period is very important for assessing the educational situation and deserves further analysis. The pre-Independence elite, coming from a few, numerically small advanced social strata, was more or less homogeneous; although there was differentiation amongst it from low to high positions, except for its microscopic anglicised section at the top, it formed, so to say, a continuous spectrum. (This situation was slowly altering during the last two decades before Independence but this need not stop us from our general formulation.) Although belonging to the same society, there was social distance, unbridgable in many respects, between vertical sections within it and between it and the rest of society. But the traditional common social bonds and the anti-imperialist national sentiment — loud but mostly ineffective except at the

peak periods of the mass movements — bound this elite together and also acted like a connecting link between it and the mass of people.

The situation has qualitatively changed during the last twenty years;' the elite spectrum is no longer continuous. Now one can clearly identify two distinct developing sections in the elite with a growing gap between them. On the one hand there is the 'super' elite consisting of the top groups of bureaucrats, defence personnel, and entrepreneurs, technocrats and managerial personnel in industry and business. They are, in a sense, a continuation of the top layer of the older all-India elite and are now educated mostly in select and expensive English-medium schools and later on in the better-type institutions of higher learning, Institutes of Technology, Schools of Business Management, etc., in India and abroad. Although they do not have direct political power, placed in strategic positions, they exercise considerable influence in the actual exercise of that power and also on social and political thinking. On the other hand there is the other section of the elite, whom we may call the 'regional' or 'common' elite. This is drawn partly from the lower orders of the old elite and partly from the middle castes of rural peasant origin, the latter including among them those wielding most of the political power and derived social influence. The 'regional' elite is educated largely at the ordinary, cheaper, regional-language institutions.

In spite of the democratic, egalitarian protestations about education, the constitutional right to have schools of one's own choice for children is being utilised by the higher bureaucracy and the affluent to perpetuate select exclusive schools of the expensive variety and corresponding institutions of higher learning, not of course without liberal aid from the government. The educational system thus gets divided and provides for more or less two distinct channels, one producing and perpetuating the 'super' elite and the other augmenting the ranks of the 'common' or 'regional' elite. This division is aided, abetted and sharpened by the present policy (or the lack of it) about languages and about the medium of instruction. The political leadership, even the section of it belonging to the common elite, has to connive at this division because they have hitched their stars, if not in this generation at least in the next, to the wagon of the super elite. How else does one explain the stark contradiction that the same leaders who lose no occasion to plead vociferously the cause of regional languages are careful enough to send their children to exclusive English-medium schools?

In sum, the resulting educational situation, in terms of social differentiation, can be briefly described as follows: (i) emergence and consolidation of super elite at the top — consisting of the old urban intelligentsia and a sprinkling of the more enterprising elements from rural stock — in technology, industry, business and in the higher echelons of the bureaucracy and the defence services; (ii) formation of a fairly large common or regional elite, consisting of the urban middle and lower salaried groups, skilled and semi-skilled technicians and professionals and of the newly emerging rural groups; and (iii) continuance of stark illiteracy in the rest of the society at the base of the pyramid, with a slow and sluggish movement among small sections towards basic literacy and rudimentary education. It is obvious this situation is full of strains, full of contradictions and confrontations. For instance, the super elite of the present day is even more alienated from and indifferent to the lot of the common people than its counterpart of the pre-Independence period. Having no social commitment it is concentrating its attention on its own narrow interests and living a life of affluence in pseudo-westernised 'high society'. A large section o. the super elite, coming as it does from the now politically dispossessed but culturally dominant minority castes and groups, lives in resentful co-operation with the newly emerged political leadership of rural stock. There is also a feeling of contempt for the political leadership which lacks the knowledge and technical skills possessed by the super elite. Its contradictions and confrontation with the common elite are already mentioned above. Within the common elite there is the vast lower salaried class which finds it difficult to maintain, in the face of rising unemployment and rising prices, its exclusive lower middle-class mode of life and values, and lives a life of relative indigence and frustration. Then there is the internal contradiction within the common elite, between those belonging to the traditionally literate minority castes — now having no social links with those in political power — and the newly emerged belonging to the middle castes which have social connections with the politicians; cultural distance aggravates this contradiction. Finally, there is the contradiction arising from the conflicting interests of the entire elite super-cum-common and the mass of people deprived of all the good things of life including education.

VIII

No discussion of the present situation in education can be even tentatively adequate unless it discusses the problem of growing educated unemployment and the related questions of imbalance in the educational system and the surfeit of secondary and higher education. Apart from the Education Commission which made a pointed reference to these problems they have aroused considerable interest recently among economist-educationists.[10] As observed earlier, the problems are not new. Educated unemployment and the imbalance, the lop-sidedness and the low quality of higher education in general have been with us ever since the early part of this century. Educated unemployment was also very acute in India during the depression period of the thirties. The creation of war-time jobs, the expansion of governmental activity after Independence and industrialisation under the second and third plans had reduced its severity to a certain extent in the early post-Independence period. But now it has again reached a new high and given a rude jolt to everybody concerned.

The basic underlying cause of widespread unemployment in India is the incapacity of the national economy to provide the necessary number of jobs to employ all or at least most of those of working age, whether educated or uneducated. Superimposed on this is the imbalance built into the present educational system which allows and encourages secondary and higher education to expand at a rate much faster than the requirements of the economy and thus creates a surfeit of high school and college graduates in relation to the available jobs. Moreover, there is not much of diversification and vocationalisation of education at the secondary stage which will channelise high school-leavers to fruitful careers, with the result that many of them swell the stream of liberal arts education in colleges to improve their prospects of employment.

It will be remembered that an almost similar characterisation of the problem of the educated unemployed was made during the pre-Independence period. But then the blame could be squarely, and rightly, laid on the colonial rulers. The significance of the similarity between the two situations, is, however, quite clear. In spite of the many developments that have taken

place in the economy and education during the last twenty years no basic change has occurred with regard to the problem of the educated unemployed.

There is by now a growing realisation that the problem of full or near-full employment cannot be solved unless we adopt an altogether different strategy of economic development and the latter cannot be initiated in the framework of the existing socio-economic structure. Leaving aside these fundamental economic issues, we shall confine our attention mainly to the educational issues. Vocational diversification at the secondary stage is no doubt necessary to prevent a large mass of students from blindly taking to and hopefully continuing liberal education. But let us not delude ourselves into believing that this will substantially alter the situation unless jobs are available in the economy for the vocationally trained young men at the end of the high school stage. Otherwise the incidence of unemployment will be merely transferred from one type of educated youth to another. This should be clear from what has happened at the higher level of education to the engineers during the past few years. The success of vocationalisation and diversification ultimately depends on basic issues, *viz*, the rapid growth of the economy.

IX

A more fundamental proposal to meet the problem of educated unemployment, advocated by a number of eminent economists, is to limit drastically the runaway expansion of higher (and also secondary) education, reduce the number of admissions at those levels and divert substantial funds saved from this sector towards primary education. The rationale behind it is, briefly that the outturn of higher education already exceeds any reasonable estimates of manpower demand; that uncontrolled expansion has led to a considerable deterioration of standards; that higher (and secondary) education is heavily subsidised by the state and consequently claims an altogether disproportionate share of the total public funds available for education; that this liberal subsidy actually serves the interests of the relatively affluent middle class, the top decile of the population, whose children seek and benefit from higher education and who can afford to pay much more for it; that students who join colleges do so because higher education has high economic returns on the low private costs which they incur (and which are low because of the high subsidy); that because of it the educated or graduates can afford to wait in unemployment until they land a suitable job; and that this subsidisation is therefore neither socially equitable nor economically efficient; etc.

This is form of reasoning has some validity. But such control of, and relative reduction in, enrolment in higher (and secondary) education, if enforceable, will only transfer the incidence of unemployment to the lower level unless ways are found to create jobs at that level. Perhaps it is felt the educated unemployment, being more vocal, is much more dangerous and destabilising than the relatively mute uneducated unemployment. (This may well be true in the short-run. Curzon also thought the same way at the turn of the century.) A high subsidy to higher education is not a feature of India alone; it also prevails in other countries, e g, the UK, the USSR. But there the subsidy is coupled with limiting the number of places and this necessarily implies a selection procedure. If we start controlling the numbers (with or without subsidy), the selection procedure has to be fair, not only in the formal sense, but as between different sections of society. This implies a radical change in our present selection procedure. The removal of subsidy and limiting the numbers by making secondary and higher education more expensive must also be coupled with an equitable selection procedure and a graded scholarship scheme and/or a graded levy of fees in inverse proportion to parental income. In the absence of these measures all higher education will be entirely the monopoly of the super elite and the affluent; the less affluent sections cannot, in general, hope to enter the charmed circle. Such a policy will perpetuate the present elite in its present socially privileged positions.

The proposal for diverting substantial funds from higher (and even secondary) education to primary education, especially its variation of keeping the present expenditure on non-primary education constant and allowing that on primary education to increase, has much to commend it on grounds of equity, if it could be practicable. The programme of primary education is lagging far behind and its actual operation results in large wastage. Consequently there is a tendency on the part of the policy-makers to reconcile themselves to the existence of substantial illiteracy in society; a kind of vested interest in illiteracy seems to have developed. Educationists are also succumbing or adjusting themselves to it, devising an appropriate new slogan of 'consolidation rather than further expansion of primary education'. (Why not both!) A change in the present policy, a sustained interest in the spread of primary education and a vigorous drive against adult illiteracy merit consideration for their own sake; if this indirectly helps to control the numbers at the secondary and higher stages that is an additional consideration. Moreover, any expansion and improvement programme at the primary level will also provide additional employment to the secondary school-leavers.

There is, however, little likelihood of the proposed policy-change being accepted by the political leadership of the country, whether government or opposition. It is remarked by those who propose this policy-change that the present subsidisation and the consequent controlled spread of secondary and higher education is in response to the political pressures generated by the vocal top section of society.[11] A bland statement of this kind, however, does not tell us much, nor does it pose clearly the issues involved. It must be examined in detail. We have analysed above the process of cheapening and 'democratisation' of (secondary and higher) education in its historical context. Although the super elite may not vigorously resist the policy of making secondary and higher education expensive — since many in it are already buying expensive education (which, by the way is also extensively subsidised) and may welcome the 'cleansing' operation which the new policy will perform — the common elite, both the less affluent sections of the older elite and the newer regional section of rural stock, will oppose it tooth and nail. The reason is quite clear. It will deny them their continuance in the elite or bar them from entry to the elite class even at the common level and an opportunity to rise up to join the super elite, a dream which many of them entertain. The interests of the present political leadership are identical with those of the common elite and one can hardly expect them to divest themselves of their interests. As mentioned above, vocal or effective public pressure at the moment is overwhelmingly on the side of subsidising secondary and higher education. No state or Central government of the day can hope to survive very long if it drastically reverses the policy of 'democratising' (that is, subsidising and free access to) education. Moreover, it can quote history in justification and say that if the national stalwarts of yesterday actively worked for

the 'cheapening and spread' of Western education from the times of the early British period, it is today following and carrying forward the same tradition; while the former had to do it self-sacrificingly and in a spirit of service, the present-day descendants are doing so with the help of state power and thus taking it to people even further down the social ladder — and so what is wrong? And the vested interests who run the schools and collegiate institutions, including the teachers — formed during the pre-Independence era and grown much stronger after Independence — will range themselves against a policy reversal. A policy reversal would also be against the common interest of all the upper and middle classes; the political leadership, whether of the left or the right, all hails from this class. This is absolutely clear from the unqualified stand taken by the parliamentary committee representing all sections of parliament. Rejecting even the gradualist approach of the Education Commission advocating selective admission to control numbers, particularly in higher secondary schools and in arts and science colleges, it says:[12]

> "But we believe that every effort should be made to provide admissions to institutions of higher education to *all* eligible students who desire to study further" (emphasis ours).

The proposed restructuring of education on these lines may have to wait for the day when those who are really dispossessed in all the good things of life including education can make their voice and strength decisively felt in public affairs. Fine exercises in rates of economic return and appeals to the wisdom and foresight of the leadership are not going to induce a change of heart on this as well as many other vital issues.

X

We have dealt in this essay with what we consider to be the main social features of the present educational situation. It is not proposed to go into its other aspects and problems, mainly belonging to the field of educational technology. But from the foregoing analysis two facts clearly stand out. First, the national system of education visualised during the final stages of the national movement is still miles out of reach. But with the modification appropriate to the needs of the present times, it can be still looked upon as providing guidelines for the solution of our educational problems. Second, the crisis in education cannot be discussed or dealt with in isolation from the general crisis of the socio-economic-political situation. It is too much to hope for a satisfactory solution of our educational problems in the absence of thoroughgoing changes in the socio-economic situation. In the absence of a social revolution in India it is utopian to think of a really national system of education.

This does not mean, however, that partial solutions or solutions to specific problems should not be suggested and cannot be tried. In devising such solutions, however, educationists often lose the context of the Indian situation and tend to base them on Western models, models borrowed from particularly from British or American systems of education. It is not realised that these models can hardly serve us, situated as we are in totally different circumstances. If the general Indian perspective is clearly kept in view, and one is prepared for the non-fulfilment and even distortion of the proposed measures in practice, and also prepared to learn from such experience, such solutions are always helpful; they also help to clarify issues.[13]

Before ending this discussion, a question about the future may perhaps be in order: how will the educational situation develop in the next few years? Prediction is an interesting but risky game. But the logic of the situation is such that it can be safely predicted that education of development will continue along the same none too cheerful path which it has taken during the last twenty-odd years. Both the super elite and the common elite will continue to grow side by side with a large mass of illiteracy. Their internal contradictions will also continue and at times produce acute tensions but will not assume the form of a direct confrontation since the super elite has to bow down before the political power of the regional or common elite and the latter has to accept the technical competence and superior knowledge and skills of the former. (This is, in fact, a reflection in the educational sphere of the contradictory yet complementary relationship between the big bourgeoisie and the technocrat-bureaucrats on the one hand and the affluent peasantry and emergent middle castes on the other; both need each other to keep themselves in the saddle.) There will no doubt be attempts to tackle piecemeal one or the other of the more glaring inequities or inefficiencies in the educational system, but no radical transformation will be undertaken. The Education Commission's Report will be left on the shelf to gather dust like all the preceding reports.

In the meanwhile, with the growing crisis of economic development, the problem of educated unemployment will worsen. The continued expansion of secondary and higher education in rural areas will turn out growing numbers of educated rural youth who will further swell the ranks of the educated unemployed. This will create new tensions in the countryside in addition to the existing urban discontent. During the period of national movement in the twenties and thirties the educated unemployed often brought added strength and radicalisation to the freedom and socialist movements. This was in a sense natural and inevitable in the anti-imperialist phase of the struggle for freedom. In the present phase of the struggle for emancipation the super elite will mostly be on the side of the protagonists of the *status quo*, although a section may detach itself in sheer disgust with the acquisitive society and take radical positions (e g, the Naxalites and other radical youth formations of the present day). The unemployed from the common elite may necessarily join radical or progressive movements. While some sections may join people's movements for social and economic emancipation, others may join the forces of regional and communal chauvinism. This is already in evidence in many parts of India today. Even during the days of the freedom movement sizable sections of educated youth were attracted to communal and neo-fascist formations. So the path will not be straight or unbroken. While in the long run one hopes and strives — in the educational as in all other spheres — for a solution in favour of the people, in the short run one must be realistic enough to be prepared for setbacks. For the situation does sometimes become much worse before it begins to take a turn for the better.

TABLE : GROWTH OF EDUCATION IN INDIA FROM 1950-51 TO 1968-69

Enrolment (in millions) and Percentage of the Corresponding Age-Group	1950-51		1960-61		1965-66		1968-69	
	Enrolment	Percentage	Enrolment	Percentage	Enrolment	Percentage	Enrolment	Percentage
Primary (6-11)								
Classes I-V								
Total	19.15	42.6	34.99	62.4	50.47	76.7	55.49	77.3
Boys	13.77	59.8	23.59	82.6	32.18	96.3	34.92	95.2
Girls	5.38	24.6	11.40	41.4	18.29	56.5	20.57	58.5
Middle (11-14)								
Classes VI-VIII								
Total	3.12	12.7	6.70	22.5	10.53	30.9	12.27	32.3
Boys	2.59	20.7	5.07	33.2	7.68	44.2	8.76	45.4
Girls	0.53	4.5	1.63	11.3	2.85	17.0	3.51	18.8
Elementary (6-14)								
Classes I-VIII								
Total	22.27	32.1	41.69	48.7	61.00	61.0	67.76	61.7
Boys	16.36	45.9	28.66	65.2	39.86	78.5	43.68	78.0
Girls	5.91	17.5	13.03	30.9	21.14	43.0	24.08	44.7
Secondary (14-17)								
Classes IX-XI								
Total	1.22	5.3	3.03	11.1	5.28	17.0	6.58	19.3
Boys	1.02	8.7	2.47	17.5	4.08	25.6	4.95	28.5
Girls	0.20	1.8	0.56	4.3	1.20	7.9	1.63	9.8
Higher (17-24)								
Total	0.39	1.0	1.03	2.1	1.73	—	2.47	4.2
Total Expenditure on Education (million rupees)	1444		3444		6000 (estimated)		—	—
Percentage of national income	1.2		2.4		2.9		—	—

Sources : (i) Enrolment in school education from the "Third and Fourth Five-Year Plans".
(ii) Enrolment in higher education from the "Annual Reports of the University Grants Commission".
(iii) Expenditure figures from the "Report of the Education Commission (1964-66)".

Notes

1 "The Third Five Year Plan", The Planning Commission, New Delhi.

2 This is the order of difference usually found between the number of pupils on roll and those who more or less regularly attend school. See Amartya Sen, "The Crisis in Indian Education", Shastri Memorial Lectures, 1970. This need not be, as Sen suggests, for getting grants, since primary schools are mostly run by the government or local bodies. It is well known that pupils once enrolled often remain on the rolls till the end of the year, even when they have actually stopped attending school.

3 Suresh Chandra Shukla, "Notes on the Educational Situation", *Mainstream*, February 6, 1971.

4 "The 'Report of the Education Commission 1964-66", Ministry of Education, New Delhi'. (Chapter 11.)

5 M Blaug, P R G Layard and M Woodhall, "The Causes of Graduate Unemployment in India", Allen Lane, The Penguin Press, London, 1969.

6 Syed Nurullah and J P Naik, "History of Education in India during the British Period", MacMillan, Bombay, 1943.

7 Syed Nurullah and J P Naik, *op cit.*

8 "The Plan for Post-War Educational Development in India", better known as the Sargent Report, Government of India, New Delhi, 1944.

9 Book review of the "Report of the Committee of Experts on Unemployment Estimates", Planning Commission, by S R in *Shankar's Weekly*, February, 17 1971.

10 Amartya Sen, "The Crisis in Indian Education", Lal Bahadur Shastri Memorial Lectures, March 1970 (mimeographed).
K N Raj, "Crisis of Higher Education in India", Patel Memorial Lectures (of the All India Radio), 1970 (mimeographed).
Also, M Blang *et al, op cit.*

11 See, e g, Amartya Sen and K N Raj, *op cit.* For a more penetrating analysis refer to Suresh Chandra Shukla, *op cit.*

12 Foreword of the "Report of the Committee of Members of Parliament on Education", 1967, entitled "National Policy on Education", Ministry of Education, New Delhi.

13 For a thought-provoking attempt in this direction, see Suresh Chandra Shukla, *op cit.*

Taxation and Economic Development

V V Bhatt

Personal income-tax, corporate tax and indirect taxes collected from manufacturers constitute the three major taxes from the point of view of both their impact on development as well as their contribution to state revenue. As such, their structure and rates need to be devised in such a way as to be consistent with the major policy objectives of the government.

With the reforms in these three taxes suggested here, government revenue is likely to increase. More important, however, even if the tax revenue did not increase, there would be an increase in the real resources of the economy and reduction in consumption disparities.

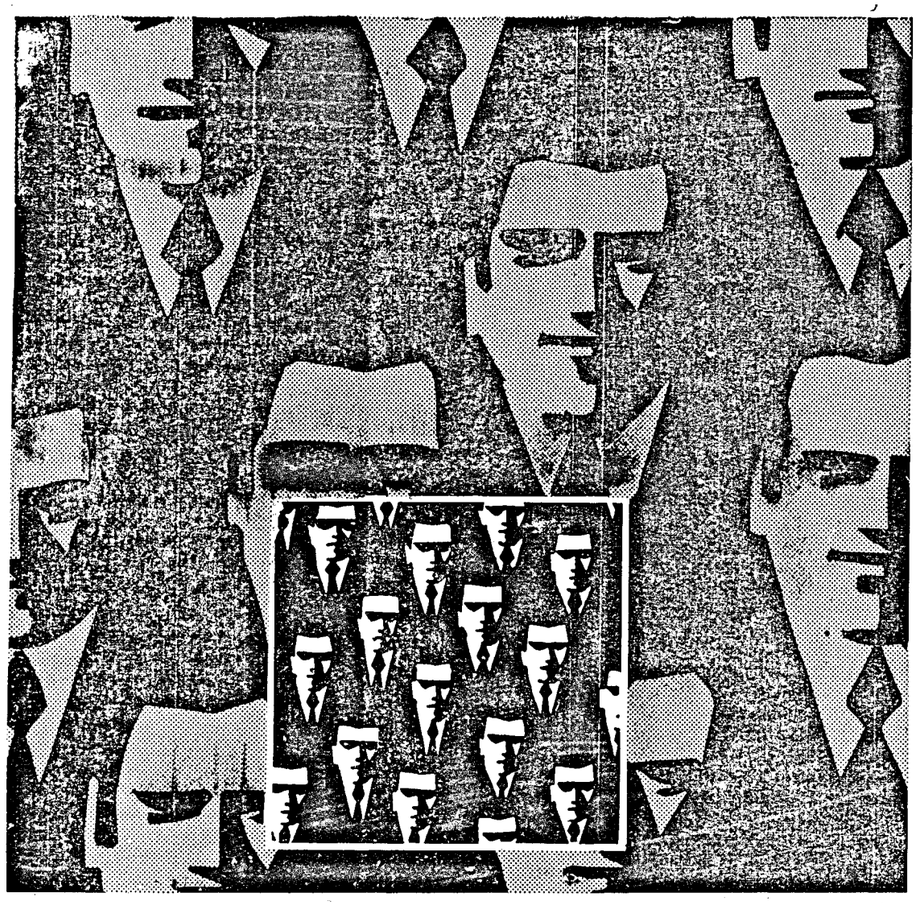
I PROPOSE to deal in this paper with three major fields of taxation: (a) personal income-tax, (b) corporation tax, and (c) indirect taxes collected from the domestic manufacturers of products. This discussion would be in general terms in the light of the requirements for economic development in the developing countries. These three taxes for these countries are of major importance from the point of view of both their impact on economic development as well as their contribution to State revenues. As such, their structure and rates need to be devised in such a way as to be consistent with the major policy of objectives of the State.

I

Introductory

But before I go over to the discussion of each one of these taxes, I would like to make two observations; the first relates to the nature and stability of the tax structure and the second to the need for adequate open and effective discussion of tax proposals.

For major government policies including tax policy, what is essential is to frame them in the light of the basic requirement of rapid growth with social justice and at the same time to en-



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sure that they are simple and easily intelligible and are not likely to change in an *ad hoc* unprincipled manner. I feel that the tax system is an organic part of the economic system and hence it is essential that there be some certainty and stability about its basic features. A large number of *ad hoc* changes each year creates a climate of uncertainty, which hampers productive effort and diverts valuable scarce resources towards speculative and other undesirable channels as well as in circumventing and forestalling the government measures.

If some stability and certainty with regard to the impact of the tax system on the economy are to be ensured, it is essential, I believe, that tax proposals are formulated in the light of adequate research based on actual experience with regard to the working of the tax system in the country as well as abroad. In some countries, it is the Inland Revenue Board under the Ministry of Finance which is responsible for the implementation of tax laws as well as formulating tax proposals in consultation with some type of Economic Division (called by various names in different countries) in the Ministry of Finance. However, very few countries have a tax research unit in the Board with the result that tax proposals are not formulated rationally.

I think that it would be proper to set up a research cell in the Inland Revenue Board which could be assigned the function of formulating both short-run and long-run tax proposals for public discussion as well as discussion in Parliament. This Board has actual field experience with regard to the tax system and it would be wise to use this experience for formulating proposals for tax reform. There should be a creative dialogue between the research cell at the Board, and the Board's field staff and the actual proposals for reform of existing taxes or new tax proposals should emanate from the research cell as a result of such a dialogue, which is essential for sound viable and efficient evolution of the tax system. These proposals need to be published so as to stimulate wide constructive public discussion.

From among such proposals, the government should select such proposals as it thinks are worth implementing in a given year. But then, when such proposals are discussed in Parliament, it should be ensured that this discussion is both enlightened and constructive. Under the present system, this is hardly so. I, therefore, believe that in countries with a Parliamentary form of government, there is need for a Parliamentary Select Committee to study and report on the tax proposals to Parliament. In the United States, there is such a Congressional Committee. Even this may not serve much useful purpose unless this Select Committee has the right to invite people from the Ministry of Finance, particularly those who may have some share in devising the proposals and those who are likely to have some informed, enlightened views relating to them, as well as those from the public — economists, tax experts as well as laymen — who would be in a position to contribute constructively to the task of evaluation of tax proposals from the point of view of their impact on major socio-economic goals.

With these innovations, I feel that the Select Committee's Report to Parliament would be such as to induce effectice and fruitful discussion of the tax proposals in Parliament. The government then would be in a position to choose the final proposals in the light of informed and constructive debate in Parliament. Such wide-ranging effective discussion would ensure the sound functioning of the democratic process and at the same time the selection of tax reforms and proposals that would be appropriate to and consistent with the major development objectives.

Let me now pass on to the discussion of the three specific taxes that I mentioned earlier.

II

Personal Income-Tax

The personal income-tax, I feel, should serve two objectives: (a) to promote the incentive to work and save; and (b) to make the distribution of consumption more equal.

Progressive and steeply rising tax rates on personal incomes do hamper the incentives to work and save, and in their result are ineffective as they direct personal effort towards activities which can enable the individuals to evade the tax burden. Hence, I suggest that the tax base for personal income-tax should not be total income but total income (whether from work or investments) plus capital gains minus net change in financial assets; the assets to be included should be all financial assets excluding currency holdings and gold. These financial assets comprise bank deposits, small saving instruments, insurance policies, provident funds, and claims on the private sector and the government.

This would be in effect a tax on consumption. With such a tax, the tax rates can be sharply progressive and still the incentive to work and save would not be adversely affected. The demand for social justice would be met as the degree of inequality in consumption can be reduced by means of such a tax. Private fortunes, of course, could be built up but their effect can be offset by a properly co-ordinated pattern of other direct taxes like wealth tax, inheritance tax and gift tax. These taxes should be such that no private fortune, however large, can really support a household for more than three generations.

If a comprehensive return is asked for with regard to all these taxes from individuals, the possibility of tax evasion could be avoided.

This reform is administratively quite simple. Even at present, exemptions are given in various countries with regard to some financial assets like provident fund contribution, insurance premium and such other assets. Further, in some countries, interest and dividend incomes are also exempt from tax upto some extent. Instead of this multiplicity and complexity of diverse exemptions, what is suggested is that all savings in financial assets excluding currency and gold be exempted from personal income-tax. Obviously, with this reform, no interest or dividend incomes should be tax-free. All incomes to the extent to which they are not saved in the form of financial assets (excluding gold and currency) would be taxed.

This reform need not result in any revenue loss for the government. The present tax rates can be revised upwards once the tax base excludes financial saving, so as to result in the same revenue as is obtained at present. If, as a result of this tax reform, financial saving increases at a rate much sharper than it would otherwise have increased, it would more than offset any potential revenue loss. Such, indeed, would be the effect of this measure.

The proposed income-tax reform has several distinct advantages:

(a) It would raise the rate of overall saving as a result of the tax exemption for financial saving.

(b) It would raise the proportion of financial saving to total saving and thus bring, within the purview of policy-instruments for resources allocation, a larger part of total saving. It may be noted that policy-instruments are available to affect the allocation of only financial saving while physical saving (in the form of houses, other physical assets, etc) are by and large outside the purview of direct policy instruments.

(c) To the extent to which financial saving did not increase, there would be additional tax receipts.

(d) Tax receipts could also increase as the proposed tax exemption for financial saving might induce tax-evaders to show their correct incomes. Since financial saving would not be taxed, the motive for concealment of incomes could disappear. This itself would be an enormous advantage.

III

Corporation Tax

The tax base for corporation tax in all countries has been profits after providing for depreciation at specified rates. On the false analogy of the progressive income-tax on personal incomes, some degree of progression is introduced in some countries in the corporation tax structure. This progression in the corporation tax actually is a tax on efficiency and the tax system, thus, tends to encourage inefficiency in the use of capital resources. Hence, the tax rate on corporate profits should be made uniform and applicable to all companies.

At the same time, the tax base needs to be made uniform for all companies. At present in some countries, there are various types of allowances (other than depreciation provisions) which are tax-exempt. Further, there is a tax holiday for new companies on a certain rate of profit for five years. It is difficult to understand this multiplication of incentives. Apart from that, these incentives would have some meaning if they are selectively applied for the promotion of the industries which would not be otherwise started. These incentives, at present, are applied to a large number of industries without much discrimination.

I suggest that such incentives should not be indiscriminately allowed to a large number of companies; they should be very selectively applied to only a few industries which require to be promoted in the national interest and that too only for a stated period of time. Every five years, the industries to be given these incentives should be changed in the context of national priorities.

Further, I have two additional suggestions — one with respect to the tax base and the other with respect to tax incentive for promoting exports, import substitution and productive efficiency.

At present in a large number of countries, the tax base excludes interest payments on borrowed funds. I suggest that this be included in the tax base and the tax rates appropriately lowered so as not to put any additional tax burden on this sector.

Since interest payments are tax-exempt, there is a tendency on the part of the corporate sector to rely on borrowed funds to a much greater degree than they otherwise would do. Even parent companies are induced to give loans to subsidiaries rather than make additional subscriptions to the paid-up capital of the latter.

If interest payments on borrowed funds are included in the tax base, the tax system would really become neutral as between sources of funds and there would be to that extent an additional incentive to rely on paid-up capital by issuing additional shares and borrowed funds would be utilised much more efficiently than at present.

Further, I would like the corporation tax to be used as an instrument to (a) promote productive efficiency and (b) stimulate both exports and import substitution.

To promote efficiency, I suggest that each percentage point increase in the rate of profit above 20 per cent should mean one percentage point decline in the tax rate. The rate of profit should be calculated as a ratio (per cent) of profit (after depreciation) plus interest payments on all borrowings to total capital employed comprising paid-up capital plus all reserves plus all borrowings. A profit rate of 20 per cent is essential, on certain assumptions, if a growth rate of 8-10 per cent in industrial output is to be secured; that is the logic for inducing all firms to realise this rate of profit.

To promote exports and import substitution, I suggest that each percentage point increase in the net export ratio should mean one percentage point decline in the tax rate. Net export ratio should be defined as the ratio (per cent) of current value of exports minus current value of imports of materials, spare parts and components to value of imported plant and equipment. Such a link would promote both exports and import substitution and, at the same time, induce efficiency in the use of imported plant and equipment.

These two tax incentives would not only tend to promote productive efficiency of overall investment and investment to imported plant and equipment but would also indicate to the firms rational criteria of project selection. Any decline in tax receipts on these counts would be more than offset by their favourable impact on productive efficiency and on exports and import substitution. With these tax incentives, a large number of complicated measures of uncertain value should be abolished.

IV

Some Commodity Taxes

In developing countries, commodity taxation is of particular significance from the government revenue point of view. Commodity taxes quite often take the form of duties on certain specified commodities; these taxes are collected from the domestic firms producing these products at a specified rate per physical unit of output. This form of taxation would be appropriate in the case of commodities which are standardised and are consumed by large number of persons.

However, the other commodities which are subject to such taxes in various countries are more complex and further form only a part of the products which the concerned firms manufacture. In these cases, the administrative and collection machinery has become very complex. The collection costs are considerable; at each factory, there has to be an excise inspector at the gate to watch and supervise the exit of the specific commodities and to be vigilant enough to check whether the taxed commodity is not leaving the factory gate under the name of another non-taxed or low-taxed commodity. Even with these large collection costs, the possibility of evasion is not ruled out as a firm is producing not only the taxed commodity but several others as well. Further, with all these costs, the revenue is by no means substantial and probably, net of collection costs, would be negligible.

I suggest, therefore, that excepting the few standardised commodities and commodities of mass consumption, there should be no such taxes on the other commodities.

Instead, there should be a uniform *ad valorem* tax of the turnover type on all mining and manufacturing establishments on the value of their output. Even at present, some *ad valorem* duties exist in some countries and this principle needs to be generalised for all output other than of the few commodities mentioned. The collection costs would be much smaller as the tax would be on an assessment basis. Further and much more important would be the link established between tax receipts and industrial output and prices; the former would grow at the growth rate of the latter automatically without the need for tinkering with excise duties in each budget as is being done at present.

The next question is: What should the tax base and what should be the rate for this generalised tax? I suggest that the tax base be taken as value of output largely on the ground that it is administratively easier and quicker to collect these data from the existing published sources and no recourse to fresh collection is necessary. The suggested tax base would lead to the so-called "cascade effect". That is, since the material-producing firm will have paid a tax, the firm consuming these commodities would pay a tax on a base which is enlarged as a result of the tax already collected on raw materials. The tax-effect thus would discriminate against final goods manufacturing firms, whose raw material costs form a greater proportion of total costs than the rest.

From this point of view, a value added tax would be better than a turnover tax. However, a value-added tax is quite complicated and in countries where proper accounts are not kept by industry and trade, it may be difficult to enforce. On the other hand, an excise tax of the type I have suggested is administratively much simpler to enforce as it would be only at the stage of manufacturing and at this stage adequate output data are likely to be available.

However, the so-called "cascade effect" could be minimised by keeping a lower tax rate. Further, the additional "cascade effect" is unlikely to be large as even on the present basis some intermediate goods like cement, iron and steel products, aluminium, paper, tyres and tubes, copper and copper alloys and synthetic and organic dyestuffs are taxed and some at a fairly high rate. If these duties are abolished and replaced by the new generalised tax, it may turn out that the additional "cascade effect" would be negligible. Since prices have already been adjusted to the present duties, there need not result any additional adjustment in prices. It is glibly assumed that the generalised tax would be passed on to the consumers. If it is not passed on or passed on only partially, the "cascade effect" may be very small. Even if there is some "cascade effect" it would induce economy in the use of materials and capital and this would be worth encouraging.

For export promotion, it would be easier to give remission on tax paid on part of the output exported. A firm exporting, say, 25 per cent of its value of output would not pay tax on this 25 per cent. This tax-incentive would be easier and quicker to administer than the draw-back provisions existing in some countries at present. If the "cascade effect" is significant (it is unlikely to be so), it may affect adversely exports of products in whose costs raw materials consumption costs are significant. However, this would be offset by the tax-incentive with regard to corporation tax suggested earlier. For all these reasons, I propose value of output as the tax base for the proposed generalised excise tax.

What, then, should be the tax rate? For this purpose it would be necessary to work out the proportion of excise duties to the value of mining and manufacturing output (excluding the few commodities mentioned earlier). To keep the revenue at the present level, all that would be necessary is to have a generalised turnover tax equal to this proportion (per cent) on the value of mining and manufacturing output (excluding the few commodities indicated earlier). This rate may be raised marginally for additional revenue purposes.

For export promotion, this tax should be levied only on value of output minus the export value. This tax device would be much simpler than the complicated time-consuming drawback provisions existing at present. From the point of view of administrative convenience and cost as well as the prompt benefit to exporters, the suggested device would be simpler, prompter and more effective than the present provisions.

V

Concluding Observations

I believe that with the suggested tax reforms, the State revenue is likely to increase. What is important, however, to mention is that even if the tax revenue did not increase, there would be an increase in the real resources in the economy and reduction in consumption disparities.

For example, if the additional tax receipts under income-tax did not materialise, there would be an equivalent additional increase in financial saving and reduction in consumption disparities. From the point of view of the economy, additional resources would become available.

To the extent to which the additional tax receipts turned out to be lower than anticipated for corporation tax and generalised turnover tax, there would be a more than offsetting rise in exports, import substitution and productive efficiency. In fact, if the tax receipts proved lower than anticipated, it would mean a substantial increase in domestic and foreign exchange resources, and as a result a higher than anticipated growth rate in national income, investment, exports and import substitution.

Thus, the proposed changes in the tax system would induce either additional tax receipts or additional real resources; in either case, the economy would stand to gain.

Basis of the Japanese 'Miracle'

Lessons for India

Amulya Kumar N Reddy

The superstructure of Japanese attitudes, codes, character and culture and the homogeneity of the Japanese people are so unique that no other country can follow the Japanese path in all its detailed ramifications. Nevertheless, the Japanese story leads to the definition of several important national objectives, which must be pursued if a country like India wants to achieve a rapid rate of economic development.

An attempt is made here to outline some of these objectives.

"INDIANS like Japan most" — thus ran a headline in a Tokyo English newspaper of November 1970. The headline was based on a five-year survey carried out by the Indian Institute of Public Opinion. The Indian response to Japan was also demonstrated during EXPO '70 when Indians constituted the second largest group of visitors, after the Americans. The Indian attitude towards Japan may be attributed to a tremendous admiration for Japan's economic and technological success, and to a feeling of "if one Asian country can breakthrough to affluence, then

why not India?". Indeed, why not India? To answer this question we must understand the factors underlying the success of Japan. The aim here is to attempt such an understanding.

At the outset, some basic facts about Japan must be presented. Though Japan has only one-ninth the land area of India, its population is about one-fifth India's. Further, because of the mountainous terrain of Japan, only its coastal area is habitable; thus 102.65 million Japanese cluster in one-sixth of Japan's area. The Gross National Product of Japan (Rs 124,800 crores in 1969) was the third largest in the world after USA and USSR. The per capita GNP of Japan (Rs 9,667.50 per year in 1969) was only twentieth in the world, but by 1988 Japan expects to be first. Of greater importance is the fact that Japan's GNP has been growing at a rate which is both unprecedented and phenomenal, *viz,* 9 per cent per year (in real terms) in the fifties, more than 10 per cent per year in the sixties and 13-14 per cent in the past few years. The population of Japan, however, is rising at the much lower rate of 1-2 per cent per annum. Some idea of Japanese affluence can be got from the fact that about 85-90 per cent of Japan's 26.4 million households (each with an average of 3.89 members) possess a television set, a sewing machine, an electric clothes washer, a camera, refrigerator and an electric fan. The marked trend is towards luxury which the Japanese apparently define as the possession of the three C's, i e, a Car, a Colour television set and a Cooler (meaning air conditioner).

Meiji Restoration

The high population density of Japan and the tremendous pressure of its population on the extremely limited land have therefore not prevented Japan's advance to prosperity. It is submitted here that this advance has not "happened", but has been engineered through the unfettered development of the forces of production and the planned use of education, science and technology. We are all aware of Japan's technological triumphs *vis-a-vis* the West in the fields of cameras and optics, transistors and electronics, steel and metallurgy, ship-building and engineering. The real question, therefore, is: what are the factors which have facilitated the growth of Japanese technology and production?

The Japanese success story has usually been considered to commence from the year 1950. However, one must not ignore the preparative work done before 1950, and in particular since 1868, when after a virtual civil war the Emperor Meiji moved his throne to Tokyo and his supporters began the "Meiji Restoration" (1868-1912). It was in this period that several important steps were taken, among which were the following:

(1) sweeping agrarian reforms were implemented involving the abolition of Japanese-type zamindaris and a land-to-the-peasants movement;
(2) a unitary state was achieved with the ending of feudal de-centralisation;
(3) social hierarchies and stratification were eliminated;
(4) a massive investment was made on education with a powerful twin emphasis on western science and eastern ethics;
(5) the government initiated and sponsored basic industry (steel plants, for example).

The result of these steps was that, despite the havoc of the 1940-45 war in which one-fourth of Japan's plant and urban infrastructure was destroyed, Japan had in 1950 a foundation consisting of the following features:

(i) a homogeneous population undivided on the basis of religions, caste or linguistic differences and without barriers to inter-marriageability;
(ii) a modern educated population, with 100 per cent literacy and a science-dominated attitude;
(iii) a national character involving (a) this-world-based ethics rather than next-world-based religion, (b) nationally accepted codes to regulate the relations between man and man rather than between man and God, and (c) a powerful motivation to serve Japan;
(iv) a reservoir of technical and managerial talent arising from the Meiji Emperor's oath: "Knowledge shall be sought throughout the world so that the welfare of Japan shall be promoted"; and
(v) a basic industrial and agricultural infrastructure with a metallurgical, electrical, engineering and chemical industry and a well-developed agriculture.

Thus, the Meiji Restoration laid the foundation of a homogeneous, modern, scientifically-thinking, technically-trained and managerially-capable Japanese society equipped with the essential industry and agriculture. It was on this sure foundation that modern Japan has been built. Not to see this foundation is to miss the very basis of Japan's success, and to make misleading comparisons between India and Japan. The point is that India has yet to achieve the foundation which Japan had built by 1950.

Agricultural Self-Sufficiency

Turning now to modern post-1950 Japan, the crucial fact is that it is virtually self-sufficient in its agricultural requirements. The self-sufficiency was to the extent of 83 per cent in 1968, the chief imports being wheat, corn, raw sugar, oilseeds and tropical products (bananas and nuts). Since 1965-1966, Japan has had a surplus production of rice which in 1968 accounted for about 47 per cent of all agricultural produce. This surplus has been achieved even though: (1) only about 15 per cent (6 million hectares) of Japan's area represents agricultural land (the rest is mountainous); (2) the farm labour force constituted only 18 per cent of Japan's working population in 1968 (it used to be 50-60 per cent before World War II); (3) the average farm holding of arable land was 1.1 hectares in 1968 with holdings under 1 hectare representing 67 per cent of the total cultivated area.

The explanation of this agricultural achievement lies in two main directions. Firstly, there is the staple Food Control System by which the Japanese Government buys almost all the harvested rice at prices which are highly remunerative to the farmers. In 1970, for example, the Government bought unpolished rice at Rs 2.75 per kg. which was twice the international price and sold it to consumers at Rs 2.50 per kg. The firm and attractive price for agricultural products has led to a phenomenal rise in the income and living standards of farm households. The rise in income of farm households was 2.77 times between 1960 and 1968, and the annual income per farming household has surpassed the income level of urban households centred on wage-earners. The second factor underlying Japan's agricultural success is the uninhibited use of advanced mechanised methods and modern agricultural techniques involving land improvement, improved strains and the heavy use of chemical fertilisers and pesticides. To give an idea of the extent of mechanisation, we may mention the fact that 93 per cent of all farm households use power tillers and other machinery in paddy rice growing. The net result is that Japanese rice yields, for example, are the highest in the world. Thus, agricultural science and agricultural technology in Japan have played a key role in minimising its food imports and achieving virtual self-sufficiency.

The second crucial fact about modern

The second crucial fact about modern post-1950 Japan is that there is tremendous internal purchasing power within the country. This is because an average Japanese household, with a monthly income of about Rs 1,950 in 1969, spent only about 25 per cent of its income on food, and another 45 per cent on housing, electricity and fuel, clothes, entertainment, education, etc, leaving a clear 30 per cent for the purchase of non-essential luxury goods and for savings. An astonishingly high 94 per cent of the households possess savings. In short, a Japanese household not only has a need-based wage, but a wage that permits savings and the purchase of luxuries. Thus, Japan has a vast internal market, and this market has grown because prices have not risen as fast as wages, over a long period of time including the war years. The consumer prices increased in Japan at the rate of about 5.7 per cent per annum between 1960-69; whereas Japanese wages increased at the rate of more than 10 per cent per annum during the same period. At present, however, the Japanese Government is seriously concerned with preventing the acute labour shortage from making wages rise faster than productivity. It is this internal market of Japan which has stimulated the growth of production and competition between the various producers.

The growth of production and of competition in a country does not necessarily force its technology to catch up with and surpass international standards. By influencing the government's tariff and protection policies, Japanese industrialists could have (as most Indian industrialists have done) produced inferior goods at low technological standards and prevented the Japanese people from importing superior foreign goods produced with better technology. They have not done this, and cannot do this, for a reason which is vital to the understanding of Japan.

Japan, unlike India, has virtually no raw materials and is most of the time only 20 days away from raw material starvation. Japan is even getting sand for construction purposes from Korea. Thus Japan has to import almost all its raw materials, and these imports have to be paid for by exports. During the Meiji period, the chief export was silk, but with the domination of the fabric market by synthetic fibres such as nylon, Japan has had no choice but to export manufactured materials and finished goods. It may be noted that about 70 per cent of Japan's exports are in the form of machinery, metal products and chemicals, and only 14 per cent consist of textiles. These exports account for only 10 per cent of Japan's total production, but it is this 10 per cent which is necessary for Japan's survival through the import of raw materials.

Further, since Japanese manufactured materials and finished goods must sell in the face of competition from the most advanced countries in the world, they must be produced with technology which is equal to, if not better than, the best technology in the world. The absence of smuggled goods in Japan is a certain indication that Japanese goods are cheaper and in no way inferior to the imported ones; whereas the thriving smuggling "industry" in India is a realistic commentary on the price and quality of Indian manufactures.

Hence, the essential argument here is that, though Japan's exports are quantitatively insignificant in its economy, they are qualitatively crucial to the development of Japan's technology. The vital necessity to compete in the international market with finished goods and materials is the primary driving force for Japan's technological advancement.

To compete with foreign technology, Japan, like India, decided to import Western technology through foreign collaboration agreements. From 1959 to 1968, Japan operated over 11,500 agreements, in contrast to India's 2,600 agreements in the 20-odd years of our independence. Of these 11,500 agreements concluded by Japan, about half were intended for periods of less than a year and the remainder for more than a year. The bulk of the agreements were for the purpose of purchasing patents and not, as in the case of India, for obtaining manufacturing drawings, process knowhow, etc.

Japan, however, has always operated with the view that unless its industry receives quantitatively increasing and qualitatively improving inputs from its own science and technology, the import of technology through foreign collaboration agreements will lead Japan to greater technological servitude. Hence, to prevent the import of technology from leading to technological dependence, and thence to economic and political dependence, foreign collaboration agreements have been used as a means to technological self-reliance. To ensure this aim, Japanese industrialists, in total contrast to their Indian counterparts, have backed up the import of technology with massive investments into research and development. These investments, 65 per cent of which come from *private industry,* have assumed a simple pattern: for every dollar spent on patent fees, licence fees, etc, for the import of technology, at least four dollars are spent on indigenous research and development in the very areas in which technology is being imported. In this manner, the foreign collaboration agreements are being used in Japan as a take-off for research and development; whereas, in India, both the private and public sectors are guilty of having used foreign collaboration agreements as a substitute for indigenous research and development.

In the light of the above arguments, it is clear that a close and intimate interrelationship between Japanese industry, export-import trade and technology is vital to the survival and growth of modern Japan. No wonder that this interrelationship has been initiated, monitored and encouraged by a peculiarly Japanese institution, *viz,* the trading house. Of these, the Big Four, Mitsubishi, Mitsui, Sumitomo and Yasuda, are known the world over. These trading houses import raw materials from foreign countries into Japan and then supply them to Japanese industry; but they also handle the export and sale of Japanese manufactures to foreign markets. The 10 largest trading houses account for 50 per cent (about Rs 6,000 crores) of Japan's exports and 65 per cent (about Rs 6,750 crores) of Japan's imports. In this strategic and vantage position, the Japanese trading houses cannot limit their concern only to profits. They must have, and do have, a vested interest in the progress of Japanese industry and technology, and this patriotic interest is explicitly expressed in the the various industries which have been set up by the trading houses. The trading house of Mitsubishi, for example, has a special ralationship with the Mitsubishi group consisting of 45 of Japan's largest industrial corporations as well as with a large number of manufacturers outside the group. The Mitsubishi group manufactures over 7,000 commodities from turn-key plants and 300,000-ton tankers to small packages of raisins and noodles. Thus, the trading house of Mitsubishi, for example, has access to and is interested in virtually every line of industry in Japan, and therefore, in every area of technology. In contrast, Indian trading houses have concerned themselves with the profits of export-import business rather than with stimulating production and developing technology.

Continuous industrial growth and technological development necessarily

requires massive and enlightened financing. That such financing exists in Japan is evident from another peculiar feature of Japanese industry which astounds foreigners. Japanese industry runs with an average of 20 per cent of its own capital and 80 per cent loans from banks. In most countries, the figures are the other way round, with an industry meeting only 20-30 per cent of its capital requirements by raising loans.

A necessary consequence of this dependence on IOU's is that, in order to break even (after paying back interest on loans) and make profits, a Japanese industry must operate at over 80 per cent of capacity and must go in for economies of scale with lowered unit cost. The Kimitsu plant of Nippon Steel Corporation is an example of the trend towards large-scale operations in that its two blast furnaces, each with a capacity of 7,000 tons of pig iron per day, produce as much as all the steel plants of India put together even though its total work force including clerks and administrators is only 3,700.

Why are Japanese banks so interested in the risky business of financing growth and technological development? The answer is easily seen by noting that the major Japanese banks are owned by the very same trading houses which are interested in the progress of industry and technology. In India, the pressure for bank nationalisation arose precisely because the banks sought safe and profitable investments, such as multi-storeyed buildings in urban centres, instead of vitally needed support for national growth, agricultural development and indigenous technology. The critical technologically-oriented role of the Japanese banks is facilitated by the fact that over 90 per cent of the savings which 94 per cent of Japanese households possess are in the form of bank deposits. The stock market has only a minor role in the Japanese economy and the hoarding of gold is of course non-existent.

The intense competition between the various trading houses, industries and banks would have been fertile ground for fratricidal strife had the Japanese Government adopted the non-interfering *laissez-faire* attitude urged upon the Indian Government by Indian big business. In fact, the Japanese Government plays a commanding role in the country's economy through the Ministry of Finance (MOF), the Bank of Japan (BOJ), the Economic Planning Agency (EPA) and the Ministry of International Trade and Industry (MITI). The very names of these agencies suggest that the Japanese Government itself functions like a trading house which some writers have referred to as JAPAN INC. Through its control of these key agencies, the Government operates the crucial levers on the economy and ensures the co-ordinated functioning of the industries, trading houses, banks and technological laboratories.

For instance, every foreign collaboration agreement negotiated between a Japanese firm and a foreign one has to be approved by MITI. But this approval is not a mere formality. MITI subjects the agreement to close scrutiny and may require radical changes in terms to ensure reduction in down payments and/or royalties and to secure maximum in-flow of technological knowhow. Ashok Parthasarthi, in a talk to the National Academy of Sciences, has described the interesting case of a negotiation between Sony of Japan and Texas Instruments of USA for the manumfacture of one of the latest developments in electronics, *viz*, integrated circuits. MITI took over, after the draft agreement was written, and by bargaining and stalling for three years in the face of powerful American pressure, virtually forced Texas Instruments to permit Sony to pass on the imported knowhow to the other Japanese electronics giants: Hitachi, Toshiba, NEC and Fujitsu. The inclusion of this clause for the internal dissemination of knowhow may well have been to the disadvantage of Sony but it was certainly to the advantage of the Japanese electronics industry.

'United Front' Approach

It is worth noting that during MITI's negotiations with Texas Instruments, there was no hue and cry in Japan, as there would have been in India, about Government interference in the private sector's pursuit of its legitimate interests. The private sector in Japan appears to consider the Government as the protector of the best interests of Japan in its dealings with the foreign industrialist, trader and banker. It also seems to realise that conflict between the private sector and Government only helps the foreigner who profits by playing off one against the other. A MOF economist has said: "If business goes one way, and Government goes another way, it would bring harmful effects to the country". A Sumitomo spokesman put it very frankly: "In order to safeguard Japan's interests against powerful foreign companies, we must form a United Front".

The "united front" of industries, trading houses and banks has worked satisfactorily under the leadership of the Japanese Government (which does not issue directives but offers informal advice) because of the peculiarly Japanese method of arriving at decisions. This method does not involve the confrontation of views (and therefore of persons) and the triumph of the majority view (with a loss of face for those supporting the minority view). The Japanese method is based on an elaborate, behind-the-scenes search for a consensus. The actual 'unanimous' decision is only a formal acceptance of the already-attained consensus. The attainment of this consensus is facilitated by the fact that the higher echelons of government, industry, trading houses and banks are filled with graduates from only a few out of the 379 Japanese universities. It is these classmates and alumni of Tokyo, Waseda, Kyoto who matter in the decision-making and the easy communication which they have with each other facilitates the formulation of the consensus view.

The point that has emerged is that personal ties and friendships are woven inextricably into the fabric of Japanese business and executive life. This is only one example of how the humanistic aspects of feudal ethics have been preserved in Japanese life as a counter to the corrosive influence of commercialism. There are other examples. For instance, the paternalistic attitude of the employer to his employees is a carry-over of the feudal ties between a landlord and his peasants; but it is thanks to this attitude that a Japanese private sector concern assumes the responsibility of providing the social welfare for its employees who in return do not promote industrial strife. The amenities for labour include housing, medical services, recreation, opportunities for cultural development, and job training. All this is a far cry from the situation in cities like Bombay and Calcutta where, on the one hand, industrialists treat the employer-employee relationship as a pure cash transaction and foist the social welfare problem on to a government which is already smothered by countless problems, and on the other hand, labour brings the heartless industry to a standstill with strikes.

Another aspect of the feudalistic ties between an employer and his employees is the well-known fact that Japanese employees are permanent and serve a company until retirement. The Japanese have demonstrated that permanency of service and salary by experience (i e, age) does not necessarily preclude an organisation from being efficient. They have shown that human nature (at least, the Japanese version) does not require to be goaded into efficiency by the American carrot-and-stick method and hire-and-fire personnel policies. The short-term gains of the American policy must be offset against the resulting dehumanisation of a society in which the strong seek survival and success by ruthlessly pushing the weak to the wall.

Industrial Relations

The Japanese approach to personnel policy also helps to bridge one aspect of the generation gap which arises from a society undergoing rapid technological change. In such a society, experience gained from an obsolete and vanished past is invariably irrelevant to a new and living present. Further, since a technological explosion is based on a knowledge revolution, elders struggle to cope with the flood of new techniques and concepts so easily inherited and assimilated by the young. Thus, drive and specialised technical competence is most often associated with youth, and lethargy and outmoded views with the old. Such a situation leads in America to the old viewing the young as threats to their jobs and security, and the young viewing the old as road-blocks in the way of progress and efficiency. Not so in Japan. The permanency of service and salary-age link removes the insecurity of seniors. On the other hand, the consensus sought in Japan is not only horizontal, i e, between equals of different organisations, but also vertical, i e, between seniors and juniors of the same organisation. With this setup, juniors extend to their seniors the traditional Eastern respect for elders, and the seniors extend to their juniors the Western respect for good work and technical competence by involving their juniors very deeply in the planning and development of their organisation as well as in its decision-making and functioning. Thus, arises the two-way flow of respect and strong *oyabun-kobun* (senior-junior) relationship in Japan.

Notwithstanding all Japanese traditions, efforts and planning, there is an additional crucial factor which has promoted the stupendous growth of Japan. This is the matter of defence expenditure. In 1966, for instance, though the Japanese GNP was three times the Indian GNP, and Japan's per capita GNP fifteen times, India spent 4 per cent of its GNP (Rs 1,000 crores) on defence expenditure compared to Japan's 1 per cent (Rs 670 crores). Whatever the historical reasons for Japan not spending on defence what it could easily afford, and India spending what it cannot afford, the fact remains that the relative defence expenditures of Japan and India are very closely connected with their relative rates of growth.

The major conclusion that must be drawn from the above analysis is that the Japanese "miracle" is no miracle at all, for miracles by definition do not permit of rational explanation, and the phenomenal growth of Japan can be understood in its broad outlines if not in its intricate details.

Lessons for India

We turn now to the lessons which India can draw from Japanese experience. To draw these lessons requires an estimation of the extent to which the numerous factors listed above have contributed to the Japanese phenomenon, as also an evaluation of the relevance of these factors to the Indian scene. This is a task of no small magnitude, and should therefore not be done in a flippant and superficial vein. One point, however, is clear — the superstructure of Japanese attitudes, codes, character and culture and the homogeneity of the Japanese people are so unique that no other country can follow the Japanese path in all its detailed ramifications. Nevertheless, the Japanese story leads to the definition of several important national objectives which must be pursued if India wants to succeed. Some of these objectives are outlined below:

(1) the rate of growth of our population must be reduced drastically, and in the very near future the population must be stabilised at a tractable value;

(2) a radical land-reform programme and agricultural pricing system must be completed and this programme must be designed to give the actual tillers a stake in agricultural productivity and progress;

(3) Self-sufficiency in agriculture must be attained so that we are not compelled to import foodgrains;

(4) there must be a vastly increased investment on an educational system re-designed to produce citizens with a scientific-humanistic attitude and a commitment to the nation;

(5) the present dangerously wide income disparities must be eliminated;

(6) the economic factors which aggravate the caste, linguistic, religious and regional conflicts must be revealed and removed;

(7) the target of a need-based wage for all households must be set up and the highest priority must be given to the attainment of this target as soon as is feasible;

(8) the present wage-price spiral must be snapped with a ruthless war on prices outstripping wages;

(9) households must be induced to convert the excess of wages over living expenditure into savings;

(10) these savings must be channelised into banks rather than into luxury goods;

(11) banks must develop a growth-oriented and technology-oriented outlook;

(12) the technological criterion as distinct from the profit criterion must be introduced in the assessment of both public sector and private sector concerns, along with penalties for under-utilisation of capacity;

(13) our policy towards foreign collaboration agreements must be radically altered so that (a) they are backed with sufficient investments on research, design and development to advance towards technological self-reliance, and (b) they are not repetitive from the point of view of technology;

(14) industrialists must not be permitted to take shelter under tariff and protection measures unless they show evidence of advancing technology and meeting international standards in the quality of their goods;

(15) if import trade is not nationalised, then importers must be licensed in proportion to their production for export;

(16) employers must be compelled to assume the responsibility of social welfare (housing, medical aid, etc) towards their employees;

(17) all ways and means must be sought to cut down defence expenditure.

It is clear that attempts to implement the above measures will arouse the opposition of various vested interests. Whether this opposition will be overcome will depend upon whether the Government has the will to implement the measures and, in the last analysis, upon whether popular pressure can generate that will when it is absent or strengthen it when it wavers.

Coromandel Fertilisers Limited

Speech of the Chairman, Dr Bharat Ram

THE following is the Statement of the Chairman, Dr Bharat Ram, at the Tenth Annual General Meeting of the shareholders of Coromandel Fertilisers Limited held on June 21, 1972.

LADIES AND GENTLEMEN:

I have great pleasure in welcoming you to the Tenth Annual General Meeting of the Company.

We passed through an eventful year in 1971 which ended with a sense of fulfilment and renewal of faith in the traditions that this country has always upheld. The national effort inspired by astute leadership once again rose to great heights and exemplified the unity of our people in times of stress.

The burden imposed on our country's resources, firstly, by the influx of refugees and by the armed struggle later has tested our inner strength, but its full impact on our economy is still in the process of being felt. The nation's new mood of self-reliance is a very welcome trend, although this cannot be translated into action straightaway.

The recent Government move in regard to ceiling on land holdings is another far-reaching measure as, besides its social objectives, it has direct effect on the agricultural development of the country. While the success of the Green Revolution has not been questioned, many have asked whether the benefits have been widely shared. This, in turn, has set off much debate about the strategy for spreading the socio-economic benefits of the Green Revolution. Here, one has to be pragmatic and cautious, for, any absolute definition of 'holdings' without reference to their economic size may not be conducive to increased application of the package of practices, which alone can sustain greater agricultural productivity. Therefore, emotion alone should not guide us in this area. While structural changes seem to be necessary in the larger interests of the country, in our anxiety to achieve it, we should not lose sight of the necessary economic justification. Realities must be kept in perspective.

The past year has witnessed a further advance in application of agricultural technology towards increased production. Hybrid varieties in cereals have gained in popularity and it is hoped that equally important and great strides will be made in other crops. The increased attention being paid to cotton development in recent months is another happy feature. All this is an unmistakable sign of the greater application of science and technology in the service of agriculture and as a result, we are now poised for a Rice Revolution too. At the same time, it is heartening to note that greater awareness of the other implications of the Green Revolution has provoked informed discussion and study of the problem. While we need to display continued attention to the problem of environment, it is somewhat disturbing to find that many enthusiastic environmentalists are spreading panic without subtantiating their statements.

The Directors' Report and Accounts were circulated to you earlier. The marked improvement in the profitability reflects a steady and progressive growth of your Company during the last four operating years. Many of the inhibiting factors, affecting production have been considerably minimised. Capacity utilisation has been steadily improving and your Management is studying ways and means to achieve higher targets.

Your Company's products are being well accepted in all the major States in India. However, timely movement has not been possible due to the shortage of wagons and time and again this problem has assumed critical proportions. Consequently, your Management has had to move the product by road or by rail to the available point and then tranship by road. During 1971, of the entire quantity, only 55 per cent could be moved by covered wagons; the balance had to be moved by uncovered wagons or by road. These additional movements and handling have naturally pushed up the costs significantly apart from the incidence of increased freight and warehousing/siding charges. To partially mitigate the heavy freight and handling costs, efforts are being made to increase the sales in the home area without completely withdrawing from other States so that your Company's product image is maintained.

Your Company has strengthened and enlarged the areas of demonstration plots, soil testing and farmer services. A new N-P-K complex fertiliser with an analysis of 14-35-14 was added to the product line and launched in the market in April this year. The response has been encouraging. Special efforts are being made by the Government of Andhra Pradesh to bring at least 50 per cent of paddy cultivation under the High-Yielding Variety and it is reasonably expected that this will be achieved during 1972-73. From the fertiliser consumption angle, this is a very encouraging sign.

COSTS AND PROFITS

I would particularly like to comment on two significant and interrelated factors — profitability and price reduction. The shareholder is naturally interested in the profitability of his Company and compares its performance with similar companies in the industry. Members are no doubt aware that each Company faces its own problems, besides extraneous factors, which I will take up shortly. Your Company's performance has been steady and progressive but in the first two operating years, production was seriously hampered by unstable power and interrupted water supply. On the other side, sales were low due to excessive imports, natural calamities and the difficulties in getting a sophisticated but most excellent product accepted. Your Company primarily produces phosphatic fertilisers whereas the Indian market has been used to a nitrogenous mixture or straight nitrogen like Urea; hence it has taken some time for phosphatic fertilisers to be accepted.

The significant fact, however, is the abnormal rise in costs. The levy on naphtha from June 1971, now costs Rs 31 lakhs a year additionally. Whereas world Sulphur prices have reached rock-bottom rates, we continue to get this vital raw material at a price which is much higher. The agency concerned with the supply of Sulphur has recently increased its price to Rs 300 per M tonne, resulting in an additional cost of Rs 34 lakhs a year to your Company. Further, the Andhra Pradesh State Electricity Board increased the power tariff which has pushed up the power costs by another Rs 25 lakhs a year. Increases in rail freight, siding charges and warehouse rental, account for nearly Rs 40 lakhs a year. The Emergency Risks Insurance has cost us Rs 10 lakhs. These are strikingly significant; I am not cataloguing the hundreds of other items, the costs of which

are going up year after year.

Now, I come to the next point — reduction in the price of fertilisers. Reduction in price can be made possible by optimising production or reducing operating costs. In your Company's case, where production is near capacity and increases will be minimal due to technical reasons, capacity utilisation alone cannot contribute significantly to increased profits, if operating costs outside your Company's control rise steeply year after year. The recent increase in the excise duty on fertilisers, freight and raw material prices, cannot but go against the objective of reducing the price of fertilisers which will remain a distant goal. An industry is set up to produce goods and services at competitive rates, contribute to the economic activity and earn a profit for its investors. It would be a sorry state of affairs if industry is reduced to a position of sheer economic survival.

EXPANSION

The preliminary negotiations on the technical and financial aspects of the Phase I expansion were deferred in the light of the Ammonia plant's performance last year, since your Directors felt that the expansion plan as originally envisaged required to be re-assessed and revised. Fresh technical studies on the Ammonia, Phosphoric and Sulphuric Acid plants are under way and based on the technical report, a revalidation of the expansion licence will be obtained and the project finalised. Preliminary engineering and design work will commence thereafter.

CONTRIBUTION TO NATIONAL DEFENCE FUND

Immediately on the declaration of Emergency, your Company made a token contribution of Rs 10,000 to the National Defence Fund. Early this year, another contribution of Rs 2,51,500 was made. Besides this, the entire staff of the Company contributed a sum of Rs 10,690.

DIRECTORS

Since the last meeting, Mr Harvey C Auman joined the Board in place of Mr C S Dennison. Mr J H Eckart returned to the USA to rejoin his parent organisation and Mr R B Lamer took over as Managing Director.

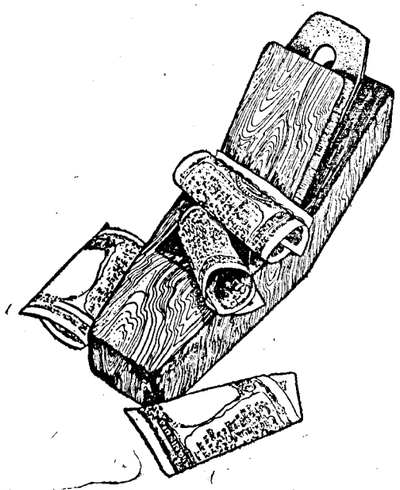
Your Company's performance has been improving each year and this has been, in no small measure, due to a co-operative effort on the part of the entire staff, workers and management. Permit me to express the Company's appreciation of their dedicated and loyal performance.

Thank you, Ladies and Gentlemen.

BHARAT RAM
Chairman

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

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Meeting the needs of the people.

Alembic Glass Industries Limited, Baroda

Speech of the Chairman, Shri Ramanbhai B Amin

THE following is the Speech of the Chairman, Shri Ramanbhai B Amin, at the Twentyseventh annual general meeting of Alembic Glass Industries Limited, Baroda, held on June 17, 1972.

LADIES AND GENTLEMEN,

I have pleasure in welcoming you all to the 27th Annual General Meeting of the Company. The Accounts for the year ended 31st December, 1971 and the Directors' Report have been circulated to you and with your permission I shall take them as read.

HIGHER PRODUCTION

During the past year your Company nas been able to achieve significant advances both in production as well as in sales. Our factories at Baroda as well as at Whitefield worked satisfactorily and reached higher output. Sales have gone up by as much as 22 per cent over last year. This performance is no doubt satisfactory, particularly when it was maintained in a situation where both manufacturing side as well as marketing side were encountering difficulties.

SHORTAGES AND DELAYS

The shortage of Soda Ash to which I referred in my last year's speech persisted during 1971 as well. The supplies of this raw material were uncertain and erratic and as a result we have had to run two of our furnaces using 50 per cent cullet with corresponding adverse effects on our overall efficiency of operations. I would also refer to another factor which has had an unsettling effect on our programme for regular maintenance and repair of furnaces. For adequate and timely repairs we require Electrocast Refractories of a satisfactory quality at regular intervals. Recently the import of these refractories has been canalised through the Minerals and Metals Trading Corporation. The direct result of this has been that there is a considerable delay in supplies due to procedural bottlenecks. Further, since refractories have to be tailor-made to the requirements of each individual furnace much time is again lost in correspondence and there is always the danger of getting something which is unsuitable. As a result the repair schedules of our furnaces are frequently held up. It is, therefore, necessary that the import of this specialised item should be allowed to be made by the units themselves so that they obtain the kind of refractories that they want without delays and interruptions.

TRANSPORT PROBLEMS

Our position is made more difficult this year by an unprecedented shortage of railway wagons in the Baroda region. It is not clear what has led to this crisis. But our despatches to up-country places are being considerably handicapped because of the overall low availability of wagons. This matter would become particularly difficult with the onset of the monsoon and we would expect that the railway authorities will handle this matter with utmost priority.

CHALLENGE OF COMPETITION

I have, in the past, spoken to you about the need to increase the overall production capacity for glass containers and other wares so that shortages are avoided and consumer needs are better satisfied. There has now been an overall increase in the installed capacity and production. The resultant increase in overall output means that we are facing greater competition in our marketing efforts. This is a good development both for the consumers as well as the manufacturers. Your Company is meeting the challenge of competition in the changed circumstances by bettering its overall skill and efficiency both in manufacturing and in marketing.

QUALITY AND VARIETY

We have always shown utmost concern for the quality of our products and in the new situation our Managers will further intensify their efforts in the direction of improving the quality, the variety and consumer appeal of our goods. We have given this objective a high priority and one can be confident that the result of this effort will continue to show itself in your Company continuing to maintain its premier position in the Glass Industry of the country.

DIVERSIFICATION AND INNOVATION

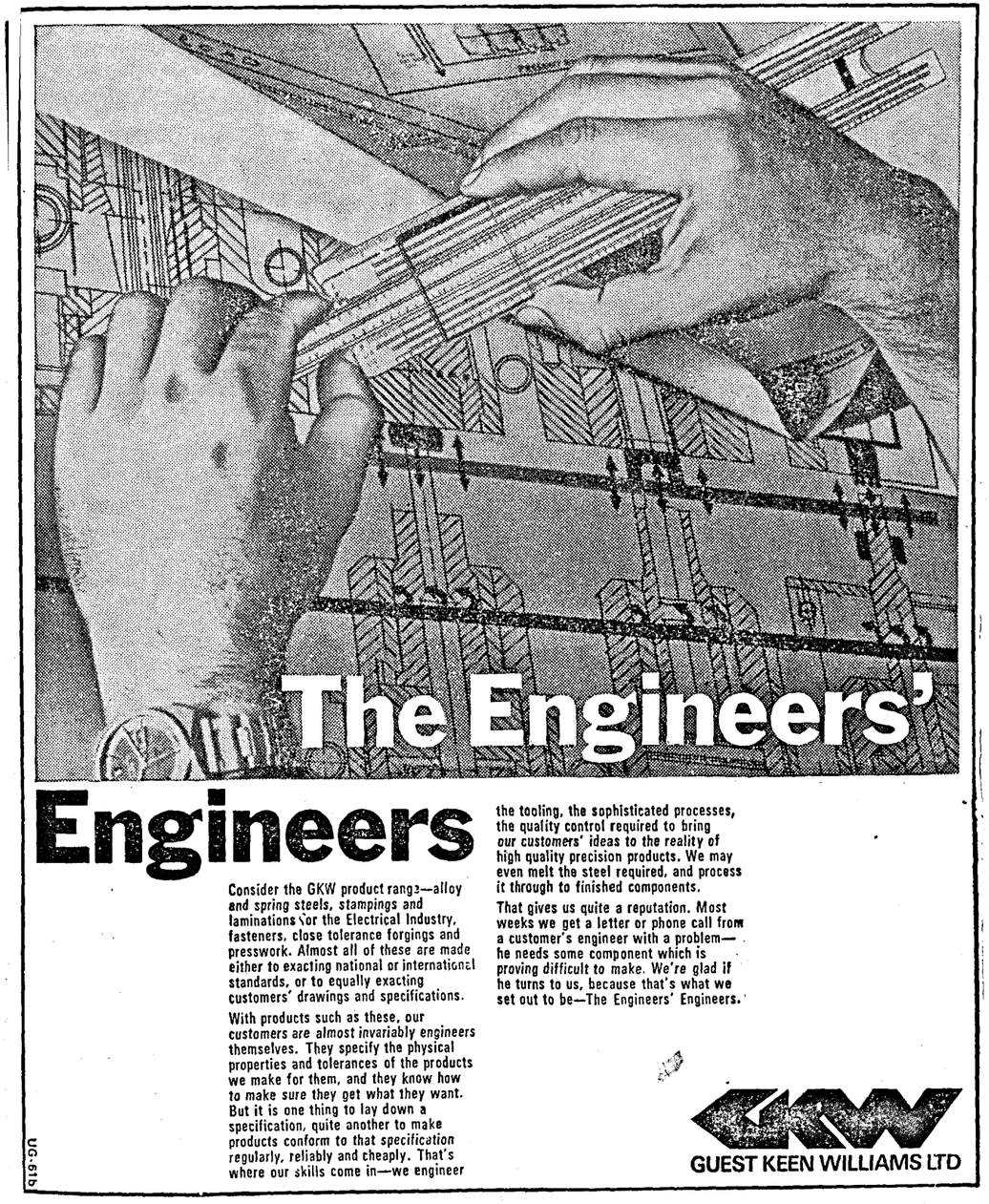
Apart from improving quality and sales appeal of our traditional products your Company has started considering various plans and proposals for diversifying its production. We feel that we should maintain our lead by introducing new products and thereby affording to the consumer greater choice and satisfying his demand for newer and better goods.

Before I finish, I would like to place on record our appreciation of the co-operation and hard work put in by the workers as well as members of the staff of the Company, both at Baroda and Whitefield. I also wish to thank my colleagues on the Board for their support and guidance.

I now commend the Annual Accounts and Directors' Report for your consideration.

Rural Indebtedness

ACCORDING to a survey done by Syndicate Bank in Cuddapah district of Andhra Pradesh, private financiers continue to dominate in the field of rural finance. In the village of Duvvur (largely wet cultivation) moneylenders provide 56 per cent of the total credit, whereas in Vontimitta (mostly dry cultivation) their share is 12.5 per cent. Co-operative credit accounts for 12 per cent of the total in Duvvur and 27 per cent in the other village. Most of the benefits of co-operative credit are reaped by big cultivators. Credit provided by state agencies through Taccavi loans is negligible — 3 per cent in Duvvur and 11 per cent in Vontimitta. Medium cultivators appear to have received a large slice of these loans. Big cultivators themselves are also a source of credit, supplying nearly 14 per cent of the total credit and invariably at exorbitant rates of interest. Commission agents and traders usually provide credit to the farmers just before the crop is harvested. In Duvvur they provide 12.4 per cent of all credit and 9.1 per cent in Vontimitta. Partly because there are no backing facilities in either village, the banks' share of credit in Duvvur is non-existent and is about 10 per cent in the other village.

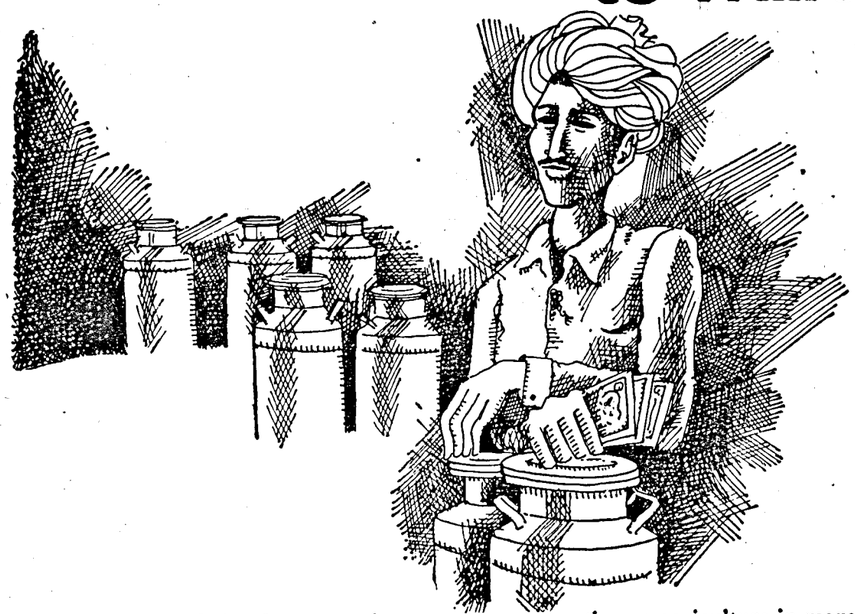


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June 24, 1972 Regd No MH—1393

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.

ECONOMIC AND POLITICAL WEEKLY

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11 JUL 1972 INDUSTRIES DEPARTMENT

KISSINGER IN PEKING

REASSURING PRIVATE INDUSTRY

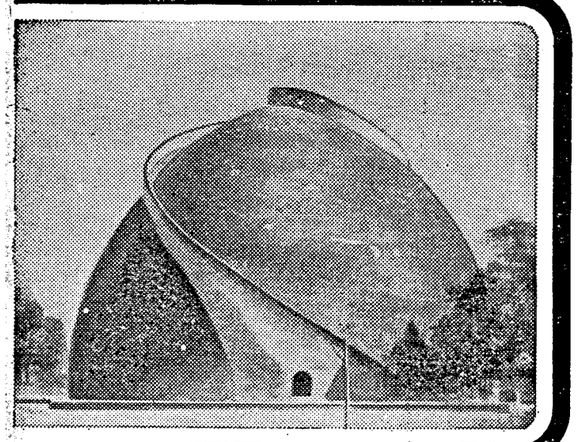
SELLING THE CONCORDE

CONGRESS SLUMP IN PUNJAB CIVIC ELECTIONS

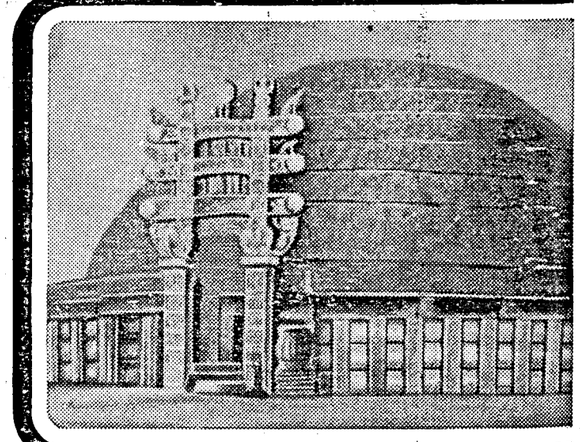
STRATEGY FOR MINERAL EXPORTS

FAMILY AND CHILD WELFARE PROJECTS

State Bank opens new LOCAL HEAD OFFICES in PATNA and BHOPAL



Originally erected as a granary in 1786, the Golghar is a prominent feature of Patna even today.



Work on the Great Stupa at Sanchi, near Bhopal, was begun by Emperor Ashoka but completed by his successors in the 2nd Century B.C.

To serve the people better, State Bank has been progressively decentralising its administration. Two new Local Head Offices come into existence today, one in Patna and the other in Bhopal.

The formal inauguration by Shri Kedar Pandey, Chief Minister of Bihar, at Patna on 1st July, and by Shri P.C.Sethi, Chief Minister of Madhya Pradesh, at Bhopal on the 6th July, will mark the importance of the change for the respective States.

The new Local Head Offices will devote closer attention to the economic problems of these States and help to quicken their pace of progress.

STATE BANK

ECONOMIC AND POLITICAL WEEKLY

Founder-Editor: Sachin Chaudhuri

Vol VII No 27 July 1, 1972

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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, A A Dalvi

Drifting Again

STERLING was clearly headed for trouble even before the Smithsonian Agreement, fixing the new currency parities, had been arrived at last December. The UK economy was inflating faster than those of its trading partners and Britain's balance of payments had begun to weaken. When the UK decided not to devalue in relation to gold and to let the US dollar depreciate fully in relation to the pound, this show of strength did not carry much conviction.

After the Agreement, hardly anything seemed to go well with the UK economy. The settlement with the miners, arrived at after a debilitating strike, was highly inflationary, and was to encourage the railwaymen and dockers into making similar demands. In the period since January 1971, British export prices are estimated to have risen by almost one-fifth, while those of its competitors rose hardly by 10 per cent. This competitive weakness had begun to show itself in the balance of trade: in every one of the first five months of 1972 the UK had a negative balance of trade, the total trade deficit amounting to £212 million (though, with its substantial surplus on the invisible account, this still did not result in an overall deficit on current account). Finally, with the date for joining the EEC fast approaching, sterling had to be in a position to stay strong in the enlarged Community.

The final push was given by the railmen's and dockers' strikes which widened the credibility gap about the strength of the pound, official protestations notwithstanding. June 22 saw a rise in UK Bank Rate to 6 per cent, but without any let-up in speculative pressure on the pound. In a single day, more than $2 billion was needed to support the pound — without any effect. So the next day the UK Government bowed to the inevitable and let the pound float to find its own level. When trading opened on this Tuesday, the pound had already depreciated by about 4.5 per cent — halfway between its pre-Smithsonian and post-Smithsonian parities.

The British decision to float the pound has exposed the inherent weakness of the December Agreement. The Italian lira has been weak, and it is only a promise of massive support by the EEC finance ministers which has saved it from having to float. On the other hand, the Japanese, despite the 16.9 per cent yen revaluation of December, have been able to maintain their trade surplus in 1972 at the same level as in 1971, and it is increasingly accepted that the yen is overdue for another revaluation — by as much as 10 per cent. The EEC countries, including the prospective members, have been able to patch up their differences at a Finance Ministers' meeting called to consider the UK decision. Britain has agreed to return to a fixed parity at an early date, having brought about a situation in which it could enter the Community with a stronger pound. However, the EEC countries' ability to remain within the self-imposed limit of 2.25 per cent of each other's parity must remain suspect.

The floating of the pound has yielded the best text-book response from the RBI. It suspended forward exchange transactions immediately and took six days to come forth with new spot rates for buying and selling sterling. These rates are fractionally different from those prevailing before the pound float, though it is difficult to fathom what profound calculations of national interest account for the trivial difference. When the dollar was floated last year, the rupee floated in company with the dollar. As a result the rupee was devalued in terms of other currencies, though the rate at which the rupee-sterling link was subsequently restored prevented the rupee from depreciating to the full extent of the dollar devaluation. Now the rupee is again afloat, this time with sterling. From the official reactions it is clear that the government is not unhappy to have got the opportunity to in effect devalue the rupee without openly appearing to be doing so.

Not that evidence is lacking of the over-valued state of the rupee. As everyone knows, the whole system of export subsidies is today in almost as chaotic a shape as it was in the middle sixties and import licences and imported goods fetch handsome premiums. Importers are stocking imported goods which may be partly responsible for the sharp rise in the non-food import bill without any corresponding increase in industrial production. The tendency to 'over-import' for the purpose of building up speculative stocks was conspicuous prior to the 1966 devaluation of the rupee. But since out-

right devaluation appears to be ruled out — it is, in any case, a double-edged instrument — the only feasible instrument left is a system of dual exchange rates. Apart from its other advantages, a system under which a part or whole of the foreign exchange receipts under different heads can be converted into domestic currency at a favourable exchange rate should be a great help in countering the kind of leakages that now sustain the export of capital and large-scale smuggling into the country. This, however, presumes readiness on the part of the government to view the question of the parity of the rupee in terms of this country's balance of payments problems instead of passively accepting such piecemeal depreciation as results from changes in the values of other currencies — which is what the government did last year and which is what it seems set to do once again.

The Pound Float—I

Exporter in the Lurch

A Correspondent writes:

IT is difficult to understand why the Reserve Bank has chosen to suspend foreign deals in sterling after the floating of the pound. If the past is any guide, the suspension is unlikely to last more than a month or so. As most export bills are of the type in which foreign exchange is realised with a time lag of two months or more, export activity gets thrown out of gear as and when the RBI suspends its forward transactions. If the government and the RBI really think that export activity falls in the priority category any decision that throws it into confusion can have little to commend itself.

The government incurs considerable amounts of expenditure on promoting exports. It spent an estimated Rs 54 crores for such purposes as cash assistance to export, interest subsidy on export credit and grants to various export promotion councils, etc, in 1970-71. It also gave to exporters a sum of Rs 33 crores as duty drawbacks during the same year. If all these disbursements are regarded as desirable for promoting exports, it should be considered equally desirable that the RBI take in its stride the likely losses that it may incur by not suspending forward cover to exporters.

By suspending forward cover the RBI might save a few crores of rupees but the loss to the economy as whole in terms of disrupted export activity is likely to be very substantial indeed. Moreover, in providing forward cover the RBI is running the risk of making losses only in terms of rupees whereas as a result of suspension of forward cover the economy stands to lose foreign exchange. The RBI, whose book profits run into over Rs 100 crores annually, cannot afford to let the fear of making minor losses stand in the way of providing stable conditions for the country's exports.

The Pound Float—II

Shifting Anchor

A Correspondent writes:

THE pound float does bring into question India's own exchange policy. After linking itself to the dollar last August when the US delinked the dollar from gold, Indian policy-makers, by a contrived sleight-of hand, went back, after the Smithsonian agreement, to a link with the pound, in the process devaluing the rupee surreptitiously by 4.5 per cent. The pound float has shown how weak the judgment of the devaluation lobby in the Finance Ministry and at the Reserve Bank on international currency trends is. The Reserve Bank has had to stop forward cover in pound, and the Indian trader has been left to the buffeting in a free international market, while his own hands are securely tied by exchange control regulations.

Despite the last six months' experience, the pound would have to stabilise to a fixed parity system soon — in any case, before the year-end. Given the need to enter the EEC in a strong position (that is, with the lowest feasible parity), it is likely that the pound will revert to its old parity — $ 2.40 to the pound. What should India do then? Clearly the pound is a shifting anchor which provides no safety to the rupee. India should sever its link with the pound, and should seek to appreciate in relation to the pound — at least to the extent of the pre-December parity. It is time India's exchange rate policy should be based on its own interests — and not be tied to international pressures as judged by bureaucrats in New Delhi.

P C Mahalanobis

Strategy plus Data

Savya Sachi writes:

THE death of P C Mahalanobis brings back memories of an exciting era of Indian planning. Mahalanobis was one of the principal architects of the Indian development strategy for about a decade from 1953-54, though his contribution to the improvement of national statistics was scarcely less significant.

Mahalanobis had an initial advantage: he was not an economist primarily. He was a physicist who later made major contributions to statistics, particularly to the theory of sampling. With this background of physics and statistics, he brought a fresh and original outlook on the problems of planning. The inhibitions and the weight of past theoretical work, which might have come in the way of an economist, did not constrain Mahalanobis. He went directly to the root of the problem while framing the Indian development strategy, which has stood the test of time. It has been criticised for its assumptions as well as analytical flaws. These were minor blemishes, however.

That for an economy of the size of India's, with its specific resource base, there had to be an initial concentration on the development of scientific and technological skills and on capital goods industries should have been obvious to a mind unprejudiced by economic theory. It should have been also obvious that simultaneously with the development of the capital goods industries, there should be an upgrading of traditional skills and occupations for meeting the demand for wage goods, which would inevitably rise in the process of development. This emphasis on capital goods and on basic wage goods was an integral part of Mahalanobis's strategy.

The criticism that at least some of his parameters were not right or that he ignored the choice problem arising from international trade may be valid but has far less operational significance in the Indian context. Of course, the very success of the strategy created different types of problems and the emphasis had to shift from giving the economy certain broad directions to the efficiency aspects of development. Anyway, the basic strategy did provide a significant insight into the process of planned development in India. Had the implementation of the strategy been more adequate, even the employment problem might not have become as acute as it has now become.

Mahalanobis generated the impulse for collecting and processing data required for planning. The National Sample Survey was his idea and could have been utilised more purposefully for the planning process had it been properly integrated with the planning machinery. Unfortunately, this did not come about and the Central Statistical Organisation too was not properly coordinated with the National Sample Survey. Still the NSS has thrown up significant data on many socio-economic aspects of development and are the only source for research on a variety of problems.

In the decade of the 1950s and the early sixties, Mahalanobis was a dynamic force in the fields of planning and statistics. The Indian Statistical Institute which he set up and the journal, *Sankhya*, which he started are monuments to his spirit of inquiry, sense of relevance and organising ability. Education was another field in which he held firm views. He was one of the few persons who realised that inequality of opportunity really arose from the educational system more than from inherited wealth.

In the shifting currents of time, one loses perspective on men and matters and all too often significance is attached to the transitory and the ephemeral rather than to the durable and the substantial. But in the correct historical perspective, Mahalanobis emerges as the man who understood the dynamics of socio-economic planning in India.

Belapur-LIC-Banks

The Heart Has its Reasons

AT the annual general meeting of Belapur Sugar and Allied Industries, now under the control of G D Morarka, held in Bombay on June 9, there was a furore of the first order. Apparently a section of the shareholders was not satisfied with the show of hands by which Morarka was re-elected chairman along with another director. A poll followed, the results of which were declared on June 19. The poll attracted total votes of the order of 82,000 of which Morarka and his running mate attracted over 71,000 each. Belapur's total equity runs to over 361,000 shares, of which the voting rights attached to about 22 per cent are held, in more or less equal proportions, by LIC and certain nationalised banks.

Two things are clear from the voting figures. First, Morarka does not have sufficient control over Belapur's equity to keep himself and his nominees in saddle. Second, by abstaining from voting the LIC and the banks — how did they participate in the voting by show of hands? — clearly chose not to disturb Morarka. It is not suggested that they should necessarily have dislodged Morarka, but what *quid pro quo* did they get from Morarka on behalf of the common shareholders who are clearly not satisfied with Belapur's affairs? Neither the LIC nor the banks have cared to explain their posture on Belapur so far. Informally banks say that they went along with the LIC, in keeping with the convention prescribed by the Finance Ministry. As for the LIC representative, he is known to have left the Belapur meeting before the poll!

To turn to the " affairs of Belapur which agitated the shareholders. The company's paid-up capital, comprising 3,61,406 shares of Rs 50 each, amounts to Rs 1.81 crores. Its reserves (general reserve Nos 1 and 2 and development reserve) amounted to Rs 1.20 crores. The sum of capital and reserves at the end of September 30, 1971, stood at Rs 3.01 crores. Against this, Belapur had lent out Rs 1.84 crores — or just over 60 per cent of its capital and reserves.

The break-up of the loans is as follows:

to Changdeo Sugar Mills (purchased by Morarka from Bhiwandiwala) Rs 20.93 lakhs, including Rs 5.93 lakhs interest due;

to Nasik Deolali Electric Supply (under Morarka control) Rs 13.75 lakhs, including Rs 3.75 lakhs interest due;

to Ganesh Flour Mills (in which Belapur holds shares worth Rs 5.15 lakhs) Rs 63.45 lakhs, including Rs 12.61 lakhs interest due;

to share brokers Rs 50.88 lakhs (out of which Rs 18 lakhs are given against pledge of shares — whose shares, pledged by whom? — of the market value of Rs 14.25 lakhs), including Rs 5.33 lakhs interest due;

to sharebrokers on badla transactions (interest free), Rs 23.27 lakhs (interest free), secured by pledge of shares.

to Armstrong Smith, a Belapur subsidiary, Rs 10.34 lakhs (interest due *nil*); and

to others (unspecified) Rs 0.95 lakh, including Rs 0.08 lakh interest due.

Of the outstanding loans of Rs 1.84 crores, Rs 34 lakhs were in the nature of interest-free loans (Rs 23.27 lakhs to sharebrokers on badla transactions against pledge of shares — are these loans or borrowings? — and Rs 10.34 lakhs to the subsidiary, Armstrong Smith, or at any rate the interest due from the subsidiary was waived. Against the residual loans amounting to Rs 1.50 crores, interest due works out to Rs 28-odd lakhs or just under a fifth of the total. The loans by Belapur to Changdeo, Nasik Deolali Electric and Armstrong Smith are in the nature of inter-company investments. Morarka's precise relationship with Ganesh Flour is not clear, but Belapur has an investment in Ganesh Flour and Armstrong Smith has business arrangements with Ganesh Flour, though the commission due from Ganesh to Armstrong "has not been ascertained".

Finally, what are the loans to sharebrokers and what are the badla transactions financed? How are these loans to sharebrokers related to Morarka's acquisition of various companies, including Belapur itself? Note must also be taken of the loans to Ganesh Flour which, according to Belapur's report for 1970-71, are secured to the extent of Rs 56 lakhs by deposit of their "second debentures" as collateral security, of which Rs 6 lakhs are in the name of Armstrong Smith. What is the precise nature of Ganesh Flour's debentures? It is known that under the Companies Act debenture loans are not considered inter-corporate loans. Clearly, this loophole is being taken advantage of. (Incidentally, the key to the loans to Ganesh Flour is the lands the borrowing company holds in Delhi. The lands are worth a fortune; but who has claims on them: sharebrokers, Morarka, Belapur or Armstrong?)

Furthermore, there is the question regarding the ceiling on inter-company investment prescribed under the Companies Act at 30 per cent of a company's paid-up share capital plus reserves. Clearly, this ceiling has been exceeded but the fact is being played down (or obfuscated?). Thus in the notes (to shareholders!) to the balance-sheet and profit and loss account of Belapur for 1970-71, the auditors state:

"The directors are of the opinion that the provisions of section 370 of the Companies Act 1956 have been complied with since *at the time when loans were given* the share capital and free reserves were adequate and as the total loans did not exceed the limit prescribed under section 370 *without taking into account the interest on the loans and the dividend subsequently* declared to be paid out of the general reserves" (emphasis added).

The auditors have, of course, no view of their own on the opinion given by Belapur directors. Nor the bankers to the company. Nor the LIC. The only opinion that matters apparently is that of Morarka, a sugar magnate of western Maharashtra. However inscrutable, the heart has its reasons!

'New Economics'

Facts That Do Not Fit

A Correspondent writes:

THE publication of the UN World Economic Survey for 1971 has come at an inconvenient time for those who have been trying to convince the less developed countries that they have been misguided in their "hot pursuit" of high rates of economic growth. The argument that these countries should now launch a direct attack on the worst forms of poverty, in the process accepting lower rates of growth of GNP if necessary, has rested heavily on the example of the People's Republic of China. In his celebrated "Let Us Stand Economic Theory on Its Head" article, Mahbub ul Haq says: "It appears that within a period of less than two decades, China has eradicated the worst forms of poverty; it has full employment, universal literacy and adequate health facilities; it suffers from no obvious malnutrition or squalor. What's more, it was my impression that China has achieved this at fairly modest rates of growth... In fact, China has proved that it is a fallacy that poverty can be removed and full employment achieved only at high rates of growth...".

It is not surprising that Mahbub ul Haq has been overnight hailed as a new messiah by the governments of countries like India which found in his formulation the perfect excuse for their past economic failures. They could now claim that they had been misled (by their own economists and, worse, by their foreign advisers from the developed countries) into pursuing the wrong objective, growth of GNP, when they should have sought other goals like full employment and a minimum level of living for their people. Now they had seen the light and so the future would be altogether different from the past.

Where does the picture of the Chinese economy, as it emerges from the UN World Economic Survey, fit into all this? According to the official data presented in the Survey, agricultural and industrial production in China rose by 10 per cent in 1971. By what standards is this rate of growth "fairly modest"? Certainly not by those of this country where the growth of national income is unlikely to have been more than 3.5 per cent last year. Similarly, the UN Survey discloses that steel production in China in 1971 was 21 mn ingot tonnes or more than three times ours. Indeed, on optimistic expectations we will crawl to that level of steel output only by the end of the decade, if even then!

So let us stop kidding ourselves. First, let us stop believing that China has achieved full employment, universal literacy and adequate health facilities with "modest" rates of growth — or that we can do so. Second, let us stop telling ourselves that if, as is only too true, our plans have had no impact on the worst forms of poverty it happened because we were engaged in the pursuit of high rates of growth of GNP. The fact is that China has achieved both a very much higher rate of growth and, at the same time, eradicated poverty. The explanation of what China has done, and we have not, is not to be sought in economic theory (whether stood on its feet or its head) but in the political systems of the two countries. China, like other socialist countries before it, has been able to achieve a high rate of saving and, therefore, a high rate of growth; at the same time, current consumption has been equitably distributed so that, even with a smaller proportion of national income devoted to consumption, it has been possible to eradicate poverty, provide adequate health facilities, etc, etc. By contrast, our own political system has stood in the way of the achievement of high rates of saving and investment and, therefore, high rates of growth; and yet, current consumption has been so unevenly distributed that even with a larger proportion of national income devoted to consumption it has not been possible, after 20 years of planning, to provide one-half of the population with the means of bare human existence.

Clearly, what is called for is a change of political systems, not new political slogans or new economic messiahs.

Japan

Commercial Foreign Policy

EISAKU Sato has announced his retirement from premiership at an honourable moment — soon after Okinawa's reversion to Japan after 27 years of American occupation. Sato's eight-year reign witnessed the crest of the economic 'miracle' (there are signs that this might now be tapering off) and relative internal political calm compared to the years of Ikeda and Kishi. In 1970 when the US-Japan Security Treaty was renewed for the second time, even the fiery leftist student groups — which had spearheaded the widespread demonstrations against the first renewal and revision of the Treaty in 1960 and had succeeded, if not in doing away with the Treaty, at least in having President Eisenhower's visit to Japan cancelled and in bringing about Kishi's subsequent resignation from the premiership — could do little to arouse the nation from its slumber over foreign affairs.

At one time it looked like Japan was getting away with the simplest of foreign policies — sheltering under the American security umbrella, keeping mute on almost every international political issue and making as many quick bucks as possible from every possible market, including China which Japan still does not officially recognise but whose major supplier it succeeded in becoming. But this essentially slumberous foreign policy has been rudely shaken by events elsewhere, most of the shocks coming from its 'close' ally, the United States. Last July Nixon announced that he would be visiting China, last August he proclaimed stringent economic measures including a ten per cent surcharge on a wide number of imports, also last August the Indo-Soviet Treaty came into being. Coming one after the other these moves temporarily stunned the Japanese Government. But it soon reconciled itself to making some economic concessions — the yen was revalued, export quotas renegotiated with the United States and promises made to ease import restrictions.

Japan has, however, not essentially changed its outlook on world affairs and still appears to think that it can continue to export indiscriminately to all sorts of markets without worrying too much about the consequences. For instance, it continues to adhere to its 'two Chinas' policy, woos both the Russians and the Chinese in the commercial field and is the main economic beneficiary of the US military vendetta in Vietnam. If this commercial foreign policy is not tempered, the long-term results could turn out to be serious, including a possible cold shouldering by other major powers which would consequently affect Japan's export oriented economy.

Sato's departure does not necessarily mean that there will be drastic changes in foreign policy. Of the four likely aspirants to premiership, two, Ohira and Miki, have been foreign ministers

in previous cabinets and one, Fukuda, is the present foreign minister. The fourth contender, Tanaka, is the present minister of international trade and industry. Since all four have had experience in the conservative mould of Japan's international dealings, the election of any of these four to leadership by the ruling Liberal-Democratic Party is not likely to alter drastically Japan's trade-cum-foreign policy which, after all, is geared to serving the interests of its powerful backers, the Japanese corporations. Yet, it is reputed that within limits, Tanaka would prove to be more flexible than Fukuda, the present ultra-conservative foreign minister, or the other two lesser contenders. (For details about the likely aspirants, see issue of March 4, Gene Gregory, "Factional Struggle for Succession", pp 541-2).

AITUC

In Mourning

Our Maharashtra Correspondent writes:

THE CPI-led AITUC's Maharashtra State Trade Union Committee held its Sixth Conference in Bombay recently after a gap of eleven years (the last conference was held in 1961). The conference was attended by over 400 delegates from all over the state and leading luminaries of the Communist party, including party chairman S A Dange who is also the General Secretary of AITUC and S S Mirajkar, AITUC President, graced the occasion by their presence. Of course, what was discussed at the conference is not known. A report in the CPI journal, *New Age*, referred to the conference, the attendance and the election of a new council of MSTUC along with a new president and a new general secretary. The report also made a mention of the need to take steps to strengthen the trade union movement in Bombay city and the rest of Maharashtra, but gave no details.

The conference appears to have been notable for the report of the General Secretary of the MSTUC on the state of the trade union movement, and the AITUC in particular, in the state. The report is the first official confirmation by the CPI of the decline of communist influence in trade union politics in Bombay city and in Maharashtra. The General Secretary of MSTUC is completely frank in his admission of the total loss of communist influence over the working class. Workers in Bombay and in the rest of Maharashtra, according to him, have lost all "respect and liking" for the left trade unions, particularly CPI-led unions. The CPI and its trade unions have failed to organise workers on organisational and ideological bases; as a result workers have lost all interest in political struggles and no longer believe that in their fight against employers for higher wages, shorter hours of work and other benefits, they are essentially waging a class struggle for the ultimate goal of ending exploitation. As they become less and less conscious of class interests and more and more 'income conscious', they invariably leave AITUC trade unions for other unions which make higher wage demands. Most important, workers have stopped acknowledging the historical fact that whatever they are receiving now — by way of higher wages and other many benefits — have come from the sacrifices made and the struggles fought by earlier generations of the working class.

In sum, what the General Secretary has sharply brought home to his partymen is the grim reality that the communist party and its trade union organisations have been neutralised in Bombay city, where their leadership of the textile workers provided for nearly four decades the inspiration for the working class all over the country. The report has attributed this loss of influence to, among other things, the anti-communist activities of the Shiv Sena and other independent trade union organisations. Here the report loses some of its objectivity and fails to mention what the CPI and its trade union organisations in Bombay have done in the last five years to fight anti-communist forces in the trade union field. It is content with blaming the state government for its failure to solve the problem of closed mills and other major industrial units in Bombay city. The report thus does not go beyond admitting the failure of the CPI leadership to organise the workers on a class basis. It does not state what specific errors of omission and commission contributed to this failure. Its prognostic value, from the view point of the communist trade union movement in Maharashtra, is therefore very limited.

Fertilisers

Better Times

FEW organisations can claim to rank first in their industry as GSFC has done. Its chairman, Jaikrishna Harivallabhdas, ascribes the "substantial improvement from year to year" in production, sales and profit to the "professional and progressive" management of the 10-year-old Corporation. Thus, in 1971-72, despite sharp increases in costs of raw materials (including of naphtha and gas), wagon shortages, blackouts due to war, and lowered retail price of urea, GSFC's gross profits were higher at Rs 14.97 crores (Rs 12 crores in 1970-71), net profit was Rs 3.18 crores (Rs 3 crores), and dividend was higher by 33 per cent. Working efficiency of the plant is high, and the better profitability compared to that of most other units is attributed to lower manufacturing and distributing costs. This operating efficiency is remarkable since in the industry as a whole capacity utilisation has tended to be low and operational hitches have been frequent, so that despite the expanding market and uncontrolled prices of fertiliser, profitability of individual units has been lower than it could be. On the other hand, as with other industries, the protected market and the overall shortage of fertiliser offer little pressure for improvement in efficiency. Meanwhile, consumption of fertiliser is again picking up all over the country and prospects for the industry are good, as is reflected in the 13 pending applications for licences. In fact, notwithstanding the reports circulated over the past three years that fertiliser manufacturers were having to build an extension and distributive network because demand was not rising as anticipated there is little visible evidence of that network. Earlier this year, the government was even threatening that it would re-invoke the 30 per cent compulsory procurement unless manufacturers strengthened their distributive network; and various states, particularly the southern ones, have complained of non-availability of fertiliser.

Indeed, apart from Haryana, Gujarat is the only other state that is 'surplus' in fertiliser — and it will be so as long as intensive cultivation of groundnut does not achieve a breakthrough. GSFC has thus had to undertake rather more marketing activities than most manufacturers. Its extension services network, includes 130 farmers' information centres, experimental trials in the company's and 7,000 farmers' fields, and water, seed and soil testing facilities offered to farmers as part of the promotional effort. Even so, some 42 per cent of the company's fertiliser had to be sold outside the state in 1971-72. Wagon shortages are a significant bottleneck in the circumstances.

How much the lack of regional demand has contributed to GSFC's

efforts at diversification is difficult to say, however, especially since two other major fertiliser units, *viz*, that of Indian Farmers Co-operatives (IFCO) and of Tatas, are nevertheless being planned to be set up in the area. Certainly, GSFC's entry into the petrochemicals field, by its undertaking to set up the caprolactum plant — the first in the country — should prove highly profitable. Caprolactum is used for nylon fibres and has till now been imported. The basic and front-end engineering for the project have been completed, and orders have been placed for both imported and indigenous equipment. Significantly, the detailed engineering is being done in India. But if external hurdles, such as delays in foreign exchange allocation are encountered, the project may be delayed and completed only in the latter part of 1973. This efficient 'joint sector' enterprise, as its chairman chooses to call GSFC, will thus be using its professional expertise to substitute the import of one more item needed by the nylon spinners and weavers in the country. How much of the nylon goes into products of consumption that do not fit into the priorities that should flow out of the *garibi hatao* objective of planning is a different question, however.

Education

Torpor at the Top

A Correspondent writes:

IT is not only the monsoon which has made a late start in many parts of the country. The new academic year which generally starts by now is yet to begin for university students in many places of learning. In Nagpur several examinations have been rescheduled because of the widespread malpractices at the regular session and these are now in progress. In Aligarh and some other places, examinations were earlier postponed on account of riots and for other reasons and are taking place only now.

Mass-copying and the use of other irregular means by students to get through examinations has been a common feature for many years now, and action such as that of the Nagpur university was long overdue. What is curious, however, is that the university has selected for this drastic measure only a few colleges which happen to cater primarily to students from backward communities.

There are other less obvious forms of academic truancy which generally go unnoticed. Some thousands of students will be losing at least one term of their study as a result of the dilatory ways of university authorities or other extraneous factors, though neither universities nor the government seem to be concerned at this. Even though many universities have started the new academic year, this is so only formally. The results of many examinations, held in April and May, are yet to be declared. In Bombay University, which has a reputation for being administered with better-than-average efficiency, results of more than half a dozen examinations were still to be declared when the university formally reopened on June 16. Consequently, the new classes cannot be formed nor instruction commenced. The student is thus effectively done cut of at least a few weeks of teaching. Evidently, to give students their money's worth is not part of our academic ethics.

Way beyond reach for the moment and hopelessly enmeshed with this couldn't-care-less attitude is the question of reform of the system of examinations in Indian universities. Not only is the system academically unsound, it cannot even be administered properly. Three months of the summer vacation are not enough to complete the full process of examinations as it is organised now. None of the universities has taken even the preliminary steps towards reforms of the examination system. Even at Nagpur, there has been no move towards a permanent solution to the problem. Nor are governments inclined to lead the way. Yet the Education Commission, and several other inquiry commissions before it, had underlined that reforms in the system of examinations are the single most important piece of reform most urgently needed on our campuses.



Population of India

India/State/Union Territory	Total Rural Urban	Population			Scheduled Caste Population	Scheduled Tribe Population
		Persons	Males	Females		
(1)	(2)	(3)	(4)	(5)	(6)	(7)
INDIA	Total	547,949,809	283,936,614	264,013,195	79,995,896	37,974,953
	Rural	438,855,500	225,218,984	213,636,516	70,441,388	36,680,442
	Urban	109,094,309	58,717,630	50,376,679	9,554,508	1,294,511
STATES						
Andhra Pradesh	Total	43,502,708	22,008,663	21,494,045	5,774,548	1,657,657
	Rural	35,100,181	17,698,247	17,401,934	5,092,130	1,572,627
	Urban	8,402,527	4,310,416	4,092,111	682,418	85,030
Assam*	Total	14,957,542	7,885,064	7,072,478	912,639	1,919,947
	Rural	13,630,561	7,126,453	6,504,108	826,911	1,870,683
	Urban	1,326,981	758,611	568,370	85,728	49,264
Bihar	Total	56,353,369	28,846,944	27,506,425	7,950,652	4,932,767
	Rural	50,719,403	25,728,987	24,990,416	7,436,573	4,725,693
	Urban	5,633,966	3,117,957	2,516,009	514,079	207,074
Gujarat	Total	26,697,475	13,802,494	12,894,981	1,825,432	3,734,422
	Rural	19,200,975	9,842,483	9,358,492	1,328,000	3,507,152
	Urban	7,496,500	3,960,011	3,536,489	497,432	227,270
Haryana	Total	10,036,808	5,377,258	4,659,550	1,895,933	—
	Rural	8,263,849	4,420,225	3,843,624	1,698,626	—
	Urban	1,772,959	957,033	815,926	197,307	—
Himachal Pradesh	Total	3,460,434	1,766,957	1,693,477	769,572	141,610
	Rural	3,218,544	1,628,623	1,589,921	734,080	141,055
	Urban	241,890	138,334	103,556	35,492	555
Jammu and Kashmir	Total	4,616,632	2,458,315	2,158,317	381,277	—
	Rural	3,758,411	1,996,864	1,761,547	349,684	—
	Urban	858,221	461,451	396,770	31,593	—
Kerala	Total	21,347,375	10,587,851	10,759,524	1,772,168	269,356
	Rural	17,886,926	8,852,350	9,028,576	1,600,645	258,480
	Urban	3,466,449	1,735,501	1,730,948	171,523	10,876
Madhya Pradesh	Total	41,654,119	21,455,334	20,198,785	5,453,690	8,347,194
	Rural	34,869,352	17,823,411	17,045,941	4,769,158	8,203,833
	Urban	6,784,767	3,631,923	3,152,844	684,532	143,361
Maharashtra	Total	50,412,235	26,116,351	24,295,884	3,025,761	2,954,249
	Rural	34,701,024	17,482,020	17,219,004	2,279,026	2,825,955
	Urban	15,711,211	8,634,331	7,076,880	746,735	128,294
Manipur	Total	1,072,753	541,675	531,078	16,376	334,466
	Rural	931,261	470,231	461,030	15,802	319,516
	Urban	141,492	71,444	70,048	574	14,950
Meghalaya	Total	1,011,699	520,967	490,732	3,887	814,230
	Rural	864,529	441,533	422,996	1,673	747,113
	Urban	147,170	79,434	67,736	2,214	67,117
Mysore	Total	29,299,014	14,971,900	14,327,114	3,850,034	231,268
	Rural	22,176,921	11,249,209	10,927,712	3,202,756	206,067
	Urban	7,122,093	3,722,691	3,399,402	647,278	25,201
Nagaland	Total	516,449	276,084	240,365	—	457,602
	Rural	465,055	241,171	223,884	—	438,218
	Urban	51,394	34,913	16,481	—	19,384
Orissa	Total	21,944,615	11,041,083	10,903,532	3,310,854	5,071,937
	Rural	20,099,220	10,041,023	10,058,197	3,103,244	4,924,582
	Urban	1,845,395	1,000,060	845,335	207,610	147,355
Punjab	Total	13,551,060	7,266,515	6,284,545	3,348,217	—
	Rural	10,334,881	5,533,475	4,801,406	2,856,046	—
	Urban	3,216,179	1,733,040	1,483,139	492,171	—
Rajasthan	Total	25,765,806	13,484,383	12,281,423	4,075,580	3,125,506
	Rural	21,222,045	11,060,995	10,161,050	3,493,437	3,057,790
	Urban	4,543,761	2,423,388	2,120,373	582,143	67,716
Tamil Nadu	Total	41,199,168	20,828,021	20,371,147	7,315,595	311,515
	Rural	28,734,334	14,438,727	14,295,607	6,050,302	294,379
	Urban	12,464,834	6,389,294	6,075,540	1,265,293	17,136
Tripura	Total	1,556,342	801,126	755,216	192,860	450,544
	Rural	1,393,982	717,227	676,755	182,667	445,059
	Urban	162,360	83,899	78,461	10,193	5,485
Uttar Pradesh	Total	88,341,144	47,016,421	41,324,723	18,548,916	198,565
	Rural	75,952,548	40,214,012	35,738,536	17,147,032	182,768
	Urban	12,388,596	6,802,409	5,586,187	1,401,884	15,797

(Continued)

Population of India

(1)	(2)	(3)	(4)	(5)	(6)	(7)
West Bengal	Total	44,312,011	23,435,987	20,876,024	8,816,028	2,532,969
	Rural	33,344,978	17,173,552	16,171,426	8,093,232	2,475,625
	Urban	10,967,033	6,262,435	4,704,598	722,796	57,344
UNION TERRITORIES						
Andaman and Nicobar Islands	Total	115,133	70,027	45,106	—	18,102
	Rural	88,915	53,195	35,720	—	18,099
	Urban	26,218	16,832	9,386	—	3
Arunachal Pradesh	Total	467,511	251,231	216,280	339	369,408
	Rural	450,223	239,369	210,854	335	365,939
	Urban	17,288	11,862	5,426	4	3,469
Dadra and Nagar Haveli	Total	74,170	36,964	37,206	1,332	64,445
	Rural	74,170	36,964	37,206	1,332	64,445
	Urban	—	—	—	—	—
Delhi	Total	4,065,698	2,257,515	1,808,183	635,698	—
	Rural	418,675	229,424	189,251	104,999	—
	Urban	3,647,023	2,028,091	1,618,932	530,699	—
Goa, Daman and Diu	Total	857,771	431,214	426,557	16,514	7,654
	Rural	630,997	310,909	320,088	10,809	5,824
	Urban	226,774	120,305	106,469	5,705	1,830
Pondicherry	Total	471,707	237,112	234,595	72,921	—
	Rural	273,419	137,783	135,636	57,616	—
	Urban	198,288	99,329	98,959	15,305	—

* Includes Mizo district, now constituted as Union Territory of Mizoram.

Source : Census of India 1971, Paper 1 of 1972, "Final Population", Registrar-General and Census Commissioner, India.

LETTERS TO EDITOR

Foreign Investment

YOUR correspondent who wrote the short note on foreign investment (June 17, p 1164) must be either very simple-minded himself or he was taking your readers for a ride.

In answer to his own question "what is a foreign business?", he suggests that a foreign company is here defined as one in which more than 50 per cent of the equity is held by foreigners because "the government is concerned with the outgo of foreign exchange on account of repatriation of dividends". If dividend repatriation were the government's only concern, why is preference capital omitted while calculating the proportion of foreign-held equity?

The reason why only equity capital is considered while determining the foreignness or otherwise of a company is that what is material is not the dividend remitted abroad so much as control over management. Only babes-in-arms will believe that all the return that a foreign company gets on its investment in India is what it gets in the form of dividends. What about royalties, technical payments, head office charges, licence fees, etc, etc, for use of the parent company's knowhow, patents, brand names, trade marks and what have you? Further, what about the pricing of equipment, intermediates and raw materials purchased from the parent company and of things sold to it? Over-pricing the former and under-pricing the latter contribute no less handsomely to the returns from investing in India than straight-forward dividends (though these themselves are not exactly chicken-feed). And what makes it possible to fiddle with these prices or to invent multiple excuses for making payments to the parent company is *management control* of the Indian company.

And for management control the foreign company certainly does not need to hold over 50 per cent of the equity capital of the Indian company. This is a lesson which capitalist Japan took to heart very early and which socialist India has not even begun to learn. As a reviewer pointed out in your own columns: "Japanese have permitted an influx of $ 4.4 billion of foreign capital investment, but of this three-fourths was in the form of local capital. Of the total equity, only one-third ($ 312 million out of $ 944 million) was with management participation (rigorously defined). Unlike in 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 of unrestricted indents and 15 per cent of restricted indents are defined as constituting management participation" (Baldev Singh, "Foreign Technology: Role and Control" November 20, 1971, p 2354). To simplify for the benefit of your correspondent: it is management control, not dividend payment, that matters. Once the foreign company has it, everything follows.

As for your correspondent's paens of praise for foreign business for introducing mass marketing in India, what is this mass market he is talking about? How many of the consumer goods the foreign companies sell in India can be bought except by the top 5, 10 or at the most 15 per cent of the country's population? And what proportion of the sales of any of the companies listed by your correspondent is actually made in the rural areas where the *mass* of the Indian people still lives? "Mass marketing" and "rural penetration" are fine words to throw about when all you are really after is the easy-to-get middle and upper middle class urban consumer who falls for a toothpaste because it has a coloured stripe running through it or for perfectly ordinary lozenges which can be — and in this case *are* — made by any Indian company with a saucepan or two because they are claimed to be 'mentholated'.

Your correspondent says, referring to Indian business, "we are too accustomed to being over-protected", thereby suggesting that foreign companies scorn protection and thrive on competition. Indeed! Aren't the foreign companies in India as much protected against imports as is Indian business? Isn't it the spectacle of a market virtually completely protected against competition from imports which lures most of them here in the first place?

Finally, your correspondent justifies the production of socially worthless products on the ground that if they were not produced here they would be smuggled into the country. Now, if prevention of smuggling were the only consideration, there is a straightforward way of achieving the objective — allowing import of the items concerned. If this is not done it is because we feel we have better use for the foreign exchange that will be spent on these imports. The same consideration is relevant to domestic production of socially worthless goods: we have better use for the resources that will need to be invested in their production. The argument applies with far greater force to foreign capital whose investment in any industry has to be doubly justified in terms of social priorities.

A READER

Bombay

Ripple and Wave but Not the Tidal Current

FARRUKH Dhondy's reports from London usually stand out in *Economic and Political Weekly* as being refreshingly readable. But his 'review' (December 25, 1971, pp 2549-50) of V S Naipaul with special reference to his latest novel, "In a Free State", was, I think, unnecessarily obtuse, often unjust and what is worse, self-congratulatory.

Granted it was not a literary review, but what in fact was it? An attempt to measure the novel against a Marxist slide-rule? No, not really. It appeared to ask of a writer the supreme moral/political vision of "that ultimate sympathy of sight from a novelist for the people he is talking about ... insights into the social crucibles of their being", in a form which suits the "essential creation" and "the changing myths of his time".

First of all, the reviewer flits from a consideration of Naipaul the writer (journalist, historian, novelist) to his latest novel. This in itself creates some confusion. Why should Naipaul as novelist, be compared to Frantz Fanon and Aime Cesaire? Both of whom as the reviewer admits, were rhetoricians with a cause. Were he to come right out and condemn Naipaul for writing novels at all, for not being a straightforward rhetorician—the point would be better made. As it is, the review is clotted with long metaphors about white-skinned Miss Jamaicas, ball-games and mistresses hanging about in the wings. Why does he fight shy of stating clearly what kind of writing Naipaul should be doing? I had the same exasperated reaction to the language of the review, as Farrukh Dhondy has to Naipaul. What kind of outmoded literary tradition was the critic waffling with?

Accepting the fact that Naipaul set out to write a novel and not a thesis, he must be commended for experimenting with the form: three stories of expatriate experience, within the statements of a personal diary which stops short of dialectics. (Actually a well known English writer objected to Naipaul being awarded the 1971 Booker Prize for fiction. In his view, "In a Free State" was not, strictly speaking, a novel.)

I don't agree that the inclusion of characters from a Chinese circus visiting Egypt, should be "tantamount to an admission that he (Naipaul) has no way of dealing with the creatures of this new creation", i e, of our times. These "creatures" are not just political demagogues. To my mind one of the points Naipaul is trying to make (and the lines quoted in the review echo it) is that the Chinese more than other groups, carry an enviable self-sufficiency. They hardly seem to suffer the pain of a cultural vacuum when transplanted.

It's true Naipaul lacks the temperament for blood and thunder and tidal waves in his language. But that's not to say he lacks insight in depth. Nor do his books all read like comedies of surface manner. Is he too subtle for the reviewer, doesn't he make his sympathies obvious enough? What about the epilogue in "The Loss of El Dorado"?

Exactly how much compassion and understanding Naipaul has for his characters is perhaps a personal, subjective assessment. I happen to think it's considerable. Farrukh Dhondy claims to have more. "If we understand his characters better than he does, as I feel I understand Santosh and the other benighted of 'An Area of Darkness' ..."

Surely the second story of "In a Free State" captures particularly well, the "essential antagonisms" that have shaped the soul of the West Indian immigrant in London. It is a deepening of the insights less of "Miguel Street" than of "The Middle Passage —the Caribbean Revisited". This book the reviewer has chosen to ignore.

The title of the story "Tell Me Who to Kill" is what Farrukh Dhondy also demands of Naipaul. Why? Because expatriates like him are Naipaul's essential audience and they have sometimes asked themselves this question. ("We, the expatriates he's talking about ...") Does "we" mean other expatriates who are well-anglicised and apparently self-exiled? Does the category mean only Indians or does it include English expatriates like Bobby and Linda of "In a Free State"? Or does it somehow include the under-educated exiles for whom economic necessity narrows the choice: Indian, West Indian, Irish, *et al?*

If anything, expatriates appear to be Naipaul's essential subject, not audience. And which of them is he supposed to rally round the flag? Frantz Fanon and Aime Cesaire spoke initially for the fellow blacks of Martinique. Fanon went on to become a spokesman for the colonial Third World, but Cesaire sold out to France. Martinique is still French. Besides it was their experience as blacks in a French colony that heightened their anguish. (Refer also to V Subramaniam, "Why are the French-Speaking African Elite Different?", January 22, 1972, pp 146-8.) Naipaul is the product of a relatively secure community in a British colony which graduated to independence. How can he be expected to rage *a la* Fanon? Or should he raise the banner of 'Brownitude' in present-day England?

As for who to kill, the reviewer even after reading Fanon and Cesaire, only comes away with the "feeling" that they know. They don't actually tell him, it seems. One gets the "feeling" that Naipaul being another 'Indian' expatriate, is somehow ripe for attack. He doesn't provide a certain explicit, ideological/emotional deluge which in itself often serves to salve the reader's conscience and purify it.

Almost as though to compensate, the review reads a bit like instant, do-it-yourself catharsis.

Bombay SUSHMA KUMAR

Kissinger in Peking

Dhananjoy

ALTHOUGH the declared objective of Kissinger's third visit to Peking was to discuss issues of bilateral relations between China and America, it is obvious that it was intended primarily to carry conviction to the Chinese leaders that whatever Washington might do with Moscow, it would not hurt the "legitimate interests" of China. In fact, the White House appears to be quite keen to periodically reaffirm that it now recognises China as the third Super Power which deserves as much of attention and respect as does the Soviet Union.

In some ways, Moscow still remains the more important capital for Washington. For one thing, the military equation between the United States and the Soviet Union is of an entirely different order. And the proper management of Soviet-American relations is still far more important than any other item on the agenda of American foreign policy.

Yet the old objective of Soviet-American co-operation to contain China and to preserve a duopolistic world order, which was vigorously pursued by the Johnson Administration, appears to have been given up as unworkable. What is more, in spite of its apparent weaknesses as a Super Power, China is being treated by the United States with just that additional bit of respect that makes all the difference between the status of the middle powers, on the one hand, and the Super Powers, on the other. In brief, the creation of a stable triangular arrangement among China, Russia and America seems to be the main objective of Washington today and, in this sense, Nixon can legitimately claim to have brought about a fundamental change in American foreign policy.

The change, however, is more the result of the inevitable tendency of any major power to try to adjust to new realities than of any great personal insight of the American President. The Chinese had very successfully prevented the crystallisation of the idea, that had been floating ever since the days of Khrushchev, of China being the great threat to world peace, so that only coordinated effort by the two Super Powers against its war-like tendencies could ensure peace in the world. Peking successfully conveyed the message to all Western capitals through various channels and diverse methods that whatever might be the foreign policy pronouncements of China, it was in fact far more cautious in handling issues of war and peace than most established powers in the world.

The two instances often cited as evidences of China's aggressive intentions, namely, the Himalayan war of 1962 and Peking's support to North Vietnam, were not conclusive enough proof of any Chinese misbehaviour. More than any others, Western analysts themselves seemed to accept without much reservation the Chinese version of what happened along the Sino-Indian border in 1962. The assumptions of the Johnson Administration that China was the real force behind what was happening in Vietnam proved to be equally unfounded.

Besides successfully living down the reputation of being an aggressive power, China also increased its value in Western eyes by repeatedly demonstrating its potentiality as a force to contain the Soviet Union, particularly in Asia. This was done at a time when the power, prestige and influence of the Soviet Union was expanding much more than what the United States had been mentally prepared to concede as part of its scheme for Soviet-American co-existence. Having occupied the White House after all these developments, it did not tax Nixon's genius much to discover that a basic change of strategy towards the two major Communist powers was called for.

Simplistic

By now, the shape and contours of the new model of American foreign policy are clear. It is still pertinent, however, to raise the question whether in many ways the current experiment is not as simplistic in perception as the one that Nixon's predecessors in the White House had tried out.

For one thing, the stability of a triangular balance will at least partly be a function of the state of Sino-Soviet relations. For the implementation of the American model, it is important that relations between the Soviet Union and China improve to a point where they agree to co-exist without in any way co-operating between themselves. Should Sino-Soviet relations improve to a point where these two powers can co-ordinate their foreign policies, the situation would be as disturbing for America as it would be if there was continued tension and possibility of conflicts between them.

It is not surprising that Nixon is reported to have raised the issue of Sino-American relations during his visit to Moscow. In some ways, the improvement of Sino-American relations would itself provide some impetus to the Soviet Union to improve its own relations with China, and Nixon's ploddings may have been uncalled for. But he will still have to face many uncertainties in regard to bilateral relations between the other two Super Powers. Sino-Soviet relations are not determined by exactly the same considerations as Soviet-American or Sino-American relations. The fact that both these powers profess to be Communists adds a dimension to Sino-Soviet relations which the American foreign policy-makers may be unable to grasp. Because of the importance of ideology in their respective foreign policies, China and the Soviet Union may find it necessary to evolve a relationship which is either more or less cordial than what suits the needs of American foreign policy.

The real weakness of the Nixon-Kissinger model, however, is precisely of the same kind that was inherent in the earlier Johnson-Rusk model. The world is far too complicated a place to be managed by two or three, or even five Great Powers. There is a requirement in the concept of a triangular balance, as much as it was in the concept of a bipolar system, that the Super Powers should assure each other that their legitimate interests would be best preserved through the maintenance of a minimum degree of accord among themselves.

A corollary of this is that in case there are any crucial contests between any of the Super Powers, on the one hand, and a lesser power, on the other, the other two should display an adequate concern for the protection of the legitimate interests of the concerned Super Power. This indeed is the principle that Nixon has been trying to invoke in his contest with Vietnam. In return, he has indicated his readiness to promote legitimate Chinese interests *vis-a-vis* India. His policy towards Bangladesh could only be interpreted in these terms.

But the results in Bangladesh and Vietnam have not been encouraging from the American point of view. And if any proof was needed of the virtual impossibility of creating any Super Power accord which will be so wide-ranging as to deny all political, military and diplomatic initiatives to the lesser powers, Bangladesh and Vietnam have already provided it. The fact is that the current model of American foreign policy is as simplistic as the earlier one and much as it may succeed for a while in making American foreign policy appear successful, its long-term consequences could be as destabilising as were the consequences of the concept of Soviet-American *entente*.

Indigenous, at Any Cost

Hansavivek

ESCORTS has represented to the government and to the Agro Industries Corporations, who have contracted to import tractors under World Bank aid, to permit Indian manufacturers to quote against tenders issued by them with a price preference and not to restrict their global tenders to foreign countries. The company's president, H P Nanda, observes that before the Tractor Distributory Control Order came into force towards the end of last year, the figures of actual demand for tractors received from various ministries, Planning Commission, etc, showed a varied and large demand on the basis of which government issued several industrial licences for multiple brands of tractors. This, Nanda feels, would lead to problems in maintenance and spare parts availability to Indian farmers. Nanda also says that the recent tenders under the World Bank Aid had revealed that the imposition of a levy on completely built-up imported tractors and the constant rise in costs of production in the western world have made tractors produced in India almost 20-30 per cent cheaper than the prices quoted by well known foreign manufacturers. In spite of 'indiscriminate' licensing of several manufacturing units, Escorts' joint venture with Ford is the first and the only unit in the private sector that is in actual production. Nanda advocates imposition of higher customs duty on import of completely built-up tractors and comparatively lower duties or no duty on the imported content for the indigenous tractors.

Government has permitted Escorts to import additionally from Poland engine components to enable it to manufacture upto 12,000 numbers of yet another new model of tractors during the fiscal year 1972-73. This would put the company on a firm footing to attain better quality production and higher profitability, with none or very little increase in tractor prices. The retail selling prices announced by government in February last would leave the company with a 'reasonable' margin and enable it to introduce an improved new model with water-cooled engine and many new features which could not be introduced earlier because of the 'unremunerative' retail prices. According to Nanda, the company was 'out of pocket' on every Escort 37 tractor sold, which led to a drop in its

The Week's Companies

(Rs in Lakhs)

	Escorts		Blue Star		Antifriction Bearings		Warner-Hindustan	
	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 31-12-71	Year Last 31-12-70
Paid-up capital	429	400	80	66	70	64	100	100
Reserves	358	324	38	30	66	52	148	101
Borrowings	994	1134	122	110	83	51	118	97
of which Term borrowings	151	145	—	—	30	21	72	87
Gross fixed assets	1142	1002	62	54	183	150	220	206
Net fixed assets	692	644	39	32	118	84	151	142
Investments	85	74	3	3	—	—	—	—
Current liabilities	1321	1078	356	241	61	45	58	61
Current assets	2324	2218	554	426	161	128	273	217
Stocks	1555	1431	317	206	114	98	190	145
Book debts	720	711	228	216	37	29	78	73
Net sales	3919	3843	940	811	137	130	536	401
Other income	140	76	28	28	12	4	10	5
Raw material costs	2866	2776	722	640	51	41	144	90
Wages	347	308	121	101	26	17	82	63
Interest	120	74	11	11	6	6	9	8
Gross profit(+)/loss(—)	227	267	42	30	42	45	120	118
Depreciation provision	90	88	5	4	18	15	22	25
Tax provision	66	77	23	15	4	15	51	49
Net profit(+)/loss(—)	71	102	14	11	20	15	47	44
Development rebate provision	13	25	1	1	6	2	1	1
Transfer to reserves	13	31	7	5	6	6	36	36
Dividend								
Amount	E 38 P 7	E 39 P 7	E 5 P 1	E 5 P 1	8	7	E 9 P 1	E 6 P 1
Rate (per cent)	E 11 P 9 to 10	E 13 P 9 to 10	E 12 P 7.8	E 12 P 7.8	12	12	E 9 P 5	E 9 P 1
Cover (times)	134	1.79	2.40	2.25	1.75	1.86	5.00	7.00
Ratios (per cent)								
Gross profit/sales	5.74	6.94	4.47	3.70	30.65	34.62	22.39	29.42
Net profit/capital employed	3.98	5.49	5.83	5.34	9.13	9.00	12.84	14.76
Inventories/sales	39.67	37.24	38 72	25.40	83.21	75.38	35.45	36.16
Wages/sales	8.85	8.02	12.87	12.45	18.98	13.08	15.29	15.71

profit in 1971. As a result of the heavy influx of imported tractors from East European countries and under UK credit, Escorts' own production of tractors dropped by over Rs 5 crores as compared to in 1970. With the fall in earnings, despite a small rise in total net sales, the company lowered equity distribution by 2 points to 11 per cent, which was covered 1.34 times against 1.79 times in the year before.

Among Escorts' other manufacturing lines, the piston and piston-pin plants improved their sales. Sale of bi-wheelers was also higher, though profitability was lower on account of increase in cost of raw materials and wages. There has been an overall increase in sales of automatic shock absorbers railways ancillaries and heating elements. The new range of industrial equipment, known as 'yellow line' introduced last year, holds good prospects. Sales of X-ray machines were marginally lower owing to curtailment of purchases by government hospitals and unloading of heavy stock by competitors. The activities of the electro-medical division are intended to be diversified by adding manufacture of industrial X-ray. The company expects government permission for production of pistons and piston-pins by one million pieces each, per annum. Negotiations are being carried on with the collaborators, Mahle Komm of West Germany, for supply of plant and machinery. The new plants, to be located in Bangalore, should be operative within the next two years. Export sales of Escorts International Division increased last year from Rs 40 lakhs to over Rs 80 lakhs. Major items exported were garments, textiles, radios, leather goods, blankets, castings, etc. It is proposed to set up a joint venture for production of some of the company's products in Malaysia.

BLUE STAR completed the second phase of expansion last year by increasing the manufacturing floor area by 39 per cent. This would permit further diversification in product range and enable the company to set up substantially its own production this year. With all the operating divisions maintaining satisfactory growth rates, Blue Star achieved good results during 1971, — with a 40 per cent jump in gross profit at Rs 42 lakhs, following less than 16 per cent rise in sales at Rs 940 lakhs. Equity dividend, maintained at 12 per cent, is covered 2.4 times. The performance of the machine tool department has been encouraging, and the principals have agreed to extend the company's franchise to cover the additional territory of Northern India. A new service centre was set up at Indore. Last year, the company executed a turnkey contract for air-conditioning Malaysia's largest integrated textile mill. Another contract of a similar nature has been secured for a textile mill in Sudan. An agreement has been concluded for export of manufacturing knowhow to Kuwait for production of water coolers.

ANTIFRICTION BEARINGS CORPORATION has been sanctioned a foreign currency loan equivalent to Rs 117 lakhs by ICICI to meet part of the cost of imported capital goods for the expansion project. The company also expects a foreign exchange loan of Rs 55 lakhs and a rupee loan of about Rs 45 lakhs from IFCI. To meet the balance rupee cost, additional equity shares of Rs 70 lakhs are being offered to shareholders as rights on a one-for-one basis. The technical and financial collaboration agreement for 10 years entered into by ABC with Steyr Daimler Puch AG, Austria expired in March last. The management is examining the manner in which technical collaboration arrangements can be extended for the future. Having achieved full productive capacity in the preceding year, the company maintained production levels during 1971. Net sales increased by Rs 7 lakhs to Rs 137 lakhs, but gross profit declined by Rs 3 lakhs to Rs 42 lakhs. The chairman, C C Desai, observes that the raw material position continues to cause anxiety with the sudden stoppage of US aid. Non-availability of adequate foreign exchange for the required currency area affects production. Various sizes of tubes are required for production of bearings and lack of any one item affects the final assembly of bearings. He also feels that the shortage of raw materials might continue despite the establishment of the proposed steel bank.

WARNER-HINDUSTAN recorded a significant increase in sale of all product lines during 1971. Net sales expanded from Rs 401 lakhs to Rs 536 lakhs, but gross profit edged up by a mere Rs 2 lakhs to Rs 120 lakhs. Contraction of margins is attributed to the cumulative effect of the Drug (Prices Control) Order, increased wages, rise in material prices, increased fares and transportation charges, and higher burden of taxes. Dividend was maintained at 9 per cent on the capital as enlarged by the issue of bonus shares on a two-for-five basis. The entire dividend is exempt from tax and is covered five times by earnings. K Mayadas, son-in-law of another director, C C Desai, has been re-appointed as whole-time director for 2 years from May last on a salary of Rs 4,250 per month plus various perquisites.

Indian Council of Social Science Research, New Delhi

The I.C.S.S.R. invites applications for doctoral fellowships in Social Sciences, tenable for two years, from persons preferably below the age of 30, who have a first or second class Masters Degree of a recognised university in any Social Science discipline. Preference will be given to students who have already done good deal of work and are likely to complete their thesis in a period of not more than two years.

The fellowship carries an emolument of Rs. 300/- per month besides an annual contingent grant of Rs. 1000/-. The college and university teachers will however be given their own pay and allowances upto a ceiling of Rs. 900/- p m.

Applications in the prescribed form which can be had from the Council's office should be sent to the Member-Secretary, Indian Council of Social Science Research, Indraprastha Estate, New Delhi, so as to reach him not later than 15th August, 1972.

J. P. NAIK
Member-Secretary

India-Pakistan Detente?

Romesh Thapar

WHATEVER the repercussions of the Simla Summit, it has served to underline the need for sustained and perspective thinking on the future of our subcontinent. Too long have we assumed the inevitability of collision, conflict and confusion. Too long have we refused to assess the grave damage such strains and tensions cause to our common interests. Slowly, a new consciousness is beginning to percolate into the thinking of policy-makers in Delhi, Dacca and Islamabad. It remains to be seen whether the summitry now engaged upon will make possible the breakthrough to understanding and friendship.

Interestingly, it is again Indira Gandhi who perceives the critical moment for the subcontinent's politics. So many of her open supporters and hidden detractors, inside the party and outside, continue to think within the old frames of reference. They pontificate about the dangers of 'weakness' and 'compromise'. They see a sinister potential in the 'brainwashing' of a number of our editors who have visited Pakistan since the rise of Bangladesh. They excite themselves about the dangers of a 'sell-out'. They do, in fact, underestimate the lady.

The trouble with so much of the commentary on Indo-Pak relations, within India and outside, is its failure to perceive the fundamental and qualitative change that has taken place in the balance of power on the subcontinent — and, for that matter, in South Asia. Only Indira Gandhi understands that it is no longer possible for foreign powers and out-of-context Islamic ideologues to manipulate Pakistan as a threat to India. At the most, they can delay the inevitable *detente* on the subcontinent. That is why, presumably, she overshadows all the political operators around her.

Changed Balance

Indira Gandhi speaks from a position of immense strength. The rise of Bangladesh has smashed the archaic concept of the so-called 'two-nation' theory. Pakistan, as a so-called Muslim state, is smaller than Indonesia and Bangladesh; indeed, India embraces more Muslims than does Pakistan. Then, again, the military strength of India today is adequate to take care of a Pakistan re-armed by the US, should such an eventuality arise. As for China, the knowledgeable know that her military machine in Tibet would rather not tangle with our mountain divisions in the Himalayas. Finally, India genuinely desires a viable and prosperous Pakistan on her North West as against a number of soft states; actually, it is in her national interest to work for such an objective.

While the Prime Minister possesses these balanced and perceptive understandings of the future, it is a pity that the education of the senior cadres of the Congress Party is so faulty and inadequate. So often, Congress 'leaders' sound like Jan Sanghis of the old variety — for even the Jan Sanghis are in the throes of reassessments. Something of the new understanding of India's interests in South Asia has to be projected urgently. The mass media are, as always, incapable of comprehending and projecting the qualitative change that has taken place in the situation.

All this is very unhealthy. In the course of the *detente* on the continent, complex situations are bound to arise. Apart from Pakistan's postures, our relations with Bangladesh are fast emerging from the euphoria which has so far enveloped them. Big power attitudes will also undergo sharp changes. Our public is essentially unprepared for all this. In other words, we have to move from the *cliches* of politics to more studied debates and dialogues. We must grow with the situation that is growing around us.

With some such thoughts, Indira Gandhi on her return from the Summit will take a good look at her Council of Ministers. The pointers suggest a far-reaching shake-up; indeed, one leading editor, with a nose for news, even reports an impending change at Rashtrapati Bhavan! There are reports, and there are prompt denials. Delhi keeps on speculating — and with the usual unabashed air of authority.

The fact remains that no one knows. The speculation underlines the hopes of the people. And, it's clear they are tired of incompetence, jobbery, corruption, perspective-less policies, stoogey ministers, fixers, and what have you; the list is long and tedious.

Will Indira Gandhi oblige?

June 26



FROM OUR CORRESPONDENTS

NEW DELHI

Reassuring the Private Sector

THE Planning Commission and the Industrial Development Ministry are currently engaged in parallel exercises on revising the Industrial Policy Resolution of 1956. The scope and objectives of the proposed revision are still far from clear. The idea is that by the time the Approach document on the Fifth Plan is ready in the middle of September, problems connected with a restatement of industrial policy should be sorted out so that it would be possible, if still considered necessary at that stage, to come out with a revision of the Industrial Policy Resolution.

The exercises on the revision of industrial policy consist broadly of two parts. The first part deals with issues connected with the Industrial Policy Resolution of 1956. The second part takes into account various operational policies like industrial licensing policy, the regulatory framework of the Monopolies and Restrictive Trade Practices Act, import policy and policy on foreign collaboration. The purpose is to outline the objectives of any change in the Industrial Policy Resolution and the the need to provide a more definite focus to some aspects of the resolution. As regards operational policies, the primary emphasis is on avoiding overlapping of functions between industrial licensing and MRTP regulations and on giving a clearer exposition of the role of the larger business houses in industries other than those falling in the core and heavy sector and in developing backward areas. The other operational problem to which attention is drawn is selectivity in industrial licensing and the different aspects of the joint sector concept.

The main interest of the Planning Commission in initiating these exercises stems from its proposals to organise a greatly expanded works programme to give employment to large numbers, particularly in the rural areas, and its basic minimum needs programme as spelt out in its document "Towards an Approach to the Fifth Plan". Implementation of these programmes on the scale envisaged will require certain modifications in the pattern of industrial investment and production. Greater emphasis will have to be laid on production of cloth, sugar, essential drugs and other similar mass consumption goods as well as on industrial inputs that would be needed to support the programme of rural employment such as rural electrification, roads and the like. It is suggested, in view of this, that the public sector will have to play a much larger role in expanding these industries as well as in bringing down manufacturing costs and prices of such goods and services.

At the same time, however, considerable concern prevails in the government and Planning Commission over the industrial stagnation in which we are caught. The development of basic industries particularly has come to a standstill. A way has to be found to make it possible for the government to ensure expansion of existing units in this sector. In some of these industries like steel and aluminium the quickest and the cheapest way of expanding capacity and production would be through the expansion of the existing units. It is argued that the fact that some of these units are controlled or owned by the larger industrial houses should not come in the way of the economy benefiting through their expansion. The problem thus is how and in what manner this expansion should be brought about without coming into conflict, or appearing to come into conflict, with the principle of preventing concentration of economic power. The Industrial Policy Resolution should take this problem into account and spell out the exact position of the government.

Not Worked Out

While discussing these matters, however, other problems have been posed. It is pointed out, for instance, that the physical programmes, the order of investments and other measures required to match the basic minimum needs programme proposed by the Planning Commission have yet to be worked out. Only after this task is completed would it be possible to visualise the directions which industrial policy might have to change. Also, the essential problem is not whether production to serve the requirements of the minimum needs programme should be organised in the public or the private sector. The real problem is that of tackling the accumulated problems of some of the established industries like textiles and sugar and their rehabilitation and modernisation. The primary objective of providing cloth and sugar at reasonable prices will obviously not be served unless there is a major programme of revitalising these industries. This would involve not only substantial investment but also provision of such inputs as technology and management. Rather than making substantial new public sector investments, strong public sector initiative may be needed for reorganising these industries.

As regards expansion of existing units, the question would have to be considered on a case-by-case basis. The present extreme dependence on the larger industrial houses to provide the momentum in various industries would have to be got over. One way would be for the government to join in partnership with competent managers who, on their own, may be unable to initiate new projects because of paucity of financial resources. An institutional arrangement to provide initial equity to successful managers could be devised. The idea mooted is that a new professional agency might be developed which will take the place of the old managing agency system to provide initial capital for the setting up of joint ventures in association with new entrepreneurs. As regards bringing down costs and prices, the existing variety in consumer goods may have to be reduced by introducing a measure of standardisation. This is particularly relevant in the case of textiles and drugs.

While discussions on industrial policy along these lines are going on, the Planning Commission has set up working groups to work out the pattern industrial production which will meet the requirements of the minimum needs programme. In this light, another paper is proposed to be prepared which will identify the basic issues of industrial policy for further consideration by the Economic Policy Committee of the Cabinet.

From the background note and the discussions on it within the Planning Commission and the Industrial Development Ministry, it is obvious that the exact scope and nature of revision of the Industrial Policy Resolution is not at all clear. What stands out is that there is only a general urge in favour of revision, largely to make an impact on the public mind rather than because of any compelling reason for making the changes. The orginal Industrial Policy Resolution of 1948 and its revised version of 1956 are so comprehensive that they can easily accommodate all the new ideas that are currently entertained or are being canvassed. The most noted of these ideas are the entry of the public sector in a big way into consumer goods production and the introduction of the joint sector in the heavy industry sector in association with the larger industrial houses. Both easily fall within the scope of the existing Industrial Policy Resolution. It is certainly not necessary to revise the Industrial Policy Resolution in order to reflect the right priorities and to make it obligatory for the public sector to enter certain lines of production instead of leaving this optional as at present. The same applies to the joint sector concept.

After all, these ideas had been incorporated in industrial policy as far back as the time of the formulation of the Second Plan, which provided the occasion for amending the 1948 Industrial Policy Resolution in 1956. While reserving the setting up of new units for the production of capital goods and heavy machinery in the public sector, scope was left in particular cases and in certain circumstances for undertakings owned and operated jointly by the government and private enterprise — that is the joint sector. While a vast field in industry was left free for private enterprise, it was also envisaged that the government would not hesitate to intervene whenever the progress of industry under private enterprise was unsatisfactory. This covers the entry of public sector into production of consumer goods on any scale that may be considered desirable or necessary. The Approach to the Second Plan had also recommended that where government assists private enterprise substantially by providing long-term finance, this should take the form of equity participation rather than loans on fixed interest. The present exercises at revising the Industrial Policy Resolution may thus end without achieving anything and may be ultimately dropped. The idea to revise the industrial policy resolution was canvassed at the time of formulation of the Fourth Plan and was later dropped.

The real issue in any move to revise industrial policy, as distinct from tackling the problems connected with its operation, is that the government's policy on the functioning of the mixed economy and the role of the private sector, particularly the larger houses, is not clear. In spite of much radical posturing and pledges of socialism, there is in fact no departure from the concept and practice of mixed economy as defined in the 1948 Industrial Policy Resolution. Any significant departure in a radical direction must bring in the question of nationalisation and elimination of private ownership, at least in the heavy and basic industries. The government and the Prime Minister herself have always been at great pains to rule out any extensive nationalisation. The idea of converting into equity loans advanced by financial institutions to private industry, which could be a way to change the ownership pattern of existing units, has been greatly toned down and is being applied with great circumspection. In this light where is the need for going in for any revision of the Industrial Policy Resolution unless it is desired to impress the people that changes in industrial policy are being made?

But while there are no indications of revisions of a radical nature in industrial policy, there appears to be another hidden motive behind these moves — to restate old policy, with some wordy, formal changes, with a view to reassuring the captains of private industry and business. The 1948 Resolution was brought up precisely with that purpose and in circumstances somewhat similar to the present ones. Prior to the introduction of that resolution there was great uneasiness in business circles over the populist stance of the ruling party. This had led to depression in industrial activity, reluctance to make use of official financial assistance and all other features of absence of confidence on the part of business and industry.

This crisis of confidence had become particularly marked after the resolution passed by the All-India Congress Committee towards the closing months of 1947 on "Objectives and Economic Programme". The resolution had called for a ceiling on incomes along with one on land ownership. It recommended that industries producing articles of food and clothing and other consumer goods should be in the small-scale sector and, to prevent competition from larger units it was suggested that, the competing large scale industry should be brought under strict government control. The state was to reserve to itself all new undertakings in defence and in key industries as well as public utilities and new undertakings which might be in the nature of monopolies. In addition, and this was most important, the resolution proposed that a process of transfer from private to public ownership of existing large undertakings should be started within five years.

An outcry against the resolution went up in industrial and business circles, and it was to reassure and restore their confidence that the 1948 Industrial Policy Resolution was presented and repeated assurances were given that the government was not contemplating take-over or nationalisation of existing undertakings — assurances which were given once again after the nationalisation of the 14 commercial banks. It could be that behind the move to re-state the Industrial Policy Resolution there is once again the anxiety to reassure the business community and industry in the hope that this would revive industrial activity. Now that political stability has been restored, the government may be thinking that it is in a position to offer such reassurance.

Syndicate Bank

THE year 1971 was one of all-round progress for Syndicate Bank. During the year the bank opened 46 branches of which 34 were in the bank's Lead Districts. Of Syndicate Bank's 507 branches at the end of 1971 nearly one-half were located in the Lead Districts. In as many as 210 centres in the country Syndicate Bank was the only bank operating. Only 76 of the bank's branches were located in metropolitan centres. For 1972 and the next t years Syndicate Bank, has a larger branch expansion programme.

Syndicate Bank's deposits increased by 30.3 per cent to Rs 219 crores from Rs 168 crores at the end of December 1970. Advances increased by nearly 24 per cent. On December 31, 1971 total credit disbursed was Rs 152 crores against Rs 123 crores at the end of December 1970. Advances to priority sectors increased from Rs 57.5 crores to Rs 64.6 crores. Advances to the agricultural sector increased from Rs 17.3 crores to Rs 19.8 crores. There were nearly 10,000 small-scale industry accounts who had availed of total advances of Rs 17.9 crores.

The Syndicate Bank completed Lead Bank Survey of 6 districts in 1971. The bank has not only opted for the relatively backward unbanked centres but has also encouraged other banks, both nationalised and non-nationalised, to come forward to open branches in these centres. It convened meetings of bankers and officials of the various government departments in each of the district to discuss the development programmes of the districts.

Strategy for Mineral Exports

D C Kale

IN the context of the generally worsening terms of trade of the developing countries, who are also primarily exporters of unfinished goods, ores and minerals, much thought has to be given to discovering ways in which better terms can be obtained for these exports.

The US, at one time almost entirely self-sufficient in, or even a net exporter of, minerals, became a net importer of them after World War II; in 1970 US imports exceeded exports by nearly $ 4,000 million. Similarly, Japan and West Germany have been importing ore or ore concentrates on an increasing scale. The trend is towards establishing long-term sources of supply, the period often stretching to 20 years or more and sometimes including the four or five years that it takes to bring a major new mine on stream.

Such contracts, however, are not restricted to purchases from the developing countries alone: Japan, for example, has entered into a 26-year contract with the US for supply of uranium oxide, and West Germany has long-term smelter concentrate contracts with Canadian suppliers. Economically advanced countries which earn large revenue through the export of ores and concentrates, are Sweden, Canada and Australia. The USSR may soon be counted among them. Even among this group of countries, a re-evaluation of the policy of mineral exports has been going on. The Australian minerals policy, for instance, has been the subject of hot debate there during the past two years. While major export orders for iron ore have been yielding valuable foreign exchange, the Australian Government has been in favour of processing the ore indigenously to the maximum possible extent. The developing countries too will face a similar choice as their industrial capabilities increase. Meanwhile, as exporters of minerals and ores, both the developed and the developing countries have an interest in ensuring markets and stable prices.

In a paper, "Monetary Disorder and World Trade", brought out in April, George Bolton, Chairman of the Commonwealth Development Finance Company, has gone into the related problems faced by developing nations. Bolton sees the problem as having three main aspects: the massive dollar surpluses (now inconvertible) of Europe and Japan, the weakness of commodity prices, and the plight of developing nations. He suggests, therefore, that a stockpile of primary commodities be built up by national or multi-national authorities; the purchases be mainly from the developing countries; and that these be financed exclusively out of the dollar surpluses from the Exchange Equalisation Account and not by taxation or borrowing. The stockpiles should not be used to meet current needs except in emergencies. And he suggests that monies be advanced against warehouse certificates, etc. All the base metals — manganese, pelletised iron ore, etc, — are listed among the possible commodities. The suggested outlay is $ 10,000 million to $ 15,000 million, held by advanced countries. The proposal is intended to assist in stabilising the markets and prices for such ores, and to encourage growth of mines in the producer countries.

While the idea is interesting, a crucial complication could arise from the pattern of financing adopted. It is generally not possible for a poor nation to finance major mineral projects from internal sources, nor are foreign loans readily available for such projects unless the markets are already established. Poor countries, in the circumstances tend to turn to private participation by international mining houses. These have, after all, the technical ability to assess a given project in great depth as well as to construct it, and they have the necessary marketing ability. Consequently, very often, the purchase contract — if not the purchaser himself — is the major source of finance for the new project. In return, of course, the financiers expect management control, at least for 10 to 15 years, out of which the first five may be spent in commissioning the project.

A developing country (such as India), which has a viable export-oriented project for which it needs foreign exchange for investment, thus has three options available to it: It can

(a) finance the project internally, using free foreign exchange loans where required, and sell the output at the best available price at any given time—and this generally has been the Indian pattern;

(b) obtain finance through a foreign house, and let them run the project for a fixed number of years with limits fixed on foreign exchange remittances;

(c) obtain finance against long-term sales contracts — technical advice being often given by the purchaser who does not want his own supplies to be delayed.

Option (a) is sound if managerial efficiency and steady foreign markets can be reasonably assured. The trend today is for the 'spot buyer' to become less and less and important, so that marketing will become a management problem. Option (b) becomes politically unacceptable, as in India today. Option (c) seems to be the best in the circumstances, and a vigorous drive needs to be launched to enter into such contracts for iron-ore, coal, manganese, mica, kyanite, etc.

However, there are certain conditions that still need to be ensured. The export contract must have terms of payment which will not go against our interests in the adjustments that take place in an international monetary crisis. Moreover, India itself may need many of the metals minerals, and export contracts should be restricted to the anticipated surplus. On the other side, we also need to conclude long-term purchase contracts for zinc and copper concentrates, crude oil, tin, nickel, etc, so as to have sources of their supply in the future.

As part of the effort to effect better terms, it might be useful to sponsor an official conference of iron-ore exporters which could help them protect their interests. At the same time, the suggestions made by Bolton are worth pursuing — possibly through the Commonwealth Secretariat — because steady mineral exports could do far more to improve the mines, mills, and infrastructure, than any series of high-powered delegations going abroad every year. *Ad hocism* in the metals and minerals trade proves expensive in the long run.

Government of India

4¾ per cent Loan 1979 to be issued at Rs 100.00 per cent and repayable at par on 15th July 1979

5 per cent Loan 1983 to be issued as Rs 99.50 per cent and repayable at par on 15th July 1983

5¾ per cent Loan 2002 to be issued at Rs 100.00 per cent and repayable at par on 15th July 2002

Subscriptions to the above loans will be received simultaneously and will be limited to a total of Rs 350 crores (approximately). Subscriptions may be in the form of (i) cash/cheque or (ii) securities of the Government of India 4½ per cent Loan 1972 and/or 4 per cent Loan 1972 which will be accepted for conversion at par. 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 cash subscriptions received and the balance refunded in cash as soon as possible.

Interest on the securities of 4½ per cent Loan 1972 and 4 per cent Loan 1972 tendered for conversion into the new loans will be paid at the rate of 4½ per cent per annum and 4 per cent per annum respectively upto and inclusive of 14th July 1972 at the time of issue of the new securities.

Interest will be paid half yearly on the 15th January and 15th 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 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 15th July 1972 and close on 18th July 1972 or earlier without notice.

Applications for the new loans will be received at:-

(a) offices of the Reserve Bank of India at Ahmedabad, 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 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

NORTH

Congress Slump in Civic Elections

A CONFUSING pattern has emerged from the civic elections held in Punjab in mid-June after a long interval. Previous stage governments, uncertain about their survival and fearing reverses in many local bodies, had deferred the poll year after year. Though the Zail Singh ministry took the earliest opportunity of ordering elections all over the state, the results have fallen far short of its expectations. The inference that the Congress has partially lost its grip over the voters, so evident during the General Elections last March, is inescapable. Proof of the Jan Sangh contention that there is little evidence now of the wave that swept everything before it three months ago is to be seen in the Congress failure to secure a majority in any of the 79 municipal committees. The Congress could win only 182 seats out of the 393 it contested. Nor has the Jan Sangh fared well, only 68 of its 148 candidates having succeeded. Independents have, however, recorded all-round successes with a record bag of 746 seats. No wonder they are being frantically wooed by both the Congress and the Jan Sangh to gain control of as many committees as possible. The claims put out by both sides are exaggerated.

Evidently, local issues dominated the poll, state and national politics having been kept at arm's length. Political ideologies too were at a discount. Even the eve-of-poll Congress bait to traders (by granting all their main demands regarding sales tax payments) achieved little. But the government's proposal to nominate, through an ordinance, all MLAs, (besides representatives of women and backward classes) to the municipal committees in their constituencies, is preposterous. It will undeniably inject the divisive element of politics. The move, it is widely suspected, is designed to ensure Congress control over most of the civic bodies. The analogy which the government has drawn of legislators having already been assured close association with Block Samitis does not hold good. Besides, where is the emergency that alone justifies a resort to ordinances? The Jan Sangh and other opposition parties have rightly denounced such blatant misuse of power. The pretence of ensuring coordination at various administrative levels is too thin to stand scrutiny.

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Among the factors that have partially tarnished the image of the Punjab Congress within a few weeks of its being catapulted into power are the internal feuds, personal rivalries and the creation of more highly-paid posts despite the already top-heavy administration. Early in June a new post of Planning Commissioner was created although there already were more officers of the Commissioner's rank than ever before. Worse, to the 13 Deputy Inspectors-General of Police yet another has been added. Two of them were without specific duties for several weeks. Cynics say the only "justification" for imposing this additional burden on the taxpayer is the superstition that the number 13 is "unlucky".

Such proliferation of senior posts in the small state of Punjab appears even more absurd in the context of the Chief Minister's disclosure, within a week of the new appointment, that even though Punjab has the highest per capita income in the country (Rs 945), about 42 per cent of its population was still living in abject poverty. Apparently, the famed Green Revolution has not helped to eradicate poverty in this region, owing to the concentration of the benefits on a limited section, mostly the landed gentry.

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While Punjab's finances are on an even keel, the marked slump in Haryana revenues has slackened the progress of many projects. An official spokesman has, however, denied that the state is in the midst of a financial crisis. According to him, development has not come to a standstill. If, as is now contended, the cut amounts "barely to 10 per cent of the outlay", the position need not cause concern. But the fact is that even the prestigious Rs 50-crore Lift Irrigation Scheme, announced with much fanfare, is hanging fire owing to paucity of funds. The widespread belief is that the state's economy has been dislocated by the needlessly heavy expenditure on rural electrification, the net gains of which are much below the official claims. It has, however, yielded political dividends.

Meanwhile, the state's power tariff

has been stepped up by 20 per cent so as to enhance the annual revenue from this source by Rs 1 crore. Domestic consumers using less than 40 units and agriculturists have been exempted. (The Punjab Government has deferred the proposal for a tariff hike.) The mounting power thefts have assumed scandalous proportions in Haryana. All sorts of devices have been adopted by the pilferers, including obstructions in meter movements, "accidental" damage to meters, short-circuiting the supply and also the usual technique of "palm-greasing" of the Electricity Board staff.

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By abolishing the toll tax with effect from July 1 the Himachal Pradesh government has eliminated a major cause of inter-state disputes. Last year the toll tax and the road barriers had led to a deadlock that caused much inconvenience to travellers and commercial interests. Haryana, which has a common border with Himachal at Kalka, was directly affected. The abolition will involve a loss of Rs 37 lakhs to the exchequer. The staff thus rendered surplus will be absorbed in the many vacant posts or deployed in multi-purpose barriers.

A High Court judge is to probe the fertiliser scandal in Himachal's Agriculture Department. Department officials are stated to have purchased fertilisers worth Rs 2 crores during the past four years though there were ample stocks in hand. Fertiliser scandals of a different kind in some central Punjab districts a couple of years ago led to dismal disclosures even without a top-level judicial inquiry.

BHUBANESWAR

Return of the Congress

MINISTRIES in Orissa have been literally a dime a dozen. In the 25 years since Independence, there have been as many as 11 ministries. And now the twelfth, led by former Union Minister of State, Nandini Sathpathy, has assumed office. This brings to an end the month-long political drama, the by-products of which have been three: liquidation of the state-based Utkal Congress, erosion in the strength of the Swatantra party (coupled with its ouster from power in the state where the party had been in power since 1967 when the Swatantra-led ministry headed by R N Singh Deo had assumed office) and, third, the return of Congress to power after more than five years. The fall of the united front ministry, after 14 months in office, was partly achieved by causing defections in Swatantra ranks but was mostly the result of inner contradictions within the United Front, climaxed by Biju Patnaik's unsuccessful bid to replace Chief Minister Biswanath Das.

By some quirk of fate Orissa, which had earned the distinction of being the first state (then province) where Congress had come to power way back in 1937, had refused the party an absolute majority in the state legislature until the mid-term poll in 1961. After the merger of the 24 former princely states. Orissa was divided into two sectors — the Eastern coastal belt, politically conscious and voting for the Congress and Left-oriented political parties, and the Western districts, once part of princely India, returning candidates of the Ring-wing Ganatantra Parishad, the precursor of the Orissa unit of the Swatantra party. The former Maharajas and their successors who led the erstwhile Ganatantra Parishad, which 'merged' with Swatantra party on the eve of the 1962 Parliamentary poll, exploited the feudal loyalties of the predominantly Adivasi electorate of the Western districts. However, in 1961 Biju Patnaik appeared on Orissa's political horizon and led the Congress to victory in the mid-term poll, with 82 seats in a House of 140.

But the glory was short-lived. Three Congress Chief Ministers and their colleagues came under a cloud on alleged charges of corruption. There was an inquiry by the Central Bureau of Investigation. The Opposition parties exploited the situation and the voters in turn bundled out the Congress party in the 1967 General Election. The slump in the prestige of the Congress was reflected in the new Assembly in which it had only 31 seats as against the combined strength of 78 of the Swatantra party and the Jana Congress. Since then the Congress has been itching to get back into power. Its efforts finally bore fruit in the middle of last month following the birth of an enlarged Congress legislature party built from the ashes of the Utkal Congress and the Orissa units of the PSP and the Jharkhand party. With the inclusion of the Swatantra party 'rebels', who were the first to strike at the three-party United Front, the strength of the Congress has touched 99 in the Assembly of 140. The Congress has never had it so good in Orissa before.

The government now formed by Nandini Sathpathy consists of persons of experience and merit. There are other aspirants, too, and the Chief Minister has promised to expand her Ministry after she consults the Prime Minister. Nevertheless, the Chief Minister will still have some anxious days because of potential trouble-makers like Biju Patnaik and Harekrushna Mahtab, who are waiting in the political wings. Both of them have for the moment extended support to the Chief Minister, but nobody is taken in by this posture. Nandini Sathpathy, however, has some major advantages. For one thing, her majority in the Assembly is too large to be immediately threatened by dissidents within the ranks of her party. More important, it is known all round that she enjoys the support of the Prime Minister. This will discourage her detractors, including Biju Patnaik, from openly opposing her — until she herself makes some serious false move.

SOVIET UNION

Fall of a Hardliner

THE chain of command in the Ukraine, the second-ranking republic in the USSR, has been shaken by the decline in the status of P Y Shelest. Shelest, who was First Secretary of Central Committee of the Communist Party of Ukraine, has had to leave Kiev to take up the rather inferior post of Deputy Prime Minister of the Soviet Union. The transfer places Shelest below the two First Deputy Chairmen of the Council of Ministers of the USSR, Mazurov and Polyansky. There are nine other Soviet Deputy Prime Ministers and Shelest becomes the tenth.

The downgrading of Pyotor Yefimovich Shelest is the most drastic act of overhaul which Soviet Party Chief Leonid Brezhnev has been able to push through since he and Prime Minister Alexei Kosygin combined forces with others to oust the late Nikita Khrushchev in October 1964. It is true that the young and ambitious A N Shelepin was bruised badly through successive blows to his prestige and power between 1965 and 1967. But Shelepin is still a member of the Soviet Party Politburo and is retained as a busybody heading the trade unions.

Opposed to Brezhnev

Shelest, who was reputedly the most vicious hawk in the Soviet Politburo, led what was derisively described by commentators as the "Ukrainian Mafia". He was known to be a hardliner on Czechoslovakia in the critical days preceding the Soviet invasion of Czechoslovakia in 1968 to curb Alexander Dubcek and his wayward reformist team. Excluding Shelest, the 15 member Soviet Politburo now has five Ukrainians. They are: Nikolai Podgorny, the Soviet President, Brezhnev, V V Shcherbitsky, Kirilenko and Polyansky. Shcherbitsky moved up from candidate member to full member of the Politburo only at the 24th Congress of the Party last year. The May 19 meeting of the plenum of the Central Committee which clipped Shelest's wings, also elevated B N Ponomarev, a Russian, to the position of candidate member of the Politburo.

The Ukraine is a western republic of the Soviet Union and Shelest has been a hardliner partly because of the fear that any relaxation in relations with western Europe might increase unrest in the area. As it is, much anti-Russian feeling prevails in the Ukraine. Shelest's repression of intellectuals and the KGB's special drive in the Republic have not completely curbed the nationalist and liberal tendencies in the Ukraine.

The Brezhnev-Kosygin policy of coming to an understanding with the West Germans (the treaty with Bonn and the Berlin accord) are understood to have been firmly opposed by Shelest. The Shelest view is said to be partly shared by Podgorny, Shelepin and Voronov. Voronov was removed from the post of Premier of the Russian Socialist Republic in July last year.

Shelest's successor as First Secretary to the Ukrainian Party is 54-year-old Shcherbitsky, who is ten years younger than Shelest. From 1957 to 1961, Shcherbitsky was a secretary of the Ukrainian Central Committee. At the 22nd Party Congress in 1961 he was promoted by Khrushchev to be a candidate member of the Soviet Party Presidium (Politburo). In 1961, he was also made Prime Minister of the Ukraine. In 1963, he clashed with Khrushchev and Podgorny and was demoted. He lost his Ukrainian Prime Ministership as well as the candidate membership of the Politburo. A year after Khrushchev's ouster, Brezhnev brought Shcherbitsky back as candidate member in Moscow and appointed him once again as the Ukrainian Prime Minister. He was promoted to be full Politburo member last year. In this way, Brezhnev had groomed him as a counter to Shelest who has had repeated clashes with Brezhnev and Kosygin. The clashes probably reached their apogee during the May 19 plenum which discussed and approved Brezhnev's conciliatory approach on West Germany, the United States and Vietnam. It was following this plenum that Podgorny was sent to Hanoi to explain Soviet policies to the North Vietnamese.

Consequent on the decision on personnel by the Soviet Central Committee, a session of the Supreme Soviet of the Ukrainian SSR was held in Kiev on June 8 and 9. This meeting chose A P Lyashko to succeed Shcherbitsky as the Prime Minister of the Ukraine. Lyashko was the chairman of the Supreme Soviet of the Ukrainian SSR.

The Ukrainian Politburo, which was elected in March last year, consisted of ten members. A year later, N A Sabol was pensioned off from his posts as politburo member and First Deputy Prime Minister of the Ukraine. He was reputed to be a protege of Podgorny. Now Shelest is also out. While Shelest was primarily a party worker, Sobol rose through the Government apparatus. Sobol has been succeeded in the post of First Deputy Premier of the Ukraine by a talented industrial manager, G T Vashchenko.

While Brezhnev was preoccupied with the manoeuvring in the Ukrainian party set-up, a serious riot took place in Lithuania in the third week of May, The riot erupted after a Catholic youth, Roman Kalanta, burnt himself to death as a public protest. The funeral of the boy sparked off demonstrations demanding "freedom for Lithuania". In March this year, 17,000 Catholics had sent a petition to the United Nations seeking an end to religious persecution. Major riots in Russia in recent years have been the Georgian uprising of 1956 (which was in favour of Stalin) and the outbreak in 1962 in Novocherskassk, in the Russian Republic, to ventilate economic grievances. Army and militia units had refused to open fire in 1962 and the KGB forces dealt with the rioters. In Lithuania, the army was called out to quell the riots.

Comparatively Civilised

Between 1795 and 1915, Lithuania was under Russian rule. It had two decades of freedom after the World War I until June 15, 1940, when the Red Army marched into Lithuania and then into Latvia and Estonia. Lithuania has experienced the bitterest rigours of the Soviet persecution of minority nationalities. Between 1940 and 1959, more than a million Lithuanians disappeared from the area. The population was more than 3.2 million in 1940 and around 2.7 million in 1959. The normal population increase would have taken the figure of Lithuanians to 3.8 million. The missing million were killed or deported.

Since 1961, after Khrushchev abandoned Stalinist policies, the Soviet Government has been comparatively civilised in its treatment of the Lithuanians. But the Catholic Church has constantly been accused of arousing anti-Soviet sentiments. There have been arrests and trials and jailing of protesters. The May incidents are the first known occasion in the past twelve years in which the Soviet authorities have cracked down with brutal military force on the Lithuanians.

YUGOSLAVIA

Tito's Soviet Sabre

IT is on record (in the words of Dedijer, Kardelj and Djilas) that Stalin blew his top when he saw Tito in the resplendent uniform of a marshal of the Yugoslav armed forces. Tito had given himself the title even as he and his partisan followers were fighting the Germans in the early forties. In the circumstances, it must have been heartening to the Yugoslav President and his countrymen that the Soviet Communist Party Secretary, Leonid Brezhnev, presented him with a Soviet Marshal's sabre on June 9, a special gift of the Soviet Communist Party Central Committee. The presentation of the sabre and the award of the Order of Lenin took place during Marshal Tito's visit to Moscow between June 5 and 10. The presentation of the marshal's sabre was a special gesture and Tito is the first

foreigner to be so honoured by the Soviet leaders.

This was Tito's tenth visit to the Soviet Union since the late Khrushchev came down to Belgrade in 1955 and apologised for Stalin's mistakes. Tito was 80 years of age on May 25 and the Russians flattered the old man not so much for himself but with their post-Tito interests in mind. The latest friendly exchanges between Tito and the Soviet leaders mark another phase in the love-hate relations between the two countries and the two communist parties since the end of the war. The present was certainly a kiss-and-make-up session, literally so because Radio Belgrade featured in its report "the kisses that the Soviet and Yugoslav leaders exchanged". "Magnificent, magnificent", Tito remarked on his return to Belgrade, while recounting the welcome given by the Russians.

Tito's previous visit to the Soviet Union was in April 1968 when he was returning from Outer Mongolia. Czechoslovakia was on the boil then, and Tito advised the Russians not to use force to tackle Dubcek and his reformist colleagues. Tito got the impression that the Russians would not use the stick. So he felt let down when the Russians sent their troops to Czechoslovakia in August 1968. But within weeks of the Czechoslovak tragedy the Russians tried to soothe Yugoslav sentiments. The road back to amity was not as hard as one might have imagined the day after the Soviet invasion of Czechoslovakia when Yugoslavia burst into an anti-Soviet uproar.

Tito's latest visit was preceded by Brezhnev's 'unofficial trip' to Belgrade in September 1971. Brezhnev laid on the charm and even tried out some extrovert Khrushchevian tactics to win over the Yugoslavs. During the Moscow visit of Tito it was smiles, smiles all the way. Differences continue to exist between the Yugoslavs and the Soviet Union but they were passed over, to emphasise what was common in the policies of the two countries and parties.

The Russians did not make any definite promises this time. Anyway, the Yugoslav experience is that Russian promises to Yugoslavia are rarely kept. The Tito-Brezhnev communique refers to the three previous joint statements, the 1955 Belgrade Declaration, the 1956 Moscow Declaration and the 1971 statement by Tito and Brezhnev. As Radio Belgrade reported, "despite the existence of certain differences — which is a natural thing — a common language has been found". The Yugoslav commentators describe the recent Tito-Brezhnev communique not as a declaration but as a business document. There has not been any new declaration of ideological principles of special significance.

One Yugoslav commentary said that Yugoslav-Soviet relations are "inspired by the teachings of Marx, Engels and Lenin". This deserves notice, for whereas relations between the Soviet Union and East European communist countries are proclaimed to be based on Marxism-Leninism, the Yugoslavs have not considered Lenin to be one of the saints in the socialist pantheon. Marx and Engels, yes; Lenin, may be, has been the approach of the Yugoslav party theoreticians.

The treaties between the Soviet Union and the other Warsaw Pact members insist on co-ordination of foreign policy on the basis of proletarian internationalism. The Yugoslav-Soviet communique naturally talks only of "consultations, in the spirit of international traditions of friendship, mutual respect and equality". On the question of non-alignment, one of the basic precepts of Yugoslav foreign policy, the Russians went to the extent of underscoring the merits of non-alignment in relation to the anti-imperialist goals common to both countries.

There are a few in Yugoslavia who regret that basic Yugoslav-Soviet differences are not constantly publicised. A commentator wrote in the Belgrade weekly, *NIN*: "It is well known that these differences exist. However, in the study plans and programmes in Yugoslav schools and in the school text-books, there is not a word about them. It is a fact that the concealment of these differences and the practical political manifestations lead to the acceptance of the Brezhnev theory of limited sovereignty as something quite normal and understandable." In the present exercise, the Russian intention obviously has been to build up a better image in Yugoslavia. But the ideological programme sheets of the Soviet communist party still contain this dictum: "The fullest embodiment of the ideology of revisionism is to be found in the programme of the League of Communists of Yugoslavia."

SINGAPORE

Selling the Concorde

Harish Chandola

A PROTOTYPE of the Anglo-French supersonic aircraft, Concorde, has just completed its 40,000 mile display and sales flight through Asia and Australia, sponsored by the British partners of the Concorde project, the British 'Aircraft Corporation (BAC). This journey made history, because to provide the sales talk two Ministers of the British Government accompanied the prototype, besides Lord Cole, the Chairman of Rolls Royce (which is the partner of the French firm SNECMA in manufacturing the plane's Olympus engines), the Chairman of BAC, Sir George Edwards, and two planeloads of supporting staff.

In spite of the weight of VIPs from Britain, two Japanese Ministers declined to go on the demonstration flight of the aircraft in Tokyo because of the very strong public opposition to the aircraft for its capacity to foul up the environment and for its excessive noise. The purpose of taking Concorde to Tokyo was to interest Japan Air Lines in buying the plane, but the reception it got would certainly have poured cold water over the desperate hopes of the BAC. Similar opposition to the aircraft was also voiced in Australia where it was felt that it would not possess the range to fly from Singapore to Sydney non-stop, which the present subsonic airliners like Boeing 707 and DC 8 do.

The high-pressure sales drive was attempted only because it has become extremely difficult to sell this controversial plane, on the development of which Britain and France have spent nearly $ 2.5 billion. Apart from the criticism of its excessive noise at airports, its damaging sonic boom will prevent it from flying faster than the present planes over most land areas. With its smoke adding to the pollution of airports and the upper atmosphere which shields the earth from cosmic rays, hardly any airline is convinced of its performance as an economical aircraft.

Doubts are being expressed that the plane will be able to carry 100 passengers from Paris to New York non-stop, a journey of little over three hours for it. The makers however promise that in 1974-end, when it is scheduled to enter airline service, it will have a payload of a little over 20,000 pounds (which is the weight of 100 note-too-fat passengers and their limited baggage). This is

ess than the payload of Boeing 707, nd nearly one-fourth the payload of the umbo jet, which carries up to 390 passengers, all their baggage plus cargo. hese days airlines are unable to make noney by carrying passengers only. hey must carry cargo on almost every light. The Concorde will be uneconomic not only because it will not be able o carry cargo, but also because its fuel consumption is three times that of the present-day jets.

In their sales talk, the attempt of the British Ministers (Michael Heseltine, Minister for Aerospace, and Lord Jellicoe, the Lord Privy Seal) was to present the aircraft as the future conveyance of government leaders and top executives and others who do not pay their fare themselves but travel on government or company accounts and of the very rich. What was not said at the numerous press conferences during this tour was that the airline that buys the plane will have to charge much higher fares than those obtaining at present (even higher than the present first class fares) to make its operation economical. This will mean that it will be the plane of very special people or of those who travel by it to experience supersonic flight over ocean routes (it will not be permitted to fly supersonic over land unless governments provide it with flight corridors over uninhabited deserts where its sonic boom will not cause damage) and are in a position to afford higher fares.

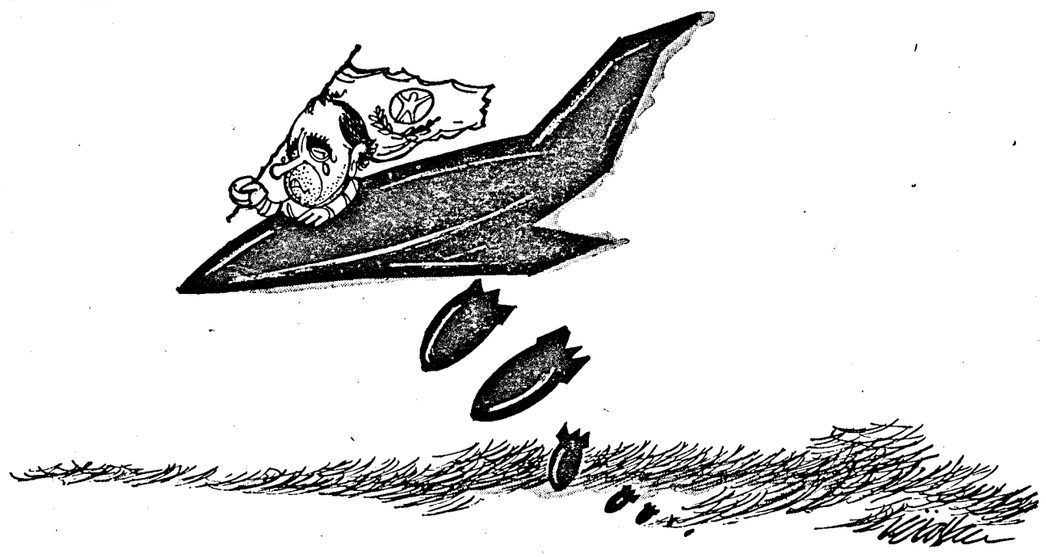
There are at present very few takers for the Concorde. Just before the British prototype undertook its sales odyssey in June, the British airlines, BOAC, announced that it will buy five Concordes. But no contracts for the sale have yet been signed between the manufacturers and the airline.

The French Government has an equal stake in the sale of this aircraft, because if it does not sell, France loses heavily. In spite of this, none of the French airlines have yet come forward to announce their intention to buy the plane. The reason might be that in spite of the manufacturers' claim that the production aircraft in 1975 will be able to fly Paris-New York non-stop, the airlines are not quite convinced.

The aircraft will cost about $ 60 million a piece, including spares and equipment. But this cost might go up (only a few months ago the cost was stated to be about half of this amount) because Concorde's present Olympus engines are still in the process of development to make them less noisy and free of the frightening amount of the acrid black smoke they belch at the moment, its wing area has still to be enlarged to give it a better balance in subsonic flight and its fuselage has still to be enlarged to seat the 100 passengers it promises to seat in comfort.

The French had taken their Concorde prototype to Africa and across the Equator to Latin America last year. This year Britain chose to display its prototype in countries where it is supposed to have influence. The British prototype first visited Teheran, where the Shah was given a joyride. As a result, the British claim that the Shah has promised to buy three Concordes for Iran's national airline and has also promised to provide a supersonic corridor over the uninhabited Iranian desert for Concorde flights. But the present routes of Iran's airline lie mostly over densely populated areas and therefore Concorde can hardly be of much use to it.

The other places Concorde visited were Singapore, Sydney, Darwin, Tokyo, New Delhi and Bombay. Though Air India has an option on the plane, the large sales team that came with the demonstration prototype and spent four days in Singapore did not really believe that India would buy the aircraft. Three demonstration flights were arranged in Singapore to impress local leaders, airline officials and journalists with the performance of the plane. Throughout the 40,000-mile journey, the British team kept spreading the word that China was going to buy the Concorde. It however added that the negotiations for the purchase were being done with France and not with Britain. China of course has said nothing on the subject yet.



"Of course I worry a lot about ecology. It makes me sad to think of those li'l butterflies and crickets down there."

Womanpower

Jai Nimbkar

The Educated Woman in Indian Society Today, a study carried out by the YWCA of India; Tata McGraw-Hill, Bombay; pp 287.

THIS is a book that grew out of the special number on Women of the organ of the YWCA of India called *Today*. Including the general editor, Muriel Wasi, the book contains articles by fifteen contributors, men and women, who have special knowledge of some aspect of the problem. It claims to have been brought out not as an academic exercise, but "to provide some direction on how most effectively to utilise educated womanpower in the immediate future". The book is divided into two parts, part I containing factual information, and part II indicating trends and suggesting a plan for the future.

The first part is a fairly thorough documentation, which presents an accurate picture of the place of the educated woman in the work-force of the country. Starting from a definition of the educated woman — as a woman who holds a first degree at a university — it goes on to give a numerical breakdown of educated women actually working in various professions. Out of the approximately 270 million women in India, about one million are educated. The book states that this figure is too low, and one wishes here that it had given comparative figures for other countries.

There follows a review of women in four important professions, teaching, social work, medicine and nursing. Women have made substantial strides in these four professions. In medicine especially, where ten per cent of the work force is made up by women, their achievement is second only to that in the USSR.

Attitude to Work

The book points out, however, that the growth of professionalism is still very slow among Indian women. Most of them do not have a professional attitude towards work. Also, the conflict between total personal happiness and total professional fulfilment still exists, and women have not yet realised that these need not be mutually exclusive, and that in the modern world it should be possible to reconcile them.

Substantial numbers of educated women, nearly fifty per cent between the ages of 15 and 59, are unemployed, and there is reason to believe that this unemployment is voluntary in the case of many of them. Also, though nothing but their own predilections and prejudices need keep women from any career of their choice, women have not explored many fields open to them. Part of the reason for this is the non-availability of information regarding career opportunities, and lack of systematic methods of recruitment. Vocational guidance is also very important, in order to allow women to receive better directed and purposeful training. There is no vocational guidance available to the majority of women today. (It is well to note here that much of what this book says is applicable to men and women equally.)

In connection with unemployment of married educated women, a few valuable suggestions are made. The book stresses the importance of the idea of life-long education especially for women, as they spend a number of years away from work and often away from the world of ideas, to devote themselves to family responsibilities. Continuing education, through universities, voluntary organisations, etc, can keep such women in touch with their own field, so that they will remain mentally and educationally equipped to re-enter the work force. Many women would like to go back to work after their children are grown up, but find themselves out-of-date, or unable to fit into the prescribed age limits. It is recommended that such unrealistic age limits should be relaxed at least for certain kinds of jobs. As a solution to the conflict of roles which forces many women to give up work, the book suggests part-time jobs in various fields. It has been found from experience that this is very useful in preventing non-use of training. Women who have received special training want to use it, and it is up to the society to create conditions in which they can use it.

In the concluding article, "Planning for Tomorrow", we are warned against complacency. Though a few women have gone far, the majority are still illiterate and untrained, and in that sense, not free. The educational structure in India "is like a pillar and elitism is entrenched in it". The structure needs to be made pyramidal with a broad base. To achieve social and economic change, it is important to achieve much more widespread 'education' (to be differentiated from mere schooling) among women. The aim of education should be not only academic excellence but also the absorption of and adaptation to technological changes which cause rapid social changes.

The book very unequivocally concludes on a note of warning to the educated women of India. Since the country has invested in them, they owe a debt to the country. It is not enough, even for those who have paid for their own education, to be content with raising a family. It is their obligation to use their education and training for their country.

Uneven Writing

As might be expected, in view of the large number of contributors, the writing is uneven, ranging from precise, effective and practical writing to an imprecise use of words and purple passages which ill fit the theme of the book. The article on voluntary organisations, for instance, talks about the latent power in the "hearts, minds and wills of women", as though these three were separate entities. Similarly, the following passage belongs on a political platform rather than in a book of this sort: "For the road is frighteningly rugged and long, is punctuated with dangerous corners, and promises no early haven of security. The challenge remains: we, who train for leadership, must travel courageously and, like the first men of Everest, keep 'going strong for the top'." The bits of inspiring prose and poetry quoted throughout the book also seem out of place. However, the writing generally is very competent and readable.

The contents present certain flaws in thinking. Traditional ideas are sometimes presented without examining them for logical fallacies. For example, the repeated statement that women are 'born' teachers, as against men who apparently are not, is not borne out by experience. If there is such a thing as an inborn capacity for rearing children, it must be confined to catering to the physical needs of very small children, and cannot possibly be carried over to teaching. There is no basis in fact for saying that women are better teachers than men, at any level of education.

The article on the teaching profession also talks nostalgically of the great teachers of old and laments their disappearance from our social system. Quite possibly, there are as many great and dedicated teachers today, in proportion to the total population, but their work tends to become obscured because of the tremendous expansion of education, and the shifting goals of education. Such nostalgia introduces a sentimental note in an otherwise practical and realistic book.

The section on medicine deplores the competitive spirit which spurs women to become doctors in urban areas when there is a shortage of doctors in rural areas and a shortage of nurses all over the country. The author claims that this competition by women for the top places in the medical profession is an "aggressive and misdirected use of a rightful privilege". Such a contention is obviously ridiculous. If there is an unequal relationship between requirement and supply, both men and women are equally responsible for it. *Per se,* there is no reason why we should expect men to be aggressively competitive for status and money, and women to steer clear of competition.

The whole tone of the book errs in the direction of regarding women as raw material, as something that must be 'used' to achieve certain goals. Theoretically, it is all right to say that the human potential of a country should be used in a certain way for best results. But in a democracy, on a practical level, beyond using persuasion and a system of incentives, the ultimate choices must be left to the individual. Saying that educated women must not be allowed to withdraw from the work force of the country, or that they must be conscripted into certain fields is taking a step towards a regimented society. We must not use the shield of democracy to justify inactivity, but at the same time we must not let our enthusiasm for planning carry us into narrowing individual freedom.

Helpful Suggestions

In spite of these defects, however, this is a very important publication. In this age of women's lib, it gives us a much needed picture of the status of women's education and employment in India. The suggestions for future planning should be very helpful to the makers of educational policy, and thought-provoking for anyone interested in the problem and for the general reader. Although it is not a stated purpose of the book, it will have accomplished something significant even if it is only able to awaken the social and intellectual conscience of its educated women readers.

No Cook-Book Recipes

Nita Sanghvi

Explanation and Management of Change by S C Dube; Tata McGraw-Hill, Bombay, 1971; pp 99+vii; (price not mentioned).

SOCIOLOGICAL theories from the time of Aristotle have accepted change as inevitable and concerned themselves with its analysis and explanation. In the developing countries, committed to change as they are, the theme has acquired added significance for the social scientist as well as the planner. For any conscious formulation and implementations of "desired" or "desirable" goals has to take social realities into account. Some of the social scientists and researchers in the so-called "policy" and "management" sciences have claimed that they have the conceptional maturity and methodological sophistication necessary for laying down strategies for "induction, direction and management of change". Dube rightly doubts this claim (p 55). He feels that their claims to impressive feats of social engineering cannot be substantiated. Although intensification of research in the social sciences has thrown up "many provocative hypotheses and some brilliant analytical insights" (p 95), social scientists do not have all the answers to the questions that baffle the planner. According to Dube, the main role of sociology and the social sciences, even in their new context, is explanatory and diagnostic. But even this is a significant contribution. By providing an understanding of how social and cultural factors operate in certain given situations, insights which assist development planning are provided. Why, then is social science research not used as widely as it should be in planning?

The communication gap between the planner and the social scientist is obvious and several factors have contributed to its continuance. Dube says that the only way to facilitate a bridging of this gap is by ending the senseless debate on fundamental *vs* applied research (p 87) and seeing the two as complementary. The limitations and interdependence of their roles have to be perceived. "The policy-maker will still have to make his choice, for the social scientist will not tell him what to do or how to do it. But he will have something definitely more reliable than mere hunches as the basis for his choice" (p 88).

In the chapter entitled "Strategies for Influencing Change" Dube attempts an extremely tentative formulation for stimulating change. The six basic investments required are: (i) investment in building the social and economic infrastructures of development, (ii) investment in image building and image maintenance; (iii) investment in attitude building and attitude maintenance; (iv) investment in developing resources and skills; (v) investment in institution building and (vi) investment in research and education.

Dube warns, however, that differences in the political economic, cultural and ideological context do not warrant a uniform strategy of change for all countries. Nor are mere economic inputs enough. He says that it is essential to invest in social overheads such as education, communications and public health. But aren't these a part of the economic infrastructure? He does not clarify what he includes under each of these six heads. Nor is the meaning very clear. Building and maintenance of whose image? What institutions? He does not explain. Crucial to any strategy for planned change is the "balancing and harmonising" of the different types of investments. There can be no cook-book recipes for achieving this. But it becomes even more difficult in a democratic framework where the administratively rational is not always the politically feasible.

In a series of lectures (the book is a collection of the UGC sponsored National Lectures, 1970) it was possible to touch upon the various explanations of change only briefly. Therein lies the value of the book for the graduate student and the lay reader. It acquaints him with the literature in sociology and anthropology on the theme of change. Theories of change, modernisation and its attributes, problems of innovation and their acceptance, motivations for modernisation and other related topics have been given a quick look.

Family and Child Welfare Projects

Organisation and Administration

S N Dubey

M J Apte

In the development of the organisational set-up for the family and child welfare projects, the following aspects were considered:

(1) Co-operation and participation of the institutions and agencies engaged in providing developmental services. Consequently, it was considered important to involve panchayati raj institutions, community development blocks, schools, and primary health centres;

(2) Participation of voluntary agencies, both within and outside the block; and

(3) An active involvement of the local communities and leadership in the field of co-operation, panchayat, and voluntary associations.

In view of the above considerations, the following organisational issues relating to these projects seem important:

(1) What is the rationale behind the assignment of the implementation responsibility of the projects to the Central Social Welfare Board, and the State Welfare Advisory Board? In other words, why was the Central Social Welfare Board considered uniquely suitable to implement these projects?

(2) What made the planners believe that the existing organisational set-up is best suited to achieving co-operation and co-ordination at the state and the block levels? Are the conditions necessary for interorganisational co-ordination present in the existing organisational arrangements?

(3) Is the Mukhya Sevika, responsible for bringing about co-ordination in the services at the block level, trained in the necessary skills and other attributes to perform the co-ordinator's role effectively? Where does she acquire these skills and attributes?

THE Family and Child Welfare Projects were initiated on November 14, 1967, to reorganise, improve, and expand the welfare services for women and children which had been provided by the Co-ordinated Welfare Extension Projects and the Demonstration Projects for Integrated Child Welfare Services. The Demonstration Projects for Integrated Child Welfare Services, initiated in the Third Five-Year Plan, provided services to children up to 16 years of age; and covered such services as health, nutrition, education, and training. One pilot project was organised in each state. The services of one chief child welfare organiser, four other child welfare organisers, a lady doctor, a midwife, and an average of 25 'Balsevikas' were employed for a project. A Project Implementing Committee was given the responsibility to implement the programme at the block level. The projects were funded totally by the Central Government. Each project carried an annual budget of nearly Rs one lakh. Since it was not possible to multiply the Demonstration Projects extensively, a decision was made after the pilot stage was over to discontinue the projects and to convert them into Family and Child Welfare Projects under the Fourth Five-Year Plan. Thus the 17 demonstration projects for child welfare were to become Family and Child Welfare Projects.

Co-ordinated Extension Projects, created by merging the earlier Welfare Extension Projects run by the Central Social Welfare Board and the Children and Women Welfare Programmes run by the Community Development Administration, were also converted into Family and Child Welfare Projects. The Co-ordinated Welfare Extension Projects were organised to avoid overlapping of services provided by the Central Social Welfare Board and the Community Development Administration, and to ensure the resources for both these organisations needed to promote women and children welfare programmes in the rural areas. Thus, at the end of 1966-67, there were 264 Co-ordinated Projects working in the country. Most of the projects among these were working in the second phase. By the end of the Third Five-Year Plan, the continuation of these projects was uncertain. It was, therefore, decided to convert all the 264 Co-ordinated Welfare Extension Projects into Family and Child Welfare Projects under the Fourth Five-Year Plan.

The formation of Family and Child Welfare Projects was recommended by the Evaluation Committee appointed by the Central Social Welfare Board to examine the working of the Co-ordinated Welfare Extension Projects in 1964 under the chairmanship of the Maharani of Patiala. The committee made the following recommendations: (1) The 'Balwadi' programme in the scheme of Welfare Extension Projects should be strengthened and converted into the Balavikas Kendra, which should provide services, on the integrated basis, for the total development of the child. (2) The Family of the child should also be utilised for continuance of the work started in the Balvikas Kendra. Thus, young mothers should be trained in child care, nutrition, home improvement and management, family planning, etc. (3) Various services available in CD Block, such as maternity services, applied nutrition, family planning, social education, craft activities, services of the primary health centres and sub-centres, should be effectively utilised to ensure the all-round development of the pre-school child. (4) Such an integrated programme of family and child welfare should be organised in as many community development blocks as possible within the available resources.

Thus, a new scheme of family and child welfare was prepared by the Central Social Welfare Board in 1964, which was reviewed by a study group appointed by the Planning Commission. The scheme was further discussed with the representatives of the Departments of Social Security (now, the 'Department of Social Welfare') and Community Development, the Finance Ministry, chairmen of the State Social Welfare Advisory Boards and several state governments. It was finally approved by the Department of Social Welfare of the Government of India, in 1967. The scheme was given for actual implementation to the Central Social Welfare Board to ensure the maximum participation of voluntary organisations and workers.

Thus the Welfare Extension Projects, which provided services to women in the field of maternity, and in child welfare, craft training, and social education, did not envisage any programme of education of young girls. The Family and Child Welfare Projects filled this gap by providing for training of young girls and mothers on subjects like home management and improvement, child care, nutrition, etc. Further, the Balwadi has been also linked with the family.

Since the Family and Child Welfare Projects have been organised on a pilot basis, they have been included in the Central Sector in the Fourth Five-Year Plan with an outlay of Rs 6 crores. In addition, Rs 6 crores have been allocated for nutrition, feeding children in Balwadis; Rs 6 crores for grant-in-aid to voluntary organisations; Rs 2.23 crores for the welfare of the physically handicapped.

The project normally caters to the age group 0=16 years. However, greater attention is given to children who are upto 6 years of age. The next priority is given to the needs of the children between 6 and 11 years. While services dealing with health, nutrition, education, recreation, and welfare are implemented in a co-ordinated manner, the combination of services and the emphasis differ for different age groups depending upon their physical need. For example, for children upto two and a half years of age, the programme includes post-natal care, immunisation, nutrition, and physical care; for the children between 2 and a half to 6 years, the services comprise informal education through play activity, supplementary nutrition, etc, for the children between 6 and 11 years, the services include mid-day meals, social health services, group games based on local game, promotion of hobbies, etc. The family welfare programme comprises home craft and home management, mother craft and child development, family nutrition, clothing, and other requirements.

Organisational Pattern

At the centre, the Family and Child Welfare Projects are a part of the Department of Social Welfare, Ministry of Education, Government of India. The scheme forms part of the centrally operated programme and is financed totally by the Department of Social Welfare. The Department of Social Welfare has constituted an Inter-Ministerial Co-ordination Committee for securing co-operation of the other ministries and the UN organisations. (Department of Social Welfare, 1970: 14-16). The Central Social Welfare Board has been entrusted with the responsibility of implementing the projects to ensure the maximum participation of voluntary organisations and workers. The Central Social Welfare Board is responsible for developing guidelines for the day-to-day implementation of the programme, organising orientation training of workers, undertaking an assessment and evaluation of the work done in the field, and arranging funds. (Mittal, 1969: 2.) The Board has constituted a small Standing Co-ordination Committee, with representatives from the Departments of Social Welfare, Planning Commission, and UNICEF, to advise it on the day-to-day problems which may emerge in the implementation of the projects. The Board has also established an administrative cell in its office to look after the programme and train workers under the programme. Thus, the Central Social Welfare Board sets the pace of the programme by finalising the selection of the projects, preparing detailed programme for each project, and releasing funds to State Social Welfare Advisory Boards.

The State Social Welfare Advisory Boards have a very important role in the implementation of the programme: It attempts to ensure co-operation and co-ordination of the state level governmental departments, voluntary organisations and other concerned agencies. Thus the State Board has to constitute a State Level Co-ordination Committee of the representatives from the Departments of Social Welfare, Health, Education, Community Development, etc.

At the Block level, a functional committee is constituted to run the project, which comprises an equal number of representatives from the Panchayat Samiti and State Social Welfare Advisory Board. The Block Development Officer and the Extension Officers in his team, the Medical Officer of the Primary Health Centre, and the Headmaster of the village school, are *ex-officio* members of the functional committee. The functional committee for the FCP was suggested to be a Standing Committee for the panchayat samiti for promoting social welfare services in villages. However, due to variations in the panchayati raj acts of the states, this has not been possible. Consequently, functional committees have been established by a government order of the State Department of Social Welfare. Thus, in nine states, the functional committees have been established by the government order; and in six states they have been established by the State Social Welfare Advisory Board on an *ad hoc* basis. (Department of Social Welfare, 1970: 15.)

The Family and Child Welfare Project consists of one main centre at the Block headquarters, and five sub-centres in key villages. In addition, the Central Social Welfare Board provides a modest financial aid and project staff to villages where local Mahila Samitis and panchayats are keen to initiate on their own a limited welfare programme. The main centre and sub-centres have a provision for a Balvikas Kendra and a Griha 'Kalyan Kendra,' the former working mainly in the mornings for children, and the latter working mainly for parents — especially for mothers in the afternoons.

The services in Balvikas Kendra include a creche or day-care centre for about 10 infants whose mothers are busy on the farm or in the home. A trained Kendra Sahayika looks after the day care centre under the supervision of Balsevika. There is also a provision for a Balwadi or a pre-school for 40 children, which is run by the Balsevika with the help of the active members of the local mahila samiti. Outside the hours of Balwadi, the Balsevika also makes home visits and maintains liaison with village school, maternity, and infant health centres, etc, to ensure full utilisation of all necessary services for the children in the block.

The Griha Kalyan Kendra serves as a demonstration-cum-training unit for about 15 young mothers and village women. The main activities in the Kendra include education in personal hygiene, health and sanitation, home craft and home management, mother craft and child development, family nutrition and feeding, family relationship, domestic budgeting, preparation of family clothing, family planning and citizen education, etc. The Griha Sevika, with the assistance of Kendra Sahayika and the members of the local

Mahila Samiti, organises these activities in the afternoon. The trainees are drawn from the main village and from the villages which have sub-centres. The Griha Sevika seeks the co-operation of staff in the Primary Health Centre, Block, Family Planning Centres, Social Education Centres, Craft Centres, etc. in organising talks and demonstrations.

While the main centre serves as a model of family and child welfare activities in the block, five sub-centres are also started. Each sub-centre is run by a trained Balsevika assisted by a Kendra Sahayika. The main programme at the sub-centre is similar to the programme at the main centre. In addition, the staff at the sub-centre, with the guidance of Mukhya Sevika, also organises a Mahila Samiti to recruit women from the villages under the sub-centres for training at the main centre, and to organise meetings of the women to discuss matters around social education, family planning, applied nutrition, etc. The organisational pattern discussed above is presented diagrammatically in Chart 1.

Organisational Issues in Family and Child Welfare Projects

In the development of the organisational set-up for the family and child welfare projects, the following things were considered: (1) Co-operation and participation of the institutions and agencies engaged in providing developmental services. Consequently, it was considered important to involve panchayati raj institutions, community development blocks, schools, and primary health centres; (2) Participation of voluntary agencies, both within and outside the block; and (3) An active involvement of the local communities and leadership in the field of co-operation, panchayat, and voluntary associations.

In view of the above considerations, the following organisational issues relating to these projects seem important: (1) What is the rationale behind the assignment of the implementation responsibility of the projects to the Central Social Welfare Board, and the State Welfare Advisory Boards? In other words, why was the Central Social Welfare Board considered uniquely suitable to implement these projects? (2) What made the planners believe that the existing organisational set-up is best suited to achieve co-operation and co-ordination at the state and the block levels. Are the conditions, necessary for inter-organisational co-ordination, present in the existing organisational arrangements? (3) Is the Mukhya Sevika, responsible for bringing about co-ordination in the services at the block level, trained in necessary skills and other attributes to perform the co-ordinators' role effectively? Where does she acquire these skills and attributes?

The first issue can be meaningfully examined it one compares the organisational machinery and linkages at the block level of the Central Social Welfare Board with the organisational machinery and linkages of the other two departments, *i e*, State Department of Social Welfare, and the Department of Community Development, which might suitably be considered for this responsibility. The main rationale for assigning the projects to the Central Social Welfare Board and the State Social Welfare Advisory Board was that they would be more effective in promoting and strengthening the voluntary sector in the rural areas where the projects would be launched. A recent evaluation of the Department of Social Welfare, Government of India, indicates that "very limited development of voluntary organisations for social welfare had taken place in rural areas where family and child welfare projects have been started". Though the report does not indicate the factors responsible for such a lack of growth in voluntary organisation, it is not hard to locate them. A most important factor seems to be the ineffective organisational machinery and disjointed linkages of the State Social Welfare Advisory Board with the panchayati raj institution and the community development machinery at the block and village levels. Prior to the conversion of the Co-ordinated Welfare Extension projects into the present set of Family and Child Welfare Projects, the Project Implementing Committee at the block level, and Mahila Mandel at the village level, were the two most important organisations through which the State Boards worked. The effectiveness of these organisations was found to be highly uneven and unsatisfactory, particularly in the development of voluntary organisations. Consequently, these organisations seem to have a limited viability for making contributions toward expansion and development of the voluntary sector in social welfare.

At the district level, the Family and Child Welfare Project has virtually no organisational relationship with the panchayati raj institutions and the community development administration. At the block level, the day-to-day management of the Project has been entrusted to the functional committee which includes an equal number of members from the panchayat samiti and the State Social Welfare Advisory Board. The committee is headed by the Chairman of the panchayati samiti and has a functioning vice-chairman, a non-official woman social worker proposed by the State Board in consultation with the panchayat samiti. It has been found, however, that the relationship between the chairman of the functional committee who is also chairman of the panchayat samiti, and the vice-chairman is not smooth. Complications tend to arise between them in the exercise of authority over the project staff, funds and material, particularly over the jeep. Further, the Block Development Officer who is an executive officer of the panchayat samiti acts as an *ex-officio* treasurer of the functional committee. He does not have any authority over the staff of the project and consequently does not take any interest in the project, which seriously affects the co-operation between the project staff and the block staff. Thus, this arrangement has been found very unviable in the effective implementation of the project.

On the other hand, let us examine if the panchayati raj institutions and the community development administration might be more suitable organisational set-up to implement the projects. The panchayati raj and the C D administration have institutional structures at the district, block, and village levels. These units have been provided with powers and functions — though the amount of power to these units vary from one state to another — to plan and execute the community development and social welfare programmes. The panchayati raj institutions and the community development agencies, therefore, form the backbone of the 'voluntary co-operation' in the rural areas. Besides, after the experimental stage is over, the state governments will have to accept the responsibility in these projects and finance them from their own funds. The state governments, therefore, will have to entrust the responsibility to the panchayati raj institutions which are the only development agencies in rural areas — including for general social welfare and backward classes welfare programmes. It seems, therefore, that the panchayati raj and community development agencies are more suitable for the implementation of the project than SSWAB/CSWB.

The responsibility for implementation of the projects cannot be entrusted to the State Department of Social Welfare, because in most states the majority of welfare programmes, except correctional services, have been transferred for implementation to panchayati raj institutions. (Dubey, 1971a, 1971b.) Consequently, the assignment of the implementation responsibility for these projects to the State Department of Social Welfare may again mean transfer of the projects to the panchayati raj institutions. Besides, in some states (e g Maharashtra) the Department of Social Welfare does not have its own functionary at the block level. Consequently, the Social Welfare Department will not be in a better position than the Central Social Welfare Board to implement the projects independent of panchayati raj institutions and community development agencies.

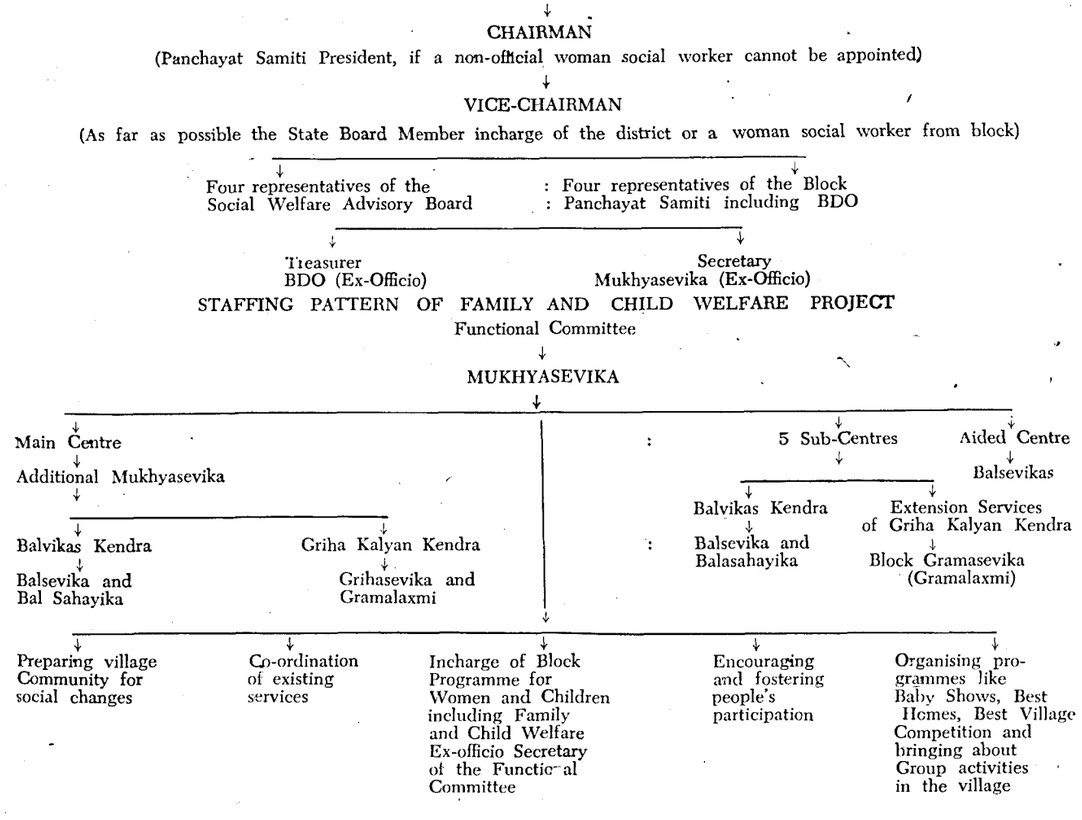
In summary, from the point of view of organisational machinery and linkages, the panchayati raj institutions and the community development departments seem the more appropriate agencies for running the projects. However, mechanism should be developed to involve meaningfully the State Social Welfare Advisory Boards in the implementation of the projects. One of the ways this can be done is to co-opt in the Subject Matter Committee for Social Welfare at the block and zilla parishad levels, the district member of the State Board and the former chairman of the Project Implementing Committees. Secondly, leading social workers in the block (not more than two) may also be appointed to the Subject Matter Committee for Social Welfare of the panchayat samiti. The names of such persons may be recommended by the State Social Welfare Advisory Board.

Co-ordination in Family and Child Welfare Projects

As regards necessary conditions for co-ordination among agencies, a particularly useful framework has been developed by Levine and White which treats co-operative arrangements among organisations as a system of exchanges. Organisations must possess or control certain resources — personnel, service, fund, etc — in order to achieve their objectives. Since most organisations do not possess all the resources needed to achieve their goals, they frequently turn to one another to supplement them. In more general terms, Levine and White define organisational exchange as any activity between two organisations which has consequences, actual or anticipated, for the realisation of their respective goals

Chart I

ORGANISATIONAL PATTERN OF FAMILY AND CHILD WELFARE PROJECTS



or objectives. (1961: 588-600.) As Reid (1964 : 418-428) points out, the major advantage in using exchange framework to study co-ordination is that, it draws attention to the *actual* goals of the agency rather than the *stated* goals. Further, it emphasises that any co-ordinating activity involves resources. Most agencies need funds, facilities, personnel, services, information, and clients to achieve their goals. When agencies lack these resources, they seek exchanges. (Reid, 1964: 418-428: Dubey, *et al* 1971: 177-208.) This makes it possible to describe co-ordination in terms of kinds of resources involved in transactions.

Reid points out that, taking the extensiveness of the exchange in terms of the equality and the value of resources, one can distinguish various types and levels of co-ordination. The first or the lowest level may be called *ad hoc* 'case co-ordination' in which co-ordinated activity is generated by individual practitioners to meet the needs of their particular clients. A second level may be called 'systematic case co-ordination', or service integration, in which the goal is to mesh services from different organisations, though the co-ordinated activity is still on the case level. Here, specific rules and procedures are developed to guide the exchange process among the interacting agencies. A third level may be described as programme co-ordination, which is centred on agency programme rather than on individual cases. This level of co-ordination may include a development of joint-agency programme, mutual assistance in development or extension of programme or mutual modification of programmes, to bring about more rational alignment of organisation's functions.

These types and levels of co-ordination can be graded hierarchically by the extent and the value of organisational resources exchanged. *Ad hoc* case co-ordination draws minimally upon these resources, whereas programme co-ordination demands a much larger portion of the organisation's resources. The greater the need for investment of resources by the organisations the lesser is its desire to seek co-ordination with other organisations. Thus, there is generally a low degree of co-ordination observed at the second and third levels. (1964: 418-428.)

Litwak and Hylton (1962: 401) observe that there are three conditions necessary for bringing about co-ordination among formal organisations. These are: (1) organisational interdependency, (2) level of organisational awareness about the interdependence, and (3) standardisation of organisational activities. Thus, co-ordination tends to develop and remains in existence when formal organisations are partly interdependent; they are aware of their interdependence; and when co-ordination is defined in the standardised unit of action.

Another variable which seems important in interorganisational behaviour, particularly in co-ordination, is the status of the organisation involved in an exchange situation. The nature of organisational exchanges also tend to be governed by the status they enjoy based on their size, characteristics of their employees, the number and type of clients they serve, and the prestige in the community. The organisation which concerns itself with most desired values tends to enjoy a higher status than the one which deals with a replaceable and relatively easily accessible commodity. A large sized organisation, which has a greater resource autonomy and influence, is also rated higher. The relative availability of employees, the length of their training, and their social and economic attributes, also contribute to the status ranking of the organisation. Thus, a department in the public bureaucracy which employs an IAS officer certainly enjoys a higher status to one which is managed by a non-IAS officer. When the system of organisational stratification is well developed and the basis of ranking the organisation enjoys general consensus, organisations which are evaluated high in rank are generally more reluctant or more evasive on exchanges. (Stinchcombe, 1965: 172-180.)

The above framework seems very useful in analysing co-ordination in the Family and Child Welfare Projects. In other words, are the organisations, that are expected to enter into exchange around Family and Child Welfare Projects, interdependent?; do they have unequal status?; and is there efficient mechanism for controlling whatever exchanges are involved?

It had been stated earlier that co-ordination in family and child welfare projects is sought at the state and block levels. The State Social Welfare Advisory Board seeks to co-ordinate, at the state level, with the Department of Social Welfare, Community Development, Health, and Education. The chairman of the Board is the main co-ordinator at this level. The nature of the co-ordination required at this level may be best termed 'service integration'. The nature of interdependency among these organisations is unilateral. The State Social Welfare Advisory Board uses time, personnel, equipment, etc, of Health, Education, and Community Development Departments, and is not in a position to offer any such resources to them in return. The Community Development Department is required to instruct its block staff to co-ordinate their programmes with the functional committee of Family and Child Welfare Projects. Similarly, the Health Department is required to instruct its staff at the Primary Health Centre to lend assistance to the project. The Education Department is required to instruct its teachers to co-operate with the Mukhya Sevika and the other project staff. The State Social Welfare Advisory Board hardly contributes any resource in return towards these Departments. Consequently, they are very reluctant to co-operate with the Board at the the state and the block levels. In consequence, in most states, there is no co-ordinating mechanism functioning at the state level in respect of these projects. They rarely meet as a committee. Generally, the executive secretary of the State Board, on behalf of the chairman, contacts these departments whenever he faces a problem. The representatives of these departments consider the time they spend on these projects as a waste.

At the block level, the Family and Child Welfare Projects, as it has been stated earlier, consists of one main centre, and five sub-centres. The main centre and sub-centres have a provision for a Balvikas Kendra and a Griha Kalyan Kendra. The size of the staff of a fully developed project consists of five wokers and an annual budget of Rs 50,000. The project also has a jeep. Consequently, the project depends for nutrition, health, and educational service on the community development block, primary health centre, schools, and panchayat samiti. The projects depend heavily upon these agencies for services, material, personnel, etc. The only thing these agencies can obtain from the project is the jeep. Therefore, they make continuous demand for its use — sometimes for purposes other than those of the project. Consequently, the vice-chairman of the project, who is responsible for controlling the jeep, finds it difficult to permit its use for unauthorised purposes. This leads to considerable dissatisfaction and bickering among the project staff, panchayat samiti officials, block staff, and primary health centre staff, which make the co-ordination among the agencies difficult even otherwise.

The uneven statuses of the interacting departments also tend to contribute to a lack of co-ordination at the state level. The government departments enjoy higher status as public bureaucracy than does the State Social Welfare Advisory Board which is a voluntary agency. Most of these departments are headed by senior civil servants who belong to Indian Administrative Service, the most prestigious administrative service in the country in terms of established traditions, power, security, calibre, socio-economic characteristics of personnel etc. On the other hand, the SSWAB is a voluntary agency, headed by a voluntary social worker of some repute and staffed by an executive secretary who is not even equivalent to a Class II gazetted officer in the state government. He is a trained accountant, sometimes without a graduate qualification. The Heads of the Departments, therefore, feel it below their prestige to attend the meetings of the Inter-Departmental Co-ordinating Committee which is headed by the Chairman of the SSWAB. They resist going down to the officer of the chairman—which is generally in a building with meagre facilities — to attend the meetings. Thus, the inequality of status between the government department and the SSWAB also tends to contribute considerably to the problems of co-ordination in the Family and Child Welfare Projects. However, when the chairman is a member of the Legislature in the state or the wife of one of the ministers, the status of the Board is viewed differently by these officers, and they tend to be more willing to co-operate with the Board. For example, in one of the states wherein we had an opportunity to examine this issue in greater detail we found that the heads of the concerned government departments were most willing to co-operate to the Board's staff and activities when its chairman was also a member of the Legislature or was the wife of a minister. The attitude of the officers of these departments was distinctly different when a lady — however genuine a social worker she may be — without much political influence was appointed Chairman of the Board.

A similar situation is observed at the level of some of the functional committees. The Block Development Officer and the Assistant Surgeon of the Primary Health Centre represent the Community Development and Health Departments. They are usually class II gazetted officers in the state government. Thus, they have higher status than the Mukhya Sevika who is responsible for co-ordination of the programmes at the block level along with the Vice-chairman of the functional committee for the Family and Child Welfare Project. Consequently, the BDO and the assistant surgeon are not willing to work with the Mukhya Sevika because they perceive her to be much below their status. The chairman of the functional committee, who is a well-known politician in the area, is generally disinterested in the working of the project because he does not see much scope in it for expanding his political influence in the area since the resources of the project which are very meagre. Secondly, he tends to dominate the vice-chairman of the functional committee because he thinks that he has sole authority to decide on matters of the project since he is elected whereas the vice-chairman is nominated. This has created considerable strain in the working of some of these projects.

A third issue, as referred earlier, in the implementation of the Family and Child Welfare Projects is the role of the Mukhya Sevika. There are two Mukhya Sevikas on the project staff. One is appointed by the CD Block, while the other is appointed by the State Social Welfare Advisory Board. While framing the scheme of Family and Child Welfare Project, the Board gave the job outlines of the Mukhya Sevika which make her role very critical to the successful implementation of the project. She is required to perform the co-ordinator's role as the secretary of the Functional Committee; she is responsible for bringing together the services of the various agencies (panchayat samitis and panchayats, primary health centres, schools, extension centres, applied nutrition working in the block). She is responsible for the planning, and evaluation of programme activities. As an educator, she has to undertake a staff development programme for Balsevikas, Griha Sahayikas, and other auxiliary personnel. She is also responsible for organising women's education and education for voluntary leaders and workers. For effective implementation of the programme and for enabling the workers to play their role effectively, the Mukhya Sevika is also expected to (1) supervise the working of all the centres in the project effectively; (2) to help the subordinate staff with necessary guidance and help; and (3) to check periodically all the records, registers, and the stock maintained by the subordinate staff and the accountant.

Thus, the Mukhya Sevika is expected to play the various roles of organiser, educator, supervisor and co-ordinator. The Board has prescribed the following qualifications for the post of Mukhya Sevikas: (a) graduation from a recognised university, preferably, in Social Work or in Home Science; (b) an aptitude for work in rural areas; and (c) one year's experience of work.

It will be worthwhile to see how many Mukhya Sevikas employed in the projects fulfil these requirements. The report of the Evaluation Committee on the Family and Child Welfare Projects (1970) points out that 34 per cent of the Mukhya Sevikas have a graduate degree, 16 per cent have a post-graduate degree, and 50 per cent are non-graduates. Thus, one-half of the Mukhya Sevikas do not have even the minimum educational qualification prescribed for the post. It is perhaps for this reason that the Board has given considerable importance to the training of the Mukhya Sevika. The training has been entrusted to special training centres, expenditure on which is incurred by the UNICEF. The broad areas of Mukhya Sevika's training, prescribed by the Central Social Welfare Board, are as follows:

Theory: —

(1) Concept of planning and the salient features of the First Second and Third Plans,
(2) Indian Constitution and its salient features,
(3) Concept, objectives and purpose of the Family and Child Welfare Programme,
(4) Understanding of social and economic conditions of the rural community and possible effects of the programme of Family and Child Welfare Projects,
(5) (a) Institutional and non-institutional referral services; (b) Study of legislations affecting family and children,
(6) Study of the methods of working with villagers,
(7) Dynamics of human behaviour,
(8) Methods of promoting different organisations for furthering the programmes and co-ordination the different activities.
(9) Health services and family Planning: (a) for the family; (b) for the child; (c) family planning,
(10) Nutrition,
(11) Agriculture and animal husbandry,
(12) Home management,
(13) Mother craft,
(14) Pre-school education — organisation of Balwadis and creches.
(15) Youth programmes,
(16) Recreation,
(17) Services for children in need of

special care,
(18) Family relations,
(19) Utilisation of services of other departments,
(20) Developing teaching aids for Griha Kalyan Kendra,
(21) Supervision and guidance,
(22) Administration and co-ordination,
(23) Public relations,
(24) Maintaining of records and accounts.

The contents of field work curriculum consist of (a) two and a half hours per day of practical work in Balwadi, Griha Kalyan Kendra, etc; (b) field trips to the local ANP, panchayat, and other local training institutions; and (c) a study tour of seven days to visit the working projects. An analysis of the training contents indicates that adequate emphasis has not been put on preparing the Mukhya Sevika as an administrator and co-ordinator. Out of 24 items, listed three (Items, 8, 19, and 21) deal with co-ordination. The present training programme tends to suffer from several limitations: (1) in view of the contents to be covered, the period of nine months is very short, (2) adequate stress has not been put on preparing her for the role of co-ordinator and office manager. Field work content of the Mukhya Sevikas training is also very superficial and does not expose her to the real problems experienced in co-ordination at the block level.

What is needed to be taught to the Mukhya Sevika to prepare for her co-ordinative and managerial roles in social welfare? It seems that an executive in social welfare administration should be exposed to the following substantive areas:

(1) Purpose, nature and working of social welfare organisations,
(2) Nature, characteristics and working of formal organisations:
  (a) Theory, principles, and characteristics of bureaucratic organisations
  (b) Formal and informal aspects of bureaucratic organisations
  (c) Influence of social and economic factors on the nature and working of the formal organisation
  (d) Control, power, and influence in formal organisations
  (e) Integration of the individual in the formal organisation, problems and methods to handle them
  (f) Analysis of human relation model of administration, and its usefulness for social welfare administration
  (g) Theories of inter-organisational behaviour, with particular emphasis on co-ordination, and conflicts among organisations
(3) (a) Building organisations in disadvantaged areas
  (b) Approaches to organisational change
  (c) Organisational research
(4) Social welfare policy and the organisation and administration of Social welfare programmes
  (a) Organisation and administration of CD programmes
  (b) Organisation and administration of health services
  (c) Working of panchayati raj
  (d) Administration of educational services
  (e) Organisation and administration of social welfare and Backward Classes' programmes

The contents will provide the Mukhya Sevika with knowledge of the nature, principles, and the functional and dysfunctional aspects of the bureaucratic organisation; provide her skills to analyse and handle the problems arising out of conflicts of interests among the organisations and the attitudes, aspirations, and values of the personnel; provide her information on the working of various departments, participating in a co-ordinative relationship; and develop skills required to build and change organisations. It is, therefore, important that the contents of the Mukhya Sevika's training is reorganised to include these areas.

It seems that the time currently allocated for training for the Mukhya Sevikas is too short to permit enlargement of the contents. However, in view of the critical nature of her role in the project, no short-cut will be desirable. Consequently, it may be wise to make the training period of 15 months' duration. Further, the Mukhya Sevikas, who have worked for several years may be sent for advance training in social work — preferably to acquire specialisation in social welfare administration or family and child welfare, with a focus on administration of social welfare programmes.

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THE National Industrial Conference Board, a business research organisation in New York, projects a 4.2 per cent rate of growth from 1969 to 1990 compared with 3.9 per cent from 1948 to 1969. The Board also predicts a decline in the growth rate of expenditures on research and development, a reduction of efficiency from the price rises which have occurred since the mid-1960s, an increase in the proportion of young and inexperienced workers in the labour force. Consumption expenditures by 1990 will account for about 60 per cent of total GNP, approximately the same proportion as in the last two decades. These expenditures should exceed $ 1.5 trillion in terms of 1971 price levels — a rise of 135 per cent in consumer purchases of goods and services. Government expenditures as a percentage of total output are expected to remain stable — approximately 24 per cent of GNP. Investment expenditures are expected to decline slightly from the 15 per cent of GNP held through the 1960s.

On Differential Rates of Interest

A K Dasgupta

A differential in rates of interest is justified on economic grounds. Since the banking system today enjoys a virtual monopoly of its service, and since a way can be found to prevent transfer of funds, discrimination between weaker customers and stronger customers is feasible within limits and is consistent with the principle of maximum profits.

It is also in conformity with the social objective of favouring the poor as against the rich, insofar as the elasticity of demand or credit is higher in the case of the former than in the case of the latter.

Since, further, the principle of maximum profit here relates to a monopoly, surrender of a part of such profits may also be permissible in respect of discrimination in favour of specially weak customers, so long as the rate charged does not fall below the marginal prime cost.

I

THE nationalisation of the major banks in 1969 immediately raised the question as to how far it would be possible for these banks to follow a policy of interest rate discrimination. Indeed, as I wrote elsewhere (*Frontier*, Special Issue, 1969), "the *raison d'etre* of bank nationalisation is that it opens up possibilities of allocation of finance more in conformity to the objectives of planning than would be expected from a private banking system". I pleaded for discrimination in favour of smaller industries and smaller farmers and against big business, arguing that such discrimination was not inconsistent with the maintenance of normal profit and "could be justified on economic grounds". It is the purpose of this paper to spell out the analytical considerations in support of the proposition.

This seems to be called for. On matters like this the tendency often is to pay rather excessive attention to social aspects. "Rich and Poor" dichotomy comes in as the guiding consideration, and "equity" tends to be the overriding objective of policy. The purely economic consideration is often played down. While I have general sympathy for this attitude, and while I agree that the justification of an economic policy must always be tested in terms of its implication for the poor who form the large majority of the population, I would not lose sight of the profit criterion, especially when the matter in question relates to the operation of a commercial undertaking. Redistribution of income on an equitable basis is the direct responsibility of the State. The legitimate instruments of such redistribution are taxes and subsidies. It is unwise to relegate the function to public undertakings whose efficiency has to be tested by other criteria, such as volume of output and the rate of profit on capital invested. Harm has often been done to our economy by the government mixing up non-economic objectives with the function of enterprises whose sole purpose should be to serve economic ends. The Electricity Boards are a case in point. If farmers are to be subsidised, the subsidy should come direct from the State and not in the form of free or near-free finance, even as it should not come in the form of free or near-free supply of electricity. Government policy must not be permitted to be made an excuse for the failure of a public enterprise to show adequate profit. On the other hand, if its normal profit motivation leads up to the attainment of other socially desirable objectives, then a public corporation must be encouraged to make the fullest use of the latter. If the question of differential interest rates came up for consideration after the nationalisation of the major banks, it is because conditions were created under which it was thought it would be a feasible proposition for our banks to embark on a policy of discrimination in favour of small farmers and small industries while lending, and in favour of small depositors while borrowing, consistently with the realisation of maximum profit.

II

Interest is a price for borrowing and lending. A bank borrows low and lends high and makes profit out of the difference between the two rates. Banks can discriminate as between different groups of borrowers and lenders, first if they form a monopoly in respect of the services rendered, and secondly if the services rendered are not capable of being transferred from one group to another. The first condition is easily fulfilled — our banking system is virtually in a state of monopoly. A question does arise in respect of the second condition.

A transfer of funds from one group of customers to another is profitable so long as the rate of return that the former expects from investment is at all lower than the rate of interest offered by the latter. Suppose *A* is a favoured customer who is entitled, according to our scheme of differential rates, to loans at, say, 4 per cent per annum, while *B* happens to be one who is discriminated against and has to pay, say, 16 per cent per annum. *B* will then be prepared to take a loan direct from *A* at anything less than 16 per cent per annum. On the other hand, if the rate of return that *A* expects from his investment is, say, 8 per cent per annum, then he will be prepared to transfer the fund that he secures from the bank at anything more than 8 per cent per annum. These two rates therefore set limits within which there may be direct loan transaction between *A* and *B*. *A* borrows money from the bank at 4 per cent per annum, finds that if he invests it he gets a return of, say, 8 per cent per annum, whereas by transferring the amount to *B* he gets a return of, say, 12 per cent per annum. Both the parties make a gain; in this particular case each makes a gain of 4 per cent per annum. It is only if *A's* expected rate of return from investment is as high as 16 per cent per annum that this possibility is eliminated. But if this happens, would *A* be considered a "weak" customer after all? Surely, the case for favouring a borrower arises specially when, considering the yield from investment, the prevailing rate of interest is too high for him.

Now we have so far ignored the cost of transfer. It is clear that if transfer is costless, arbitrage operations prevent a successful implementation of the policy of differential rates of interest. However, the transfer of funds from the favoured group of customers to the non-favoured group is not altogether free from obstacles. The fact that, even as it is, differentials do exist in the banks' loan rates (the

small-scale industries enjoy a concession of around 1 per cent relatively to the normal rate and certain priority sectors, such as exports, of around 3 per cent) is evidence that transfer is not free. First, there is a certain obstacle arising from inertia on the part of the stronger customers; unless the differential is large, these customers would not find it worthwhile resorting to a clandestine deal. Secondly, the small customers are usually scattered and they lack organisation for such deals. Thirdly — and most importantly — there is the fear of detection.

It is this last that the government has to lean on if the policy of differential interest rates is to be made a success. The object is to reduce the scope of gain from transfer. In the foregoing example, the range of profitable transfer from the point of view of the favoured customer, as we have seen, is between 8 per cent and 16 per cent per annum. Any rate between these limits will yield a gain, its distribution between the two parties depending upon whether it lies towards 16 per cent or towards 8 per cent. But if such clandestine transfers are punishable by law, and if the risk involved is assessed by the parties concerned at 8 per cent per annum or more, then the gain vanishes.

While, therefore, a small differential of 2-3 per cent per annum can safely be maintained by banks in view of natural obstacles, such as inertia or organisational limitations, the widening of the differential to an appropriate range would require putting up a legal obstacle, aided by supervision by banks.

III

What is this appropriate range? A Committee of the Reserve Bank of India went into the question a year ago. The recommendation of the Committee is not unanimous. The majority are on the conservative side. While conceding the need for concessional rates for weaker borrowers, they recommend retention of the present rate for the general body of borrowers, with a concession of around 2 per cent per annum for the weaker borrowers. A loan rate of 12-13 per cent per annum is considered to be difficult. On the other hand, it is contended that a very low minimum rate could not be sustained, unless it were covered by a high maximum. The majority thus contemplate a range between 8½ per cent and 10½ per cent per annum. Ashok Mitra in his dissenting note goes to the other extreme and recommends a range as wide as 1 per cent to 20 per cent per annum. The distribution of finance, he argues, is to be arranged in such a way that the average rate remains more or less the same as obtains currently — the losses at the lower end being just recouped by the gains secured at the upper end of the scale. Apparently, the note rules out the possibility of inter-group transfer of funds.

It was naturally difficult for the government to take a decision on the basis of these conflicting points of view. It was, however, proposed that, while the question of the maximum would be left open for the present, the public sector banks would be asked to start with a concessional rate of 4 per cent per annum (i e, 2 per cent below the Bank Rate) for a selected group of borrowers. It is to be a "modest beginning", and is to cover, as a minimum, ½ per cent of the previous year's aggregate lending of these banks. It is urged, however, that it is the intention of the government in due course "to make the differential interest rate policy one of the important instruments for reducing disparities in income and wealth" (statement of the Finance Minister to Parliament).

It is indeed difficult precisely to indicate the appropriate range of interest rate differential from the point of view of feasibility — the banker's intuition based on experience is a better guide in the matter than the economists' hunch. Nor is it a worthwhile exercise asking what rates would serve most the cause of "social justice". The criterion of profit, however, does provide rules for the guidance of the bankers in respect of the fixation of differential rates, insofar as they are found feasible. I would suggest the following rules, confining myself to loan rates only.

(1) Even at the lowest end of the scale, the loan rate must not be lower than the prime cost of lending, i e, to say, the deposit rate plus incidental expenses, such as stationery, etc.

(2) If the deposit rate rises with increasing pressure on savings, or if there is discrimination here, too, so that it is different for different classes of borrowers, the highest deposit rate is to be the base setting the lowest limit for loan rate.

(3) The customers being classified into well-defined sectors, the rates should be fixed for the various sectors according to their respective elasticities of demand for credit. A relatively low rate is to be fixed for sectors having a relatively higher elasticity of demand, and *vice versa*.

(4) The availability of credit should be controlled so as not to violate Rule (1). Which means that the supply of credit in each sector should be limited to an amount for which the marginal cost of lending is equal to the marginal receipts from lending.

These are rules derived from the theory of monopoly price discrimination. There is, however, one deviation. While at the upper end the rates are fixed at the level of demand price, at the lower end the rates are permitted to be fixed at the level of marginal prime cost (or marginal receipts) and hence *below* the demand price. It is this latter that calls for Rule (4). The deviation proposed permits a widening of the range of differentials in interest rates beyond what would be the case if the banks had gone in for maximum profits; in the present scheme a part of their "monopoly" profits is surrendered in favour of the weaker customers, while no loss is incurred in any individual transaction.

IV

It is presumed here that elasticity of demand for credit is high to the poor customers and low to the rich customers. For it is then that the sort of discrimination that is justified on economic grounds is also the sort that conforms to our social objective. What is the warrant for this presumption? Why should we take it that the small farmers in the rural sector, for example, have a more elastic demand for credit than, say, the big industrialists in the urban sector? There is no doubt that this is a matter that has to be empirically verified. Yet the presumption is not without some basis in the facts of our situation. Historically, the rural sector has suffered from exorbitantly high rates of interest at the hands of the village money lenders, while the urban sector has been fed by a well-organised banking system which has kept the rate down to an artificially low level. Until recently, the loan rate of our scheduled banks used to be of the order of 6 per cent per annum — the Imperial Bank of India had a special class of clients in the top echelon to whom it used to charge only 4 per cent per annum. On the other hand, in the rural sector, the

money lender's rate even today will be anywhere between 30 and 40 per cent. The result has been a relative over-capitalisation in the industrial sector, while the agricultural sector has gone on in its primitive way. The imbalance in the technologies employed in the two sectors can be explained, partly at any rate, in terms of the peculiar interest rate structure that prevails in our economy. While, therefore, the marginal productivity of investment has less tendency to decline in the agricultural sector, its general level is such that most farmers would find the normal loan rate charged by the banking system to be too high. At any interest rate which is realistic from the point of view of these farmers, the elasticity of demand for credit can thus be taken to be higher in the agricultural sector than in the organised industrial sector.

Now, there is a certain paradox here which needs being resolved. Do not these farmers, one may ask, borrow from money lenders at a rate of interest at least three times as high as the rate that prevails in the organised market? How, then, are they the weaker customers that we are taking them to be? The answer is that, although they borrow at higher rates, these rates have very little to do with the paying capacity of our farmers, as judged by the productivity of investment. It is indeed a vicious circle in which borrowing and lending proceed in our rural economy. The money lender charges an excessively high rate on loans on the ground that it has to cover the default risk. On the other hand, default is inevitable because the rate charged is too high for our borrower to be able to meet out of the surplus from investment even by reducing his subsistence to the minimum. The rates charged by the money lenders are thus spurious rates, well above the maximum rate of return that could be squeezed out of investment on land. Enforcement of these rates leads only to a transfer of assets and the total impoverishment of the borrower; the purpose of borrowing and lending is frustrated. If the incidence of default has to be minimised, the rate of interest has to be brought down to a realistic level. And this must have relevance to the yield from investment on land.

To sum up: A differential in rates of interest is justified on economic grounds. Since the banking system today enjoys a virtual monopoly of its service, and since a way can be found to prevent transfer of funds, discrimination between weaker customers and stronger customers is feasible within limits and is consistent with the principle of maximum profits. It is also in conformity with the social objective of favouring the poor as against the rich, insofar as the elasticity of demand for credit is higher in the case of the former than in the case of the latter. Since, further, the principle of maximum profit here relates to a monopoly, surrender of a part of such profits may also be permissible in respect of discrimination in favour of specially weak customers, so long as the rate charged does not fall below the marginal prime cost.

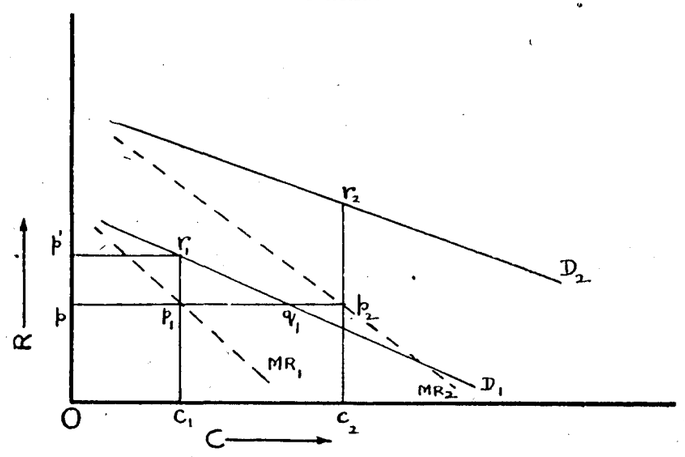
V

So far so good. We have a guiding principle for determining the limits of differential interest rates. Can we go a step further and indicate the order of the minimum and maximum rates, considering the conditions of the market? As regards the upper limit, the guideline, it appears reasonable to suggest, would be the rate at which companies accept deposits from outside the banking system which often goes up to 12 per cent per annum *plus* brokerage. Considering the fact that such deposits are restricted to limits prescribed by the Reserve Bank of India, one could perhaps put the upper limit a little above it, say, at 15 per cent per annum; there does seem to be traffic, at the upper layer, which can bear this rate. At this level of approximation, it is not difficult to define the lower limit either. It is true that deposits are not homogeneous and that the average cost of borrowing differs from bank to bank, depending upon the proportion that current deposits bear to time deposits; there is thus no smooth line showing the variation in the marginal cost of borrowing with increases in the supply of deposits. Nevertheless some kind of a guideline is provided by the Reserve Bank Rate for borrowing by commercial banks and also by the banks' own time deposit rate at the upper margin. Now, these two coincide at 7 per cent per annum if borrowings from the Reserve Bank exceed a certain limit. Having regard, therefore, to the fact that an offer of credit at concessional rates will eventually create a substantial expansion in the demand for credit, one would be inclined to put down the lower limit for loan rate at 7 per cent *plus*, to allow for other elements of prime cost.

Now, a range of differential in interest rates between, say, 7½ per cent per annum and, say, 15 per cent per annum is a wide enough range — the widest perhaps that canons of economic behaviour would justify. Whether, however, a differential of this dimension is operationally feasible or not, considering the possibility of transfer, only practice will show. A lower limit of 1 per cent, as suggested by Mitra, or even 4 per cent as announced by the Finance Minister in Parliament, may have an emotional appeal; it has little basis in economic theory. "Buy high, sell low" is bad economics anyway; it is a particularly offensive maxim when, as in the present case, the bottleneck lies in limited availability of credit and not in insufficiency in the demand for it.

Distribution of credit is a delicate

DIAGRAM



operation. Its success depends upon the degree in which it caters to allocative efficiency in the economy. Distributional considerations are important; but let them supplement the rule of efficiency, not supplant it. Let not banking be yet another prey to the decommercialisation of a commercial service.

A Diagrammatic Note

The analysis in the text can be conveniently exhibited on the usual textbook Diagram as shown.

The volume of credit (C) is measured along the horizontal axis, and the demand price of credit (R) is measured along the vertical axis. Two sectors *A* and *B*, represent the two ends of the market in respect of the capacity to pay — the rural sector and the urban industrial sector respectively. D_1 is the demand curve and MR_1 the corresponding marginal receipts curve relating to *A*. D_2 is the demand curve and MR_2 the corresponding marginal receipts curve relating to *B*. The marginal prime cost of lending in relation to the aggregate of credit is Op (=7½ per cent, say). The "no loss, no profit" margin is at p_1 for *A* and at p_2 for *B*. The corresponding demand prices are c_1r_1 and c_2r_2 — prices at which profit is maximised. If, however, *A* is given a special concession and the price charged is c_1p_1 (=Op), and not c_1r_1, there is excess demand for credit amounting to p_1q_1. The elasticity at r_1 is greater than at r_2, or, in other words r_1p_1 is less than r_2p_2. The rate, c_2r_2 (= 15 per cent, say) is thus higher than c_1r_1, and c_1r_1 higher than c_1p_1 The scope for profitable inter-sector transfer, if cost of transfer is ignored, lies between c_1r_1 and c_2r_2, and not between c_1p_1 and c_2r_2. Profit surrendered to give special benefit to *A* is pp_1r_1p'. Interestingly, if Mitra's dictum — "What the traffic can bear, the traffic must be made to bear" — were adopted *in toto*, there would be no surrender of profit, and *A* would be charged c_1r_1!

[The construction of the Diagram is due to S Natarajan, Senior Research Officer, Central Pay Commission.]

Is There an Alternative to Radical Land Ceiling?

G Parthasarathy
K S Raju

M L DANTWALA raises two pertinent questions relating to ceilings on land holdings ("Socialism at the Grass-roots", May 20, pp 1017-18): (1) is this necessarily the most radical and the prior-most programme in the prevailing situation? and (2) what is its relevance in relation to elimination of the rural poverty, since no land legislation, however drastic, will provide even an acre of land to a small proportion of the landless labour population?

The suggested alternatives to a radical programme of redistribution of landed wealth are several, and many of them have been in fact tried and found wanting in the existing pattern of agrarian structure. Tenancy legislation resulted in large-scale eviction of tenants and black market rents. Minimum wage legislation is a dead letter. It is simple economic logic that given high concentration of the land factor rewards cannot be influenced in favour of the labour class by legislation. The benefits of Public investments in agriculture go more to the landed than to the landless. Public credit institutions have a built-in bias towards the richer strata in rural society. The operation of the government machinery is not free from the influence of the rural rich. Crash programmes intended for the benefit of the rural poor prove to be ineffective within the given agrarian structure. Private investments in wells, shifts to more labour using crops, reclamation of land, etc, of course, help the rural poor by increasing their employment. But large-scale private enterprise in agriculture finds labour management difficult and shifts to labour saving machinery, even if wages are low, nullifying any favourable effects of investment on employment. The rural rich use their political power to stall any progressive tax measure, the proceeds of which could be used for the benefit of the rural poor.

Therefore, a radical programme of redistribution of landed wealth in favour of rural poor becomes compelling in densely populated agrarian economies. The rationale for this programme is obviously (1) eliminating remnants of feudal farming and preventing the growth of capitalist farming in agriculture, and (2) containing the millions of landless within the rural sector until they could gradually be absorbed in other avenues of employment. The concept of 'family holding' is a familiar one in the literature on land reform and the proposed levels are quite meaningful in terms of this concept. To argue for parity between the rural and the urban rich in fixing the level of ceiling is to question the need for structural changes in the economy, both rural and urban.

Not Enough By Itself

Dantwala is on much firmer ground when he affirms that the programme of land ceiling *per se* cannot give relief to the vast number of landless labour households. Taking the case of Andhra Pradesh, out of 7 million rural households more than 30 per cent are landless labour households. Even to provide an acre for a landless labour household, around 10 per cent of the total net area sown would be necessary. Statistics collected in the mid-sixties in the deltaic district of West Godavari show that 50 per cent of the land was possessed by 14 per cent of the farmers the average size of whose holdings was 23 acres.* These statistics suggest that if ceilings are effectively implemented, it is feasible to acquire 10 per cent of the net sown area as surplus through a programme of land ceilings: But assuming that 10 per cent of the gross income is transferred to the landless, around 2.5 per cent of the income which is appropriated as surplus by the former land-owners will now be transferred to the rural poor. Assuming that labour gets one-third of the total agricultural income, the transfer of surplus land will result in an overall rise of 7.5 per cent in the income of the rural poor. But not all surplus will accrue to them since compensation is being paid, and this will have to be collected possibly from them. If compensation works out to half the surplus the rural poor will have an overall rise in income of only 3.75 per cent. But if the surplus in Andhra Pradesh is only one million acres, a bare 3 per cent of the net sown area as the Communist Party of India estimates, the incomes of the rural poor will show a once for all rise of only 1.12 per cent. With much less surplus the impact will almost be negligible. These exercises are only illustrative and are intended to show that the surplus acquired through ceilings *per se* helps little to achieve the objective of uplifting the poor.

The most positive benefit from ceilings in the present context is not the redistribution aspect but the possibilities opened by even a limited nucleus land base for the rural poor to (1) implement the programmes directed to benefit the weaker sections more effectively, and (2) to launch programmes of labour mobilisation for development of rural resources and for promoting a better life for the rural poor. Redistribution of an acre of land or less to the landless poor, however politically attractive, is least desirable. Past experience of assignment of government land to the landless has shown in many places that such land is either leased-out or, much worse, sold for a song to others. This should not be repeated.

It is desirable to organise the land acquired through surplus into collectives of landless labour. The immediate step for this is a Consolidation Act by which the surplus land is consolidated into a single contiguous farm. The first responsibility of the extension agency at the village level is the development of the collective farm. The resources now available with several departments for the benefit of weaker sections could be routed through the agency of the collective farm. Most important, the collective farm of the rural poor should be the main agency through which labour for all public works, now undertaken by contractors, should be drawn and ultimately settled in non-agricultural occupations. Thus this will bring about radical changes in the organisation of labour for public works. Whenever irrigation projects are undertaken at public cost in the dry areas land should be acquired from private individuals in return for supply of water and on such land the labour drawn from collective farms should be settled. All this will mean socialist planning at the grass-roots level, and without commitment of the elite to the needs of the rural poor it will be a difficult task. The nucleus land base, available from the surplus acquired through ceilings, will generate the forces from among the rural poor themselves to ensure such a commitment.

* See IADP Second Evaluation Report, Ministry of Agriculture, Government of India, cited in "Accelerating Development in West Godavari District" (Mimeo) May, 1969, p 13, prepared by the Ford Foundation.

FROM THE CHAIR

The Sandur Manganese and Iron Ores Limited

Speech of the Chairman and Managing Director, Mr Y R Ghorpade

THE following is the speech of the Chairman and Managing Director, Mr Y R Ghorpade, at the Eighteenth Annual General Meeting of The Sandur Manganese and Iron Ores Limited, held on June 30, 1972.

GENTLEMEN,

The production of manganese ore in the year 1971 increased to 2.61 lakh tonnes from 2.34 lakh tonnes in 1970 and 2.05 lakh tonnes in 1969. In 1972, the production of manganese ore is expected to be still higher and exceed 3 lakh tonnes during 1973. It may be recalled that in my speech last year, I had stated that every effort will be made to stabilise our manganese ore production and exports at a level of about 3 lakh tonnes per annum which is about six times the Company's annual manganese ore production before 1960 and about three times the annual production during 1960-65. Bulk of this ore is exported to Japan and some to Europe. It is being examined whether it would be possible to ultimately aim at a production of about 4 lakh tonnes of all grades of manganese ores in response to the Japanese market. Sandur manganese ore is now as well established in Japan as in Europe.

Manganese ore shipped during 1971 is 2.40 lakh tonnes as against a production of 2.61 lakh tonnes. Some shipments had to be postponed to 1972 at the request of our Japanese buyers and as a result of the Indo-Pakistan war. In the year 1972 also our level of production is likely to be somewhat higher than the shipments. This will enable the Company to build up adequate stocks for better co-ordination between production, railing and shipment and quality control. Every effort is being made to ensure that quality does not suffer as a result of increased production. It is gratifying that the out-turn analysis results of the shipments of manganese ore during the first quarter of 1972 have been well above the guaranteed minimum. The problem of increasing overburden is also being tackled. The two traxcavators commissioned in February 1972 will help in the removal of overburden at a faster rate resulting in higher production. The scope to further strengthen the mining equipment and transport facilities at the mines is being actively considered.

In the next year or two both our level of production and shipment of manganese ore will have to be stabilised at a level of about 3 to 3.5 lakh tonnes. Every effort will be made to reach an average of 3 shipments per month. This means not only adequate railings but adequate facilities at the port of Mormugao from which this ore is being shipped. With the development of the Mormugao outer harbour, the present mechanical ore handling plant could be made available for loading manganese ore. This would considerably quicken the pace of manganese ore shipments at Mormugao. Generally speaking, with the growing international competition, better ore handling facilities at ports becomes inevitable to safeguard the competitive position of all Indian ores. The Government of India should give adequate attention to port development during the Fifth Plan period to enable sufficiently large ships to be loaded at a faster rate, thereby reducing the sea freight for Indian ores to the same level as for ores from other parts of the world.

Smiore is conscious of the fact that manganese and iron ore production is and ought to be labour intensive and employment oriented. We are, therefore, determined to do as much manganese and iron ore production as is

economically feasible, keeping in mind rail, shipping and other available facilities. Apart from maximising manganese ore production, the Company is examining the possibility of undertaking large-scale mining of iron ore. For this purpose, Smiore has already entrusted the Indian Bureau of Mines to prepare a feasibility report for the production and export of about one to two million tonnes of iron ore per annum from the Company's mining areas. Our friends in Japan are likely to be interested both in our manganese and iron ore development in a big way. This is fully in line with the country's effort to increase exports and earn more foreign exchange. Side by side and as a part of an integrated programme, the Company has planned to expand its electrometallurgical industry.

Further Expansion

The 15,000 KVA electric pig iron furnace of the Sandur Metal and Ferro Alloys Plant near Hospet had to be shut down for about 8 to 9 months during 1971 for the purpose of relining. The furnace had functioned satisfactorily during 1969 and 1970. The requisite refractory material for relining was not readily available. There was great difficulty in this regard. The refractory material required to completely reline the furnace had to be specially manufactured within the country. However, advantage was taken of this extended shut down period to modify the furnace, incorporating certain latest developments in furnace technology, as a result of which the furnace is now giving a 10 per cent higher production compared to the years 1969-70. Production of pig iron in 1972 is expected to be 36,000 tonnes as against 33,991 tonnes in 1970 and 31,604 tonnes in 1969. This amounts to 100 per cent utilisation of licensed capacity. But there has been a steep increase in prices of raw materials, particularly coke and electrode paste and this is seriously engaging the attention of the Company. Smiore has developed considerable technical expertise and experience which is now one of its main advantages in launching on further expansion.

During 1971, the Company incurred a net loss of Rs 40.3 lakhs before depreciation and taxation as against a profit of Rs 40.4 lakhs in 1970. After depreciation and amortisation the loss for the year is Rs 67.2 lakhs. This was mainly because of the long shut down of the pig iron furnace for about 8 to 9 months upto September 1971. In spite of this, the Company repaid loans and deferred payment liabilities to the extent of Rs 12.74 lakhs in 1971. The Bank of India and the Industrial Credit and Investment Corporation of India Ltd, have kindly agreed to reschedule loan repayments in view of the plant shut down in 1971. However, the furnace is functioning very satisfactorily from September 1971 and the Company expects to make up by 1974 the loss incurred in 1971.

The Company is also going ahead with its programme of further diversification and industrial expansion. It has a Letter of Intent for the production of 24,000 tonnes of ferrosilicon per annum. The ferrosilicon project report, prepared by the Company, for the installation of two 20,000 KVA furnaces for an annual production of 24,000 tonnes of ferrosilicon, has already been submitted to the financial institutions, *viz*, Industrial Finance Corporation of India, Industrial Credit and Investment Corporation of India, Industrial Development Bank of India, Life Insurance Corporation of India and the Unit Trust of India. The estimated capital cost of the project is Rs 4 crores and is expected to be financed by the issue of fresh capital of Rs 1.5 crores and loan finance of Rs 2.5 crores. Foreign exchange component of the project is Rs 1.07 crores. The Company has already made applications to the Controller of Capital Issues and the Controller of Imports and Exports in this regard. The Mysore Government have agreed to supply a minimum of four lakh bags of charcoal per annum. The balance of reductants may have to come from other alternative sources. In view of the Company's substantial manganese ore export performance and programme, it may be possible to consider the import of some quantities of metallurgical coke of the best quality, with the approval of the Government of India, in order to maximise technical efficiency and production. The Mysore State Electricity Board has agreed to supply the necessary power on a long-term basis at the present HT-1A tariff. This increased power rate will be economically feasible in view of the higher profitability of ferrosilicon compared to pig iron. Completion of the ferrosilicon project will further diversify the Company's production and make the Metal and Ferro Alloys Plant more broad-based and viable. As per the time schedule drawn up for the implementation of this project, the two ferrosilicon furnaces, each of 20,000 KVA capacity, are expected to go into production by middle of 1974. After the commissioning of this project, Smiore will have three electric furnaces in all, including the existing pig iron furnace, and will no longer suffer from the disadvantage, which it acutely experienced in 1971, of functioning with only one furnace.

With regard to labour welfare amenities, the Company has tried to do its utmost. The Life Insurance Corporation of India have sanctioned a loan of Rs 25 lakhs to the Company towards construction of a modern colony for employees of the Metal and Ferro Alloys Plant. The Company has also applied to the Mysore Housing Board for financial assistance for constructing houses for its mining labour. The Company has a mining force of nearly 3,000. Efforts are also being made to augment the drinking water supply at the mines which gets depleted during summer months. The Company has revised the pay-scales of its employees both at Mines and at the Metal and Ferro Alloys Plant from January 1972 as a result of which the annual wage bill increased by Rs 6 lakhs.

Significant Landmark

The inauguration of the work on the Vijayanagar Steel Plant by the Prime Minister on 14th October 1971 marks a significant landmark in the economic development of Sandur, Bellary District and the State as a whole. The Government of India have now indicated that this two million tonne steel plant will cost as much as Rs 750 crores. I am sure the State Government will take all steps to ensure that this steel plant is completed as expeditiously as possible. Now that the Mysore Government has sanctioned the Taranagar multipurpose irrigation project, we could reasonably expect the National Mineral Development Corporation to commence work on its proposed two million tonne pelletisation plant costing Rs 25 to 30 crores in the valley of Sandur. The Mysore Government has agreed to meet the water requirements of this public sector pelletisation plant from the Taranagar project. All this will naturally result in a lot of ancillary development and employment in Sandur and the adjoining areas. This is a matter of great satisfaction to all those who have worked for the modernisation and development of Sandur which is destined to play a significant role in the progress and prosperity of our State and the country.

Shri M Y Ghorpade has resigned as the Joint Managing Director of the Company on his appointment as Finance Minister of Mysore State. The Board of Directors wish to place on record their appreciation of the valuable and signal services rendered by Shri M Y Ghorpade to the Company since its inception in 1954 and wish him every success in the discharge of the high responsibilities that he has been called upon to shoulder at this crucial juncture in the service of the State.

Y R Ghorpade

Yeshwantnagar
30th June, 1972

Mahindra Ugine Steel Company Limited

Statement of the Chairman, Mr Harish Mahindra

THE following is the Statement of the Chairman, Mr Harish Mahindra, to the Members on the occasion of the Ninth Annual General Meeting of the Company held in Bombay on June 26, 1972:

Political and Economic Outlook

The year 1971 was a difficult and eventful one for our country. It was the most tumultous year in certain respects after we attained independence. Under the inspiring leadership of our Prime Minister Smt Indira Gandhi, in our hostilities with Pakistan, we were able to register a victory for truth, liberty and democracy, the ideals which we cherish so dearly. It was a Dharmayuddha in the real sense of the term and it was a unique kind of a war, which resulted in the creation of an entirely new nation.

It is more than two months ago that we have had the fifth general elections to the State Assemblies. In almost all the States stable Governments have been formed by one and the same party, which is in power at the Centre. This should herald a period of political stability in the country and also a certain measure of uniformity, coherence and consistency in various economic policies. This is also the right occasion to concentrate on the foremost problems before the country and for implementation of various programmes for solving the over-riding issues of poverty and unemployment.

The ruling party is engaged in discussing certain far-reaching radical reforms. Many of us here at the moment have little doubt as to which way we are heading in the realisation of our desire for a socially and economically more egalitarian society. Most of our economic policies which decisively set the pace and pattern of economic development still suffer from ambiguity, nebulousness and anomalies.

Certain basic lessons in economic development which we learnt from the past are being ignored in the rush and tumble of events. While it is true that growth in GNP does not necessarily mean an improvement in the living standards of the masses, we cannot afford to go to the other extreme and decry rapid growth which we must have at all costs. While it is essential that we introduce equalisation measures, as one of the solutions to the contentious problems of poverty and unemployment, such a solution, however, does not necessitate the slackening of our development efforts for one reason or the other. On the contrary, an accelerated rate of development will in fact reduce the intensity of the problem.

While, I for one, welcome the radical measures initiated or contemplated by the powers that be, I feel that this should not become an obsession with the planners to the detriment of the growth of the economy as a whole. Although it is a truism and platitude, I would like to reiterate that only through implementation of massive labour intensive schemes such as construction of national highways, bridges, interlinking of inland waterways etc, the seemingly intractable problem of unemployment can be overcome.

Budget 1972-73

The Budget for 1972-73 has been rather disappointing for the corporate sector which had looked forward to certain development-oriented taxation measures. Contrary to the expectations of the corporate sector, the Government has withdrawn the allowance of a special deduction of an amount equal to 5 per cent of profits of domestic companies engaged in the priority industries. Conversely, the surcharge on corporate tax has been enhanced from 2½ per cent during 1971-72 to 5 per cent in the current year's Budget.

It is not these imposts that are causing concern. It is on the other hand what the Budget has failed to offer to enliven the investment climate has been a source of anxiety. I refer here to my previous statement to you wherein I had taken the position that the abolition of Development Rebate after 31st May 1974 would positively hinder capital formation. The same view has been continued to be echoed and stressed by various other persons and organisations. The Finance Minister has reiterated on several occasions that there is no possibility of revival of Development Rebate in its original form. However, it now appears that the Government is searching for a suitable substitute so that the withdrawal of the Development Rebate does not have a negative impact on investment policy and an inhibiting effect on the growth of industrial activity in India. I would plead for the reconsideration of the question of withdrawal of Development Rebate because I do not share the view that the Development Rebate contributed in any way to over-capitalisation as argued by its detractors. No management worth its name, while planning the capital structure of a Company, would deliberately over-capitalise only for the sake of availing itself of the benefits of Development Rebate. If Government feels that Development Rebate cannot be reinstated, I would suggest that either accelerated development rates should be allowed or grant of initial investment allowance as prevailing in other countries should be given as a corrective factor to counteract the rise in replacement costs of plant and equipment. If the Government is serious in directing industrial investments into so-called backward areas, it would be well advised to retain the incentive of Development Rebate at least for projects located in such areas. In the context of all these tax reforms and measures, the most important factor to be kept in mind is that what is at stake is not the growth, expansion, prosperity or adversity of a few organisations, but the very industrial development of the country itself.

Working Results

Coming to the affairs of our own organisation, I am sure you would have observed the very satisfactory and marked increase in the sales of your Company and the consequent surplus position obtaining therefrom from the Directors' Report and Accounts for the year ended 31st December 1971. We

were able to achieve an increase or more than 26 per cent in the income from sale of products and other income which is gratifying by any standard. The increase was of the order of about Rs 2.188 crores from Rs 8.265 crores. In terms of quantity, the output of saleable finished products increased to 31,836 tonnes — an increase of approximately 22 per cent over the previous year's output.

The turnover during the first five months of the current year has worked out to Rs 427 lakhs as against Rs 429 lakhs in the corresponding period of 1971. The order load at the moment is quite satisfactory and we expect that the inflow of fresh orders would be at the same levels as in the past.

Expansion

You are aware that we had received some time back an expansion licence permitting us to produce tool, alloy and special steels of all types, grades and categories (with the exception of sheets and plates) upto 36,000 tonnes per annum of finished steel. After a detailed study, your Company had come to the conclusion that additional capital outlay for implementing the expansion of the existing capacity of 24,000 tonnes to 36,000 tonnes per annum would be disproportionate to the incremental return on the extra output of 12,000 tonnes, particularly as the prices for arc furnaces, blooming mill, etc, had registered a phenomenal increase since 1968. After considerable deliberations and advice received from our collaborators proposals for expansion of the productive capacity of the plant from 24,000 tonnes to 60,000 tonnes per annum in terms of finished steel were initially submitted to the Government on 9th June 1970. Our expansion scheme as submitted to the Government is more in the nature of quantitative expansion inasmuch as product diversification is covered by the licence already held by us.

So far as the overall position of Alloy and Special Steel is concerned, the recent projections of NCAER and market surveys of different Agencies have proved beyond doubt that by 1980-81 there would be a substantial gap between the estimated demand and availability and especially in respect of Alloy and Constructional Steel, the gap would be quite appreciable. To ensure a balance between the demand and availability by 1980-81, additional capacities would have to be necessarily planned and action initiated as expeditiously as possible having due regard to long gestation period.

Basically, there is an acceptance by the Government that priority should be accorded to the expansion of the existing Steel Plants over the establishment of new Plants for three principal reasons *viz*, (1) The cost of expansion would be appreciably lower than construction of a new Plant, (2) Expansion would be comparatively less time-consuming and (3) Economies stemming from larger scale of production would render some of the existing Units more viable. For instance, it has been reported that the Steel Ministry now admits that the investment costs per tonne of steel ingots for the proposed Vijayanagar and Vizag Steel Plants in the South would be almost double that of the cost involved for expansion of Bokaro or Bhilai. Whereas investment per ingot tonne for plants located on green-field site is expected to vary between Rs 3,750 and Rs 4,000, the corresponding capital cost on identical basis for expansion of the capacity of Bhilai (from 2.6 million to 4.0 million tonnes) has been estimated at Rs 2,500 and, in the case of Bokaro, about Rs 2,160 (for expansion from 1.7 million to 4.0 million tonnes). The capital outlay on our project based on an annual capacity of 60,000 tonnes would work out considerably less than the corresponding capital outlay on new projects recently sanctioned by Government.

If we had received the approval of the Government to our Expansion Scheme within a reasonable period we could have taken advantage of the prices of plant and equipment prevailing in 1971 thereby saving a considerable amount of foreign exchange expenditure. Increase in the price of the plant and equipment in the Continent has been anywhere from 10 per cent to 15 per cent per year and the delay in going ahead with the Expansion Scheme will result in avoidable increase in the capital outlay, particularly in terms of foreign exchange.

Another factor which is in favour of expansion of a plant like ours is the shorter gestation period resulting in quicker displacement of imports and consequential savings in foreign exchange as well as larger earnings of foreign exchange through exports of alloy-steel-based engineering products.

Moreover, in respect of royalties, MUSCO's expansion would yield a distinct and recurring advantage from the point of view of National Exchequer in terms of smaller outflow of foreign exchange. Our Collaborators have agreed graciously not to charge additional royalty on any quantity beyond 36,000 tonnes. This advantage alone should weigh heavily in the minds of the Authorities in favour of our proposal for expansion of plant capacity upto 60,000 tonnes.

Summing up I feel that our Expansion Scheme is basically in consonance with the Government's thinking on the expansion of Mild Steel Plants. The social cost benefit of our scheme from a macro perspective is also too obvious to be emphasised. In spite of these advantages, the fact that our expansion scheme has been virtually kept in cold storage by the Government for nearly two years is rather inexplicable in the face of the avowed policy of the Government that units in the Private Sector are expected to augment the production of Alloy and Special Steels in the country. In these days when self-reliance, import displacement and rapid growth of economy are the cornerstones of our economic planning, we cannot afford to let industrial applications, based on sound techno-economic reasons, shrivel up in delays like this. I therefore fervently hope that the Government will accord its approval to our Expansion proposals without any further loss of time.

Scrap

Over the year under review, the capacity utilisation of Alloy Steel Industry has not been upto the mark. We have, as in the past, met with snags in the supplies of several of our most essential raw materials. In the case of scrap, the severity of shortage is fully manifest in the relentless surge in prices. It is desirable that scrap dealers voluntarily agree to exercise some restraint in the matter of scrap price increases. A recent study indicates that the requirements of scrap in 1976-77 would be double that of 1972-73, being of the order of 1.37 million tonnes. The supplies, however, are not growing at the same rate. From a nominal surplus position in 1970-71, we have today reached a stage when we have to start importing heavy melting scrap.

Even after measures are taken to improve scrap collection and scrap processing, there would still be a wide gap between scrap requirements and availability. It is, therefore, necessary to plan ahead, foresee gaps in supplies and attempt to bridge them by setting up sponge iron plants/metallised iron pellet plants.

Power

In respect of power, there are mainly two points which are of immediate relevance to the operations of your Company. The first relates to the apprehended serious shortage of power which is an essential input for melting operations, in the coming years. As you know, the present power situation in Maharashtra is not that comfortable and this situation is likely to continue unless immediate steps are taken to augment power generation. If I may say so, the Electric Furnace Industry, which is a power intensive one, has a share in the total generation capacity of only about 0.2 million KWs or about 1.5 per cent of the generation capacity or 2 per cent of the peak demand. We would, therefore, urge the authorities concerned to ensure adequate supplies of this essential input round-the-clock and all through-the-year. I would also suggest the creation of regional grids, which will help any Power Authority to take advantage of the ups and downs in the daily and seasonal peak demands, so that temporary shortages in one State may be made good by the temporary surplus in another State. Attention has also to be paid to the question of reducing energy losses in transmission and distribution. Hand in hand with these measures, there should be no slackening in the creation of fresh capacity for power generation.

A second and more urgent issue relates to the power tariff. At the moment the power cost for electric steel production in Maharashtra is almost prohibitive. I had referred in my previous statement that a Committee headed by the Industries Commissioner had been appointed by the Government of Maharashtra to enquire into this question. We learn that this Committee has recommended granting of exemption from Electricity duty to power intensive industries and bringing the tariff for power intensive units on par with those prevailing in States such as Mysore, Tamil Nadu, Gujarat and Madhya Pradesh.

Of late the Union Government is said to be advocating a concessional tariff of about 4.5 paise per KWH for purposes of encouraging Mini Steel plants in order to stimulate the growth of indigenous technology for sponge iron. Needless to say this is a move in the right direction and I only hope that the Maharashtra Government will act quickly in the matter of restructuring the MSEB tariff for electro-metallurgical industries.

Exports

Although the indigenous output of Alloy and Special Steels is not sufficient to meet the requirements of the country, which position is likely to continue for a few years to come, there is, in my opinion, scope for direct export of certain types of Alloy and Special Steels. Of course, indirect exports of certain types of Alloy and Special Steels are taking place at the moment in the form of sophisticated engineering products. My submission to the Government is that those Alloy Steel Plants which have been able to establish reputation for consistency in quality should be offered adequate incentives for export of Alloy and Special Steels. Although initially the quantity which could be spared for export market would not be substantial, the efforts to find markets for such sophisticated products will pay dividends from a long-term perspective when the country's output of Alloy Steel will be sufficient to meet the entire domestic demand, leaving some exportable surplus.

Imports of Canalised Items

As I had mentioned in my previous statement, the imports of Graphite Electrodes, Refractories, Ferro Alloys, Heavy Melting Scrap, Sponge Iron and Nickel were canalised through Government Trading organisations. On this matter we have had an open mind despite our misgivings. Nevertheless, I am now constrained to say that our experience so far in the matter of our obtaining these imported materials has not been happy. Nor are we satisfied with the manner in which imports are arranged, the lead time for physical receipt of the material and finally the actual cost we have to incur for their supplies. The commission of the order of 5 to 7½ per cent of the CIF value charged by the Canalising Agencies is definitely on the higher side and by any measure, out of proportion to the actual costs involved in the import of such materials. A better way to calculate commission would be to work out the actual cost of imports and to charge about 1 per cent extra over and above such actual costs.

There is not much of a business-like-approach in arranging imports. The time taken for finalising firm orders is nearly 6 to 7 months, whereas it never ought to take more than 2 to 3 months. Secondly, to curtail such delays, regular live-wire contacts with the consumers for purpose of consulting them regarding the most desirable source of supply, prices, quality, specifications and so forth are lacking. I suggest that the Canalising Agencies permit the consumers to scrutinise the offers received by them so that they could identify the best offer without any undue loss of time. Such a procedure will also ensure that specification-wise the material ordered by the Canalising Agencies is strictly in accordance with their requirements. The time lag involved between the date of the application for release order and the physical receipt of the canalised material is such that the expressed intention of the Government that the consumers could get their half-yearly requirements on a replenishment basis is defeated. Timely receipt of the materials is a *sine qua non* for keeping the wheels of production running. Clubbing all release orders for small values entails a certain amount of delay in placing the final orders with the foreign suppliers, completely upsetting the delivery requirements of the consumers. There is, therefore, a *prima facie* case for Canalising Agencies issuing letters of authority in favour of consumers to import on their own wherever the value of each individual release order is less than Rs 50,000.

Collaborators

The Shareholders will be glad to know that there has been a merger effective from 1st January 1972 between our Collaborators — Ugine Kuhlmann and Pechiney Group in France. This merger has resulted in the creation of a super conglomerate with an annual turnover of 2.7 billion dollars—according to various rankings, this new undertaking shall be number one in France and will be one of the top ten companies outside the United States. As a result of the merger, the assets and industrial activities of various companies belonging to Pechiney and Ugine Kuhlmann Group have been regrouped within the seven divisions, *viz*, Aluminium, Copper, Special Steel, Ferro Alloys, Chemicals, Special Products and Nuclear Products.

Our association with Pechiney Ugine Kuhlmann opens up new vistas for close co-operation and collaboration in several fields whereby we can make fuller use of our financial and manpower resources and the expertise we have been able to build up within our own organisation. With a view to selecting some of the products within the gamut of activities of Pechiney Ugine Kuhlmann for eventual manufacture in the country, it is proposed to establish a Merchandising Division to acquire the necessary skill and experience in marketing PUK's products and sale of their techniques to third parties in India wherever considered necessary.

Before I conclude, I would like to express my sincere appreciation of the unstinted efforts put in by your officers, staff and workers in setting new records. I am also grateful to my colleagues on the Board for their sound advice and counsel. We are also indebted to Ugine Aciers for providing technical assistance in solving some of the production problems and in establishing new grades of steel.

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

The Indo-Burma Petroleum Company Limited

Statement of the Chairman, Shri Kamaljit Singh

THE following is the text of the statement of Shri Kamaljit Singh, Chairman, The Indo-Burmah Petroleum Co Ltd, delivered at the 64th Annual General Meeting held at Calcutta on June 29, 1972.

LADIES AND GENTLEMEN,

It gives me great pleasure to welcome you to this meeting today. The Directors' Report, Balance Sheet and Profit and Loss Account for the year ended 31st December 1971 have been in your hands for some time, and with your permission, I take them as read.

As I mentioned to you last year, the association of your company with the Indian Oil Corporation commencing from January 1970 has helped to improve the working results of your company. The Table below shows the position for the last three years.

It has been possible to recommend a total dividend of 18 per cent for 1971, as against 17 per cent for 1970. I am glad to say that your company continued to make all round progress in 1971. As compared to 1970, sales of automotive fuels went up by 39 per cent, and sales of all products by 32.8 per cent thus achieving record sales of 37,1,244 tonnes and a turnover of Rs 31.5 crores. During the first five months of 1972, the sales are estimated to be about 30 per cent more than in the corresponding months of 1971. Besides consolidation and progress in the oil trade, your company has also made plans for development in other fields. I am glad to inform you that your company entered into a technical collaboration agreement with a Belgian firm in March 1972, for the manufacture of sophisticated bottle filling equipment used in aerated water, soft drinks and beer industries. As a consequence, it is hoped that the profitability of your company's engineering division will improve in future years.

Company's investments in Balmer Lawrie and ICICI fetched the same rate of dividend as in previous years. However, your company purchased an additional 3332 shares in ICICI, as a result of "rights issue", made by the ICICI.

Your company's investments in the Shama Pistons and Rings Ltd, Shama Forge Company Ltd, and Assam Sillimanite Ltd, did not yield any dividends. However, I would like to inform you that with the efforts of the financial institutions, the Shama Pistons and Rings Ltd, was reorganised in May 1972, and as a part of the overall arrangements, your company has sold its equity holding in Shama Pistons and Rings Ltd, worth Rs 8 lakhs at par value. I am glad to say that as a consequence the Industrial Finance Corporation of India have agreed to release the guarantee executed by your company in their favour in respect of loans granted by Industrial Finance Corporation of India to Shama Pistons and Rings Ltd. This will reduce your company's contingent liability to the extent of Rs 52.55 lakhs plus interest.

Your company was holding about 30 per cent of the equity shares of M/s Balmer Lawrie, Calcutta, for more than a decade. Earlier this month your Company has entered into an agreement to purchase additionally two large blocks of shares in this company held by Duncan Brothers and Alex Lawrie and Co (India) Ltd. Subject to your approval, these additional shares will be acquired next month and your company will hold about 80 per cent of the equity shares of M/s Balmer Lawrie and thus have control over that company and its subsidiaries, with their varied industrial activities, including barrel making, grease manufacture, engineering and electrical industries. Meanwhile your company has taken over the management of the Balmer Lawrie Group from 6th June, 1972.

Your company's retail outlets have been renovated in 1971 using the new colour scheme and new logo. We hope these outlets now project the new image of your company, *viz*, the image of an organisation dedicated to service and efficiency. Your company has also initiated a scheme for the rehabilitation of the ex-servicemen and their families by appointing them as dealers at company developed retail outlets and for selling kerosene.

The success achieved during 1971 has been the result of the hard work and devotion of your employees and dealers. I am glad to convey deep felt appreciation to one and all, both on your behalf and on behalf of the Board of Directors.

Note: This does not purport to be a record of the proceedings of the annual general meeting.

TABLE

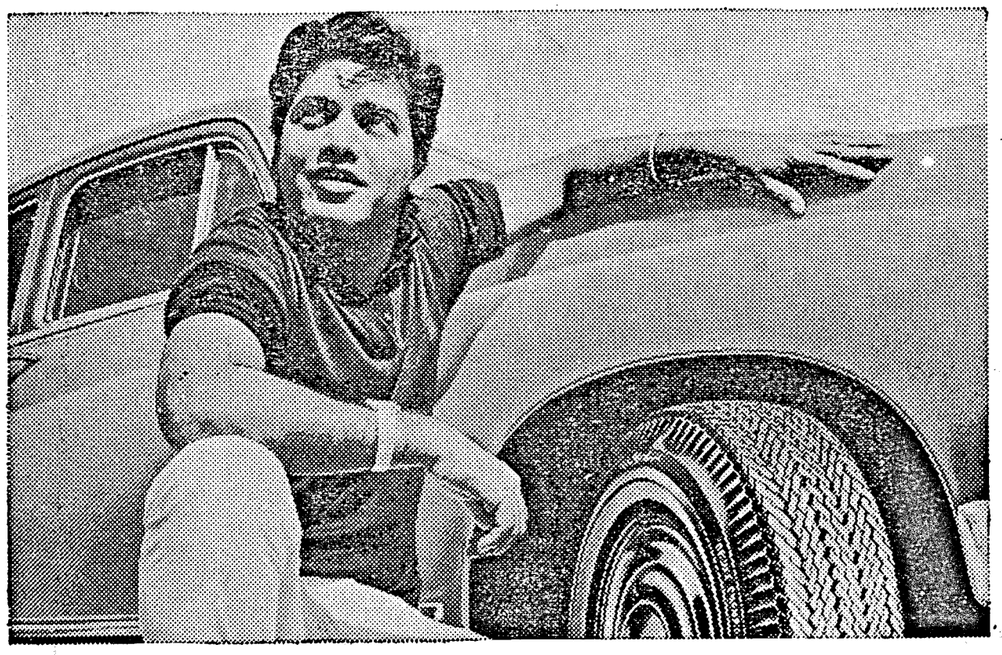
Year	Sales (Lakhs metric tonnes)	Profit before Tax (Lakhs Rs)	Percentage of Profit after Tax to Capital Employed
1969	2.04	32.50	6.20
1970	2.79	53.77	10.28
1971	3.71	74.66	16.83

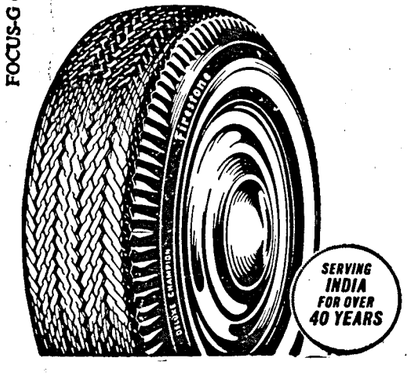
Indian Diesel Engines

THE total production of Indian diesel engines which numbered around 10,000 in 1955, rose to 42,182 in 1960 and to approximately 360,000 in 1969. Since then the industry has been passing through a recession and production is currently about 160,000 per year. In 1969, there were more than 750 'factories' producing diesel engines. Of these only 30 belonged to the organised sector and the rest to the small scale sector, of which many are 'merely 'assemblers' and do not have any facilities for manufacture and testing of the engines. Nearly 90 per cent of the diesel engines manufactured in the country are of 10 hp and below and are mainly used for driving irrigation pumps.

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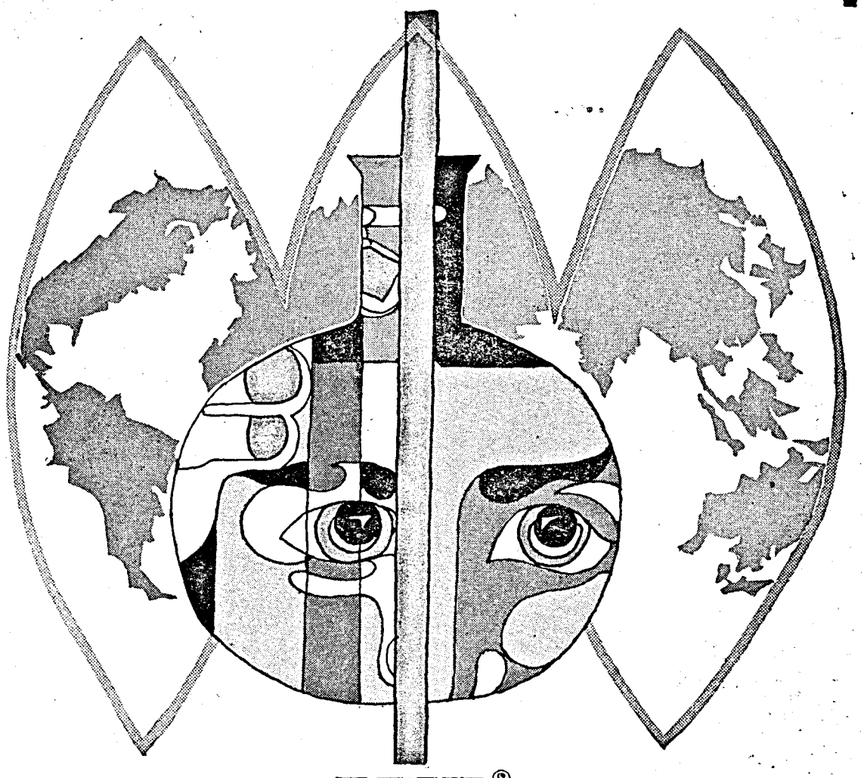
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NAVY: WRONG PRIORITIES?

ILLS OF ONGC

FIFTH PLAN: ISSUES AND PSEUDO-ISSUES



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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, A A Dalvi

Missing Perspective

BHUTTO's remark that the outcome of the Simla summit was a victory for both sides may be said to be tactful but not factual. India's 'victory' had already come with the dissolution of Pakistan last December. Handing back the territory taken by the Indian army in the west (excluding Kashmir) during the war was the only sensible thing to do with the occupied areas in the context of the Government of India's policy which is to have as untroublesome a neighbour as possible, while at the same time stabilising the border including the ceasefire line in Kashmir. And if these aims were to be furthered, a gesture which would help Bhutto to temper Pakistani feelings towards India and at the same time consolidate his rule had to be made, as the alternative would be to start thinking in terms of the dismemberment of what is left of Pakistan. Also, the Government of India has no reason to prefer an army *junta* once again in power in Islamabad to a Bhutto, even if he were to become bellicose again, a probability which must be taken into account.

At Simla, Bhutto was really the reasonable man. He was talking to the people who had played a major role in breaking his country into two. It is not altogether easy to recognise 'realities'. It has not been possible for us, for example, to recognise that a much smaller defeat and humiliation hardened our attitudes towards China almost beyond repair. Against this background Bhutto's initiative and realism have far exceeded our expectations of him. The summit has made it clear that the attitudes of the Pakistani leadership may not be the only insurmountable obstacle in any normalisation of relations between the two countries. It is doubtful whether the Pakistani leaders alone have been the recalcitrant ones in preventing an Indo-Pakistani dialogue. But even if that were so, Bhutto now appears to be behaving differently.

In this situation it would have been the height of arrogance to maintain that the Kashmir problem did not exist or that Pakistan did not have any legitimate interest in the problem. The agreement at Simla reflects the realisation that ultimately the *status quo* in Kashmir can be maintained (and Indira Gandhi, to be sure, does not want any change) only with the concurrence of the leadership in Pakistan. This does not mean, as Balraj Madhok may fear, any change in the Kashmir situation. It means basically that Pakistan has taken a first quiet step towards its acceptance. Sheikh Abdullah is happy that the Simla summit has acknowledged the existence of the Kashmir problem. If the present mood of the Pakistani leadership and their present problems continue, he may be in for a surprise. If the Simla summit has started a chain of consultations and meetings, he may find that Bhutto and Indira Gandhi might slowly arrive at a tacit agreement over Kashmir.

The Soviet Union would in all likelihood help this process. That the Third Party may enter the picture, if necessary, is already implicit in the Simla agreement which states that "the two countries are resolved to settle their differences by peaceful means through bilateral negotiations or *by any other peaceful means* mutually agreed upon between them" (emphasis added).

The summit has succeeded in terms of identifying and frankly recognising the existing problems between the two states. More specifically it has talked of the "repatriation of prisoners-of-war and civilian internees, a final settlement of Jammu and Kashmir and the resumption of diplomatic relations". The first issue cannot be settled without the concurrence of Bangladesh. But that need not present too many problems unless either India or Bangladesh wants singly or jointly to use this issue to pressurise Pakistan further. If that were to happen, such pressure would certainly be counter-productive. Related to this issue is Mujib's declared intention of going ahead with the trials of war criminals. India has predictably taken a we-know-not-anything-about-it attitude. This may not be entirely on the legalistic ground of non-interference in the affairs of our eastern neighbour. It is possible to argue that a certain level of tension between Bangladesh and Pakistan would work to India's advantage. Probably Mujib does not see this today, but he well might tomorrow. If he does, the issue of the Nuremberg-style trials would acquire a very different political connotation in his view. Bhutto is probably hoping that Mujib may begin to see the problem in this light. Besides there are the 400,000 Bengalis in Pakistan and their future. Bhutto may have had all this in mind when he appealed to Mujib at his press conference in Simla not to proceed with the trials and so reach a point of no return.

Strange though it may seem, more than Kashmir it may turn out that the Pakistan-Bangladesh relationship could become the crux of the Indo-Pakistani relationship. It is, therefore, surprising that the summit hesitated to see Indo-Pak relations in regional perspective. Both countries do not seem

to have yet fully realised that their relationship is more than just a bilateral problem. Both will have to think in terms of the region as a unit or else they will continue to be part of the schemes of those who have already thought in such terms. The central question is whether we want to make the South Asian region and, thereby, the Indo-Pak relationship subservient to the big powers? If not, we must identify the powers capable of making an Indo-Pakistani accord a part of their world system; the two governments should have no problem in identifying these powers. If this question is not faced squarely, we would be building only a sub-system of states presided over by one or more of the super powers. If that happens, agreements at high places like Simla and Murree would appear to be the small achievements of small people. Surely our subcontinent deserves better than that.

Sri Lanka

Keeping Heads Empty

THE Mexicans, it is said, believe that between God and the United States, the United States is more dangerous because it is closer. It should not be surprising if the people of Sri Lanka take a similar view of India. India has always been the principal concern of Sri Lanka's foreign policy. This concern has evidently acquired a sharper edge since India's intervention in Bangladesh. Sri Lanka must have regarded the Indian intervention as very ominous. There is no way of knowing whether the Sri Lanka politicians, like the Chinese, saw parallels between Bangladesh and Manchukuo. But they must have, like the Chinese, seen some seeds of a possible Indian design on their territory. Sri Lanka does not have an exactly enviable record of Tamil-Sinhalese relations. Sirimavo Bandaranaike must be acutely aware that she too has a skeleton in her cupboard. Judging by the case of Bangladesh, she must have had every reason to believe that the government of India, which was so sympathetic and helpful in her fight against the Janata Vimukti Peramuna rebellion last year, may not be as friendly if her problems with the Tamils were to continue to grow.

The chances are that they might. The Tamils, Sirimavo is aware, have not got a fair deal under the new constitution. Tamil discontent is on the rise. This raises the real question for Sri Lanka's foreign policy. What is the guarantee that India would not repeat a Bangladesh style intervention in Sri Lanka? Sirimavo has got to work on the assumption that no such guarantee can in fact be given. It is necessary to cultivate countervailing forces to India.

There has been a lot of talk in this country about the expansion of the Indian Navy. We have a very large and modernised army. Equally our air force is also highly modernised and large. It is said to have flown 500 sorties a day during the war. Our navy has been a comparatively modest one. Sirimavo Bandaranaike must have seen in the latterday talk of naval expansion some threat to Sri Lanka. Her government, therefore, moved promptly in the United Nations that the Indian Ocean should be an area of peace. It is quite clear that Sri Lanka views the rise in India's military power with concern. One does not know if the recent war has made us the dominant power of the subcontinent, but we seem to be the most feared and distrusted power of the subcontinent. Sri Lanka, in any case, treats us as such.

This would explain why Sirimavo Bandaranaike took an eleven-day trip to China. The Sri Lanka premier evidently thinks of China as a countervailing power to India. Although her talks with Chou En-lai are supposed to have centred largely on developing "closer bilateral relations", relations with India must have been an important item on the agenda of the two leaders.

A new aid agreement was signed in Peking on Sirimavo Bandaranaike's arrival. It covered technical co-operation, construction of a cotton mill and large dollops of aid. The Sri Lanka premier was received by Chairman Mao which by Chinese norms would impart a special status to the visit.

But it would be a mistake if Sirimavo Bandaranaike's visit to Peking is seen only as a response to what would appear to her as India's military might. There are equally strong domestic reasons why she must have thought it worthwhile to visit the forbidden city. Ever since the JVP uprising in April-May 1971, Sri Lanka has not known political or economic stability. Unemployment stands at 12 per cent. Over 15,000 young people, allegedly connected with the uprising last year, are behind bars. There is a state of emergency, complete press censorship, no right to strike or demonstrate or publish without permission, and so on. All these are continuing signs of the government's inability to deal with rising discontent. The April-May 1971 uprising was a glimpse of this discontent.

Sirimavo Bandaranaike seems to have decided to react to the situation in a familiar way. The strategy is not new. If the rebels claim to be leftists, the government in authority should try to cultivate the socialist States and through them try to neutralise the rebels. Even as Sirimavo Bandaranaike is touring China, Czechoslovakia has announced a £3 million credit to Sri Lanka. However, the thrust of this policy is not intended just to acquire more aid. The aid is sought and will come. What probably is more important is that many developing countries (Sri Lanka, to be fair, is not the only one) seem to be mortally afraid of the supply of ideas to their insurgents. They want to turn off the tap!

It was perhaps Kwang-Tee, the ancient Chinese thinker, who once advised a king that if he wanted his subjects to be peaceful, he should "keep their stomachs full and heads empty". Sirimavo Bandaranaike, like many of her counterparts in Asia, is just unable to do the first. As regards the second, she evidently hopes that if she can persuade the Chou En-lais and the Brezhnevs to disown the rebels and their ideas, it might at least help her in "emptying their heads"!

West Bengal

Post-Election Patterns

IN the post-election configuration of West Bengal politics, all parties — victor and vanquished alike — have reached a sort of quandary. The predicament of CPI(M) and its allies, worsted at the polls, has been obvious from the start of the new phase, while that of the ruling Congress and its fellow-travelling CPI is surfacing gradually.

The large number of its cadres and supporters who have been killed, the continued assaults on its trade union and mass bases in the post-election period, and the trauma of finding its strength in the Assembly reduced from 111 to 14 have created a frame of mind among CPI(M) which precludes the possibility of the party MLAs taking their seats and playing a subdued oppositional role in the Assembly. On the other hand, the battered morale and organisation of the party rule out any possibility of confronting the new regime with mass upheavals in the immediate future — i e, unless wider developments

in the national arena radically change the present correlation of forces. The accumulated burdens of its omissions and commissions during the period of the party's ascendancy in West Bengal politics, and the leadership's incapacity to appreciate the complexities of the geo-political situation in the wake of developments in Bangladesh, had been gradually driving CPI(M) into a corner. Now the unthinking and impulsive boycott of the State Assembly, as a reflex to the conduct and outcome of the last polls, condemns the party to a state of near passivity, even though the leadership has pulled off the remarkable feat of preserving the unity and loyalty of its extensive mass bases in the midst of the all-round debacles in recent months. However, the mid-June session of the State Council of the CPI(M)-led Centre of Indian Trade Unions (CITU) represents the first tentative steps towards a regrouping of its forces.

The position of CPI(M)'s major allies is even more difficult. These smaller parties are much more vulnerable than is their dominant ally to the buffeting of external developments. They are, furthermore, torn internally by the love-hate relationship to CPI(M). RSP appears set to demarcate itself from CPI(M) on the Assembly boycott — although its three unsophisticated MLAs can hope to have little impact in the House and any weakening of its links with its Left allies outside the legislature will only sharpen its sense of futility. The Forward Bloc, which suffered a split on the eve of the polls, is further divided by an ideological controversy between the advocates of 'Marxism' and of 'Subhasism'. In sum, the Left Front parties are in for a period of stewing in their own juice, notwithstanding their 35 per cent share in the votes polled in the far from free and fair elections.

The ruling Progressive Democratic Alliance, of Congress and CPI, fares hardly any better than the parties of the Left Alliance. Pompous declarations made by Congress ministers on their assumption of office serve today, 100 days after their triumphant re-entry into Writer's Building, only to heighten the indifferent quality of the government's performance. It is perhaps symbolic of the overall situation that, while the Chief Minister boasts of having extended electrification to some clusters of villages, civic life and industrial operations in the sprawling metropolitan complex of Calcutta have settled down to long periods of dislocation due to systematic load-shedding by the power supply agencies. The only act that has registered in the public mind is the clearing of Calcutta streets of the thousands of hawkers and vendors who used to struggle desperately to make a living, clogging vehicular and pedestrian traffic in the process.

The Chief Minister's monthly broadcasts about the past month's performance of the government are also accorded sceptical reception by the public. For instance, a recent report in a loyalist newspaper said:

> "In fact, the term 'monthly programme' is a misnomer since according to the normal procedure most of the government work is done through the contractors and the contract clearly specifies that the work must be completed within three months at the minimum ... how [can] a scheme normally scheduled to be completed by three months at the minimum be said to be programmed for completion or implemented within a month... No doubt the Chief Minister has good intentions, but wishes are not horses." (*Hindustan Standard*, Calcutta, July 3, 1972).

The government and the ruling party still lack a cohesive policy-frame and are subject to diverse pulls. The resulting passivity of the government is reflected in its failure to end the long-drawn deadlock at the Calcutta University, created by its student wing and led by a Minister of State. Moreover, internal group rivalries are increasingly surfacing and posing new problems of law and order. Referring to many recent instances of gheraos of police stations, following arrests even on specific charges like murder, the *Statesman*, Calcutta, reported some days ago:

> "Group rivalry among youth Congress workers which was so long latent is said to be coming into the open. In April, there was a clash between two groups in Nadia district as a result of which two died. There had been such incidents in Dum Dum, Baraset, and a few other places in the 24 Parganas district. In Hooghly, the factional fights among the youths is (*sic*) said to be getting sustenance from two top leaders of the district.
>
> "The police are to intervene when the intra-rivalry over-steps its limits and degenerates into violence, although it might not directly affect the law and order situation in its broad sense.
>
> "Local pressure, it is stated, is brought upon the thana officers to act according to the dictate of this or that group and when they cannot oblige them, complaint is made to higher quarters that they have unnecessarily been harassing the Congress workers in co-operation with the CPI(M)." (*Statesman*, Calcutta, June 18, 1972.)

Dissatisfaction with the performance of the government seems to have spread into the Congress Legislature Party. Youthful MLAs from the rural areas, who constitute a sizeable segment of the House, have been striking sharply critical notes in the Assembly debate on the state budget. Again, the repeated failures to work up a quorum in a House with such an overwhelming majority for the ruling party are at least in part an expression of disenchantment and loss of morale in the ranks.

CPI, meanwhile, in search of a credible role. It is in the ruling alliance, but not in the government. It has forged a number of formal links with Congress at the Assembly and party levels, yet it is unable to synchronise its policies with those of its partner. The CPI leader in the House is also the deputy leader of the ruling alliance, yet it is constrained to play a quasi-oppositional role in the House. Publicly voicing anger against the aggressive attention paid to its kisan and trade union bases by sections of Congress(R), it has nevertheless been unable to work out any effective remedies against what it calls "Congress's aping of CPI(M)" within its present policy framework.

Alloy Steel

No Case for Subsidy

WITH an installed capacity of 24,000 tonnes, Mahindra Ugine Steel's output of saleable finished products in 1971 was almost 32,000 tonnes. This is specially gratifying in an industry where underutilisation of capacity has become the norm, though it may also hide some interesting questions about the very concept of capacity.

Along with mild steel, alloy and special steels have been in short supply. Imports of alloy steel were valued at Rs 26 crores in 1970-71 and at Rs 18 crores in the first six months of 1971-72. As for the future, the NCAER demand estimates point to a widening of the gap between production and demand. The chairman of Mahindra Ugine, Harish Mahindra, is therefore on firm ground when, in his latest annual statement to shareholders, he presses his company's case for expansion to 60,000 tonnes capacity, for

which an application for licence has apparently been pending with the government since June 1970. The increase in price of plant and equipment, which Mahindra estimates at 10 to 15 per cent per year, and the long gestation lag underscore the need for quick action for expansion of capacity in the industry.

The major problem, however, is availability of scrap, to a discussion of which Harish Mahindra might have devoted rather more attention in his speech. It is certainly "desirable that scrap dealers voluntarily agree to exercise some restraint" in the matter of prices, but the problem of shortage of scrap still remains and is likely to get worse, after everything has been done to improve scrap collection and processing.

Mahindra does not say how the scrap requirements of his company's proposed expanded capacity of 60,000 tonnes would be met. Of course, given a choice between importing steel and importing scrap, the case for doing the latter is clear and the government has apparently decided to allow some import of heavy scrap. Unfortunately, little progress has been made in respect of manufacture of sponge iron. Should not the government try to persuade some of the larger users of scrap to take a more lively interest in the matter?

Harish Mahindra also raises the question of power tariff which he regards as a "more urgent issue" than even the shortage of power to which too he refers. It is true that the power tariff varies considerably from state to state and there may be something to Mahindra's complaint that the cost of power for electric steel production is "almost prohibitive" in Maharashtra. But, surely, in assessing the relative costs of production in different regions, a single item, even if it be a major one like power, cannot be considered in isolation.

That apart, the fact that a particular input is a major component of the cost of production of an industry is absolutely no reason why that input should be supplied to it at a subsidised price. According to Mahindra, the Union Government has proposed a concessional tariff of about 4.5 paise per KWH so as to encourage the so-called mini-steel plants. Mahindra commends to the Maharashtra State Electricity Board a restructuring of its tariff for electro-metallurgical industries on these lines. Very likely, 4.5 paise per KWH is substantially lower than the average generation and transmission costs of perhaps every electricity authority in the country. There can be no justification for a *general* subsidy of this kind to the electro-metallurgical industries and/or the consumers of their products. At best there may be a case for subsidising some sections of consumers of aluminium or steel, but for that very different policy instruments have to be used.

TDA

Better Resource Allocation

IN the two years of its existence the Trade Development Authority (TDA) has made its presence felt. The TDA is among the few major institutional innovations for export promotion to emerge after presentation by the Ministry of Foreign Trade of its Export Policy Resolution to Parliament in 1970. It is more than an export promotion body; it provides package assistance to individual exporters carrying them from the stage of intention to export, through collection and collation of information, product development and market research to securing and implementing of export orders and export finance and assistance.

The most important task assigned to the TDA is that of inducing and organising small- and medium-scale entrepreneurs especially to develop their export capabilities. Of the total of 297 export-worthy units enrolled, about 85 per cent are medium- and small-scale units. In its first two years the TDA secured export contracts totalling to Rs 6.14 crores, of which the share of small and medium units was Rs 4.94 crores, or 80 per cent. TDA's role in developing exports of the small-scale sector needs to be appreciated, though it is to be hoped that these efforts are not at the cost of export services to large-scale units most of which lack basic export consciousness either due to lack of initiative or ignorance of opportunities abroad. From this point of view, the TDA should seriously consider expanding its merchandising division. In the final analysis, the success or otherwise of the TDA will be judged by the expansion of export turnover. One of the ambitious programmes initiated by the merchandising division in April 1972 aims at boosting exports of 18 selected items from $10 million in 1970-71 to $30 million in 1972-73 and $70 million in 1974-75. Another important programme is the Airport Electronics project at Santa Cruz, Bombay, with an export target of $100 million in the next four years or so. Looking at these and other important projects which the Division is expected to handle, the allocation of a staff of only 10 to it as against one of 23 for the information division and 26 for the administrative division appears odd.

The TDA's efforts to push exports of woven men's and women's wear and other readymade garments, by identifying two promising manufacturing units and putting them in touch with department stores in the US, have resulted in creating a promising new line of exports. On the other hand, its attempt to support the efforts of one of its clients to export stainless steel cutlery to the US market has come up against quota barriers. These two examples typify the vicissitudes to which export efforts are subject. They also emphasise the importance of preliminary market studies for locating products and markets. The TDA could think in terms of ranking products and markets according to the ease with which they could be cultivated and then proceeding either to identify existing units or to help establish new units.

The information division of the TDA is functioning on more useful lines than its counterparts in the various export promotion councils or even the state trading organisations. Manual document control in terms of commodity, country, functions and industry has been attempted. Well over a thousand product-country cards containing information in respect of value of imports together with major sources of supply, import tariffs, ocean freight rates, overseas trade contacts, etc, are being prepared. Over 600 manufacturers cards providing ready-made profiles of individual manufacturers covering their capacity, production, technical competence, collaboration arrangements and export potential have been prepared.

The TDA may be thus said to be proceeding on broadly correct lines in respect of its merchandising and information divisions, but it is difficult to appreciate what useful role its research and analysis division is playing, saddled as it is with a number of general and semi-theoretical research problems. Take, for instance, the project on short-term forecasting which aims at evolving a suitable methodology and techniques for making advance estimates of exports on a quarterly basis. What useful purpose can such general studies play in the TDA's activities which aim at down-to-earth export promotion in specific lines. Studies on the likely impact of GSP, India's role in the emerging economic situation in Bangladesh, impact of currency parity realignments on India's trade, implications of Sino-US trade relations, etc, could be better fitted into the activities of the Indian Institute of Foreign Trade or the Economic Adviser's Division in the Ministry of Foreign Trade. The research analysis division appears to be not only an avoidable financial burden on the TDA, it might even result in deflecting attention to general research problems of dubious value to the TDA. The resources employed in research and analysis could be usefully diverted to its merchandising division.

Soviet Union

Foreign Trade

Vinod Mehta writes :

SOVIET exports in 1971, the first year of the Ninth Five Year Plan, exceeded imports by about 1,200 million roubles. The Soviet Union's exports amounted to 12,400 million roubles against imports worth 11,200 million roubles. But the rate of increase of imports was higher. While exports increased by 6.4 per cent, imports increased by 7.6 per cent.

The largest share of Soviet trade was, as is to be expected, with the socialist countries — particularly those which are members of the Council for Mutual Economic Aid (CMEA), — followed by the industrially developed countries and the under-developed countries. This can be seen from the following Table:

(in billion roubles)

Socialist Countries (including CMEA members states)	15.4
CMEA member states	13.3
Developing Countries	3.1
Industrially Developed Capitalist Countries	5.1

The founding members of CMEA were Albania, Bulgaria, Czechoslovakia, Hungary, Polond, Rumania and USSR Albania CMEA in 1961. The GDR was admitted in 1950 and Mongolia in 1962.

Before the ideological rift between the USSR and China, which affected their trade relations, China and GDR were the USSR's principal trading partners. They were followed by Czechoslovakia, Poland and Rumania. As the ideological gap widened, trade with China became negligible, while GDR and Poland became its principal trading partners. However, the total value of trade turnover with China which was 42 million roubles in 1970 rose sharply to 139 million roubles in 1971.

Among the industrially developed capitalist countries, Italy ranked first in terms of trade turnover followed by France and West Germany. Total value of trade with the US was 184 million roubles. Among the underdeveloped countries, Egypt and India are major trading partners. The trade turnover between India and the Soviet Uinon was about 370 million roubles.

Changes in the structures of exports are also visible. Since the Second World War, the proportion of machines, and transport equipment in Soviet exports has been steadily increasing. In 1971, about 21.8 per cent of total Soviet exports were machine tools, power and electrical equipment for ferrous metallurgy plants, aircrafts, helicopters, railway rolling stock, and equipment for light and chemical industries. These exports, often including complete industrial plants, are mostly to socialist countries and underdeveloped countries.

Export of fuel and electricity increased substantially. It rose from 15.6 per cent in 1970 to 18 per cent in 1971. Export of raw materials and foodstuffs registered an increase of 1.2 per cent. The major consumers of Soviet fuel, raw materials and foodstuffs were the CMEA countries and other socialist states.

On the import side, purchase of machines and equipment remained high. The Soviet Union imported mainly rolling mill machinery, construction machinery, ships and allied equipment chiefly from the GDR, Czechoslovakia, Hungary and Poland. Imports of foodstuffs, fuel, agricultural and industrial raw materials, semi-finished goods and manufactured consumer goods were also high. Among foodstuffs, coffee, cocoa beans, tea, meat and meat products, eggs, fresh vegetables, oranges and grape wine predominated.

However, the pattern of Soviet imports is not always dictated by the needs of the Soviet economy but also by political and other considerations. The USSR exports quite a large quantity of raw cotton to socialist countries, but it also imports a substantial quantity of raw cotton from Egypt — presumably to make Egypt pay for the sale of military hardware. Similarly, the USSR came to the rescue of Cuba's economy when Cuba lost its biggest customer for sugar in the United States. Again, though USSR exports natural gas to socialist countries it imports substantial quantities of combustible gas from Iran and Afghanistan. Trade thus flows not merely from commercial calculations but also from political ones. Thus it is likely that along with its bid for a leadership role in the third world, the Soviet Union's trade with these countries may also expand rapidly.

Industrial Finance

Not Unconventional Enough

AMONG the State Financial Corporations set up to extend term credit primarily to small and medium units, the one in Maharashtra is known to be among the most successful. During the three-year period, 1968-69 to 1970-71, the Maharashtra State Financial Corporation's operations had expanded impressively: loans sanctioned rose by nearly Rs 9 crores from Rs 3.41 crores in 1967-68 to Rs 12.11 crores in 1970-71 and disbursements by Rs 5 crores from Rs 3.30 crores to Rs 8.21 crores. The Gujarat State Financial Corporation had the next most impressive performance, its sanction and disbursements rising during the same period by about Rs 5 crores and Rs 4 crores, respectively.

In 1971-72, however, the operations of MSFC received a setback. Loans sanctioned dropped to Rs 10.63 crores and disbursements to Rs 6.51 crores. Against this, available data indicate an increase of about 10 per cent in sanctions and disbursements of other SFCs taken as a whole. A part of the decline is attributed to difficulties experienced in the recovery of loans given to small transport operators and the consequent deliberate slowdown effected "in the rate of consideration of loan applications for transport industry". For the rest, the Corporation has attributed the setback to a variety of reasons among them, "the influx of Bangladesh refugees ... culminating in Indo-Pak war" and the strengthening of "inflationary forces ... followed by uncertainty and cost escalation, resulting generally in slackness in industrial growth".

What is, however, missing in the MSFC chairman's speech and in the Corporation's annual report is a critical examination of the Corporation's organisational preparedness to face a situation where the demand for credit from traditional borrowers has slackened in the face of the general slackness of industrial activity. After all, the MSFC's operations touch only a fringe of the credit needs of the small and medium industries in the state, so that a general slackness of industrial activity need not dampen the expansion of the Corporation's operations.

The lack of organisational dynamism is seen particularly in the regionwise and size-wise distribution of the Corporation's operations. There is much talk these days of the need for wider dispersal of industries and in this task the state agencies are supposed to play a pivotal role. Unfortunately, the SFCs' impact in this regard has been generally marginal and no perceptible changes have taken place in the relative position of different regions in most states. The MSFC is no exception. Thus, of its total sanctions of Rs 10.36 crores in 1971-72, Rs 7.72 crores (or 73 per cent) went to the three developed regions of Bombay, Poona and Kolhapur, which between them account for 13 of the state's 27 districts. Under the technicians' assistance scheme, of the 19 applications sanctioned during the year, 15 were in the Bombay region, 3 in Poona and one in Nagpur. The disparity in the size distribution of applications sanctioned is even more glaring. Of the 1,133 applications sanctioned in 1971-72, 157 were for loan amounts exceeding Rs 1 lakh and accounted for 63 per cent of the total amount sanctioned (i e, Rs 6.74 crores out of Rs 10.62 crores). The share of such large borrowers has risen, it having been only 55 per cent in 1969-70.

Aluminium

Costs: Whose Responsibility?

IT is no insignificant comment on our two decades of planned industrialisation that industry now considers costs to be a matter of government responsibility. The 'cost-plus' formula in price fixation has led managements to cease considering cost control as an area of their own professional operation. At the same time, the effective protection from imports and the drive for import-substitution have encouraged the view that indigenous goods must automatically get preference.

The aluminium industry has found itself subject to the same temptations. Fostered as a priority, import-substituting industry it has been the recipient of much material support — not the least of which has been heavily subsidised power supply. For over two decades, till January this year, the industry was protected.

Hindustan Aluminium and Indian Aluminium between them account for 87 per cent of total production and Madras Aluminium and Aluminium Corporation of India account for 9 per cent and 4 per cent, respectively. If there was any hope that the efficiency of the two larger plants would be considered in fixing prices, the Wanchoo Panel scotched it last year when it recommended an excise rebate for the smaller Madras Aluminium and Aluminium Corporation.

This sacrifice by the public exchequer is now evidently expected to become a permanent feature. Thus Madras Aluminium's chairman, R Venkataswamy Naidu, suggests in his annual statement that the rebate should become available till the company's capacity reaches at least 30,000 tonnes — whereas with the current expansion plans under implementation it will reach only 25,000 tonnes. Even after last year's price notification and notwithstanding the partial excise rebate, he argues, Madras Aluminium's net realisation was reduced by Rs 400 per tonne; also its turnover and gross profit for 1971 declined because of cost increases.

But while net profit declined to almost half (Rs 1.03 crores to Rs 85 lakhs), Madras Aluminium could maintain dividend payment, thanks to the sizeable development rebate provision of nearly Rs 85 lakhs. Aluminium companies have been in fact among the major beneficiaries of the development rebate as is reflected in the fact that in 1969-70 out of a profit before tax of Rs 12.73 crores only Rs 0.59 crores were paid out in taxation and in 1970-71 only Rs 1 lakh out of pre-tax profits of Rs 15.98 crores. Retained profits by the aluminium companies in these two years were Rs 8.45 crores and Rs 12 crores, respectively. Understandably, therefore, the Madras Aluminium chairman is concerned about the withdrawal of the development rebate after 1974.

Madras Aluminium rightly takes pride in the fact that it is the most 'technically advanced' aluminium unit in the country since it operates its electrolytic pot room at higher amperage and in that it is using 95 per cent of indigenously produced equipment for its expansion. But it is still seriously handicapped by its low installed capacity of less than 14,000 tonnes per year which after the present expansion will still be no more than 25,000 tonnes — only halfway to the economic size 'in international parlance' of 50,000 tonnes. But with demand rising faster than supplies and with the public sector aluminium projects in such bad shape, Madras Aluminium ought to be thinking of further expansion beyond 25,000 tonnes — the prospect of loss of excise rebate notwithstanding.

EXPORTS

Growth of Residual Exports

Angus Hone

V K Saxena

PERFORMANCE has confirmed the view that the Fourth Plan export target was overoptimistic and that new policies and programmes are urgently required if the minimum compound growth rate of 7 per cent is to be achieved.* The 1970-71 growth of 8.6 per cent was largely the result of a sharp change in statistical systems and some doublecounting.** The final Reserve Bank export figure for 1970-71, at Rs 1,403 crores, was actually lower than the 1969-70 figure of Rs 1,404 crores. The real growth in 1971-72 exports may turn out to be substantial, but long-term prospects remain bleak.

In the general search for policies and programmes to increase the rate of growth of exports, attention must also be focused on a group of exports which has shown surprising growth between 1968-69 and 1970-71 — accounting for Rs 23 crores of the growth between 1968-69 and 1970-71 — but which has never before been analysed in detail. These exports fall under Item 52 in the Ministry of Foreign Trade's export data and are called 'Miscellaneous Items including Re-Exports'. Growth here has been substantial and this small segment represents more than six per cent of India's total exports of Rs 1,400 crores (see Table below).

TABLE: OVERALL GROWTH

(Rs crores)

	1968-69	1969-70	1970-71
Total, Miscellaneous items including re-exports	74.21	83.30	97.87
Of which miscellaneous exports	70.53	78.73	87.10

Source: Statistics published by the Office of the Economic Adviser, Export Planning Section, Ministry of Foreign Trade, New Delhi, 1971.

The 1970-71 total of this group is 32 per cent higher than its 1968-69 level. A growth rate of this magnitude, if sustained for even five years more, would mean that miscellaneous exports in 1975-76 would be Rs 200 crores. The real prospects, unfortunately, are very different.

First, the high figure for 're-exports' in 1970-71 can be explained almost wholly in terms of the re-export of two ships (value Rs 6.77 crores) and one commercial aircraft (value Rs 73 lakhs). None of the other re-exports has shown any growth tendencies, and a re-export figure of between Rs 3-5 crores can be expected for the future.

The rest of the analysis will, therefore, be concerned with a sector-by-sector look into each sub-group of miscellaneous exports.

(1) Food Items (code 001-099).

The significant product exports in 1970-71 were:

	(Rs lakhs)
Meal and flour	88
Starch of fruits or vegetables	67
Molasses	39
Chocolate and cocoa	41
Bran pollard	268
Food waste/animal food	77
Other food preparations	190
Tea extract	77
Total	847

The above items account for over 80 per cent of the sub-group 'food items' (total Rs 10 crores), but the only items among them to grow rapidly have been 'other food preparations' (from Rs 82 lakhs in 1968-69 to Rs 190 lakhs in 1970-71), and 'tea extract' (from Rs 30 lakhs to Rs 77 lakhs). The overall prospects will depend on 'wheat exports' (code 041) and not on these minor items. Wheat exports in their turn will depend on the 1972 Kharif crop, and overall food policy.

The next major group is raw materials (the 10-199 code sector) and this group has only three significant items.

(2) Raw materials (code 20 - 2929901).

The significant export products in 1970-71 were:

	(Rs lakhs)
Vegetable fibre other than cotton and jute	47
Textile waste	35
Crushed bones	430
Human hair	115
Bristles	50
Henna leaves	24
Myrobalan	20
Plants and seeds used in perfumery and pharmacy	555
Opium	862
Guar flour	541
Palm fibre	224
Bidi wrapper leaf	92
Total	2995

This major group shows rapid growth only in three items — 'plants and seeds' used in perfumery items (rising from Rs 4.35 crores to Rs 5.55 crores), 'opium' (from Rs 4.33 crores to Rs 8.62 crores) and 'guar flour' (Rs 1.02 crores to Rs 5.41 crores). Without these items the overall growth of the sector would be small, and it is extremely unlikely that they will be able to sustain their 1968-69 to 1970-71 growth rate during the next five years.

There are no significant export products in code groups 4 and 5. Group 6 consisting of building materials and minerals is weak.

(3) Building materials and minerals (code 60-689).

The significant exports in 1970-71 were:

	(Rs lakhs)
Building materials	51
Asbestos cement sheets	11
Other asbestos cement articles	36
Cut mica condenser films	57
Mica sheet strips cut n e s	31
Aluminium ingots	87
Newrought aluminium	11
Total	184

This segment is extremely unlikely to grow rapidly, given the international competition in synthetic mica substitutes and the acute shortage of aluminium within India. A possible source of export earnings, which vanished in 1970-71, is 'legal exports' of silver and gold bullion bars. These were Rs 3.31 crores in 1968-69 and Rs 5.16 crores in 1969-70, and fell to nil in 1970-71 as world silver prices fell. The present gold price as on June 10, 1972, of $ 60 per ounce, and a possible sharp rise in silver prices might lead to a resumption of 'legal' Indian exports.

(4) Miscellaneous Manufactures (code 862-8999701).

The significant exports in 1970-71 were:

	(Rs lakhs)
Developed cine films	585
Advertising material	16
Printed books	74
Journals and periodicals	19
Fountain pens	27
Sports goods	87
Collections of zoological interest	41
Carvings	14
Embroidery	30
Ivory manufactures	18
Leathergoods as artware	49
Silk scarves	207
Other artwork	66
Imitation jewellery	275
Manufactured articles n e s	299
Total	2137

The growth areas here are clearly 'cine film' which has grown from Rs 2.94 crores 1968-69 to Rs 5.58 crores in 1970-71 and has further rapid growth prospects arising from a large potential for Bengali films in Bangladesh; 'sports goods' which while they rose from Rs 51 lakhs in 1968-69 to Rs 87 lakhs in 1970-71 and offer a virtually limitless market potential, suffer from capacity constraints and financing difficulties, although the Trade Development Authority's recent initiative with UNIDO consultancy mission should help expand this industry. However, 'silk scarves' which fell from Rs 4 crores in 1969-70 to slightly above Rs 2 crores in 1970-71 and 'other manufactured articles' down from Rs 2.80 crores in 1969-70 to Rs 2.29 crores in 1970-71, are unlikely to expand rapidly. Though growth areas definitely exist in code group 8, therefore, overall the code group is unlikely to grow beyond Rs 25 crores in the next two or three years.

The final group of products, code group 9, is also unlikely to increase substantially.

(5) Residual Direct Exports (code 911-961).

The significant exports in 1970-71 were:

	(Rs lakhs)
Postal packings	174
Special transactions	109
Birds	57
Monkeys	26
Firearms	54
Coins and gold coins	25
Total	445

The group 9 has been falling steadily from 1968-69 to 1970-71, mainly as a result of the fall from Rs 3.36 crores to Rs 1.74 crores in 'postal packings', while 'birds', 'firearms', and 'coin and gold coin' exports have risen only marginally. There is no reason to expect rapid growth from this group.

Thus overall, within the entire group, there are items with good prospects of future growth: wheat, opium, guar flour, cine films, imitation jewellery, and sports goods. But it cannot be expected that these items can compensate for overall poor market prospects and likely drop in re-exports from Rs 10 crores back to Rs 3-5 crores. Whatever policies and programmes are now adopted for export growth, we can expect 'Residual Exports and Re-exports' to reach a maximum total of Rs 105-110 crores in 1973-74.

* See 'Exports in the Fourth Plan', Special Number, July 1970, p 1279, and 'Export Growth: Performance and Prospects', Volume VII, Number 10, p 559.

** The reality of India's export predicament was discussed in 'Exports: Growth That Was Not' Volume VII, Number 9, p 486.

Shuffles and Reshuffles

Romesh Thapar

WHATEVER the obsessions, relevant or irrelevant, which possess the politicians of this subcontinent in the course of the next few years, the Simla Summit will have wide and profound repercussions. But, for the moment, the scene is shifting rapidly to the less dramatic business of getting the old country moving from Delhi. The expectation is that the new orientation in the implementation of Congress policies will begin, in fact, with the reshuffle which is to take place almost immediately.

Shuffles and reshuffles of the Council of Ministers in these days of the so-called Indira Era do not really amount to much — that is, if we take note of the present-day concentration of power in the PM's Secretariat. Indeed, it would be more appropriate to assess the manner in which it is exercised and utilised. Nevertheless, the shuffling and reshuffling is a pointer to the state of the ruling party and the balance of contrary elements within it.

Broadly, the Prime Minister has to organise her Council of Ministers, keeping in view the perspectives of development that are to be placed before Parliament and the people. In other words, the euphoria of *garibi hatao* has now to be translated into hard-headed programmes. Very little progress has been made in this direction, apart from the fact that Indira Gandhi has registered her general lack of interest in the *cliches* of radicalised economics which over 25 years have not solved any of the country's problems. It is natural to expect that the new Council of Ministers will be structured to make possible the elaboration and implementation of the new programmes.

To begin with, attention has been focussed very precisely on the Planning Commission headed by C Subramaniam. Opinion is unanimous that the Commission is devalued, unable to pull its weight within the Union Government or with the states, and that it has yet to realise that a totally new approach will have to be forged if we are to make a visible assault on the poverty of our people. A drastic shake-up at this point should not cause surprise.

The economic ministries, by their incredible capacity to wallow in man-made muddles, cry out for a leadership which will have the courage to transform the present paralytic system. Finance, demanding archaic procedures and accountabilities, is the major culprit and remains unreformed despite all the promises of the PM. Industrial Development, Company Law, Foreign Trade, Petrochemicals and Steel have the power to change the face of this subcontinent, but, without exception, their state is worse today than when this Council of Ministers was constituted. As for Railways, upon which these ministries are so dependent, never have they known so dismal a period.

It is in this area of her government that Indira Gandhi has to concentrate. All else is peripheral. We cannot remain at the mercy of ministers who are forever lobbying vital jobs for friends and servitors when they should be passing power to the recognised specialists in each sector. The PM's Secretariat is too lax in its vigilance; because it has for several years relied on hunches in personnel policy, it tends to be carried away by dishonest briefings from the economic ministries. Public patience with nepotism is running out.

The economic ministries must begin to feel the impact of a new technical leadership. This obviously cannot be introduced through manipulations in the Lok Sabha and the Rajya Sabha. The Prime Minister will have to innovate. Why is it impossible to have men of outstanding technical ability with cabinet ranking attached to each of the economic ministries, somewhat in the style of D P Dhar? Someone, somewhere, is trying to prevent this innovation. Who is the culprit? This step is bound to become urgent when a whole bunch of senior bureaucrats — about 30 of the ICS cadre — retire towards the end of the year. Why not act now? Must we be pushed?

The trouble, of course, is that the Prime Minister herself has no clear conviction about the need to introduce massive technical competence into the outdated system. The stenographers, head-clerks and under-secretaries continue very much in the saddle around her ministerial colleagues. Hamstrung, frustrated, embittered, the economic ministerial team becomes a cynical club, for nepotism, for dispensing favours and for collecting party funds. It's an economically disastrous experience, but has Indira Gandhi drawn the appropriate lessons?

The fear persists that, returning from the Simla Summit, Indira Gandhi may indulge in another whimsical exercise in Cabinet-making and ministry-forming. After all, power is very much congealed in her Secretariat. So why all this hurry...? We have time...

July 3

THE FOURTH ESTATE

Sorry, No Deal

Nireekshak

A RECENT UNESCO survey of the world press has revealed that in the industrialised countries the number of newspapers is fast declining and concentration of ownership steadily rising. The considerations underlying the concentration of press ownership, according to the UNESCO study, are mainly financial: (i) increased production costs which are slowly putting the small and medium newspapers out of business; (ii) large capital investment needed to modernise equipment; (iii) high cost of competition with other media like radio and TV; and (iv) inadequate advertising revenue.

With concentration of ownership comes lowering of professional standards and abridgement of intellectual freedom. This is an implied conclusion of the UNESCO study. A leading mass communication expert, Jacques Leaute of the Strasbourg International Centre for Higher Studies in Journalism, has explained it in these words:

> "For all those in the newspaper business, journalists and technicians alike, problems created by concentration are the same as in other enterprises. But press concentration creates a special difficulty: as well as being an economic enterprise, a newspaper is also an enterprise of the mind. The journalist's status is ambiguous because, on the one hand, he works for a business concern, is a member of a trade union and is bound by professional agreements, and, on the other, he is a trustee of the literary tradition, dedicated to intellectual freedom and to informing his readers."

The findings of the UNESCO survey and the observations of Jacques Leaute are very relevant to this country where the problem of press concentration has figured prominently in public debate and a confrontation is gradually developing between big and small newspapers. Organisations of journalists and small newspapers in this country have been pressing the government to check the growth of big newspapers and to take steps to diffuse their ownership. The government is committed to bringing forward a bill proposing changes in the company law relating to newspaper establishments, though there is evidently no agreement yet even within the government on the contents of the bill. This has made the usually cautious big newspapers very vocal in stating their case.

C R Irani of *Statesman* recently made a bitter attack on the government for making life difficult for the big newspapers. The occasion was the 33rd annual general meeting of the Indian and Eastern Newspapers Society. Said Irani: "It would be true to say that never in the history of the press in India and, perhaps, of the press in any other liberal democratic society have so many difficulties been deliberately created to make life impossible, especially for the larger and more prestigious newspapers. It is fashionable these days to talk of equality, but all experience shows that in every field of human endeavour, there are a few who lead and inevitably there are many who must follow. To hold up the pioneers, the leaders and those with vision and enterprise to ridicule and worse in the name of equality may be politically expedient today, but it is extremely short-sighted."

Reported *National Herald* in an editorial: "Mr Irani has talked of 'difficulties deliberately created' in India as compared to 'any other liberal democratic society'; he who places himself in the ranks of 'pioneers' and 'leaders' should have also answered the question in which other 'liberal democratic society' the jute, cement, textile and rayon magnates own and control the press and employ contact men as editors and special correspondents to project and further their private business interests."

If Simla was chosen as the venue for the Indo-Pak summit mainly to keep journalistic noses out, in retrospect one feels New Delhi would have served the purpose better. Some 300 journalists — 200 Indian and 100 foreign, including 26 Pakistani — descended on Simla braving the unpredictable weather, the high altitude and the PIB restrictions. Little did they know the curbs Simla's topography would impose on their movements. The places connected with the summit — 'The Retreat', the Himachal Secretariat, the Himachal Bhavan, the Wild Flower Hall (where Pakistani journalists stayed), Grand Hotel, Cecil Hotel and Clarks Hotel — were miles apart and their altitudes ranged between 7,000 and 6,000 feet. Water shortage and frequent electricity failures were added hurdles. The Press Centre was a poor show. Still more disappointing were the Indian arrangements for the daily briefings, which reportedly drew this comment from an Indian journalist: "In Simla we know the Pakistan side better."

The hub of the newspapermen's activity was the Press Centre where apparently the Pakistani journalists were in great demand. Many Pakistani journalists had in the past worked in India and were no strangers to newsmen in this country. A common scene at the Press Centre was of Indian journalists gathered around their Pakistani counterparts trying to understand the political situation in that country.

Reporting from Simla followed a set pattern. There were not many bright sparks, though some of the bigger newspapers had sent high-powered reporting teams. The best organised team-reporting was done by *Hindustan Standard* correspondents, Sunil Basu and Khagen De Sarkar. Their photographer Aloke Mitra too did a superb job. G K Reddy of *Hindu* and A N Dar of *Indian Express* were the best interpreters of the summit, their reports more or less accurately reflecting the trends in Simla as they changed from day to day. Dilip Mukherjee of *Times of India* got lost in details and often his reports gave the impression that he belonged to the inner circle of the establishment. *Statesman*'s Visvam and *Hindustan Times*'s Prithvis Chakravarty were both too cautious. V R Mohinder of *Motherland* did little reporting and more editorial writing.

The Simla accord was generally welcomed in the Indian press. The two exceptions, interestingly enough, were *Patriot* and *Motherland*. The former had many "ifs" in its editorial: "The present agreement, if sincerely accepted and honourably implemented, can certainly open a new chapter in the history of India and Pakistan" and "To reach an agreement is easy, specially for an 'instant statesman' like Mr Bhutto who can change his mind as easily and as often as he changes his many-splendoured suits". *Motherland* was hawkish, as expected. In a front page editorial it said: "Indeed while Pakistan has got half of what it wanted we have got nothing but empty platitudes... It has verily been a sell-out of India's vital national interests. What the jawans won on the battlefield has, for the second time, been lost by politicians at the negotiating table."

Denial and Apology

A by-lined story written by *Statesman*'s Delhi editor, Kuldip Nayar, last month caused a sensation, though only for a day as it was promptly contradicted. The story had claimed that a "deal" has been struck between President Giri and Indira Gandhi that the former would retire from his high office "on health grounds and make room for Mr Jagjivan Ram" while the Prime Minister would oblige the outgoing President by appointing his son as a Union Cabinet Minister. The day the story was published (June 22) Rashtrapati Bhavan issued a denial calling it "ridiculous". Two days later the Prime Minister described it as "totally fantastic nonsense". *Statesman* published both the denials promptly as also a letter from the President's Press Secretary contradicting the story. So far so good.

Eleven days after the publication of the story of the alleged President-PM "deal", on July 2, *Statesman* published an abject apology. It read: "There is a well-established and healthy journalistic convention in this country whereby the President of India is beyond the reach of criticism, and particularly such as would tend to derogate from the dignity of his office. This is a principle with which no responsible newspaper can disagree; and it is consequently with the deepest regret that *The Statesman* acknowledges having inadvertently violated it in the article entitled 'Between the Lines' published in the issue of June 22-23. We are assured that the item in question is totally incorrect and we have no hesitation in accepting this as the final word."

It is significant that the apology did not come from the person who had reported the "deal" over his signature. Also, the reasons given for the apology were far from convincing. For example, there is no 'convention' that the President is treated as beyond criticism. Not very long ago *Statesman* itself had

indicted the President for saying "shut up" to some Members of Parliament who were trying to disrupt his speech to a joint session of Parliament. In any case, newspapers have criticised the present President on other counts. The Mercedes-600 purchase was criticised by several newspapers last year. So have been the President's frequent trips abroad. At a time when the hereditary monarchy in England is coming in for public criticism, it can hardly be maintained that the democratically elected President of India should be immune from it.

A version of the "deal" going round in Delhi newspaper circles is that Kuldip Nayar had got the story from one of the PM's close aides who leaked it to him deliberately to scotch the move to instal Jagjivan Ram in Rashtrapati Bhavan. Kuldip Nayar should have known only too well that a denial of the story from the President's Secretariat was inevitable. What perhaps he did not anticipate was the reaction of his own paper. An upshot of the episode has been that what was intended to be a regular political column by Kuldip Nayar has been apparently nipped in the bud.

COMPANIES

In an Orderly Fashion

Hansavivek

BRITANNIA BISCUIT is in search of new projects and opportunities to develop its activities, but it would prefer to enter new areas in an orderly fashion as it did when it gradually built up the bread bakery division. Meanwhile, initial response to ProBisk, a high protein food introduced last year, has been encouraging. The management envisages good growth potential for products in this category in view of the co-operation of the central administration and local authorities in recognising the need to improve the daily diet of undernourished members of the community. Last year, in spite of adverse conditions — including electric power and gas shortages, — production of biscuit and bread increased over the previous year. It is intended to launch several new products this year. 'Intense' competition and high price of ingredients and packaging materials notwithstanding, BBC stepped up its total exports including seafoods by more than 275 per cent. In the field of seafoods, however, the company is not yet fully organised and operative. A processing and freezing plant is being established near Bombay. The growth potential for this trade in overseas markets is rated high. During its 44th year, ended March 1972, BBC's operations expanded in volume but margins slipped owing to the rising cost of ingredients and "other problems with which the industry was confronted". Additional costs were absorbed by the company and no increase was made in the price of products to consumers. The situation is "under constant review" and strategies are being devised to overcome impediments and to protect and improve earnings.

TRAVANCORE RAYONS has been permitted to expand its rayon production by 1,800 tonnes per annum and also expects permission to step up cellulose capacity by another 10 tonnes per day. A part of the finance required for the expansion will come from the proposed merger of the Indian Overseas Bank Ltd with the company. This will bring in about Rs 225 lakhs. During 1971, cellulose film production increased by about 20 per cent over the preceding year. The volume of rayon production could not be improved for want of essential imported spares, but value of sales showed a small increase on account of better market prices. Although turnover was higher, profit decreased because of mounting costs of raw materials, labour and government levies, and loss due to exports. The budgets of May and November 1971 and March 1972 imposed an additional burden of Rs 31 lakhs on the company. This was neutralised substantially on account of economies in production and better product-mix, etc. Under the voluntary agreement between rayon filament yarn spinners and weavers, renewed for two years from January last, the company has to supply 40.3 per cent of production, (against 35 per cent previously) at concessional price, besides the 10 per cent for exports at a further concessional rate as hitherto. A long-term agreement, valid for three years from July 17, 1971, was entered into with the labour unions involving an additional annual commitment of about Rs 18 lakhs. The directors hope that this will help improve productivity at all levels and enable the company to cope with rising costs and competition in the future.

WIDIA INDIA is negotiating for conversion of its 'letter of intent' in respect of expansion of production capacity into an industrial licence. Last year, the company's actual production was 29.9 tonnes against installed and licensed capacities of 30 tonnes and 24 tonnes, respectively. Not only was manufacture of more sophisticated items taken up, but the ore-processing plant, commissioned in 1970, functioned satisfactorily and contributed to increased profitability. Net sales (excluding export benefits) increased by 28 per cent to Rs 149 lakhs, and gross profit expanded by 63 per cent to Rs 44 lakhs. Net profit rose from Rs 18 lakhs to Rs 34 lakhs, but no further dividend is recommended apart from the 10 per cent interim payment which absorbed only Rs 4 lakhs. This is because the company's bankers refused to give approval to further distribution. While granting the additional term loan to the company, the bankers had imposed the condition that dividend may not exceed 10 per cent without their approval.

ALEMBIC CHEMICAL could raise its sales by 12 per cent to Rs 15.23 crores during the 65th year ended December last in spite of "many unfavourable and unsettling factors" which affected manufacturing and marketing operations. The company, however, had to fight a losing battle against margins and gross profit was a shade lower at Rs 1.79 crores (1.80 crores). This was the result of all-round rise in costs. Besides, the Drug Prices Control Order was operative on all the products of the company. Net profit slipped from Rs 61 lakhs to Rs 53 lakhs, but still covered the unchanged equity dividend, of 12 per cent on the enlarged capital, 1.3 times. The hard gelatine-capsules manufacturing plant, installed in April last, has been commissioned. R B Amin, chairman, assures shareholders that efforts would be continued to ensure "appropriate returns" to them and to plough back reasonable amounts for the continued growth of the company in the coming years.

GRAPHITE INDIA has undertaken an expansion project at Bangalore for manufacture of graphite electrodes, anodes, and other graphite products. In order to meet the needs of additional finance, estimated at around Rs 4 crores, the company proposes to raise Rs 25.84 lakhs by the issue of equity shares at par, which would be first offered to the existing equity shareholders. A sum of Rs 1.20 crores is proposed to be raised by issue of 8.5 per cent convertible debentures, which are intended to be offered to LIC, UTI, or any other financial institution or other similar statutory body. The terms of issue of debentures will include an option to convert 20 per cent of the nominal value of each debenture into equity shares during 1975 and 1976. Besides, a loan of US dollars 869,800 will be obtained from ICICI to meet the cost of equipment to be imported for the project. Meanwhile, the borrowing powers of the Board have been increased from Rs 5 crores to Rs 7 crores, so as to cover all possible borrowings presently anticipated for the financial requirements of the project. Midnapore Commercial has been appointed sole selling agent for the company's products in the whole of India for 5 years from the beginning of the current year at a commission of 2 per cent on the net sale proceeds. G C Bangur and N D Bangur, Graphite India's directors are members of Midnapore Commercial. It is stated that their shareholdings in the latter company taken together are less than 20 per cent of its share capital.

HERDILLIA CHEMICALS, which earned a higher profit last year despite 'excessive' imports of phthalic anhydride and dioctyl phthalate, was looking forward to considerable improvement in trading conditions this year, but has had a setback in the 'illegal' strike by workers. According to H V R Iengar, chairman, workers demanded a 42-hour week "in direct contravention of the three-year settlement signed before the Labour Commissioner", and called the strike when negotiations were going on. The strike, he adds, was accompanied by "acts of sabotage against the company's property". The company intends to expand, this year, its phenol capacity from 10,000 to 12,000 tonnes per annum. Its proposals for expansion of phthalic anhydride, from 6,000 to 12,000 tonnes, and for dioctyl phthalate, from 3,000 to 5,000 tonnes, are still under consideration by government. Iengar feels that the current import policy is adequate to control the import of phthalic anhydride and dioctyl phthalate, but fears that it could lead to 'excessive' imports of phenol which would "prejudice our marketing position". This matter is, therefore, being represented to government so that the company may not have to experience a recurrence of the situation that emerged in 1971.

MAHINDRA UGINE STEEL COMPANY's chairman, Harish Mahindra, foresees a widening gap between requirements and supplies of scrap; he suggests the setting up of sponge iron/metallised iron pellet plants. He says that, from a "nominal surplus" position in 1970-71, a stage has been reached when the country has to start importing heavy melting scrap. He cites a recent

The Week's Companies

(Rs in Lakhs)

	Britannia Biscuit		Travancore Rayons		Widia (India)	
	Latest Year 31-3-72	Year Last 31-3-71	Latest Year 31-12-71	Year Last 31-12-70	Latest Year 31-12-71	Year Last 31-12-70
Paid-up capital	266	266	175	175	40	40
Reserves	284	255	169	158	36	22
Borrowings	61	62	193	165	118	121
of which Term borrowings	61	62	10	—	69	78
Gross fixed assets	519	473	993	942	138	121
Net fixed assets	270	272	289	280	103	96
Investments	—	—	1	—	—	—
Current liabilities	315	298	159	249	19	15
Current assets	656	609	408	412	110	85
Stocks	208	203	244	210	66	45
Book debts	374	346	143	181	41	38
Net sales	1982	1738	830	742	149	116
Other income	7	8	3	4	1	3
Raw material costs	881	771	392	333	49	57
Wages	239	212	128	112	17	11
Interest	5	5	17	16	10	10
Gross profit(+)/loss(—)	218	211	86	119	44	27
Depreciation provision	27	24	43	38	10	9
Tax provision	119	73	9	19	—	—
Net profit(+)/loss(—)	72	114	34	62	34	18
Development rebate provision	3	1	5	23	4	—
Transfer to reserves	27	71	7	17	10	—
Dividend						
Amount	42	42	P 3 E 19	P 3 E 19	4	—
Rate (per cent)	16	16	P 6.5 E 15	P 6.5 E 15	10	—
Cover (times)	1.64	2.69	1.37	1.90	3.50	—
Ratios (per cent)						
Gross profit/sales	11.00	12.14	10.36	16.04	29.53	23.27
Net profit/capital employed	11.78	19.55	6.33	12.45	17.52	9.83
Inventories/sales	10.49	11.68	29.39	28.30	44.30	38.80
Wages/sales	12.05	12.20	15.42	15.09	6.71	8.62

study that has indicated that the requirements of scrap in 1976-77 would be double those of 1972-73. Mahindra also apprehends a serious shortage of power in the coming years and advocates the creation of fresh capacity for power generation and regional grids with a view to making good temporary shortages in one state by the temporary surpulses, in another. He complains that the power cost for electric steel production in Maharashtra is 'almost prohibitive' and urges grant of exemption to power-intensive industries from electricity duty and the bringing of the tariff for such units on par with those prevailing in Mysore, Tamil Nadu, Gujarat and MP, as recommended by a committee appointed by the state government. MUSCO's chairman is not happy over the imports of graphite electrodes, refractories, ferro alloys, heavy melting scrap, spone iron and nickel through government trading organisations. Apart from delays in getting the imported materials, the commission of 5 to 7.5 per cent of the CIF value charged by the canalising agencies is 'out of proportion' to the actual costs involved in the import of such materials. He suggests that a commission of about one per cent may be charged over the actual costs.

UNIT TRUST OF INDIA has declared a dividend of 8.25 per cent for the year ended June 30, 1972 as against 8 per cent for the previous year. This year's dividend of 8.25 per cent is the highest so far declared by the Trust. The dividend income from units enjoys tax exemption (along with income from other specified categories of investment) upto Rs 3,000. There is also no deduction of tax at source for resident individuals and even in respect of non-resident unit-holders no deduction is made at source as long as the income from units does not exceed Rs 3,000.

The Unit Trust's aggregate income during the year 1971-72 was higher at Rs 9.62 crores as compared with Rs 8.41 crores in the preceding year. After the allocation of this income between the initial capital contributors and the unit-holders and allowing for expenses chargeable to unit capital in accordance, the net income allocated to unit-holders amounted to Rs 8.72 crores as against Rs 7.58 crores in the preceding year.

Aggregate sales of units by the Trust during 1971-72 amounted to Rs 15.00 crores under 58,558 applications as against Rs 18.00 crores under 61,500 applications in the preceding year. There were 9,990 applications for the repurchase of units during the year for the aggregate value of Rs 2.59 crores as against Rs 3.19 crores under 12,700 applications last year. As on June 30, 1972, units sold and outstanding with the public amounted to Rs 104.65 crores, the number of unit-holders registered with the Trust being over 4,25,000. Under the Reinvestment Plan of the Trust, a sum of Rs 69.30 lakhs was reinvested by 18,000 unit-holders as against Rs 50.44 lakhs by 15,700 unit-holders in 1970-71. Sales of units under the Children's Gift Plan were Rs 46.28 lakhs as against Rs 56.32 lakhs last year.

The Unit Trust has decided to reduce the margin between its sale and repurchase prices. The margin used to be 5 per cent in the initial years and was reduced to 4 per cent in 1969. Now it has been further reduced to 3 per cent.

BINNY, after two disappointing years, is on the road to recovery and is no longer in the red. Improvement in working started in the last quarter of 1971 and has been maintained so far. N S Bhat, chairman, expects the cotton prices to remain at 'reasonable levels' this year, and feels that if all units work uninterruptedly and there are no heavy additional levies, the results for 1972 should be satisfactory. The company had to skip payment of dividend on preference capital last year, since the accumulated losses exceeded the amount available in the general reserve. The question of paying dividend on equity capital would be considered only after the losses have been wiped out and the company's obligations under the debenture trust deeds have been met. The company's mills are equipped to manufacture mainly coarse categories of cloth, using Indian cotton. A substantial part of the machinery needs rehabilitation. Notwithstanding the strain on liquid resources, improvement have been made in the carding and spinning departments in the Madras Mills, partly by overhauling ond partly by re-equipment. Conversion of ring frames to the top arm drafting system, overhauling of blowroom machinery, and reclothing of cards are in progress. The Bangalore Mills had to contend with a strike last year which was followed by a lock-out for two months, as well as with shortages and high prices of wool. Shortage of steel continues to be a problem with the Madras works of the engineering division. Last year, this unit executed at short notice orders for additional Bailey bridges for use in Bangladesh. The subsidiary, Giovanola-Binny, experienced a setback last year in the production of penstocks and pressure vessels owing to delays in the receipt of imported steel plates and interrupted supply of industrial X-ray films. Non-availability of seamless steel tubes and steel of shipbuilding quality affected production of pressure vessels and barges. Most of the steel required is now in stock, and supply position of X-ray films has also improved. The company has secured, for the first time, two pen-stock contracts in North India. It has also got two pen-stock export orders, one of which is to be completed during this year.

JOTINDRA STEEL AND TUBES, which has an industrial licence for manufacture of 16,000 tonnes per annum of black iron and galvanised pipes and tubes, has set up a factory near Faridabad and already achieved an annual production of nearly 5,000 tonnes. The second phase, of installing another mill for producing pipes of small diameter, is under way. Besides, a machine workshop for producing spares for maintenance and servicing of the plants, testing facilities, and a modern galvanising plant are proposed to be added. The project, estimated to cost Rs 100 lakhs, is proposed to be financed with share capital (Rs 45 lakhs) and term loan from IFCI (Rs 55 lakhs). The present paid-up capital is Rs 14 lakhs. A public issue is being made to raise another Rs 31 lakhs — Rs 23 lakhs in equity and Rs 8 lakhs in 9.5 per cent redeemable cumulative preference shares. The subscription list will open on July 17 and close on July 31 or earlier, but not before July 20. The management expects that the company will be in a position to pay a maiden dividend of about 10 per cent for the year ending March 1973.

H L MALHOTRA AND SONS, maker of safety razor blades, will undertake manufacture of stainless steel blades at its Calcutta factory with the technical expertise from Wilkinson Sword, the 200-year-old UK firm which originally started as a maker of swords and diversified into the manufacture of consumer appliances, of which the safety razor blades have pride of place. HLM will manufacture 500 million pieces per annum, of which initially 25 per cent will be exported under the Indian brand name 'Bharat' to South America, Africa, and the Far East countries. The British firm is to be paid royalty at 4 per cent on total production out of the foreign exchange earnings from the exports of the product. R K Malhotra, managing director of HLM, indicated that collaboration in razor blades manufacture might soon be extended to include other shaving products in the near future.

CPI(M)'s Defensive Posture

M R

AT its ninth congress at Madurai, the Communist Party of India (Marxist) tried to appear in the role of the unifier of the international communist movement and an independent political force with renewed faith in parliamentary democracy at home. On the whole the party has sought to project for itself an image of anti-revisionism *sans* Maoism on ideological issues and of a force combining parliamentary functioning with mass action leaving the onus for peaceful transition on the class enemy.

The CPI(M) no longer seeks legitimacy in the eyes of one camp or the other in the international communist movement. It attempted to achieve such legitimacy in the past. After supporting the Soviet action in Czechoslovakia it expected to participate in the 1969 world communist conference in Moscow as an observer, though the CPI was the only genuine Indian communist party in the Soviet view. The Soviet leadership appeared keen on reuniting the two parties on the CPI's ideological terms. Now the CPI(M) is content to maintain its bridges with the international communist movement through four ruling parties which claim ideological independence of both Moscow and Peking: of Rumania, North Korea, North Vietnam and Cuba. The CPI(M) believes that together with them it constitutes the third bloc in the international communist movement and can play the role of a unifier of the two blocs. Its claim at the Madurai congress to uphold the banner of Marxism-Leninism steering clear of Soviet revisionism and Chinese "sectarianism" reflects this position.

Balancing Act

The most forthright attack perhaps by any communist party on Peking and Moscow over Nixon's visits there has come from the CPI(M). The CPI(M) has appealed to communists all over the world to mount pressure on the Soviet and Chinese parties to bring about a united front to intervene effectively in Vietnam to end United States aggression. One does not know if the CPI(M) is articulating the views of the other parties of the third bloc here because none of these four parties have given public expression to such a demand.

But the CPI(M)'s balancing act is indeed a bizarre performance. It is all praise for Soviet backing for the Bangladesh struggle but is bitter about Soviet failure to recognise the semi-fascist nature of the Indira Gandhi government's terror campaign against the party and repression against democratic forces in general. It has denounced Yahya Khan's "butcher" regime on Bangladesh issue but is silent about the fact that the Chinese have consistently denounced the Indian government as reactionary while the Soviet were singing praises for its progressive character.

If the CPI(M) regarded the Soviet party's ideological positions revisionist, logical extension of such analysis should have led to the conclusion that Soviet Union is also social-imperialist because a revisionist deviation should logically culminate in social imperialism. The CPI(M) is however content to emphasise the achievements of both the communist giants. It certainly cannot expect the world to look to it for a third general line for the international communist movement as an alternative to the Soviet and Chinese general lines.

The party's lack of clarity on the general line (or rather its equivocation on it) is reflected in its approach to Indian realities. In the Chinese view, peaceful transition is an exception and not the rule. In the Soviet view it is the rule. The origins of the international communist schism can be traced back to the Soviet attempt to revise the Leninist formulation on peaceful transition at its 20th congress in 1956. The pre-split CPI had no difficulty in accepting peaceful transition to socialism but the CPI(M) made no attempt to repudiate it. On the contrary it tried to rationalise it by placing the onus for it on the class enemy.

Limited Stakes

In application, it turned out to be parliamentary cretinism. After the 1967 general elections, the party was the dominant partner in two coalitions, in Kerala and West Bengal. Theoretically, the party looked at the two governments dominated by it as a form (one of the many forms it was committed to using) and instrument of struggle. In practice, the party's obsessive preoccupation was with the legality of these governments even if it meant a moratorium on class struggle. The stakes were limited to these two states and often it found itself in the unenviable company of the CPI ensuring the survival of Indira Gandhi's minority government at the Centre. The party's political debacle in both its strongholds has now prompted it to talk of combining parliamentary functioning with mass action. But it would be well to recall that the post-1967 election document, "The New Situation and the Party's Tasks" said much the same thing. The difference however is this: in 1967 the party was looking at things in a moment of triumph; now it is doing so in its moment of defeat.

The leadership's failure to initiate mass actions and build them up and its obsession with electoral power resulted in what it contemptuously calls the ultra-left deviation. Now the leadership claims that the party has been able to thwart the challenge of left adventurism during the last three years. Indeed, the party regards left adventurism a greater danger than the semi-fascist trends in the country. If the claim is correct, it could thwart left adventurism only with the help of the State machinery and the victory was not on the ideological plane. The CPI(M) documents even insinuate that the Chinese party by backing the extremist group to disrupt party unity, objectively colluded with the CIA. If it derives satisfaction from the suppression of the extreme Left by the government, it has little justification in charging Indira Gandhi with using semi-fascist methods to suppress the CPI(M).

Disillusioned Cadres

In the wake of the West Bengal debacle, the disillusionment among the party's militant ranks was complete. They had lost faith in the leadership's ability to galvanise the party into action outside the parliamentary system. Even the leadership was divided but the danger of a split in the party united the entire Politbureau and significantly B T Ranadive who at one stage in the past wanted the party to walk out of the West Bengal United Front to man the barricades, and not General Secretary P Sundarayya, initiated the discussion on the political resolution at the party congress. The party now prefers to bide its time, waiting to exploit the lapses of the ruling party in the coming years, and fondly hopes that it can make it once again in West Bengal and Kerala. It would boycott the West Bengal Assembly but has no objection to contesting Lok Sabha by-elections from the state or continuing to parti-

cipate in the other state legislatures and in Parliament. It bases its entire tactical line on two fortuitous circumstances: the lapses of the ruling party in the future and the absence of a credible Maoist rallying point which could attract its militant ranks. The "hawks" in the leadership (particularly Harekrishna Konar) have been snubbed and the moderates have carried the day.

Invented Theory

The re-election of P Sundarayya as General Secretary is significant to the extent it ends the Bengal-centred politics of the party. The theory of West Bengal being the Centre's colony was invented exclusively for the consumption of the West Bengal electorate (parallel to E M S Namboodiripad's imaginary confrontations with the Centre over rice supplies to Kerala five years ago!). The party has now disowned this theory and would like its following to believe that the entire country is a colony of the big bourgeoisie. Instead it has attempted rather belatedly to formulate demands for autonomy based on a new awareness of the problem of nationalities in India.

The low-profile posture of the CPI(M) suggests defensive action, to prepare organisationally for the "semi-fascist" onslaughts to come. Its new-found faith in united fronts stems from this low-profile posture. The promise of militant mass action to reinforce parliamentary activity is at best a sop for the restive cadre which finds the leadership united on the question of participating in the parliamentary system. After the West Bengal elections, both the CPI and the CPI(ML) had directed appeals to the CPI(M) rank and file, underlining once again CPI(M)'s dilemma. The leadership has sought to resolve it; but the following would take time to accept this, for the promise of militant action cannot be indefinitely a substitute for such action.

NEW DELHI

Ills of ONGC

IT is typical of the prevailing lack of initiative and inability to take decisions that the Petroleum Ministry should be sitting tight on the report of the Malaviya Committee on the Oil and Natural Gas Commission, submitted several weeks ago. The Committee itself took much longer than the stipulated three months to complete its report. The reason for setting a time-limit for submission of the report was that, in view of the urgent need to arrange vital crude oil supplies, early and decisive action should be taken to set matters right with the ONGC. The Committee at least had some justification for taking more time since it can claim that it has recommended fundamental structural reforms in oil exploration and production. But there is no justification for the Ministry's failure to even release the report to the public.

The Ministry is in fact trying its very best to hold back the report. To this end it even invoked the excuse that since the working of the ONGC had at the same time been examined by the Public Undertakings Committee of Parliament, a report on the same subject by any other committee would attract censure from Parliament. But the PUC's report on the ONGC had been submitted much before the report of the Malaviya Committee and there was no bar at all to the release of the Malaviya report. Anyway, even this lame excuse has lost all force since the Chairman of the PUC has now specifically informed the Ministry that there would be no objection to the Malaviya Committee's report being made public.

Ministry's Reluctance

The Ministry's reluctance to releasing the report really stems from the fact that the Committee has not spared the Ministry for the present mess in the ONGC. Sharp criticism has been levelled against the Ministry for its tendency to treat the ONGC as a subordinate department, for constant interference in day-to-day working and for blocking all initiative in the ONGC. Some of the members of the Committee, who acted more as the nominees of the Ministry or the government, did not obviously relish the idea of the government as a whole or the Ministry being subjected to criticism. There was also an additional vested interest involved. If the Committee's report led to a shake-up of the ONGC, so much the better; it would open up opportunities for their own and for their favourites' personal advancement. Indeed, one of the features of the report which detracts from its overall merit and weakens its impact arises from this tendency. Otherwise recommendations such as the one for the proposed corporation for exploration and production of oil to have as many as three Managing Directors (one each for Exploration, Production and Offshore work, with the last stepping on the toes of the other two could hardly have found a place in the report. The attempt to foreclose all consultancy work in oil production and transportation and related facilities in favour of a particular organisation in which one of the members of the Committee has a direct interest is also to be attributed to the same motives.

Barring these aberrations, the Committee has done a good job of laying bare the weaknesses of the ONGC. According to the Committee, there had been a fall in the status of the Commission and progressive deterioration in its performance since 1963. The Committee attributes this to "conservative finance procedures, ill-informed audit objections, bureaucratic methods in the administrative machinery and inappropriate selection of men for the top posts". In a large measure, "the present ineffectiveness and loss of purpose is inherent in the Act [constituting the ONGC] which placed the statutory body in a position subordinate to the government secretariat". As a result, the ONGC had been placed in a position where "it has neither the status of the Commission nor the flexibility of a Corporation. In fact, it has the disadvantage of both".

In the light of this basic finding, the severe criticism of the present ONGC leadership by the Committee may appear to be somewhat misplaced. The Committee has found many faults with the top men of the ONGC and emphasised the frustration which prevails at the middle and lower levels of the organisation. But considering the role that the Finance and Petroleum Ministries have played and the fact that the ONGC has been without a Chairman for over a year, the Committee might have been more considerate and circumspect in passing judgment on the ONGC set-up.

Organisational Changes

While the Committee's review of the working of the ONGC is very useful, its perspective on oil exploration and the new organisational set-up for exploration it has proposed are obviously more important. In the view of the Committee there is no need to be pessimistic about the possibilities of

discovering oil, on shore and offshore, and it argues for exploration work to be expanded and intensified throughout the country without financial constraints. To this end it wants the present financing pattern to be changed completely. In its view, the oil exploration plan should not be put on par with other investment plans, but should be treated as a pre-investment R and D plan on which no direct return should be expected. It has proposed an allocation of Rs 400 crores in the next 10 years to be made available in the form of an outright grant, instead of as equity or loans as at present. To ensure that the grant in question would be made it has proposed the creation of a special fund to be called the "National Oil Exploration Fund".

In the view of the Committee, if funds for the exploration programme were to be made available out of normal government revenues, then oil exploration may not get the special consideration which it requires. When there are competing demands from different priorities, the necessary allocation of funds out of plan resources may not be forthcoming and, as a result, the exploration programme may have to be pruned every time. It is recommended that the proposed special fund for exploration be built up from the surpluses obtained from the production of crude oil, by grants from the government and from other feasible sources. The Committee has suggested that a specific amount be earmarked every year from the general revenues of the government for this purpose. If this was not considered possible a cess might be levied on petroleum products to create the proposed fund.

Recommended Structure

The organisational structure recommended for exploration and production is radically different from the one existing at present. It is proposed that the ONGC be converted into a high-powered Commission with policy-making functions. It will cease to be an operating body. The new set-up will be headed by a person of the rank of a Cabinet Minister, though it would be under any government department. In fact, the government department in charge of oil exploration and production would function under its direction. It is proposed that the Prime Minister should hold charge of the oil exploration portfolio for the next 10 years and that a Member of the ONGC should at the same time be Secretary to the department of oil exploration. Under the leadership of the ONGC and the proposed department of oil exploration, a corporation is proposed to be set up to execute the policies laid down. The proposed corporation would have a chairman and a separate managing director for exploration: the exploration budget would also be separately drawn up. Here the Committee appears to have drawn on the experience of the Atomic Energy Commission.

Confused Approach

The approach and thinking of the Committee, however, appear to be confused on a number of points. If the ONGC is to be headed by a person of the rank of a Cabinet Minister and if it is to be a policy-making and directing body, where is the need for a separate department or ministry of oil exploration in the government set-up? Will it not be better if the ONGC itself carried out the functions of the ministry or the department with the minister in the government holding this portfolio responsible for handling its affairs in Parliament? This will eliminate the bureaucratic set-up in the field of oil exploration which has proved to be a major inhibiting factor so far. We already have in the Railway Board and the Planning Commission parallels to draw upon.

An important feature of the report on the ONGC is the stress that has been laid on exposure of our oil technologists to foreign technology and experience. However, the Committee has failed to take account of a major aspect of the ONGC's working and development — its tie-up with a single source of foreign technology, namely, the Soviet Union. This has been and remains an inhibiting factor. One of the recommendations of the Committee is to undertake a fresh review of the country's onshore sedimentary basins to assess the fundamental shortcomings in the exploration effort so far. This is proposed to be done with the help of experts from abroad, but the fact that only recently a team of Soviet experts was invited to make such a review is ignored. A review by a Soviet team will not help very much since the entire work on exploration and study of basins has been done under the close direction of the Soviet experts attached to the ONGC. Soviet experts headed the various executive directorates of the ONGC till recently and the many shortcomings noticed in exploration and production developed under their initiative and direction. The total dependence on Soviet technology has been and remains a high level policy matter rather than a problem which can be tackled at the level of ONGC experts and managers.

The report lays much stress on oil exploration abroad with the objective of achieving national self-sufficiency in oil. After calling for a bold exploration plan within the country, the Committee has itself cautioned against placing all reliance on indigenous crude. According to the Committee, for a long time to come indigenous crude production will continue to lag behind the growing requirements of oil products in spite of measures that may be adopted to restrict demand. Hence it urges that attention be paid to exploration abroad and asks for the government's political support for this effort. The Committee has gone so far as to commend the possibility of joint ventures with foreign interests — both in the foreign ventures and within the country as a *quid pro quo*. This will amount to a major policy revision in this field. Here it appears that the Committee has not shown adequate appreciation of the latest trends in the international oil business marked by the decline of the international oil companies and the coming into their own of national oil enterprises in oil-rich countries. It is just about a decade too late to base our perspective in finding foreign oil sources on the experience of ENI of Italy, as the Committee appears to have done. It will be far better and also practical to rely on straight trade deals with national oil enterprises to get our requirements of crude oil than to look for captive sources abroad. Of course, foreign exploration ventures with national enterprises need not be altogether ruled out, but too much reliance should not be placed on these ventures.

Synthetic Oil

One of the five pillars of the strategy for self-sufficiency in oil outlined by the Committee is the emphasis on production of synthetic oil. Some work has been done on this by the Fuel Research Institute and there might be good commercial possibilities for this in the far future. But it is odd that the Committee should want to saddle the ONGC with the responsibility for this. The principal responsibility of the ONGC should be exploration for crude oil and development of oil finds; it should not be distracted by such projects as that for production of synthetic oil.

The first reaction of the Petroleum

Ministry to the recommendations of the Committee has been that the Committee has gone beyond its terms of reference. In any case, the Ministry claims, its recommendations are such that decisions on them cannot be taken by the Ministry. Now that it is being pressed to release the Committee's report to the public, it will be called upon to make its own comments on it which it appears reluctant to do. Meanwhile, the Prime Minister's Secretariat is carrying on its own examination of the report. As matters stand, any action on the report will emanate from the Prime Minister and her Secretariat rather than from the Petroleum Ministry.

NAVY

Wrong Priorities?

(From a Special Correspondent)

NEGOTIATIONS for the construction of Leander class frigates were conducted between the government of India, Vickers and the Ministry of Defence (Navy), UK, in the years 1962-64. What we witnessed on June 3, when the first Leander class frigate, the Nilgiri, built in India at the Mazagon Docks was launched, was the fruition of this collaboration. The event was hailed as signifying the revival of warship construction in the country.

In 1968 the government of India announced an order for three Leanders to be built at the Mazagon Docks. A further commitment for another three ships followed the next year. This decision was meant to induce would-be manufacturers of indigenous marine equipment to take up contracts for machinery for the Leanders and to ensure that orders for equipment of each type would add up to respectable size. The small size of orders had been a long standing excuse of equipment manufacturers for not undertaking orders for the navy.

Leander class frigates were designed for the British Navy when the British government had already reconciled itself to getting out of the race for naval dominance and had instead opted to fulfil a limited role — of its navy becoming the anti-submarine arm of NATO and augmenting that component of NATO maritime forces. The Leander was the operational answer to the Royal Navy's new role. It would operate with integrated anti-submarine task forces usually built around aircraft-carriers. Technically, the Leander design really involved updating of the Type 12 Whitby class frigate, two of which the Indian Navy has — the Trishul and the Talwar.

The Nilgiri carries an improved sonar set, an additional variable depth sonar (VDS) and an anti-submarine torpedo carrying helicopter. The Nilgiri's anti-ship and anti-aircraft capability remains entirely defensive and details of its weaponry reveal some widely acknowledged shortcomings. The variable depth sonar has not proved to be operationally as smooth as it was hoped. The helicopter is a daytime use, fine weather machine whose availability on task is necessarily limited by it being the only craft on board. The Seacat missile is a short range, anti-aircraft missile with some basic limitations. The anti-submarine mortars and the main 4.5 inch guns fitted to the ship came into service as early as 1955. Of course, it may be pointed out that other warship designs and associated weaponry have their own limitations as well. It is also well known that the Leander has been ordered or built by three other countries, *viz*, New Zealand, Australia and Holland, and that it is capable of taking on better fire-control equipment and that, in fact, such modifications are already planned for India's second and subsequent Leanders.

These are indeed technical points best decided on by professionals. The issue for public discussion can only be whether this ship, the Leander, is relevant to our defence requirements and whether it is cost-effective in our context.

Successful Ship

It is readily conceded that the Leander has been a successful ship in the Royal Navy. Yet this very fact raises the basic question whether what fulfils the requirements of the Royal Navy can be taken as good for our navy too. The first Leander, Nilgiri, has cost us Rs 20 crores in 1972, including a foreign exchange component of Rs 14 crores. Allowing for a cost escalation factor of 15 per cent per year the likely cost of the sixth Leander, when it is commissioned in 1980, will be around Rs 40 crores, though the foreign exchange component will perhaps come down to 20 per cent or the equivalent of Rs 8 crores per ship by then. The total cost of the entire project would thus be around Rs 180 crores, including foreign exchange expenditure of the equivalent of Rs 80-90 crores. Considering the likely delays, the sixth Leander is likely to be with the navy only around 1980.

The Leander, said to have a first rate anti-submarine capability, would hardly be able to meet the challenge of even the conventional submarine of the seventies much less face the small, cheap and fast missile boats/ships. If in a war it becomes practical or advantageous for the navy to institute a limited convoy system for merchant ships, the Leander may find itself a role. As an escort for capital ships, it may no longer be needed since it is hardly likely that the Vikrant or the Mysore will survive the 1970s. It is, therefore, difficult to visualise what role this ship is likely to play, especially considering its own vulnerability.

It is instructive to compare the cost of the Leander with that of some other ships of the Indian Navy. The submarines cost around Rs 5 crores, the missile boats Rs 4 crores and the versatile Petya class patrol vessels Rs 6 crores. The first question that arises is whether these latter types of ships are not of greater operational value to our navy and, therefore, should have a higher priority. If it is true that the cost to punch ratio or the cost to firepower ratio of these ships — the submarines, missile boats or the Petyas — is higher than that of the Leanders then there is weight in the plea that their indigenous construction should receive the highest priority. It would appear, *prima facie*, that the country could build production lines for all three — Petyas, submarines and missile boats — within the costs projected/budgeted for the Leander programme. Apart from financial resources, technical manpower — which has to be found, trained and put on the job — is a major limiting factor. Quite clearly therefore, priorities have to be laid down and for this it is necessary to review the entire naval construction plan for the seventies. It may appear heretical to view the Leander project in a critical light when so much has been said and written in adulation. A hard look is, nevertheless, called for so that the all-round development of the navy is not hampered merely because certain commitments were made three or four years ago when the political, economic and operational compulsions were clearly different.

Dithering in Aluminium

D C Kale

THERE are disquieting rumours that Bharat Aluminium Company, the public sector undertaking, may be reconsidering the location and time-schedule of its Koyna/Ratnagiri project. This project is of key importance in Indian plans to maintain self-sufficiency in aluminium at least into the late 70's, and any prevarication at this stage would be little short of a disaster. The company had very slow schedules to start with; the Tariff Commission, for example, could find hardly anything new happening in this company between its two studies in 1968 and 1971. The Koyna project is for manufacturing 50,000 tonnes metal, of which half would be of EC grade. It was decided that the smelter at Ratnagiri would be commissioned earlier so as to treat surplus alumina from Korba, while the alumina plant which would utilise ores from Dhangarwadi and Udgir would be commissioned shortly thereafter. This is a sound scheme provided it is implemented in time. However, the hesitation, the pessimism and the warnings in advance that the project might be uneconomic are most disquieting. The public sector has learnt to adopt this last tactic for projects which are yet to be commissioned. Bokaro and the proposed new steel plants at Visakhapatnam and Vijayanagar, as also several other projects, are announcing in advance that they will be uneconomic unless prices are raised substantially. Coal is another case in point where price increases denied to private producers as such are given to them through the intervention of the public sector. What is interesting is that the doubts are not expressed *before* a project is sanctioned and top staff appointed!

Private Sector Benefits

The Tariff Commission's report of September 1971 on the aluminium industry has had a similar effect. The Commission boldly, and correctly, announced that the Indian aluminium industry had come of age and that it did not need protection any longer. However, because Bharat Aluminium as a new producer would suffer if protection was removed, the Commission recommended its continuation for three years. The Government of India (through the Ministry of Foreign Trade, strangely enough) went one step further and extended protection for five years, i e, upto 1976. Private aluminium companies will benefit greatly out of this, while it is doubtful if BALCO will derive any benefit at all by 1976. By humming and hawing over plant sites at this stage, and after several crores of rupees have been spent on project reports, camp sites, changes of consultants/collaborators and their terms of reference and trips abroad, mainly to Eastern Europe, this is hardly the time for the government to change its mind. The Koyna plant is perfectly viable. It can be run at a profit — witness Indian Aluminium's new plant at nearby Belgaum — and it should be built with the least possible delay.

On the international scene, aluminium producers have at long last formed an association. The International Primary Aluminium Institute was formed in May this year in London. Copper, lead, zinc and tin producers had formed such bodies many years ago. The new Institute has over 60 aluminium smelters as members, and those on the Board of Directors are Pechiney (Chairman), Alcoa, Alcan, Alusuisse, Ardel, British Aluminium, CBA (Brazil), Comalco, Kaiser, Nippon Light Metal, Reynolds and VAW (West Germany). The Institute will sponsor new uses, promote the metal in general, and sponsor research in science, technology, statistics and ecology. The international aluminium picture of over-supply is apparently changing for the better at last, and Alcoa's Chairman John Harper, estimates that capacity utilisation will move up from the present 85 per cent to 90 per cent in early 1973. On the other hand, the western world's installed capacity increased by nearly one-fifth (9.6 mn tonnes to 11.3 mn tonnes) last year and is further increasing this year. Primary producers in the United States are, moreover, committed to purchasing nearly 400,000 short tons from the US stockpile by the end of 1973. Thus in the next four or five years at least, the supply position is likely to remain easy. Hence major producers who have subsidiaries or associated companies in India are not likely to be in a hurry to instal new capacity.

The position in India is, however, likely to remain tight if imports are banned. Demand for aluminium in 1973-74 and in 1978-79 is estimated at 260,000 tonnes and 500,000 tonnes respectively, and estimated installed capacity 223,350 and 493,350 tonnes, respectively, *including* 150,000 from Bharat Aluminium. Thus it is obvious that the Koyna project must not lag behind. A closely related matter is that of supply of alumina. INDALCO, in its data presented to the Tariff Commission, states that because of alumina shortage from its own sources it had to buy alumina within the country at Rs 1,068 per ton or import it at Rs 1,147 per tonne. Madras Aluminium also pays heavily for its alumina, because it has to blend high-grade bauxite to up-grade its own ore. (The Alupuram and Hirakud smelters get relatively cheap alumina.) The State Electricity Boards have unfortunately not played fair with aluminium producers in recent years. To take only two examples, Madras Aluminium's contract power rate jumped suddenly from Rs 155 to Rs 550 in 1970 and when ALCOP was transferred as a consumer from Durgapur projects to DVC in July 1970, the latter fixed higher power rates and imposed another 15 per cent surcharge in February 1971. A sense of balance needs to be kept about producers of industrial raw materials, such as base metals. India is a midget in the world league in aluminium, as in most other metals, and can exert no influence either as a producer or as a consumer. (The Indian production capacity is about 200,000 tonnes in a total world capacity of 11.3 mn tonnes, excluding the socialist countries; as for per capita consumption in India, it does not bear talking about.)

Unacceptable Apologies

Bauxite deposits in India are not unlimited, and we cannot hope to match Jamaica, for example, which tiny country leads the world with an annual bauxite output of 13 mn tonnes. But India has reasonably large potential in bauxite and hydro-electricity. It must, therefore, make concerted attempts to meet its modest demands internally, and do nothing to disturb production which is already established.

Aluminium is practically the only metal in which we are reasonably well off at present. This position can be maintained by pushing through Bharat Aluminium's projects with guts and brains. Neither Government nor the consumer should accept BALCO's apologies in advance about probable high costs or about unavoidable delays, for it is certain that existing producers will pounce on this opportunity to ask for increased prices, to the detriment of the growing number of aluminium users. Must the Ministry of Steel, Mines and Metals, after failing to make a success of steel, coal and copper, be now allowed to stage a fiasco in aluminium?

SOUTH

New Configurations in Andhra

Mohit Sen

THE announcement that Brahmananda Reddy has been appointed Chairman of the Finance Commission was also the formal declaration that his faction had wound itself up in Andhra. What had seemed so powerful and pervasive proved to be utterly hollow, illustrating the superficiality of the view that there are omnipotent state bosses in the Congress. Indeed, there had been any amount of speculation that by unseating Brahmananda Reddy the Prime Minister was taking the top off a volcano. It was not, however, a dormant volcano that she was tackling but an ant heap that crumbled at a kick, the ants scurrying off elsewhere, too terrified even to bite.

The elections to the Legislative Council from the Assembly constituency further illustrated the point when all the nine official Congress candidates got through in reasonable comfort. It is true, of course, that considerable pressure was brought to bear upon those who had revealed potentialities for cross voting. It was not for nothing that the Election Commission had to rush an official from Delhi to supervise the ballot since the Chief Minister had declared that he was in a position to know exactly who had voted for whom. But no amount of pressure would have worked were it not for the fact that the Congress MLAs knew that cross-voting would not, at the moment, unsettle the group in power and that Brahmananda Reddy had thrown in the towel. It was power that had brought his group together — neither ideology nor caste nor region counted to any appreciable extent — and the lack of it brought the facade down.

Peace and Stability?

Does this mean that P V Narasimha Rao can now look forward to a long reign of peace and stability? Considering the huge majority that his party has in the Assembly this might appear to be the case. But the reality is not all that simple and unilinear. He cannot be as easily disposed of as some had thought previously. He may not be as competent an administrator nor as adroit a manipulator as his former leader. But he is certainly improving and he has the great advantage of being regarded as the Prime Minister's representative in the state. If the situation in 1972 had been anything like what it was some eight years ago the present Chief Minister might have looked forward to a reasonably relaxed period ahead. But the situation is quite different today. The times are troubled and not even the biggest of majorities leaves much scope for peace.

The paradox of the Indian situation is that the popular thrust for change has manifested itself in the form of a massive vote for the ruling party. Confused radicalism expressed itself in a preference for the Prime Minister! But the thrust remains and the entire crisis of the capitalist path of development remains. And this is the unsettling factor.

The changed mood reflected itself in the debate on a resolution moved by a Congress member for the State takeover of the sugarcane factories. The unanimity in the House was quite remarkable. It may be argued that the takeover would benefit one section of the capitalist class at the expense of another. Quite true. But the section that would be hit by this measure is the large landholding stratum of the capitalist class, i e, the scarcely transformed feudal and semi-feudal landlords. It is this stratum, above all, that would also be hurt if radical ceiling laws are promulgated and implemented. Further, the fact that there is such unanimity on a measure that would extinguish the right of private ownership in howsoever a restricted area is itself indicative of the changed mood in the State. Finally, it is not only a section of the capitalist class that would benefit. Cultivating peasants would benefit, a stimulus would be imparted to productive efforts and a greater degree of socialisation of the production process would be accomplished.

Land Ceilings

It would, of course, be the height of folly to be smug and contented as a result of this mood. It would be criminal to simply sit back and allow this mood to manifest itself in further radical measures. Mass moods are only the raw materials of historical change. They have to be transferred into mass consciousness and organised for mass action. This is all the more necessary when one realises what the imposition of radical land ceilings is going to mean.

The battle for land ceilings is going to be a bitter one, perhaps the most bitter since Independence. It is an important stage in the struggle for the democratisation of Indian society — democratisation of the Indian village. And it is democratisation that would have to be accomplished by a drastic change in property relations, by the working of the concentration of ownership of a most basic means of production and the transfer of property in the form of diffusion of ownership. It involves thousands at one end and lakhs at the other.

Prospect of Mass Action

Particularly at the time of implementation there is bound to be acute social tension based on the accentuation of class struggle. Up till that time the present land monopolists would be hoping against hope that the plague of dispossession could be avoided. And they would use all their ties and connections with the local administration to secure the subversion of whatever progressive acts the legislature might have passed But given the mass mood, the adherence to democratic forms of rule and the growth in influence of the petty bourgeois sections in the Congress, it is possible to secure a measure of neutrality and even benevolent neutrality on the part of the State power as the peasant masses move into action for the implementation of radical agrarian relations acts. One should not, of course, bank too much on this possibility of the neutralisation of State power. Indeed one should ready oneself as well as the peasant masses for the contingency of facing up to the full fury of unleashed State violence. Far more important than neutralisation is the very real prospect of involving in such actions the sympathy and, to an extent, even participation of the vast masses who had voted Congress in the recent elections. The forging of this bond for mass action and through mass action is the key to the situation. And it is here that ultra "Left" gestures and the clinging to outmoded anti-Congressism in the shape of a call for all-in unity against one-party dictatorship hamper the forging of militant mass unity on the broadest possible scale. In Andhra the possibility of such unity is very real indeed as is the prospect of mass action.

It is against this new background that the chances of Narasimha Rao surviving and strengthening himself have to be measured. To date he has shown little

signs of understanding the changed temper of the people. He has given absolutely no indications that he intends to be more radical than his predecessor. His attachment to Sanskrit and rituals breed a conservatism that borders closely on sympathy for revivalism. His callousness towards the murder of the Left student leader George Reddy in the very sight of the police by thugs with RSS and Jan Sangh sympathies has made him more suspect than his predecessor in the eyes of many progressives in the state.

He would, indeed, be giving himself false comfort were he to see in the defeat of the Srikakulam Naxalite misadventure the decline of Leftism among the students and youth. Naxalite moods are very prevalent still among the students despite the manner in which Nagi Reddy accepted the humiliating bail conditions imposed by the government. The revolutionary poets and other writers are immensely popular with the youth and their whole style and idiom is that of the extreme Left. They obviously evoke the mood of frustration close to that of rage which is still dominant among large sections of the young. Another and more stable as well as fruitful manifestation of the same underlying trend is the response of the students and youth to the Communist summer camps of 10 days' duration organised by the CPI. A qualitative leap in attendance and seriousness were very much in evidence after a whole period of patient effort.

All these factors taken together lead one to believe that Andhra is no longer going to be the Left state that had gone quiet, even though the configurations of the advance of the Left are likely to be novel.

BANGALORE

The Centre Smiles

RECENT trends in the state support the view that it pays to be on friendly terms with the Centre. The overdraft problem has vanished into thin air and the government's financial viability appears to have been restored, if the budget presented by the Finance Minister, M Y Ghorpade, is any indication. There need be no quibbling over the distinction between "overdraft" and "ways and means advances". On April 29 the state's overdraft stood at Rs 71 crores. The 1972-73 budget makes mention of ways and means advance of Rs 62 crores from the government of India. And so, New Delhi has bailed Bangalore out of a difficult situation. It is now for the Brahmananda Reddi Commission to sort out the implications of these ways and means advances on Centre-State financial relations. The budget reveals that the State's indebtedness to the Centre is of the order of Rs 385 crores which drains away a sizeable chunk of the tax payer's money in the shape of interest.

The Centre has also come to the state's assistance in another way. The Rs 164-crore Kalinadi Hydro-Electric Project, which would have cost the state Rs 13 crores in the curent year, has been quietly transferred to the Centre. Kalinadi, which is the most economical of all the power projects in the state, will add 640 megawatts to Mysore's power system by 1981. The present generating capacity of the State is 960 megawatts. Incidentally, the Finance Minister scotched opposition fears that under the guise of financing the project, the Centre may take over the distribution function and averred that no strings were attached to Central assistance to this project. The Centre's interest in the Kalinadi Project is understandable in view of the power needs of Goa and Maharashtra which are residual claimants for Mysore's surplus power. The Union Minister, K L Rao, has always held the view, which is shared by many, that the big power and irrigation projects in the country should be constructed and run by the Centre. This will reduce the number of inter-state disputes. Cynics may respond by suggesting: why not begin with Nagarjunasagar?

Changed Situation

The softening of the Centre's stand on the "unauthorised" irrigation projects in the Cauvery basin fits in with the new pattern of Bangalore-New Delhi relations. It may be recalled that in the last months of the Congress(O) Ministry — and in the halcyon days of DMK's honeymoon with New Congress — Mysore was under pressure to halt work on the Hemavathi and other projects objected to by the Tamil Nadu Government. Now the situation has radically changed and Chief Minister Urs is hopeful of evolving a *modus vivendi* for securing Centre's assistance for the completion of the three projects, namely, Hemavathi, Harangi and Kabini on which the state has so far spent over Rs 26 crores. Thanks to the good offices of the Centre, Tamil Nadu has decided to withdraw its case on this issue (use of Cauvery waters) now pending before the Supreme Court. Instead of a tribunal, there is to be a fact-finding expert committee to collect the necessary data about the Cauvery waters, the use of which is governed by the 1924 agreement which will lapse by 1974. Chief Minister Karunanidhi himself denied recently that his government had ever objected to the construction of dams across the Cauvery and its tributaries by Mysore. Needless to say, this softening of attitude is welcomed here.

Perhaps it would be wrong to think that all inter-state disputes can be settled "out of court", although it sounds quite sensible. For instance, neither Mysore nor Maharashtra, both of which have a common stake in the Krishna-Godavari dispute, is in a mood to withdraw the dispute from the Bachawat Tribunal. Not that the outcome of a negotiated settlement will necessarily be less favourable to Mysore, but the Urs Ministry has reason to think that this approach carries with it the risk of being accused of a "sell out" — real or imaginary. After all, it could well be a case of bolting the stable door after the animal has sped. Nagarjunasagar is a reality and the Srisailam project will be completed soon. What, then, will be there to fight over?

And lastly, a word about the Mysore-Maharashtra border dispute which remains frozen for many years now. The Congress Ministry still swears by the Mahajan award but Chief Minister Urs may be feeling his way towards a negotiated settlement. The Union Minister, K C Pant, was here sometime ago to sound Mysore's spokesmen about their views, but no one is eager to spill the beans. The Centre is reluctant to bring the two Chief Ministers to a conference table unless a mutually acceptable formula is worked out in behind-the-scene manoeuvres. The reported statement of a junior Minister (now denied) that a "Vishal Gomantak State" could be formed by merging the disputed areas with Goa has caused a flutter in opposition dovecots. That may not be such a ghastly — and unwelcome — idea provided there is any chance of Goa merging with "Vishal Karnatak". And Maharashtra should welcome the proposal if it thinks that the political wind is blowing in its favour. In politics nothing is impossible.

WEST GERMANY

The New and the Old Left

Aswini K Ray

THE arrests of the hard-core Baader-Meinhoff group ended the latest phase of the so-called New Left movement in this country. A series of 'political' violence — political, because, according to the authors, they were directed against private property and not against persons as such — preceded their arrests. During the later phase, the end appeared inevitable; it was only a matter of time. But the failure of the Rote Army Fraction (RAF), the name under which the Baader-Meinhoff group operated, has raised questions that may be relevant for the socialist movement of the world.

On the face of it, there was no direct connection between the New Left movement and the RAF. When the chips were down, the entire West German 'Left' — old and new — were vying with one another to denigrate Baader and Meinhoff from the Left pantheon; in fact, the more the Left protestations, the more the compulsion for unsolicited censure of the RAF. It was a 'Leftist informer' who enabled the arrest of Ulrike Meinhoff, the intellectual leader of the group. Since then, the lionised informer has offered to donate his prize-money to enable a fair trial of the RAF. How, he alone knows; his share of the few millions set for Meinhoff's head could only be decided by the courts, and that only after her conviction.

However, the relation between the New Left movement and the RAF lay exclusively in their identical philosophical base: like the New Left, the RAF believed that the inner contradictions of developed capitalist state, and imperialism, made them 'paper tigers'; that, the proletariat was 'assimilated' in the productive processes of the consumer societies; that, a 'revolutionary elite', conscious of its alienation from the capitalistic system of production, could through political actions sharpen the contradictions and the consequent polarisation of classes to the point of clash; the bliss of socialism was to follow inevitably. But a vital difference that distinguished the Baader-Meinhoff group from the New Left movement, and made all the difference to the fate of the two, was that the former practised what it preached; starting from the same premises, the New Left continued merely to 'interpret' the society while the RAF sought to change it. In the process, disowned by the Left, hunted by the 'paper tiger', the Baader-Meinhoff group raced to its inevitable end.

The philosophical radicals of the New Left movement, barring some notable exceptions, have ended up more profitably for themselves. To be exact, the New Left movement in West Germany began on June 2, 1967, with a demonstration against the Shah of Persia in Berlin; the police-firing and the death of a student-onlooker gave birth to the New Left movement, for which, the intellectual base had been prepared by the Frankfurt School of sociologists led by Horkhymer, Adorno, Habermas and, of course, Mercuse. The 'anti-authoritarian' basis of this school of 'Critical Theorists' struck a familiar chord among the youth of post-Nazi-Germany. The subsequent sound and fury signified a catharsis of the pent-up emotions of the past and an urge for a total break with it. The reaction of the Establishment to the New Left was sympathetic, almost paternalistic. But the New Left was asking for too much if it expected the West German bourgeoisie in the late-sixties to sacrifice anything for the sins of its predecessors. The assassination attempt on Rudy Deutschke showed up the teeth of the 'paper tiger'; the shot which for a long time incapacitated Rudy virtually killed the movement, but for the Baader-Meinhoff group. The former began where the latter ended. But, from that point, there was hardly any resemblance between the two. While the Baader-Meinhoff group continued to escalate its 'political violence' to the point of no return, by 1970 the leaders of the Sozialistischer Deutsche Studentenbund (SDS) — the organisational mouthpiece of the West German New Left — were busy dividing the spoils of the movement, which, had helped to highlight the incongruity of the authoritarian and hierarchical university structures of the country for the needs of a streamlined capitalist economy. 'Reforms' in this feudal inheritance of the university administration has been one of the very few lasting contributions of the New Left to the stabilisation of Bourgeois-Democracy in this country. In the process, the movement has been the first casualty and the participants, with notable exceptions, the prime beneficiaries of the reforms. The 'reforms' were enough to blunt the 'revolutionary' edge of this self-conscious elite. The bulk of the erstwhile instant-revolutionaries, and those who are not busy writing their own treatises on the 'revolution', are now jockeying for positions in the various universities of the 'capitalist state'. The new justification: "Be in the system to be able to change it" — another familiar Left rationalisation.

The contrast between the two is recalled here not to eulogise one or the other. On the contrary, based upon the same philosophical foundation, and drawing almost exclusively upon the 'revolutionary' potentials of a self-conscious elite steeped deep in its own class mores, both were doomed from the very beginning. Both, anyhow, were part of the pitfalls of Left-adventurism the world over.

However, there is another aspect to the story which is sought to be highlighted here. While the Baader-Meinhoff group was being hounded out of its hide-outs, there was no dearth of solidarity among the West German Left for revolutionary causes and the 'wretched of the earth' — except the one at home. Vietcongs, IRA, Naxalites, Black Panthers, Tupamaros — all, at this time, obtained demonstrative solidarity from the West German Left, though the Baader-Meinhoff group did not get it at a time when they needed it most. 'Tactical silence'! Perhaps so; or perhaps an instance of 'Left-Internationalism' of convenience!

Ultimately, those who came to the aid of the RAF, under great personal risks, were not those who had been preaching what the Baader-Meinhoff group had practised; they were 'bourgeois-liberals' — a term that has come to have pejorative connotation in the lexicon of the revolutionary Left. These few professors, doctors, lawyers, journalists, priests, even a business executive — not all of them sharing the political views of the RAF — are now being prosecuted for having supported 'criminal gangs'; even as the 'Left-informer' is faced with the problem of how best to invest his prize-money.

The Baader-Meinhoff group has also exposed its own confused assessment of the reality of the infrastructure; in fact, it has neglected it, and paid dearly for it. But, although its ability to "create insecurity in the bourgeois society" is debatable, it was able to expose — for however short a period — the ridiculous impotence of the State — power against the desperate courage of a group of dedicated anarchists; never before, in post-War Germany, has the entire potential of the State machinery been so fully stretched to apprehend what the establishment called this 'tiny band of criminals'. In the long run, of course, the end was inevitable. It certainly, but only partially, vindicated the view of the RAF, that the invincibility of the 'bourgeois state' has been exaggerated by the prophets of doom to justify their inaction. Nevertheless, the RAF also proved by its follies that the 'theory of capitalistic contradictions', as an independent variable in the breakdown of the 'bourgeois state' is equally romantic; in the context of the material and technological resources of a developed capitalist State — as the RAF found to its cost — there could really be no substitute for the long, hard, struggle through mass organisations for socialism. It is not really a question of violence or non-violence; more aptly, it is a question of broadening the base of the catalytic agent, committed to change, so as to make the distinction between 'subversion' and 'revolution' self-evident.

LONDON

The Apprentices Revolt

Farrukh Dhondy

IN Britain the revolt of the young is fast becoming the revolt of the younger. The press contemptuously call the action of school students 'the lollipop revolution'. The police, obviously taking a more serious view, weren't prepared to combat them with liquorice sticks. The march of May 17 this year brought out about eight thousand demonstrators, aged between eleven and seventeen, demanding the abolition of school uniforms, demanding an end to corporal punishment, making a stand generally for more control of their schools.

On an earlier demonstration a week before, the police managed to turn back four hundred school revolutionaries and took some of those in the front rank in and charged them with being leaders of a disorder. Stephen Finch, arrested on that day, played up by the press as the 'leader' was tried and fined and warned that more serious consequences would follow if he didn't stay out of student politics. The purpose of the May 17 rally was partly to show solidarity with those arrested earlier and to demand their release, partly to launch a national campaign which would co-ordinate the spontaneous growth of resistance to schooling that is being offered by students.

There have been panic reactions from politicians. Reginald Maudling, Home Secretary, speaking to the police federation, blamed lax parental control for the upsurge in youthful 'criminality'. *The Daily Telegraph* with it's constant Marie Antoinettian formula of 'let them eat cake', called for a diet of severity. Leaders writers were convinced that a left wing conspiracy of Maoists had stirred up the chick's nest. The youth themselves came out very clearly with what they wanted. One group, interviewed by a revolutionary newspaper, said "Teachers treat us like a piece of machinery, and when you rebel they think there's something wrong with you, and the Head sends you to a psychiatrist ... We learn nothing in school that gives us any interest in what workers are doing. I supported the miners, but there has been nothing in school to assist my understanding. If you raise the subject in class they tell you to shut up and get on with your work. Very rarely do we discuss anything. Religious instruction is the only subject with any room for discussion and if you disagree with the teacher it's back to written work. Most of the time outside of school I read books on political struggle which I think should be used in school. I think politics should be discussed from the first year... The pupils in schools think that if workers are coming out on strike and getting what they want, why can't we come out and get what we want..."

The strikes have hit British schools in a year in which Ted Heath's government is once again resorting to the educational system to take the unemployment load off the economy, Representing it as a liberal measure to increase the nation's mental wealth, the government has raised the statutory school leaving age to sixteen. The youth of Britain will, by staying on at school for one more year by compulsion, decrease the pressure from below on the pool of a million or so registered unemployed in the country. In a country in which part of the volume of surplus wealth has been traditionally channelled into pacificatory welfare, the cost to the economy is in absolute and relative terms, small. It would cost the social services more, for instance, to pay dole money to the fifteen year old unemployed than it would to keep them unpaid at school and compel their parents to support them for an extra year.

The politics of school students are in no way in the tradition of student politics. All over the world, for centuries, the populations of the universities and centres of learning have had an ambivalent and special place in the structure of society. On the one hand they have had the potential of conceit which has enabled them to read about and historically analyse the issues that confront a population. They have had the media of the day at their disposal and they have, in France and America especially, been somewhat foolishly looked upon as the future arbiters of a country's destiny. There is no doubt that they have contributed, in the US, in Bangladesh, in France, in a hundred other countries and situations, to the historical change overtaking their nations. The gunmen of Yahya Khan, Mayor Daley, Ronald Reagan, and other mythical warlords of our recent history, followed the echoes of righteous rhetoric onto the campuses to do their murder. In England, where the 'voluntary' systems of university education produce the same noises about politics, about Vietnam, about nuclear disarmament, about women's lib, about South Africa and racism, such measures have not been necessary. The closest thing to left wing action at universities in Britain in recent years has been the sacking of a hotel in Cambridge where sympathisers of the Greek *junta* were holding a party.

But the school movement is something else. It is in essence the organised dissatisfaction of the near future's working class. Today's third formers are tomorrow's apprentices, and their involvement in the politics of their class on their own front and within state-run institutions, is obviously a far greater danger to the capitalist state of Britain than the protests against American action in Vietnam in Grosvenor Square. It is also a much more difficult thing for the police to handle. Whereas the population of the country is largely apathetic to the denial of civil liberties to protesters from universities, they will not stand by and see their thirteen year olds battered by a supposedly liberal police force. In terms of mass opinion the lollipop has more power than the cap and gown.

The movement of school students and the demands it has generated serve to point out the contradictions inherent in a welfare state. State education for school students is completely free, books are provided, even meals and uniforms are subsidised for families who are willing to declare themselves low income earners. By and large only the education of the work-

ing class is undertaken by the state school system, the other strata of Britain's finely divided society having set up for itself a 'public' school system. The state schools have become manufactories for disciplined and literate workers and the situation has bred its antithesis. Organisations which represent the school students, such as the School's Action Union which called the London demonstrations, are moving fast towards demanding that the state pay its future workers while they are still at school, as it has become increasingly evident to the students themselves that far from receiving an education they are serving an apprenticeship of processing for the general and lower orders of the economy.

WEST ASIA

The American Factor

Shah Abdul Qayyum

DURING the past few months, Arab-Israeli tension has reached a point, perhaps, almost as ominous as just before the June 1967 war. If international efforts for a peaceful and mutually agreeable solution are not diligently pursued, the Arabs and President Sadat of Egypt, in particular, might be compelled to give way to local pressures for making a fresh bid at a military solution.

Last year it was thought that the efforts of Gunnar Jarring, Special Representative of the UN, might prove useful in bringing about a limited Arab-Israeli *detente*, if not an era of peace. These hopes have been belied, at least for the moment. At one point, last year, the UAR went to the extent of announcing its readiness to allow Israeli ships to pass through the Suez Canal in return for a partial Israeli withdrawal away from the Canal bank and into Sinai. The Israeli Prime Minister, Golda Meir, then indirectly complimented Sadat for his boldness and realism. But since that juncture the two sides have again become frozen in their rigid positions. The Israelis insist that all attempts at a *detente* should be only through direct talks between themselves and the Arabs and that the latter must provide firm guarantees of peace as a precondition for any changes in Israeli policy. The Arabs on the other hand are again asking for a complete and unconditional surrender of all Arab territories captured by Israel in the June 1967 fighting. They argue that without a total withdrawal Israel would be talking from the position of an occupying power.

In fact, any peace initiative in West Asia without the participation of the crucial third party is unlikely to bear fruit. The United States and the Soviet Union are this vital third party. Unless these two powers agree between themselves on concerted action, the dangerous stalemate in West Asia could reach flashpoint. More than in any other part of the world, peace in West Asia depends largely on the policies and attitudes of the two super powers who appear to be committed to safeguarding the stability and territorial integrity of their respective clients in the region. By virtue of this patronage, they alone are in a position to exercise pressure and bring about a lasting peace in this area.

And of the two super powers, the United States has much greater potential for bringing about peace in West Asia. Without US moral and material support, Israel would find it extremely difficult to maintain its economy, its defence forces and, therefore, its rigid position *vis-a-vis* the Arabs. The Arabs argue that if the US were to exercise sufficient pressure on Israel, it would be compelled to see 'reason'. This argument has much substance as the US and Israel do have much closer bonds than the Soviet Union and the Arabs. While the Arab countries that are close to the Russians — the UAR, Iraq and Syria — are dependent on and grateful for Moscow's political and military help, they are at the same time quite wary of Russian influence. For instance, Sadat in Egypt has often shown his independence of the Russians, as in the arraignment and imprisonment of Aly Sabri and other reputedly pro-Russian elements. The Soviet Union also does not subsidise any of the Arab states to the extent that American private and public funds do in the case of Israel. Therefore, while the Russians could persuade some Arab countries to follow certain policies in West Asian affairs, they do not have the sort of leverage that the Americans have with Israel. The Russians have no organic relationship with the Arabs; the organised, influential and affluent American Jewish community-cum-vote-bank makes the American relationship with Israel a very close one. It is inconceivable that the United States could ever leave the Israelis to fend for themselves in a situation of extreme danger. The preservation of Israel's integrity is a neo-permanent national interest of the United States. On the other hand, the Russians have no such organic commitment to any of the Arab states.

The United States is, therefore, in a markedly better position to pressurise Israel to make concessions for a peace settlement. At the same time, while all the Arab states may not be particularly friendly towards the United States, there is no basic antagonism towards the Americans. Further, the United States still exercises a good deal of influence in countries like Jordan and Saudi Arabia. In contrast, Moscow has little or no leverage with Israel. This means that Moscow is just now suited to bringing about a peaceful settlement in West Asia by itself.

But the United States, together with the Soviet Union, could exercise a definite influence on the prospects for peace. Thus far the two super powers have found it convenient not to adopt a concerted stand to bring about peace in West Asia. While avoiding a direct confrontation, each has used the Arab-Israeli conflict to strengthen its own position in the region and weaken that of the other side. Complicated manoeuvres have been conducted by these two powers to extract the maximum benefit from the simmering conflict.

However, there are now some signs that Moscow and Washington are moving towards a period of general accommodation of each other's interests. Nixon's visit to Moscow could pay dividends in the shape of a joint approach towards the West Asian problem. Despite America's renewed military vendetta in Vietnam, the overall international political climate remains 'quiet' and conducive to an imposed peace settlement in West Asia. Nixon once described the Arab-Israeli confrontation as "the most dangerous" for the United States and indeed the rest of the world because of its "potential for drawing Soviet policy and our own into a direct collision". Perhaps, for this very reason, the United States, along with the Soviet Union, could end the logjam in West Asian affairs by persuading the Arabs and the Israelis to work seriously towards a peace settlement. In this task the United States fits the bill for playing the more active role.

Indian Council of Historical Research

Sudhir Chandra

THE state of historical research in India has not been terribly satisfactory all these years. The quality of both writing and teaching has left a great deal to be desired. Little co-ordination of effort and purpose has been visible. Barring a couple of exceptions, historical journals in the country appear intermittently with a fare unlikely to cheer many. The annual *tamasha* at the Indian History Congress has to be seen to be believed for its banal academic proceedings and inverted perspective in which petty profiteering acquires the pride of people's attention. The Indian Historical Records Commission can scarcely boast of a more edifying performance. Sporadic seminars attract more or less the same set of bigwigs most of whom, too busy to read, desperately try to say pompously the same trivial things over and over again. The freak work of quality has been the result of individual enterprise scarcely motivated and aided by organisations.

In a chaotic situation like this, it is difficult to argue with conviction and cogency for a continuation of the existing ill-organisation or *laissez-faire*. More often than not, it has worked to the advantage of the manipulative rather than the intellectual genius. The mechanism of academic elevation simply beggars description if one looks at the unworthies placed at the mountain-tops of history departments in the country's universities.

The case for the Indian Council of Historical Research can, therefore, be disputed in principle by only the incorrigible utopian or the blind. In fact, for quite some time the need was being felt, and at one stage some interested lobbies from abroad had even broached the possibility of doing the job for us in order to be able to influence subtly the writing of our history.

Stupendous Task

The task before the ICHR is stupendous. It has to co-ordinate research so as to avoid unnecessary duplication of effort; indicate neglected areas of study and promote work on them; locate, classify and preserve historical material lying in the custody of individuals or institutions unable to look after it; sponsor research programmes and provide technical assistance for the formulation of research projects by individuals and institutions; organise seminars, workshops and conferences; and promote publication of historical research in order to disseminate ideas and information on historical research in the country and abroad; undertake the compilation and publication of necessary source material; and encourage the production of popular literature which would foster an objective understanding of India's cultural heritage. The Council also aims at facilitating intercourse among workers in the field of Indian history and at developing a body of talented young historians. Obviously, it claims within its jurisdiction everything connected with the writing of Indian history, be it the most abstruse historical treatise or elementary books for schools or adult literates. It also attempts, and rightly so, a broad definition of history so as to include in it history of Art, Literature and Philosophy, and allied subjects like archaeology, numismatics, epigraphy and the historical study of manuscripts.

This is a grand promise. One will wish the Council all success.

Pitfalls

But there are pitfalls. The conception of the objectives of the Council betrays lack of clarity in the face of irreconcilable demands. This may be deliberate, or the result of uncertainty about the relative importance of social engineering and the values of an intellectual discipline. Whatever be the reason, the choice of priority between the two has to be clearly made and stated before the Council can hope to be unequivocally supported by the academic community. It cannot get away with the present equivocation that in its aim of giving 'a proper direction to historical research' it will have two objectives to guide it: encouragement of objective and scientific writing of history; and inculcation of 'a healthy respect for our cultural heritage without encouraging a blind acceptance of superstition, obscurantism and revivalism', and promotion of national integration.

Is the 'proper direction' to be given in accordance with the first or the second objective? The two may not always be contradictory. They can often be irreconcilable. Which of the two will prevail in that case? If we are expected to owe primary allegiance to our cultural heritage, history writing cannot be objective and scientific. History writing is either so or it is not so. It cannot be partially or intermittently so. That is to say, on the conscious plane. As such it cannot be geared to serve a primarily utilitarian purpose howsoever noble it may be in its own right. National integration and respect for cultural heritage are extraneous to the cultivation of historical research. If these get promoted incidentally, no one shall be unhappy. That is about all. Historical inquiry, in order to be objective and scientific, has to be pursued for its own sake. There are already in existence many unconscious or subconscious constraints on this ideal exercise in objectivity. Addition of conscious constraints will make the finished product ludicrous or propagandist, if not wholly futile.

Confusion over Objective

It would be alarming if the 'proper direction' were to be given in terms of national integration and cultural heritage. The fear is not imaginary if one bears in mind the possibility of excessive and misplaced enthusiasm for 'a forward looking and scientific approach' getting the better of the essential historical perspective. These may be beautifully resonant expressions. But they hide within them interpretations which by highlighting the one may smother the other. Confining ourselves to the study of history, it may be argued that a *scientific* approach may not always be forward looking. An instance of the baneful effect such an approach can have on the writing of history is offered by the comments of the Minister of Education and Social Welfare on the occasion of the inauguration of the ICHR. Observing that in the ultimate resort history deals with people, he criticised the 'elitist view' for 'minimising, ignoring or distorting the role of people'. This apparently innocuous and valid statement reflects the risks of lack of clarity about the basic objective of historical research and of enthusiasm for using history as a tool of social change. History, in the ultimate resort, deals with facts. If people are shown by facts to have been led or misled or exploited by the elites, the historian has no option but to say so. Dealing with people cannot mean attributing to them, irrespective of historical veracity, all the manipulation and motivation of historical change. If a researcher finds that at a certain stage the Indian

national movement — for this is the example the Minister gave — was the handiwork of some elite groups who formed different constellations among themselves independent of or in the name of the people, he is supposed to say so and no more.

This gives rise to a suspicion which may turn out to be real. The Council may, in course of time, be used to cast all historical research into a specified mould. Expressions like a 'national policy of historical research' and a 'national direction to an objective and rational presentation and interpretation of history' lend credibility to this suspicion. The Council is badly needed to help and co-ordinate research. But if it means straitjacketing historical research in the country, the existing jungle law of might is right is more likely to result in some worthwhile historical works. And what does 'national direction' to objective and rational understanding of history mean? One would have thought that objectivity and rationalism existed *per se* without needing a particular ideological or regional flavour. Maybe the idea now is, following the pattern of *Indian* socialism, that historical presentation and interpretation will be objective and rational on the lines prescribed by our national oracles.

Government Influence

History is an effective instrument to regiment the minds of men. It is indeed difficult for any organised authority to resist the temptation of utilising this potential weapon to promote its interests. The fact that the ICHR is by its very construction totally dependent on the government suggests a strong possibility that it may never develop beyond being a governmental department. Given the existing rules, it will require tremendous will power, vigilance and courage of assertion on the part of its non-official members to turn into reality what has been given to the Council by way of autonomy. Some of the rules may be cited in this connection. Rule 16 (a) provides: 'The Government of India may give directives to the Council in respect of its broad policies and programmes.' The preceding rule lays down:

> 'The Government of India may appoint one or more persons to review the work and progress of the Council and to hold enquiries into the affairs thereof and to report thereon, in such manner as the Government of India may stipulate, and upon receipt of any such report, the Government of India may take such action and issue such directions as it may consider necessary in respect of any of the matters dealt with in the report and the Council shall be bound to comply with such directions.'

These stringent requirements have been provided for, it may be noted, in spite of the fact that even the 18 non-official members of the Council along with its chairman will be nominated by the government of India.

Even the founders of the Council will concede that the fear articulated here flows from a careful assessment of the rules, objectives and composition of the ICHR. The assessment, of course, owes also to an evaluation of the trends within the Indian historical community. It is for the members of the Council to establish by way of performance its credentials as a national body concerned primarily with the quality and promotion of historical research *per se*. If they have the will they can succeed. For in a democratic set-up an autonomous organisation instituted by the government is as autonomous as its members manage to make it. The government is normally constrained to work within certain limits. In spite of the rules vesting so much power in the government, the members of the Council can evolve norms necessary for the cultivation of their discipline. The cynic may argue that when organisation after organisation has failed the cause of history writing in this country, the ICHR should not be expected to succeed. But the more sober will watch with hope and concern the progress and performance of the Council. Meanwhile the lone individual researcher will go ahead with his commitment to work, making sure that even if the fear of historical research running on centrally laid down national rails comes true, dissentient voices will not be dead.

Income TAX

DEDUCTIONS ON PAYMENTS TO contractors.

While making payments
to contractors, for carrying out
any work, tax at 2%
will be deducted
from the payment made
after May 31, 1972.
This applies to contracts with—

- Government Departments and Corporations;
- Local authorities.
- Companies



Contractors will, in turn, deduct 1% tax on all payments to sub-contractors for such contracts.

Exemptions :-

- No deduction will be required to be made if the consideration for the contract does not exceed Rs. 5,000/-
- Contracts for sale of goods and for rendering professional services by engineers and architects, etc, will not be subject to deduction of tax.

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MINISTRY OF FINANCE, GOVERNMENT OF INDIA

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REVIEW

The Active Residue

Ratna Dutta

Class Structure and Economic Growth: India and Pakistan since the Moghuls by Angus Maddison; George, Allen and Unwin London, 1971; Rs 35.

THERE exists today an increasing awareness of the rigidities associated with social structure which intrude upon the growth process and, despite expanding GNP, frustrate the social justice objective. In this context, Angus Maddison's book "Class Structure and Economic Growth" deals with a highly topical subject. Indeed, Maddison also gives the now familiar argument — about to pass into economic rhetoric since Mahbub ul Haq has been respectably quoted — that "capital poured into luxury housing, large dams ... and tractors can hardly be transformed at some later date. The production pattern affects the pattern of skills which will not be equally useful if the pattern of demand is changed at some later date. The pattern of growth chosen will also generate a particular set of vested interests in its continuance." (p 137).

Of course, such a general exposition does no more than scratch the surface of the complex relationship between class structure and economic growth. Maddison is quite explicit that it is not his intention to present a rigorous analysis of the relationship between class structure and economic growth; his purpose is to give a historical account of that relationship as it existed in the subcontinent during the Moghul and British periods and since Independence. In fact, the 166-page book, sweeping through this large span of time, does not present any data with which we are unfamiliar. What is interesting, however, is the juxtaposition of class pyramids with economic data — particularly in Tables II-1 and III — which highlight the particular types of disincentives and depressants that have evidently kept economic performance below the economic *potential* in each period. One is led to ask: what is that potential?

An indication is available when one considers that the 'surplus' during the Moghul period went to support the lavish styles of the ruling elite, who froze some of it in the form of tombs and palaces. What should have been the surplus during the British period, similarly supported the lavish style of living of the ruling elite and a great deal of it was siphoned off abroad to pay for imports which the rulers thought necessary. The colonial rulers did make their contribution to posterity through the railways and the irrigation systems. Yet, the fact is that, the per capita income in the subcontinent did not increase in the two centuries during which "there was a tenfold increase in per capita income in the UK" (p 67). But Maddison's normative conclusion that it was the class structure that kept the economy geared below its potential during the Moghul and British periods, is something of a spurious issue. For the potential of any economy, including the feudal, can be appraised only in terms of its own historical role.

What is perhaps of greater importance is the residue of structural processes which have been left behind by colonial rule and today pose significant barriers to economic growth. Celso Furtado has analysed some of these processes in his classic "Development and Underdevelopment" (Berkeley, University of California Press, 1964). He has shown how exogeneously generated industrialisation, as in most colonial countries, results in a particular type of social-economy. One could deduce from his analysis that it also spawns a particular type of class structure. It is a class structure in which the dynamic sectors are geared *outward* to the affluent societies (in terms of investment in particular types of technologies and styles of consumption) rather than *inward* towards the suctioning of its own subsistence sectors. This is a logical outcome of the co-existence of developed societies and non-totalitarian underdeveloped societies. The result is a cumulative polarisation of the class structure in the poor countries. It is not surprising, therefore, that even in India with its 25 years of planning towards a socialist society Maddison should find that economic disparities have increased.

Maddison's description of the developments in India and Pakistan since Independence leads him to gloomy conclusions. Whether armed with the ideology of functional inequality, as in Pakistan, or with socialist rhetoric, as in India, the planners and policy-makers in this subcontinent are now becoming painfully aware that the existing class structure poses a formidable challenge to growth with social justice. It is becoming increasingly clear that the alleged conflict between economic growth and social justice is merely a superficial expression of the more fundamental contradictions in the underlying structural arrangements of social relations. Maddison, thus, has raised an important question, if only through a historical and descriptive account.

Wanchoo Report: A Critique

I S Gulati

If the report of the Wanchoo Committee were to be judged only on the basis of its tax policy observations and recommendations, the Committee might as well not have been appointed. But, then, its tax policy observations and recommendations, which have attracted so much attention, were not germane to the Committee's principal tasks.

The bulk of the Wanchoo Report concerns itself, quite appropriately, with legal and administrative measures designed to combat evasion and avoidance. And it is on the basis of its recommendations designed to improve the legal framework and administrative machinery that the Committee's work ought to be judged.

Unfortunately, even on its homeground the Committee's observations and recommendations fail to inspire confidence.

THE Wanchoo Committee was appointed "to examine and suggest legal and administrative measures for countering evasion and avoidance of direct taxes". According to its detailed terms of reference, the Committee of Experts was asked to.

(a) recommend concrete and effective measures (i) to unearth black money and prevent its proliferation through further evasion; (ii) to check avoidance of tax through various legal devices, including the formation of trusts; and (iii) to reduce tax arrears

(b) examine various exemptions allowed by the tax laws with a view to their modification, curtailment or withdrawal; and

(c) indicate the manner in which tax assessment and administration may be improved for giving effect to all its recommendations.

If a reader of the report of this Committee were to have started reading it from the very first chapter, without having read the press reports and observations on its recommendations, he would expect to read largely an account of the legal framework within which the existing administrative machinery entrusted with the task of assessing and collecting direct taxes operates and recommendations for the improvement of both the legal framework and the administrative machinery with a view to countering evasion and avoidance and reducing tax arrears. However, having had the good or bad fortune of having seen not just reports of the Committee's recommendations but also comments thereon, a reader like myself reads the report with quite a different expectation. Here is a Committee which, though ostensibly appointed to advise the government mainly on legal and administrative measures to combat evasion and avoidance of direct taxes, has made important recommendations with respect to major aspects of tax policy. This comment is offered not by way of criticism. Probably, the Committee felt, and perhaps quite rightly, that it would be failing in its duty if it interpreted its task so narrowly as to overlook those aspects of tax policy which had an important bearing on the effective administration of taxes. The fact remains, however, that the Committee's principal task was *not* to examine changes in tax policy but to suggest changes in the legal and administrative framework for direct taxes. Since the Committee did go into questions of tax policy and made some major recommendations in that area, it was only to be expected that they should attract public notice. In fact, Justice Wanchoo and his colleagues on the Committee might will complain that their tax policy recommendations have received (and are receiving) so much attention that the Committee's observations and recommendations on the substantive part of its task have not received the attention they deserve.

But what else did they really expect to happen? If in their examination of the existing situation with respect to tax evasion and avoidance, Justice Wanchoo and his colleagues were content with the observation that the present high marginal rates of direct taxes had a large role to play in motivating people to evade and avoid these taxes and that therefore the government should examine seriously the desirability of scaling down these rates, it was one thing, but when they made a definitive recommendation as to the income-tax rate structure and the maximum marginal rate, surely such a recommendation was bound to hit the headlines.

Or is it that this was precisely an objective aimed at by the Committee, knowing that on matters of legal and administrative details, however far-reaching their recommendations may be, they would not attract much public notice? Perhaps this would be considered a somewhat harsh judgment.

Possibly, the Committee felt strongly that no amount of legal and administrative reform would by itself be effective in combating evasion and avoidance of direct taxes until and unless it was accompanied by a scaling down in the rates of personal income-tax. But if the Committee did feel so, its report does not say so. No doubt, a number of arguments are adduced for not keeping the marginal rates of taxation at 'nearly expropriatory' levels, namely, (i) high tax rates make evasion very profitable and attractive; (ii) public conscience against tax evasion will be difficult to arouse so long as the marginal rates of taxation are confiscatory; (iii) high rates sap the incentive to work, save and invest; and (iv) the present high rates leave no scope for raising revenues in an emergency. But there is nothing new in what the Committee has said on the subject of high rates of taxation. The government should have known all this before and still the Committee was not specifically asked to advise on the subject of appropriate rate structure, keeping in mind the prevailing scale of evasion and avoidance.

Could it be that the government felt, rightly or wrongly, that all these arguments for reducing the present high rates were not convincing enough? Does it mean that the Government has then to put up with the present (and possibly rising) scale of evasion and avoidance, notwithstanding all the legal and administrative reforms proposed by the Committee?

I, for one, have always pleaded strongly against maintaining a facade of

high tax rates which are not effectively enforced. Very high tax rates ought to be avoided not only because they make "tax evasion so profitable and attractive" but also because, if they cannot be enforced effectively, their existence creates a public distrust in the government and its professed objectives of social policy. However, it is one thing to say that very high rates of taxation are undesirable on not only economic but also other, including administrative, grounds, and another to say that effective tax administration is impossible, or virtually impossible, at high level of rates. Maybe the latter turns out to be true, but one must take some pains to establish propositions like this.

The Wanchoo Committee has estimated that income evading tax went up from Rs 700 crores in 1961-62 to Rs 1,000 crores in 1965-66 and to Rs 1,400 crores in 1968-69. According to its manner of calculation, tax-evaded income increased at the same rate as national income. Thus evasion was regarded more a function of the change in national income than of the changes in marginal rates. However large the figure of Rs 1,400 crores may appear to be, it bears the same relation to national income in 1968-69 as the earlier *figure* of Rs 700 crores bore to the corresponding national income in 1961-62. The relationship between national income and tax-evaded income has on the basis of these calculations, not undergone a major change during this period of eight years when the marginal rate of tax (including surcharges) applying to individuals (and HUFs) was actually lowered from 87 per cent to 82.5 per cent between 1961-62 and 1968-69.

Highest Rate of Tax and Amount of Income Evading Tax

	Estimated Income Evading Income-Tax(a) (Rs crores)	Highest Rate of Income-tax including Surcharge (per cent) (b)
1961-62	700	87
1965-66	1000	81.25
1968-69	1400	82.5

(a) Wanchoo Committee Estimates, see Report, p 8.

(b) Information based on RBI Currency and Finance Reports.

Between 1961-62 and 1965-66 the highest rate was reduced from 87 per cent to 81.25 per cent and even though it was raised for unearned incomes to 89.4 per cent in 1966-67, this was brought down to 82.5 per cent in 1968-69 and the same highest rate applied to both earned and unearned incomes.

Surely, if in spite of the lowering of the highest rate of tax applying to income which yielded a gain in net income (after tax) of almost 35 per cent [(100-82.5) ÷ (100-87)] there is little impact on the extent of evasion, how, it might well be asked, could the Committee be certain that lowering of the maximum rate of income-tax to 75 per cent would make a major impact on the extent of evasion? The answer to this question might well be in the manner of the Wanchoo Committee's calculation of the amount of tax evasion. The fact remains, however, that the Committee has failed to show that tax evasion is linked positively with the rates of taxation.

A Committee which ranked the prevalence of high tax rates "as the first and foremost" cause of evasion could have done better homework on the subject before making a definitive recommendation for the reduction of the present income-tax rates applying to the higher ranges of income. In vain does one look for an answer to the doubts raised in the meeting of the select group of economists called to New Delhi, namely, what guarantee is there that the evasion of income will go down if the present tax rates are lowered to the proposed levels. Nor does the Report provide one with any reasonable basis to accept the Committee's assurance that the estimated loss to revenue of Rs 45 crores a year on account of the scaling down of income-tax rate will be more than offset "in not too distant a future" by improved collections following upon "better compliance with the laws".

I must add, however, that just because the Wanchoo Report does such a poor job of presenting the case for lower but effective rates of income-tax, the case cannot be taken to not exist any longer. The simplistic calculations set forth in the Report of the scale of evasion prove nothing.

Another important policy recommendation of the Wanchoo Committee concerns the Central taxation of agricultural income. Again, the question of taxing agricultural income is raised, quite appropriately, in the context of tax evasion. As the Committee points out, "in recent years agricultural farms, vineyards and orchards have been acquired by many film artistes, industrialists and others, not for love of agriculture but to convert their black money into white." Having said that, the Committee does not even pause to give an idea of the scale of evasion that is possibly taking place through this source. Couldn't the Department be asked to indicate the amount of income which was shown, or passed off, as agricultural income by at least the top 2,000 income-tax payers in the country? On the other hand, the Wanchoo Committee gives one the impression of being in a desperate hurry to brush aside the possible objections to the Central taxation of agricultural income. I do not wish to examine the Committee's answers to the various objections it identifies against the Central taxation of agricultural income. The fact that the government thought it proper to appoint another committee to go into the matter is proof enough that the case for the Central taxation of agricultural income is far from clearly established.

To the Wanchoo Committee the case for the Central taxation of agricultural income was so patently established that it even omitted to take note of the experience of even the foremost developed countries in the matter of taxing agricultural incomes. While in India the problem is that tax payers tend to show substantial agricultural incomes, in more developed countries where agricultural income is taxed as part of total income, the problem is that taxpayers get away by showing sizeable losses in agriculture. What would happen if, assuming that the necessary constitutional modifications are possible to make and the Centre takes over the taxation of agricultural income, taxpayers succeed in understating incomes from this source or in showing considerable losses — a possibility that cannot be ruled out in the light of the experience elsewhere in the world or even in the states in India which impose an agricultural income-tax. After all why should the state governments be able to collect such abysmally low amounts by way of agricultural income taxation? Presumptive assessments of agricultural income are resorted to in several countries (incidentally even in India the concept is being applied with respect to agricultural income as, e g, in Tamil Nadu where a farmer is allowed to 'compound' his income for purposes of agricultural income taxation) not so much because farmers do not or cannot maintain proper accounts but because the accounts are easily 'cooked up'. But you cannot tell a man whose accounts for non-agricultural income are acceptable that his agricultural income will be calculated on a presumptive basis — and that is where the rub lies. If, in the past, he succeeded in presenting accounts where non-agricultural income could be paraded as agricultural income, would Indian ingenuity be found

wanting in 'preparing' accounts of agricultural operations which show losses? It is somewhat intriguing how we in India complain on the one hand of large scale evasion of income-tax and at the same time talk of replacing the present base of agricultural taxation from land to income; the surprise is greater when a so-called expert committee does that.

In fact, it appears to me that if the Wanchoo Committee were genuinely interested in tackling only the problem of tax evasion arising as a result of the exclusion of the agricultural income from the ambit of Central income taxation, it could have arrived at some constructive recommendations which would effectively prevent such evasion and at the same time not call for such far-reaching constitutional amendments as the Committee envisages. Evasion of non-agricultural income-tax could as well be tackled by requiring the integration of agricultural income with income from other sources for the limited purpose of determining the rate to be charged on non-agricultural income. Even if this limited integration is not possible within the existing provisions of the Constitution, the modification that would be called for to achieve this limited integration would not be as far-reaching as the one suggested in the Wanchoo Report.

Although the question of including agricultural income within the scope of Central income taxation is important from the point of view of tax evasion, it is principally a question of tax base reform. Likewise, while the question of treatment of the Hindu Undivided Family is important from the point of view of tax avoidance, it is a question which again is basically connected with the determination of the tax base. Should the income accruing to the undivided family *qua* family be treated as separate income for purposes of taxation or should it be treated as the income of the members comprising the family?

It must be said to the credit of the Wanchoo Committee that it has been forthright in conceding "that the Hindu Undivided Family as a unit of assessment is retained in most cases only when it enables the persons concerned to reduce their tax liability, and that in other cases it is promptly partitioned without considerations of sentiment coming in the way." (Bhoothalingam's identification of the HUF as a source of tax avoidance was really too feable to merit any mention.) The Wanchoo Committee even arranged studies to be made of a few "big families" in certain commissioners' charges to have some idea of the extent of tax avoidance resulting through the use of the HUF device. These studies, says the Report, revealed not only quite substantial tax avoidance but also that "the number of income-tax files in respect of each family was ... more than the total number of members in the family."

Having found "convincing" evidence that the existence of the HUF as a unit of assessment had little to do with sentiment and also that not only did the present system of treating the HUF lead to quite substantial avoidance of tax but that it imposed a considerable burden on the administration, it is impossible to believe that the Wanchoo Committee could get persuaded to reject the only logical (as well as equitable) solution, namely, the forthwith derecognition of the HUF as a distinct unit of assessment. The Committee clearly knew what the right course to adopt was, namely, that the family should be treated as a registered firm and its income should be apportioned among those of its members who would be entitled to claim partition, but it shied away from this solution on the feablest of grounds such as increased administrative burden and possible delays in assessment. Instead, the Committee opted for a facade of a higher rate-structure for HUFs when any member has independent income. It ought to have paused to consider in making its choice how a higher rate-structure would prevent persons from resorting more even to all those devices listed by the Committee (paragraph 3.23). In fact, if one were to extend the same logic which the Committee employs against high rates of income-tax, the higher rate-structure for HUFs should drive people to use the HUF device even more diligently for purposes of tax avoidance. It is a safe guess that if the Committee's recommendation is accepted, there will be still further creation HUFs, and still further 'partial partitions' and, as a result, avoidance on this particular account would increase rather than diminish.

Logic can, of course, take the strangest of twists. It has to be read to be believed that the Wanchoo Committee which clearly recognises that the Hindu Undivided Family is being used today as a tax avoidance device should turn round and say that since the HUF will continue to be recognised as a separate taxable entity, to treat a family consisting of husband, wife and minor children as another unit of assessment "might lead to confusion". While the continuation of the former is indefensible any longer, the Committee ought to have clearly seen that not to treat the family as a unit of assessment leaves one more door open to tax avoidance.

It would be quite in place to go back to the Committee's suggestion about the taxation of agricultural income as part of total income. With the HUF continuing to be treated as a separate taxable unit, as at present, the incentive to partition agricultural land into several parcels will be immense indeed.

Although, as was pointed out at the very outset, it was quite in the nature of things that the tax policy recommendations of the Wanchoo Committee should attract attention quite out of proportion to their significance in the context of the Committee's terms of reference, it must not be overlooked that apart from several matters of legal and administrative detail the Committee's Report has touched upon some very important questions. One such question that was specifically mentioned in the terms of reference of the Committee pertained to the treatment of trusts.

The Wanchoo Committee observes that as in the more developed parts of the world, in India too, "the misuse of trust funds by charitable and religious trusts has been confirmed by studies made from time to time." It quotes a recent study by the Department of Company Affairs of 75 trusts, of which 62 were supposedly charitable. This study clearly showed "that the business houses creating the trusts had mostly appropriated the trust funds for their own businesses." The Report also quotes from the Public Accounts Committee's 121st Report which voiced deep concern over the misuse of trusts with a view to avoiding tax.

What, however, is most intriguing is that in spite of the clear indications of the widespread use of the device of trusts for purposes of tax avoidance, no attempt was made, now or earlier, to have an idea of the number of public and charitable trusts in the country and their wealth and income. How would one otherwise have some measure of the magnitudes involved?

Just as in the case of the Hindu Undivided Family, select cases were studied in a few 'charges' to get an idea of the extent of the use of the HUF as a tax avoidance device, could not a few select public charitable and religious trusts be studied in each 'charge'? Why must committee after committee take up this matter of trusts, deal with it in general and vague terms, and make a few suggestions here and there to tighten the law without ever knowing all that lies behind the existing income-tax provisions granting complete tax exemption

to these institutions?

Whether the changes introduced through the Finance Act of 1970 or the additional changes proposed by the Wanchoo Report go far enough or whether they are just trying an overkill and therefore merely dissipating the energies of an over-worked Department is impossible to say in the absence of information.

Where I would fully endorse the Wanchoo Report is in its recommendation for an all-India legislation for the purposes of controlling and regulating all public charitable and religious trusts. Such a legislation must insist upon the registration of each and every public and religious trust regardless of the size of its income or wealth at any given point of time. Also, all such trusts should, I feel, be statutorily obliged to submit returns of income and wealth every year *regardless of size*. Any failure to submit returns of income and wealth should make a trust liable to tax in the same manner as a private discretionary trust. (Surely the Wanchoo Report could not be taken seriously when it suggests that a ridiculously low penalty of one per cent of the trust income for each year of default would secure compliance by the defaulting institutions.)

Since the legal obligation to submit an income return was imposed in 1970, the Department should already have collected enough information to obtain some idea of the wealth of the public trusts, and their annual income. The Finance Minister would then know how much tax is being foregone by government in the form of tax exemption to these trusts and answer for himself the various questions which arise with respect to the operation of these trusts.

Having said all this, the fact remains that the bulk of the Wanchoo Report concerns itself, quite appropriately, with measures, legal and administrative, which are designed to combat evasion and avoidance. I think that, in all fairness, the Report ought really to be appraised not on the basis of its tax policy recommendations but on the basis of its recommendations designed to improve the legal framework and administrative machinery.

But my layman's suspicion is that even on its home ground the Committee's observations and recommendations fail to inspire confidence. Take its recommendation for the Department to make vigorous use of its powers of search and seizure and also of prosecuting tax dodgers. The tax laws of this country already contain numerous provisions conferring considerable power on the income-tax authorities for search and seizure in cases of suspected evasion and also for prosecuting tax offenders. Significantly, these provisions (which have been considerably strengthened in recent years) have been invoked in very few cases.

As the information furnished to the Committee on the subject of searches and seizures shows, the number of seizures and searches was the largest in 1964-65 and declined to only 81 in 1968-69. The number increased in the following two years and searches and seizures in 1970-71 numbered 195 and the amounts seized rose from Rs 59 lakhs in 1968-69 to Rs 120 lakhs in 1970-71. The Wanchoo Committee has in suggesting an increasing use by the Department of its powers of search and seizure made a number of recommendations which amount to increasing these powers in several ways. The question one could ask here is: is there any justification at all for increasing the Department's powers of search and seizure when the Department seems to have been increasingly diffident in the exercise of the powers that it already possesses?

There arises another question also. When one places the information with respect to searches and seizures alongside prosecutions launched (as in the table below) one cannot help asking whether what are classified by the Department as successful searches were genuinely successful. If these searches were genuinely successful, how is it that they led to so few prosecutions?

SUCCESSFUL SEARCHES AND PROSECUTIONS

	1965-66	1966-67	1967-68	1968-69	1969-70
No of successful searches	293	186	106	79	169
No of prosecutions launched	1	4	8	31	27
No of convictions		1	3	7	6

Source: Wanchoo Committee Report, pp 16 and 29.

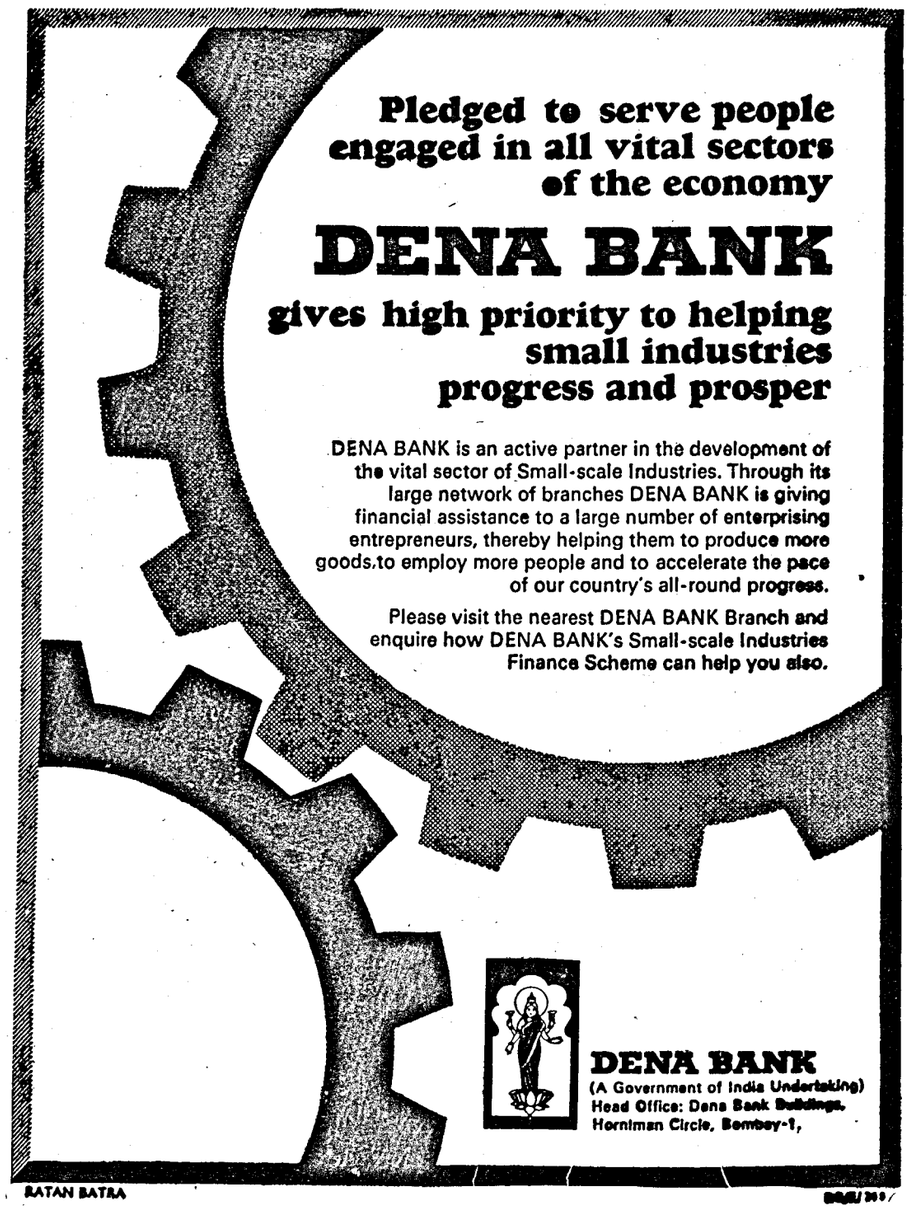
One would expect that a tax case where the authorities are driven to the point of invoking search and/or seizure would be one where if the search is successful it would mostly result in a criminal prosecution of the persons involved. At least, the data furnished to the Wanchoo Committee do not bear out this assumption. It would have been instructive to know whether or not such a relationship exists in other countries, such as the UK, USA and Japan, where a far more vigorous policy of prosecution is pursued by the tax authorities.

While I would very much like to see the legal and administrative observations and recommendations of the Wanchoo Report subjected to careful scrutiny by specialists in that area, I cannot resist the temptation to observe that if there is one area in which the government can be blamed strongly for false economy it is in this field of direct taxation. As the Wanchoo Report brings out, the Department has been virtually kept "on a starvation diet" in the matter of staff. If evasion has increased over the years, avoidance has multiplied and if arrears have piled up at an almost geometric pace, could it not be largely the government's own doing?

There is also a lurking suspicion that because of internicine rivalry between the 'Brahmins' and the 'Sudras', the Department's expansion has been deliberately held back. The Wanchoo Report cleverly skirts this and related issues.

If I were to assess the Wanchoo Report on only its tax policy observations and recommendations, I would rather that the Committee had never been appointed. But surely, these observations and recommendations were not germane to its principal tasks. This, however, should not be construed as a plea for one more committee to go into the tax policy questions. On the contrary, I would strongly urge a moratorium on committees and instead plead for a strong tax research and statistics bureau which collects, collates and analyses the whole wealth of figures that the Department has to deal with. The present state of the so-called Directorate of Research and Statistics is, to say the least, most deplorable even when one compares, its performance with that of similar agencies in some of the less developed countries. The latest annual report, the shoddiest report one could ever see, brought out by the Directorate, pertains to 1966-67.

A strong tax research and statistics bureau should do away with the need to have the issues examined so frequently by committees and outside experts. Not only that, when such outside assistance is invoked, the usefulness of outside advice is always a function of the information and data that are placed at the disposal of the outside advisers. The Wanchoo Committee's limitations do certainly reflect, to a large measure, the information constraints within which they had to operate. Maybe that is also why the Committee has, in most cases, been so very diffident in its observations as well as recommendations.



Approach to the Fifth Plan

Issues and Pseudo-Issues

Phiroze B Medhora

For the first time since the Mahalanobis plan-frame, the formulation of the Fifth Plan has been preceded by a great debate on the objectives and rationale of planning.

No longer is the debate concerned with the trivia of continuing the existing distribution of plan funds, of required rates of growth, of the size of the plan and of problems of raising the required financial resources.

The issues discussed are major ones: What is planning for? Does present planning assure welfare to the masses? Given the objectives, what is to be the strategy of planning? It is these issues which need clearer definition if the experience of the past is not to be repeated.

This article deals with some of the issues—and pseudo-issues—which have arisen during the pre-Fifth Plan debate.

I

Production and Distribution

THE issue that has caused the greatest interest is the perennial one which economists have debated since the beginning: production versus distribution. It is argued that planning has so far been concerned (or over-concerned) with production, and that the distributional aspects of planning have taken a backseat. It is argued that the growth strategy has left, for example, 40 per cent of the population in India below the poverty-line. The study by Dandekar and Rath[1] shows that in the sixties (1961-62 to 1968-69) the number of people below the poverty-line increased in India. Studies by Ojha and Bhatt[2] as also by K R Ranadive[3] confirm this finding.

Mahbub ul Haq now suggests that since the objective of planning is economic welfare (or better economic distribution or provision of minimum economic requirements to *all* people), distribution considerations should govern production (more buses rather than cars) as also other aspects of economic policy.

Has There Been Enough Growth?

The superficial logic of this enunciation should not hide the inner contradictions contained in the policy prescriptions flowing from it. One is not even sure if the basic facts in the formulation are correct. The so-called growth strategy as adopted in the countries generally cited has aimed at rates of growth which, however high in the historical perspective, are irrelevant in welfare terms.

Pakistan achieved during the sixties an annual growth rate of 5.7 per cent and India (which incidentally has never given growth a primary position in its plan strategy) has had, during the same period, a growth rate of 3.8 to 4 per cent per year. Allowing for a population growth rate of 2.5 per cent for Pakistan and 2.1 per cent for India, this leaves a bare margin of 3 per cent for Pakistan and 1.7 per cent for India for annual growth of per capita income. When this is related to the low base of per capita income (about $ 70 per year) in these countries, the growth works out to about $ 1 to $ 1.50 per year per head — approximately 10 kilos of wheat per year. Surely this is not what growth is about.

When one talks of growth, one has to consider much higher growth rates — for example, growth rates of 8 to 10 per cent which have been achieved in Japan and South Korea. Yet in these admittedly inegalitarian societies, the simple crumbs of welfare (television sets, telephones, not to mention clothing and food) are distributed far more broadly than in supposedly egalitarian societies. In fact, a rapid growth rate sets up its own compulsions for creating a domestic market for the output produced and also in terms of demand for labour, so that welfare has to be generalised in order that growth can be sustained.

The question to ask is: what would have been the position if India and Pakistan had achieved similar growth rates? If a 5 per cent growth rate in per capita income had been achieved in India in the sixties, would the income distribution have been such as to still leave 40 per cent of the people below the poverty-line? Even if the distribution of the higher growth between those below the poverty-line and those above it had been the same as it in fact was, the number of those below the poverty-line would have been much smaller.

During the last six years, despite the good performance in agriculture, the pace of growth has visibly slowed down, particularly in the industrial sector. Data on distribution trends in India after 1967-68 are not available, but various indications show that inegalitarian tendencies might actually have been accentuated during this period. Firstly, the rate of investment in the economy has slowed down, so that the growth of employment has slowed down in the industrial sector. Secondly, with increasing mechanisation, the benefits of the green revolution have accrued mostly to large land-owners and owners of land with access to perennial irrigation sources; thus greater inequality and possibly more poverty for the poor have come about in the agricultural sector. Finally, the wheat price support programme, besides benefiting more the large wheat-growers who have a marketable surplus, has failed to diffuse the benefits of increased output to consumers; in fact, import substitution in this respect, as in most others, has been at the cost of consumers.

The failure of the developing economies lies not only in the field of distribution, but also in that of production and growth. Countries like India and Pakistan have not had high rates of growth and it is futile to talk of production and distribution as mutually exclusive, alternative paths of development. The experience of the last six years shows that this country has had neither economic growth nor distributive justice.

Primacy of Distribution Objective

In this situation, what are the options open to planners in India? Unfortunately, the choice, as framed, is made out to be between a rapidly growing economy and a more equitable distribution system. And as the experience of the last six years shows, one can manage the economy without either

growth or social justice — a low-level, low-growth equilibrium of the kind that has prevailed for long also in Burma and Ceylon. Growth, no less than distribution, is not a self-propelling system, but requires the intervention of an *exogenous impulse*.

What the dichotomy between growth and distribution does imply is that the production system cannot be independent of distributive considerations; in other words, assuming a society sets before itself distributive goals, it must orient its supply system through production (or, in an open economy, through exchange) to achieve these goals.

The other side of the coin is that the availability of goods by itself does not ensure that they would be equitably distributed. Distribution can only be ensured either by providing required incomes to individuals or by centralising production resources with the State which then distributes the output on some assumed distribution considerations. In other words, it is not the production function which determines the distribution system, but the distribution system which determines the production content of an economy. It is, therefore, the distribution system which should be the primary concern of the State; the production system would then be adjusted to the demand pattern as set by income distribution.

Problems of Redistributing Consumption

Against this it has been argued that existing production is relatively specific and resources cannot be easily shifted from production of luxury goods to that of basic consumption goods; secondly, that the main issue in development economics is not that of providing minimum consumption in the present but between providing consumption in the present and (through investment) providing consumption in the future.

It has to be recognised that specificity of factors limits to some extent the flexibility of the production system and, therefore, (in the absence of trade) limits the benefits arising out of a rearrangement of incomes. However, given the immediate problem as one of providing basic consumption needs, even where such basic goods are produced in an adequate quantity (as in India), an unequal distribution system may leave a large part of the population without its minimum requirement (again as in India, as Dandekar and Rath have shown). India produces today sufficient foodgrains and cloth to meet the minimum consumption needs of the whole population; yet 40 per cent of the population lives below this standard. In such a case, it is not specificity of factors, but the inequitable distribution system, which prevents the provision of the minimum needs to the whole of the population.

So also, the choice between present consumption and future consumption (or investment) in such a situation is a pseudo-choice. At a given level of production, a redistribution of consumption standards does not reduce the level of investment (in fact, as will be shown below, it can be used to help to raise the level of investment). If in an economy there is adequate production of consumption goods, it should be possible, by rearranging distribution, to provide for equitable consumption standards for all, and at the same time, to maintain the given level of investment.

There are two ways in which such redistribution (of existing consumption) can be brought about. Firstly, as suggested by Dandekar and Rath, there might be massive taxation of those above the poverty-line, the resources so obtained being used to provide employment (and income) to those below the poverty-line.

Dandekar and Rath estimate that a transfer of Rs 800 crores (net)[4] is required to provide a minimum level of living (defined as Rs 324 per capita per year) to those below that standard in India. This estimate is in 1968-69 prices. Such a transfer could be made from the highest decile having a consumption of Rs 875 or more per head per year.[5] Given India's per capita income, the upper 10 per cent consists not of millionaires but ordinary people — clerks, typists, factory workers — who, let alone being willing to let such a shift occur, are themselves engaged in improving their relative status (and are, moreover, able to do so under the existing institutional structure). Such an attempt to transfer income is likely to set up economic and psychological resistance. It would also involve a massive strain on the fiscal system.

In the alternative, the same result can be sought to be achieved by a direct increase in the incomes of those below the poverty-line through creation of the required jobs — resorting to the fiscal weapon of direct transfer only to a limited extent. Such a policy, however, has two implications for the economic system. Firstly, where a redistribution of real consumption is done not by redistribution of present money incomes but by increasing incomes of the poor sections, resistance to such transfer is likely to arise through price movements (though, if the better-off sections cannot increase their income, they can hardly avoid some reduction in their consumption of basic goods). In other words, the consumption standards of the poorer sections are bound to increase, though not necessarily to the extent envisaged by the increase in their money incomes. Thus such a policy might require a larger money transfer to bring about a given real increase in consumption than if incomes were to be transferred from the well-off to the poorer sections of the society.

Secondly, if consumption is sought to be redistributed without a redistribution of money incomes, the relative price-level is likely to move in favour of consumption goods, and their production would become more profitable. A redistribution policy need not reduce the level of investment, but it might shift investment towards immediate production of consumption goods — more cloth rather than steel.

The argument that increase in consumption is not possible because the production system is specific or that such consumption can only be at the cost of future consumption, therefore, does not have economic logic. The problem of providing minimum consumption needs to all, in the context of the Indian economy, is not one of economics but one of organisation: it involves a change in existing income-distribution and accepting the organisational implications of such a change.

Growth Implications of Distributive Justice

The time horizons of the two processes, production and distribution, however, differ. While the production process is not bound by a time dimension and must go on (as it does even in advanced countries), equitable distribution, *whatever the level of production*, needs to be achieved within a defined time-frame. The time constraint, as the existence of gross inequalities in many societies shows, is not an economic requirement but a political compulsion, but, for being political, is not unimportant.

It is necessary, therefore, that the State concerns itself with both production and distribution goals. As examples of many economies (China, for instance) show, it is possible to have distributive justice even at fairly low levels of per capita income: if luxury houses cannot be converted into utility huts, the lawns can be handed over to the landless for cultivation. Dandekar and Rath have shown how, even at present income levels, a more equal distribution of consumption can be brought about. In such a case, once the transitional problems of income-transfer are solved, it should be possible to provide minimum consumption standards to all. A growth rate of about 2½ per cent would be needed in future to ensure minimum consumption to the additional population.

Yet however intellectually satisfying it might be to bring about equalitarian distribution of income, experience shows that a minimum income level is not the maximum goal of human endeavour. Distribution of income cannot end with providing minimum incomes to all — however wonderful such a prospect might look today to the near-starving; the process of rising expectations cannot end at this point.

This presentation also brings out clearly the institutional options open to the system. The Chinese system is a jig-saw, and one part of it (income distribution) cannot be taken out and fitted in another system; such grafting has little economic relevance. It is certainly possible to have a Chinese solution for India, provided we are willing to accept all its implications. The alternative is to have the cake grow, using the increase to buy potential economic discontent. Income growth then becomes an alternative to institutional change: what is incompatible is inequitable income distribution and economic stagnation.

II

Fifth Plan: Growth Requirements

A process of rising production is, therefore, needed to improve living standards beyond the minimum. Such a process serves two purposes: firstly, it enables the redistributive process to work at the margin, creating lesser resistance from the existing established interests; and, secondly, it helps to provide not only a minimum, but a rising, standard of living to the mass of the people.

A transfer of Rs 800 crores amounts to almost 3 per cent of national income. Given the fact that India's population rises at 2/2.5 per cent per year, it can be said that the growth rate in national income (5 to 5.5 per cent) which is accepted by planners, but which in the past has *not* been achieved, about meets the cost of providing a minimum standard of living to all people without disturbing the existing distribution of income (but also without improving the standard of living of any section of the people, except of those below the poverty-line). Thus the minimum income level, set by Dandekar and Rath, can be provided from the existing growth rate, by pre-empting the whole growth to the objective of providing minimum consumption levels to all.

This analysis brings out that the existing increase in income is being preempted mostly by those who already have a standard of living above the minimum. Apparently, the present system requires a larger growth in national income (than the existing 5 to 5.5 per cent) to begin to improve the lot of those below the poverty-line.

The planners, therefore, need to target for a fairly high growth rate if they are to achieve, within the existing institutional structure, a minimum level of living for the whole population. Given the fact that, while maintaining the present distribution system, it would require about 5 per cent increase in national income (to be devoted wholly to bringing up the level of living of those below the poverty-line) to achieve the objective of providing minimum consumption levels to all, a higher growth rate is needed to achieve the objective without disturbing the existing system. With the present income distribution, this would mean a minimum growth rate of 7 to 7.5 per cent of national income. It is this growth rate which the planners must aim at.

Production System for Minimum Consumption

Yet it is recognised that growth by itself is not sufficient to ensure equitable distribution. It will remain necessary to adopt positive policy measures to ensure a minimum level of living to all people. Dandekar and Rath have set this at a per capita income of Rs 324 per year in 1968-69 prices. Such an amount takes care of the personal living needs of the people, and would need to be supplemented by social transfers, for example, in the form of health and education facilities. Both these aspects have profound implications not only for fiscal policy but also for planning priorities and plan allocations. It is these aspects which deserve to be looked into more carefully.

Firstly, given the average propensity to consume various goods in the low-income categories, an attempt to provide a minimum level of income to all would require a change either at the margin of, or within, the existing production system. A transfer (or addition) of a net income of Rs 800 crores (in 1968-69 prices) to those below the poverty-line would imply a specific demand pattern for goods. On a very approximate calculation, it is estimated that the expenditure would create a demand for 5 mn tonnes of foodgrains, 500 mn metres of textiles and 200,000 tonnes of edible oils.

Talk of green revolution notwithstanding, our agricultural system does not at present generate adequate surpluses to ensure these supplies. After allowing for the existing distribution requirements (based, incidentally, not on the criteria of ensuring minimum consumption but meeting foodgrain requirements on present income distribution and allocation norms), the present system of foodgrain procurement leaves a surplus of about 3 mn tonnes. A minimum rise of 5 mn tonnes in foodgrain production is needed to provide minimum consumption levels to the whole people (while maintaining the higher consumption standards of those who already enjoy them); thereafter, a minimum annual rise of 2½ per cent in foodgrain production is necessary for the increasing population. Requirements arising out of increasing incomes and of a buffer stock would be in addition to these prior demands on foodgrain supplies. Thus even if the marketable surplus out of increased foodgrain output is as high as 75 per cent at the margin, an increase of 7 mn tonnes foodgrain output is required (or 12 mn tonnes including buffer stock requirements) if the foodgrains consumption of those below the poverty-line is to be brought up to the minimum consumption standards. The same considerations apply to other agricultural commodities like vegetable oilseeds, raw cotton and so on.

What is more important, it would be incumbent upon the State to obtain these additional supplies for fair distribution lest the increasing demand is defeated by price rises. It is only to the extent that an efficient production system is ensured that distributive justice can be attained.

Secondly, if a net income of Rs 800 crores is to be generated among the poorest sections of the population, a suitable programme will have to be worked out to create the required job opportunities. It is possible to create job opportunities of the 'digging holes and filling them up' type and still achieve the social purpose of providing a minimum consumption level to all. However, given India's need for economic and social infrastructure, it should be possible to create job opportunities which would help build such infrastructure.

It is here that planning has a relevant role to play: that of transforming idle labour into economic and social capital. Rather than create projects of the 'make work' variety, it is desirable that a bank of infrastructure projects, spread all over the country, is built up to use unemployed and partially employed labour. Such projects can be in

road-building, land-levelling, minor irrigation works, building of schools and other public works. In its Approach paper, the Planning Commission estimates the cost of employment-intensive programmes at Rs 7,200/7,800 crores over a five-year period; in addition, the outlay on providing social consumption needs (education, public health and so on) is estimated at Rs 3,000/3,500 crores during the Fifth Plan. The two programmes work out to an outlay of Rs 2,000/2,200 crores a year (at current prices). Assuming a labour-content of 70 per cent (which is a high figure) in such expenditure, the amount of income transfers involved in such a programme works out to Rs 1,400 crores per year in current prices.

It has to be recognised that a nation cannot live only by building roads and schools. Beyond a point of time, such works can only be of a replacement type. It is, therefore, necessary to lay down clearly the limits of such a programme, determining both the volume of such work available and the period over which it is to be completed. Such work must be looked upon as an interim means of employing surplus labour; the interim period should be used to create job opportunities which would absorb the labour released from infrastructure projects. In other words, the Government is only buying time with infrastructure projects, and it should create viable job-opportunities in the meantime to absorb the surplus labour.

The organisation of interim employment opportunities is not easy, as the experience of the last three years shows. The creation of viable jobs, despite large plan expenditure, is an even more difficult process, as the experience of the last 20 years shows. What is needed is the inclusion in the Fifth Plan of a public works programme to create ultimately 20 to 25 mn jobs *and* a growth philosophy by which the other sectors would begin to absorb increasing quantities of labour.

Role of Social Consumption

Such creation of job opportunities, and a production pattern which would supply the goods needed by the newly employed, would only meet the basic consumption needs of the people. It would still remain to provide their other requirements — health, education and so on. Given the level of living made available through the programme, such needs should be met essentially through the State. In other words, given the propensities to consume, it is desirable to insulate the supply of some services from the income-levels of the population. Thus a part of the supplies of services should be through social consumption, rather than through direct income-transfer to individuals. These then become free goods consumed according to need rather than according to ability to pay.

Table 1: Plan Outlay on Social Services

(Rs crores)

	First (1951-56)	Second (1956-61)	Third (1961-66)	Annual (1966-69)	Fourth (1969-74)
A Plan Provision					
(1) Social Services	477	1044	1300	1195	2772
(2) Total Plan Outlay	2069	4800	7500	6665	15902
(3) (1) as per cent of (2)	23.1	21.8	17.3	17.9	17.4
B Actual Outlay					
(4) Social Services	472	855	1493	993	—
(5) Total Plan Outlay	1960	4672	8573	6757	—
(6) (4) as per cent of (5)	24.1	18.3	17.4	14.7	—

Significantly, despite the welfare protestations of the planners, in actual fact the relative allocation to social welfare tended to remain stable over the first three plans — and actually went down in the Fourth Plan. As Table 1 shows, the plan provision on social services increased from Rs 477 crores in the First Plan to Rs 2,772 crores in the Fourth Plan. As a proportion of plan outlay, the outlay on social services was 23.1 per cent in the First Plan and 17.4 per cent in the Fourth Plan. Per capita, the expenditure was Rs 2 per head per year in the First Plan, and is set at Rs 10 (in 1968-69 prices) per head per year in the Fourth Plan.

It is obvious that this trend needs to be reversed. The outlay on social services needs to be increased not only absolutely but relatively, if a significant dent is to be made in the all-pervasive poverty in the country. The Approach paper sets the estimate of expenditure on social consumption (which forms only a part of the total social welfare outlay) at Rs 3,000/3,500 crores for the Fifth Plan. This amounts to Rs 12 per head per year, and would form about 10 per cent of the total outlay envisaged in the Fifth Plan.

Outlay on social services has many economic advantages. The outlay on education can impart skills which improve production during the working life; so also the outlay on health has a direct bearing on productivity. Finally, outlay on family planning has both immediate and long-term implications on individual and social welfare.

Summing up, the main implication of providing a minimum consumption level to the whole population lie in the field of allocation of plan outlays (particularly on infrastructure and social services) and on the production pattern to be established. A programme for providing a minimum standard of living cannot be an appendage to a plan programme. Besides introducing *ad hoc*-ism in the use of resources, this would subvert plan priorities by creating consumption pressures and it would only postpone, not solve, the main task of creating viable job opportunities. It is only by integrating the programme into the plan that it can be put to social benefit, and its adverse repercussions (for example, on prices or on creating new job opportunities when existing projects are completed) avoided.

Implications for Sectoral Growth

If a growth rate of 7/7.5 per cent is to be aimed at, it does need to be determined in what sectors the growth is to be. Arguments about the relative growth of agriculture and industry have been perennial. Vakil and Brahmananda, following classical economists, have argued for growth led by wage-goods (mainly agricultural) production. On the other hand, the Mahalanobis strategy, following the Russian model, opted for the development of the heavy and capital goods industries as the lead sector in the strategy of development.

The experience of the past 20 years shows that, of the various sectors, the tertiary sector has been the fastest growing in the economy. Dividing the economy into four sectors — primary,[6] secondary, tertiary (trade and transport)[7] and tertiary (others)[8] — it is shown that in India the fastest growing sector has been tertiary (others). During the last 20 years, the average growth has been 1.8 to 2 per cent per year in the primary sector, 4.4/4.5 per cent in the secondary sector, 4.5/4.7 per cent in the tertiary (transport and trade) sector and 5.5 per cent in tertiary (others), mainly administration and defence.

Table 2 : Consolidated Budgetary Position of the Centre and States

(Rs crores)

		First Plan	Second Plan	Third Plan	Annual Plans (3 yrs)	Fourth Plan (3 yrs)
I	**Revenue Account**					
	Revenue	4568	7604	16044	15063	20693
	(of which tax revenue)	(3502)	(5489)	(11049)	(10390)	(14066)
	Expenditure	4380	7277	14963	14695	20266
	Surplus (+) or Deficit (—)	+188	+327	+1081	+368	+427
II	**Capital Account**					
	Receipts	2168	5316	11486	10967	12817
	Disbursements	2762	6604	13277	12235	13988
	Surplus (+) or Deficit (—)	—594	—1286	—1791	—1268	—1171
III	Miscellaneous (Net)	—13	—22	—115	+79	—174
IV	Overall Deficit (—) or Surplus (+)	—418	—982	—826	—820	—918

Development of primary production is needed both to supply wage-goods to workers and to supply raw materials to agro-industries like cotton and jute textiles and vegetable oils. There are obvious limitations on the consumption of agricultural goods and, therefore, their market. The tertiary (trade and transport) sector is essentially a service sector whose expansion depends upon the volume of output in the primary and secondary sectors. It is apparent, therefore, that in the long run growth must be sought in industry. International comparisons also suggest that India's lag in agricultural output (on a per capita basis) is much smaller than that in industry. Apparently if India is to bridge the development distance with advanced economies, it will have to do so through a faster rate of growth of industry.

In the last five years, the average rate of growth of agricultural production has been about 5 per cent. In the recent past the rate of growth in agricultural output has been large — even allowing for the investment made in agriculture (not only irrigation, but also industrial inputs like fertilisers, pesticides and tractors). The law of diminishing returns operates most clearly in agriculture: as land supply remains constant and as the more productive (due to irrigation and other factors) land gets exhausted, the return on fresh inputs (more fertilisers, better seeds) is likely to diminish, Therefore, assuming adequate demand, the rate of investment needed in agriculture to obtain a given rate of increase in output will increase over time. However, it would be justifiable to assume that possibilities of constant returns on the basis of known technology will not be exhausted till the end of the Fifth Plan (and perhaps some years beyond) and that supply estimates can be based on this assumption for the Fifth Plan.

In India the tertiary sector is well developed and contributes a relatively large proportion of national income. There are two aspects of this phenomenon which need to be considered. Firstly, India has now a fairly developed governmental apparatus (including the Planning Commission); in a *dirigiste* economy, with expanded functions, this apparatus has become an important part of the total economy. Secondly, the tertiary (trade and transport) sector is at present less capital-intensive than in the advanced countries. The margins (in the form of surplus capacity) in the transport sector, for example, are much smaller than in the advanced economies. As regards the trade sector, it necessarily acts as a channel for disguised unemployment. There is thus a vast proliferation of retail outlets, trying to share the same volume of total trade. There are many trades (*panwallas*, for example) where little capital is required (or credit against goods supplied is available); given no reserve price for labour, such vocations are taken up on failur to find employment.

For some time to come, these conditions must continue in the tertiary sector. In other words, till employment opportunities in other sectors expand, to some extent the tertiary sector must continue to harbour disguised unemployment. As the volume of real output (marketable surplus in agriculture, industrial production) increases, the number of trade outlets will continue to increase — as also (along with increasing employment opportunities) the capital intensity in the trade sector. In the transport sector also, employment is likely to grow faster as services ancillary to transport (for example, garages and petrol stations in the case of road transport) are provided on an adequate scale.

It is in the secondary sector that the largest scope for growth exists. This is partly because the country's lag in this sector is the largest and partly because income elasticity of demand for manufactured goods is high and the saturation point comes much later than, for example, in agriculture.

To provide minimum consumption standards to all it has been shown that an additional production of 7 mn tonnes foodgrains is required, given the existing distribution of income. A 2.5 per cent growth in agriculture is required for increase in population, and another 2.5 per cent to cater to the demand arising out of increasing incomes. On this basis the required rate of growth in the agricultural sector works out to 7 per cent year in the Fifth Plan period. The growth in the mining sector, given the emphasis on coal in the future energy policy, can be much higher at about 10 to 12 per cent.

In the past the tertiary (trade and transport) sector has grown faster than national income and, given the emphasis on production of physical goods in future, this trend is likely to continue during the Fifth Plan period, particularly as a large increase in employment-creating activities like construction is planned. It is reasonable to assume a growth rate of 8 per cent for this sector. On the other hand, given the developed status of our administrative structure, 'growth' in the sector might be kept at 6 per cent — which still remains slightly above the rate 'achieved' during the last 20 years. On this basis the required growth in the industry and mining sector works out to 10 per cent to achieve an annual growth rate of 7.5 per cent in national income. On the the other hand, if the growth rate in agriculture does not exceed 6 per cent, a growth rate of 12/12.5 per cent would be required in industry to achieve the same increase in national income.

Given the laxness in the industrial sector, it is not necessary that investment in the manufacturing sector will be required to the extent corresponding to the production growth envisaged. In fact, at least one year's growth equivalent can be obtained by utilising existing capacity more fully (that is, from past investment which is not being utilised fully at present). The level of investment required would, therefore, be equal to that needed to achieve four years' growth (40-48 per cent) in output. Assuming that surplus savings are available, they can be easily invested in the manufacturing sector to increase output further.

III

Consumption, Capital Formation and Foreign Trade

Once the production structure and distribution requirements are laid down, it should be possible to examine the implications of these requirements on policy issues. These requirements

would determine both the size of the Plan and the allocation of funds among *various sectors*. These are essentially matters of calculation. But given the size of the Plan and allocation of funds among sectors, it is necessary to consider issues of how the required resources, both domestic and foreign exchange, are to be raised.

Perhaps the greatest illusion which our system of planning has sought to perpetuate is the dependence on a financial counterpart for the process of real investment. Almost every plan is preceded by a great debate on the size of the plan and of the availability of resources to finance it; it is these considerations which limit the development effort included in the Plan. Unless our planners break through the money barrier, the rate of capital formation (and of foreign exchange earning) is likely to be inhibited.

In a country where perhaps one-third of the agricultural sector is not monetised and a fourth of the labour supply is unemployed in various degrees, the dependence on money as an intervenor in the development process should be limited — and to that extent the options available to the planners are increased.

(A) Money Supply and Investment Process

The function of money is to redistribute resources in the desired directions which, in India's case, consist in providing minimum consumption to those below the poverty line and to increase employment to this purpose (if possible, by creating social capital). An increase of money incomes in such a situation in a particular sector is likely to divert a part of consumption goods towards this sector (for example, towards those below the poverty line). The point is that the State is able, through money creation, to bring about the required redistribution of consumption goods.

In an earlier section, the likely additional consumption of basic goods as a result of a policy decision to provide the minimum requirements to the disadvantaged sections has been estimated. The breakthrough in agriculture has made the agricultural production system dynamic, and has created conditions (with a total adequacy of production, which is unequally consumed as a result of the existing income distribution) where a policy of work-creation for the disadvantaged sections need not lead to severe economic strains.

At the same time, of the investment taking place in the economy, only a part is financed by the intervention of money — as in the case of investment in industry and in other productive assets. Capital formation, by the direct labour of the farmer in land improvement, for example, does not involve intervention of money; in this case, the process of investment is internalised to the farmer who provides for himself the consumption goods needed during the process of investment.

During the Fifth Plan period, the State will be creating considerable amount of investment through the provision of employment to those below the poverty-line. This will require mediation of money at two points: in obtaining consumption goods (as in procurement of foodgrains) and in making payments to those given new employment. The net increase in money supply, however, will be only at one point, as the sales of consumption goods (for example, foodgrains) would lead to a corresponding reduction in money supply. Alternatively, to the extent the State remains both a buyer and seller of foodgrains (and itself does not hold foodgrain stocks), the only increase that will take place in money supply will be due to the employment-creation programme.

Role of Investment

Not only for growth, but for social justice, it is necessary that the rate of investment in the economy is stepped up considerably. Such investment can be of two forms: employment-creating investment (which involves a transformation of idle labour into social capital) and goods-generating investment (which creates not only capital goods needed for investment but consumption goods required as a result of employment created in the economy). Expenditure on employment-creation by itself does not create the required consumption goods, but (as in the case of land levelling or irrigation) improves production capability. Consequently, it is the system outside the employment-creation programme, which has to produce the required consumption goods.

There is apparently a direct correlation between the two in a free market economy: the more there is of either, the more is needed in the other sector. In a controlled economy where the State undertakes to distribute basic consumption goods, the proportion between the two can be varied at the State's discretion (the minimum being set by the minimum consumption standards accepted by the State.) The system of direct correlation can be carried to the level where there is full employment in the economy.

In an earlier section, the likely increase in investment as a result of the employment generating programme has been estimated at Rs 1,400 crores per year. This is about 3 to 4 per cent of the national income. In effect while in the past investment has been taking place at a rate of 10-11 per cent of national income, the acceptance of a minimum consumption standard implies a direct increase in investment rate to 14 per cent of national income. Such a rise in the rate of investment will not by itself increase the supply of consumption goods. Additional investment, particularly in the agricultural sector, will be required to bring this about.

Such a system requires management of the economy by the State, particularly in insulating the rate of investment from financial and local production constraints. On the financial side, it is necessary that the State provides the required income for creating the given level of investment. To ensure that such a transfer to the disadvantaged sections is not defeated by price changes, it might have either to arrange for adequate production of basic consumption goods (given the income distribution, rate of market surplus and propensity to consume) or to set up a procurement and distribution system for such goods to ensure minimum supplies to those for whom new employment is generated (indirectly thus setting up a real wage-employment system). The production of basic consumption goods required under the second alternative is smaller than under the first, but the administrative apparatus and efficiency required is much more. In other words, organisation and production, to an extent, become substitutes for each other: the larger the increase in production, the lesser the strain on organisation.

Raising Resources

The State needs to create or raise money resources to generate the required employment. In fact, in raising the resources required, the State has to strike a balance between direct transfer from the better-off sections (by taxation and loans) and indirect transfer (through deficit financing). It is an option of which the consequences must be recognised and accepted.

The problem of resources affects basically the Fifth Plan decisions on taxation and deficit financing. Table 2 gives the total budgetary position of the Centre and States, including overall deficits. During the last six years the surplus on current account has been at a lower rate than during the Third Plan; moreover, the overall deficit has been maintained at around Rs 300 crores (in money terms, but less in real terms).

In recent years, the State's tax effort has remained at about 13 per cent of national income. As non-developmental

Table 3 : India's Foreign Trade

(Rs crores)

	First Plan	Second Plan	Third Plan	Annual Plans* (3 yrs)	Fourth Plan* (2 yrs)
Imports	3615	4924	6204	5818	3207
Exports	3044	3118	3761	3652	2948
Trade Balance	—571	—1806	—2443	—2166	—259

* At post-devaluation rates.

Table 4

(Rs crores)

	First Plan	Second Plan	Third Plan	Annual Plans* (3 yrs)	Fourth Plan* (2 yrs)
Imports					
Capital goods	1000	2019	2723	1506	474
Raw materials **	1312	1581	1828	2369	1638
Consumer goods	1219	1156	1252	1638	797
Unspecified	—	—	—	481	298
Exports					
Engineering goods	5	5	13	42	225
Iron and steel ***	4	4	13	61	118

* At post-devaluation rates.
** Including intermediate manufactures.
*** Including scrap.

Sources: Reserve Bank of India's *Bulletin* and 'Economic Survey', Government of India.

expenditure has increased rapidly and developmental expenditure has failed to keep pace with it, the State's contribution to national saving has declined from 2.8 per cent of national income in 1965-66 to about 1.1 per cent in 1970-71. With the large increase in State expenditure planned under the Fifth Plan, the extent of government saving will have to rise nearer to 4 to 5 per cent of national income.

In the past the volume of resources raised by the State has amounted to about 15 per cent of national income. To the extent the employment-generating programme (school-building, road construction and so on) is in the State sector, the State will need to raise additional resources to finance such programmes.

The Approach document suggests that fresh taxation required to finance the Fifth Plan would be Rs 6,000 to Rs 7,500 crores. Distributing this progressively over a five-year period and allowing for the rise in national income, the proportion of resources raised through taxation remains about the same as at present, namely, 13 per cent. The Planning Commission's estimate of additional taxation still seems to be made within a continuing frame of past trends — rather than intended to meet a major shift in policy towards labour-intensive works in the State sector.

It is almost certain that a transfer of income, equal to about 3 per cent of national income, is needed through the State if the minimum consumption needs of the people are to be met. Assuming that half of this is met through taxation, the State will have to continue to raise 13 per cent of the increased national income to take care of its increased obligations under the minimum consumption programme.

In addition, the State will have to raise resources for the (other) investment programme under the Fifth Plan. This programme is at present estimated at Rs 20,000/21,000 crores over the five-year period (in fact, as shown later in Section IV, as a result of price changes, the total size of the Fifth Plan, and the amount of resources to be raised through taxation and deficit financing, will be much larger). It is evident that resources raised through taxation will have to exceed 13 per cent of national income for the whole of the Fifth Plan programme. Given the need to reduce demand for consumption goods from those above the poverty line, such taxation will have to cover, as implied by Dandekar and Rath, these classes, including the factory working class and the middle classes. The Planning Commission will have to identify clearly tax measures which cover these sections.

The amount available for plan expenditure is a residual between additional taxation and non-plan expenditure of the government — unless the government raises additional resources to cover the increase in its non-plan expenditure. Since in the past (including in the Fourth Plan) a part of the additional tax effort has always gone to finance non-plan expenditure, a realistic estimate of increase in non-plan expenditure must be made, and should be provided for, in any estimate of additional tax effort.

Deficit Financing

Every plan provides for a certain amount of resources to be raised through deficit financing. The actual amount of deficit financing undertaken is shown below:

	(Rs crores)
First Plan	333
Second Plan	954
Third Plan	1133
Annual Plans (3 years)	682
Fourth Plan (2 years)	479

During the last six years, the annual level of deficit financing, both as proportion of national income and in real terms, was lower than the level reached during the Second

Given the additional tax effort and assuming that the government's borrowing rises at the normal rate, the government will have to resort to considerably increased deficit financing during the Fifth Plan period. A minimum estimate of deficit financing required would be about Rs 600 crores per year (equal to about half the transfer in current prices to the disadvantaged sections) or Rs 3,000 crores over the Fifth Plan period. To the extent the production system is responsive to increased demand, a given level of deficit financing will be neutralised by increased output.

In effect, the government will have to raise about 40 per cent of the total plan resources through taxation and deficit financing. Even as the nature of the plan effort undergoes a change, the scale of the government effort required in raising resources will increase. Government policies will have to be oriented to meet the implications of such a change in scale.

(B) Open or Closed Economy?

One of the major constraints on development (and even social policies of government) is the existence of a semi-open economy in India. So long as international trade is allowed, a country's domestic economic policies are subject to the constraint of maintaining a balance on international account. It cannot have the rate of growth (and price inflation going with it) without running into a foreign exchange crisis or making adjustments in its policies to correct it.

In a sense, few countries operate a

wholly open economy for fear of importing economic repercussions. Many advanced countries like Japan and the USA adopt various discriminatory policies in relation to imports. Developing countries have also adopted various mechanisms to insulate their economies from international trade repercussions: many Latin American economies reduce their foreign exchange parities, through regular devaluations, to maintain international balance; South Korea has a constantly variable (depreciating) currency; many countries have introduced multiple exchange rate systems, with favoured rates for priority imports and exports.

Most countries also try to intervene directly in import and export trade. India, for example, operates such a system. As regards imports, there is a ban on import of luxury and non-essential goods, irrespective of their local availability; imports of essential commodities are allowed subject to considerations of local availability, and even then their allocation is on a rationed basis. Various subsidies are given to promote exports. In addition, a large part of foreign trade, both imports and exports, is channelised through State trading.

India's foreign trade has continued to grow during the plan periods, despite the attempts at import substitution in the plan strategy. Apparently the impact of the growth factor on the economy has been much larger than that of the import-substitution strategy. Table 3 shows the total volume of imports and exports during the last 20 years. The Table clearly bring cut the inability of the economy, given the present policies, to generate the exchange earnings needed. The relative ease on international trade account which the economy is enjoying today is due to the green revolution (which has reduced foodgrain imports) and the slackness of the economy (which has reduced demand on current and investment account in industry and allied infrastructure sectors).

The composition of imports under the plans has undergone a radical change — from non-essentials to essentials and from finished goods to raw materials and components. The overall availability of imports, however, has been much smaller than the requirements of the economy. Table 4 shows the changing composition of India's foreign trade during the planning era.

Despite these measures, over the last 20 years of planning, there has been a continuous shortage of needed imports. The cost of imports, required but not

TABLE 5

(Rs crores)

	First Plan	Second Plan	Third Plan	Annual Plans* (3 years)	Fourth Plan (3 years)
Imports					
All countries	3615	4924	6204	5818	3207
USSR and East European countries	79	256	603	745	509
Exports					
All countries	3044	3118	3761	3652	2948
USSR and East European countries	57	194	542	703	669

* At post-devaluation rate.

made, is not the saving brought about in foreign exchange but the much larger volume of output possible by using such imports but forgone (for example, plant and labour which are left idle) for lack of them; some estimates place this at 10 times the value of imports. This is a high price to pay for imports not made, and on this basis it would certainly be found economically more advantageous to make the exports needed to pay for the required imports (rather than forgo imports).

Is Self-Sufficiency Enough?

In recent times the government has sought to encourage self-sufficiency. This policy implies an attempt to make locally goods which are imported. As Table 3 shows, imports have been reduced in relation to total domestic output. This view of self-sufficiency often results in domestic production of goods where the local resource advantage or the size of market does not justify their manufacture; in this sense, self-sufficiency is bought at a high cost in domestic resources.

Emphasis on a self-sufficient economy also implies that the level of investment in the economy is determined by the level of production of capital goods in the economy. In such an economy the level of investment can increase only by the devotion of increasing resources to manufacture of capital goods (including the technology for their manufacture).

According to the Annual Survey of Industries, the ex-factory value of total output was Rs 7,213 crores (and value added by manufacture Rs 1,810 crores) in 1966. Of this the ex-factory value of output in the capital goods and related sectors (iron and steel, cement, machinery and metal products, transport equipment) was about Rs 1,950 crores and the value added Rs 575 crores. In the past, based on domestic production and import of capital goods (*vide* Table 4), it can be estimated that about one-half to two-thirds of investment in the industrial and infrastructure (power, transport, communications) sectors has been based on imported capital goods. Clearly the rate of growth of the economy should not be left to be determined by only the capacity for local manufacture of capital goods.

Towards an Autonomous Economy

Consequently, it is desirable that India gives up the option of the semi-open economy it is operating today, and tries to operate an autonomous economic system. An autonomous system does not mean a self-sufficient economy — in fact, such self-sufficiency is obtained at a heavy cost in the use of local resources, and is, therefore, inefficient and wasteful.

The objective of having an autonomous system is not to have self-sufficiency but to make exports needed to meet the imports required for operating and developing the economy at the maximum rate feasible. One advantage of operating an economy of the kind suggested above is that it insulates the level of investment in the economy from the level (and technology) of production of capital goods. In a developing economy where the rate of investment has to be high (and rising), such a system enables the transformation of consumption goods locally produced into capital goods internationally produced. The rate and level of such inter-change depends upon the level of local technology and the state of international demand. One of the major advantages of trade with the USSR and the East European economies is that both these aspects have to some extent been controlled.

Table 5 gives India's foreign trade position, overall and with the USSR and East European countries, according to Plan periods. The main point to note is that while the overall trade has tended to remain adverse, the trade with the USSR and East European countries has not only increased, but has generally

TABLE 6 : STC OPERATIONS

(Rs crores)

	1967-68	1968-69	1969-70	1970-71	1971-72
Imports	115.8	114.1	150.2	141.9	220.7
Exports	23.6	48.5	55.1	70.6	96.8

done so in a balanced way. Almost the entire strain on the country's foreign exchange resources has come out of its trade with the free economies. On India's side, India has been able to export consumption goods (bananas, shoes) in exchange for capital goods (machinery and equipment, basic goods like copper). Moreover, to a large extent the trade has taken place without significant changes in terms of trade.

Unfortunately, in recent years changes in composition of foreign trade have taken place so as to reduce this advantage, particularly as India has tried to export capital goods (railway wagons, steel). The capital goods content of India's trade has thus declined not only by reduction in their imports (from Rs 500 crores per year in the 1960s to about half that level in the first two years of the Fourth Plan) but by attempts to increase their exports — reflecting the low level of capital investment taking place in the economy. It is necessary that India moves away from this low investment-low capital goods import syndrome.

Trade Policy for Fifth Plan

Such an approach has various implications for planning policy during the Fifth Plan period. The main objective of foreign trade policy should be to insulate the international trade account from price and demand considerations. In other words, India would determine its foreign exchange requirements on the basis of its needs, rather than its export capacity. This then would constitute the foreign exchange budget on the import side. It would then make exports needed to earn the required exchange. Secondly, given the need to increase the level of investment in the economy, an attempt should be made to maximise the balance between import and export of capital goods.

To put such a policy on a viable basis, it is necessary that domestic production policy is adjusted to take into account its foreign exchange cost. Thus a greater reliance might need to be placed on domestic production capacity in laying down the pattern of investment. To the extent foreign exchange needs are determined, the country should seek to develop surplus capacity in goods which are likely to have a strong international demand and in which it has a local advantage. This is *not* to subject the economy to vagaries of international trade since in fact one of the aims of planning is the optimum development of local resources. Such a policy involves a lesser constraint on domestic policy than the convolutions generated by the mirage of a self-sufficiency policy. Rather than subject economic growth to fluctuations in foreign exchange earnings, an attempt would be made to have the pre-determined growth, irrespective of international trade movements.

In India's case, this would imply development of iron and steel and aluminium industries (for both of which India has large ore resources) as also of electronics and similar systems which have a higher labour content. There has been a world shortage of iron and steel and aluminium in the sixties, but India was a net importer of these goods. The quantity of iron and steel imported during the sixties was 8.5 mn tonnes and of aluminium about 2.5 lakh tonnes. It is obvious that by a proper investment programme the country could have not only produced these commodities, but in the process, avoided a strain on foreign exchange resources. At the same time India has been exporting to Japan iron and manganese ores to be converted into steel, which Japan then exports to the USA. Is it any wonder that India has both unemployment and a large trade deficit with the USA?

India has already available, in the State Trading Corporation, an apparatus for operating an autonomous foreign trade policy. So far, as Table 6 shows, the Corporation has concentrated on the easy job of making imports (that too often on an agency basis). Being a State organisation and enjoying a monopoly position in some elements of foreign trade, it should be given the task to earn export earnings needed by the economy. This would imply that the State Trading Corporation would use its market power to develop exports and export markets which would give it the required export earnings.

An adjustment of the pattern of production to take maximum advantage of international trade opportunities does not take away from the local autonomy of developing a country's resources to the maximum advantage. Misguided attempts at self-sufficiency cost the economy far more. What is also wrong is to determine exports on the basis of the financial profit it earns the exporter, rather than the total cost-benefit to the economy. What is necessary is to keep the option of international exchange open to maximise the rate of growth.

IV

General Trends

A development process is set within general or secular trends. Some of these trends are independent of the planning process — as in the case of urbanisation or modernisation; some other trends are inherent in the planning process, for example, inflation which is a counterpart of a forced pace of investment. There are also a large number of issues which, the earlier experience of planning shows, the planners have not given due thought to. It is lack of attention to such issues that has made for ambivalence in planning and for its generally unsatisfactory performance. These are dealt with in this section.

Inflation and Planning

Two trends are likely to emerge in the coming years. Firstly, given the vastly increased outlay envisaged in the "employment-minimum consumption" programme, the rate of price inflation is likely to be faster in the Fifth Plan period than in the past. Secondly, if the programme succeeds, it is likely to slow down the process of urbanisation. The implications of these on Fifth Plan formulation need to be examined.

Except for the First Plan (when, with a high price level in the base year as a result of the post-Korean war boom, the price level actually declined), prices have continued to rise during each plan period — even between 1966-67 and 1967-68 when there was a transition from foodgrain scarcity to high foodgrain crops, and since then also, though foodgrain production has continued to rise and there has been a flattening out of investment in the economy. Using 1955-56 as base, the price-level increased by about 35 per cent during the Second Plan period; with 1960-61 as base, the price level rose by 32 per cent during the Third Plan period; using 1965-66 as base, the price-level rose by 25 per cent during the three annual plan years; and with 1968-69 as base, the price level has risen by about 15 per cent during the first three years of the Fourth Plan period. Table 7 shows the price-level changes during the last 20 years.

Significantly, planning, as practised in India, has been oblivious of the pressures exerted by this general trend. Almost every plan is expressed in constant prices (and the raising of financial resources planned accordingly), while it is implemented at price levels which rise from year to year; the planners have never given the extent of fulfilment of a plan in constant prices. Such changes in prices have various implications on plan trends: directly they affect the total volume of resources needed to be raised to fulfil the plans; in a less direct way, price changes tend to bring about sectoral pressures which have an influence on detailed plan fulfilment and general welfare.

The actual context of price rise during the Fifth Plan period will depend upon many factors, most important of them being increase in foodgrain production and money supply. The rate of investment in the economy is likely to rise sharply as a result of the employment-generating programmes; at the same time, the State is not likely to be able to raise resources through taxation to cover the higher level of investment fully, and, as stated in Section III, it would be necessary to raise resources through much larger deficit financing.

Given the past experience, it can be expected that the price rise will be much sharper — say, between 8 and 10 per cent per year — during the Fifth Plan period. Even with a fairly stringent fiscal and monetary policy, a rise of 8 per cent per year in price level needs to be anticipated and provided for. On this basis a reasonably phased out Rs 30,000 crore plan at constant prices will become a Rs 35,000/36,000 crores plan at current prices.

It is necessary not only to determine monetary policy to take this fact into account, but also to adjust fiscal policy to raise the required resources. While revenue from some taxes (sales tax, corporation tax, personal income-tax when not evaded) varies with price (and income) changes, the revenue from excise duties (which are levied mostly at specific rates) is inelastic. It is, therefore, necessary that attempts be made to make the fiscal system more elastic with respect to price changes; one measure would be to raise the rates of excise duties, where specific, by 8 to 10 per cent every year almost automatically.

There are two sets of measures needed to keep these tendencies under reasonable check. Firstly, the government should seek to divert to its coffers as large a part of the additional liquidity in the economy as possible. Consequently, a tax and borrowing policy will have to be evolved which ensures that the elasticity of government revenues and receipts, in relation to income and prices, is larger than one. Secondly, the government should adopt a monetary policy which will curb inflationary pressures. With expectations of price rise sharpened by the Fifth Plan outline, the tendency to hoard goods and speculate on price-rise will be accentuated. Apart from physical controls on credit supply, it would be necessary to adjust credit cost to deter excessive commodity holding.

TABLE 7 : ANNUAL SECTORAL CHANGE IN PRICE LEVEL

	First Plan	Second Plan	Third Plan	Annual Plans	Fourth Plan (3 years)
Food articles	—6.3	6.8	9.6	10.9	2.2
Industrial raw materials	—9.3	8.0	7.4	5.8	6.7
Manufactures	—4.6	4.4	4.2	4.0	7.6
All commodities	—6.3	6.2	7.1	7.9	4.4

Another major point is to make annual revisions in plan scheme costs and to arrange for the required financial resources. The final money cost of any "constant price" plan is bound to be much higher than originally fixed, and resources need to be raised accordingly. Given the fact that a substantial rise in incomes is likely to take place in the low-income categories whose consumption levels have to be protected, the resource raising effort will have to be concentrated on the remaining sections of the population and the remaining commodity-transactions sectors.

URBANISATION

A similar problem arises in respect of urbanisation. In 1951, of a total population of 361 mn, 62 mn was urban; the figures are 439 mn total population and 79 mn urban population in 1961, and 547 mn total population and 109 mn urban population in 1971. Past trends indicate that the growth in urban population is faster (about 3.5 per cent per year) than that of total population. By 1981, the total population is expected to rise to 650/660 mn and the urban population to 150 mn.

The planners have never taken into account the implications of the urbanisation process, though planning decisions have tended to accelerate it. Increasing urbanisation has consequences in the form of providing urban infrastructure — housing, transport, services like power and water, which are not sought or are not available in rural areas — whose impact on planning is hardly taken into account.

It is clear that even if the urbanisation process is slowed down as a result of the Fifth Plan programmes, there is likely to be a major problem of providing facilities to those newly joining the urban process. They create new demand for urban amenities which has to be financed and provided.

Many urban areas provide inadequate urban amenities. It is necessary that the financial cost of urbanisation is imposed on those who create pressures for such urbanisation. Consequently, every employer in urban areas should be required to buy urban bonds according to the volume of employment — permanent or temporary — created in such areas. Such a levy should be made on both government and non-government employers. A requirement of fixed bond purchase would enable such urban systems to come up to minimum standards — of water and power supply, sewage facilities and garbage disposal system.

A large part of the activity carried on in urban areas need not be carried on there. A tax on urban employment, or a fixed urban bond purchase system, will discourage unjustified setting up of establishments in urban areas and help to decentralise employment.

SHORT- AND LONG-TERM OBJECTIVES

It is also necessary that the relationship between short-term and long-term objectives be clearly recognised. An absence of this recognition has led to an almost total divorce between budgetary/monetary policies and five-year plans (as also the Planning Commission's total unconcern with the current industrial stagnation which set in more than five years ago).

If a five-year plan is to be fulfilled, the operation of the economy every year at full capacity and the generation of resources from it to finance the plan requirements are absolutely essential. These matters must be of concern to the planners. It involves keeping a continuous watch on non-plan expenditure, examining their implications for plan resources, and laying down policy guidelines for fulfilling annual plan targets, particularly as inflationary pressures have an impact on the amount of plan resources to be raised and on distribution of incomes.

There is also need for a certain consistency in policy measures, directed to various policy objectives. The primary fact in India is an excess of labour supply over labour demand, and the primary objective is to promote labour-use in the economy.

It is futile to create new employment schemes when existing policies encourage substitution of labour by capital. Almost all fiscal incentives are related to capital use and are thus geared to encouraging capital use. So also almost all factory legislation which, while improving the condition of those already employed, also reduces opportunities for more labour-use by making labour relatively more expensive. (At the same time, the State is unable to provide any protection to the more disadvantaged employees, like hotel or laundry workers.) A tight labour market, arising out of the employment-generating programme, is a better safeguard for labour than unimplemented laws.

Such a dichotomy in policy sets up contrary pulls on the economy — resulting in fossilising existing positions. It is desirable that economic relationships are so established and incentives so given as to pull in one direction only. Deviations from this position should be rare, and should be justified by economic or social considerations.

ROLE OF STATE

Finally, it is necessary to define clearly the role of the State in the economy. At present State intervention in the economy is *ad hoc* — a response to pressures from groups — and is in many cases totally unrelated to economic or social policy objectives. There are various areas in which the level of State intervention, and the limits to it, need clearly to be defined.

An example of an irrelevant (or even positively mis-directed) use of State power is the taking out of a large number of licences for the manufacture of beer by various State industrial development corporations (Haryana, Punjab, Kerala, Rajasthan, Orissa are reported to have taken out such licences). This decision is evidently directed to the objective of cashing in on the beer boom (in the wake of removal of prohibition in many States) and the bureaucrats' zeal to prove that, if not steel, they can produce at a profit at least beer — a commodity which has little relevance to economic or social policy objectives (and whose production is in fact contrary to the Directive Principles of Policy embodied in the Constitution). Such policies are hardly geared to maximising welfare of the larger masses of the population. In any case, State policy should not be determined to salve the managerial conscience of incompetent bureaucrats.

It is necessary that the State limits intervention where it affects the mass of the population or to important policy objectives where it has economic and social relevance. Massive State entry (often incompetently effected) in various fields without economic and social logic has little meaning.

Should not state intervention be restricted to benefiting limited disadvantaged classes? For example, rather than control steel prices (and thereby incidentally affect adversely the working of public sector units), it is desirable to distribute a limited quantity of steel at low (international) prices — for example, for exports as at present or for low-cost housing — and let the remaining sector free. Similarly, nylon yarn and other artificial fibres (as also credit) can be given to poorer classes of weavers (to weaving co-operatives and individual weavers, but not to privately-owned power-operated looms) at fixed prices instead of the present system of having price control on the total output of these industries.

At present foodgrains and milk are supplied in urban centres at low prices irrespective of the economic condition of buyers; it is desirable that such subsidised consumption should be restricted to the poorer sections of the urban population. Rent control again is imposed on all housing, benefiting the richer classes and commercial users — and in the process depriving the municipal authorities of revenue. It is time rent control is removed on all residential accommodation above a specified rent and on all commercial establishments. So also, co-operative and bank finance is being pre-empted by rich farmers, including the sugar barons. Such State help should be given only to improve the condition of those at the lowest level. Finally, one still fails to understand the rationale of price control on cars. Tax concessions should similarly be related to social objectives: should there be a tax allowance for car-users?

It is in these directions that the State power and the State's new awareness of social responsibility should move. The present attempt to meddle in all spheres leads to misguided intervention in the economic process and inefficient control (as is evident in the extensive prevalence of black markets and of tax evasion).

Too long has planning been concerned with general growth and welfare objectives, often without a time dimension, rather than with specific objectives limited by a time constraint. The main achievement of the Mahbub ul Haq thesis is to question the rut in which the process of development seems to have got stuck. The Fifth Plan, for once, brings out clearly the issues facing our planners. The framers should show a new path for the development process.

Notes

1 "Poverty in India" by V M Dandekar and Nilakantha Rath.
2 P D Ojha and V V Bhatt, "Pattern of Income Distribution in an Underdeveloped Economy: A Case Study of India", *American Economic Review*, September 1964; also their "Pattern of Income Distribution in India 1953-55 to 1961-64", Paper presented at the Seminar on Income Distribution organised by the Indian Statistical Institute, February 1971.
3 K R Ranadive, "Pattern of Income Distribution in India, 1953-54", *Bulletin of the Oxford University Institute of Economics and Statistics*, August 1968; also "Distribution of Income, Concept of Justice and Right to Property", Paper presented at the Bombay University Golden Jubilee Seminar on "Indian Economy: Performance and Prospects", March 1972.
4 The transfer estimate relates to the minimum needs of 30 per cent of the rural population below the poverty-line, other than the poorest 10 per cent; p 126, Dandekar and Rath.
5 Table 3.6, Dandekar and Rath.
6 This sector includes, in national income categories, agriculture, forestry, fishing, and mining and quarrying.
7 This sector includes, in national income categories, transport and communications, trade, storage, banking and insurance, real estate, construction, electricity, and other services.
8 This is a residual category, comprising public administration and defence.

Artificial Fibre Industry

THERE are now about eight units in this country manufacturing 36,000 tons of rayon filament yarn per annum; three rayon tyre cord plants with an approximate total capacity of 19,800 tons per annum, two rayon staple fibre plants producing 64,000 tons, one acetate filament and staple producing plant with a capacity of 2,000 tons, five nylon-producing units with a capacity of 5,700 tons and one polyester fibre producing unit with an approximate capacity of 4,700 tons per annum. Nylon tyre cord and acrylic fibre is also being produced in India.

The pattern of world consumption of textile fibres is fast changing and man-made fibres account for nearly 38 per cent of the total fibre consumption. In India, the share of man-made fibre consumption is approximately 11 per cent.

Indian Sugar Mills Association

Problems and Prospects of Sugar Industry

Presidential Address of Lala Bansi Dhar

THE following are extracts from the Presidential Address of Lala Bansi Dhar delivered at the Thirty-ninth Annual General Meeting of Indian Sugar Mills Association held at New Delhi on July 3, 1972:

During the last two years the sugar output has come down precipitously from a record output of 42.6 lakh tonnes in 1969-70 to 37.4 lakh tonnes in 1970-71. During the current season, 1971-72, it has dropped further to a bare 31 lakh tonnes. Such a sharp drop in output was paradoxical, specially when the installed capacity in the industry has been going up annually to the tune of about 1.5 to 2 lakh tonnes. The fall was basically due to sharp decline in cane acreage, which during the last two years has come down by eight per cent in factory areas. Besides, excessive rains and floods in some areas and drought in others also affected the cane yields.

Despite a very sharp drop in the sugar output in the last season, Government continued to maintain the monthly releases at the current level of 3.25 lakh tonnes which was possible only due to large carry-forward stock of 14 lakh tonnes from the preceding season. But at the end of this sugar year, the carry-forward stock is not expected to be more than 5 lakh tonnes which is not sufficient even to maintain the present monthly supplies for the next two months when normally now production is not available. To maintain the present level of consumption, Government will have to draw from the season's production during the months of October and November. But, in the next season, i e, 1973-74, we would be starting from scratch with no stocks to fall back upon.

On Government's own reckoning the country would need about 52 lakh tonnes sugar, i e, by the end of the Fourth Plan Period (1973-74) and 60 lakh tonnes by the end of the Fifth Plan Period (1978-79) taking into account the requirements for export and buffer stock. These estimates seem to be quite realistic. But their achievement is, by no means, easy.

No doubt, higher cane prices paid by the factories in the last season has induced larger cane plantings. According to the initial survey made by the Indian Sugar Mills Association, there is an overall increase of 5.6 per cent in the cane acreage in factory areas. The unfavourable weather conditions, more particularly the recent heat wave, have adversely affected the cane crop. The monsoon will, of course, play a dominant role in the conditioning of the crop.

The new levy prices announced by the Government effective from July, 1972 which been fixed without due regard for the actual costs obtaining in the industry are highly unrealistic. Besides, there are certain apparent lacunae in the Tariff Commission cost schedules based on which the levy prices have been fixed. The Commission, as a package deal, had recommended a lower rate of depreciation but a uniform allowance of rehabilitation. While the Government did not accept the recommendation to provide rehabilitation in the price, they did not enhance the depreciation allowance so as to conform it to the provisions of the Income Tax Rules. The industry has thus suffered on both the counts.

Surplus to Shortage

Sugar was decontrolled in May, 1971 by Government as an alternative to increase the levy prices. The decision came as a surprise to the industry as sugar policy for any season is normally announced at the start of the season and is expected to hold good for that season at least. By that time the declining trend in cane acreage and production had become quite clear. It was also apparent that internal consumption was picking up at a fast rate and to maintain supplies we shall have to draw substantially from the carry-forward stocks. Despite this apparent tight statistical position following decontrol, Government continued to release sugar far in excess of quantities actually needed by the markets. Moreover Government did not create buffer stocks in 1969-70, when stocks were plentiful. Thus, due to excessive releases and the absence of buffer stocks a tight supply position has now emerged.

Essentials of a Long-Term Policy

For planning a steady increase in sugar output, it is apparent that a long-term policy needs to be devised, which should comprehensively deal with all the relevant aspects of the working of the industry. If any significant aspect is left out of consideration, the policy will soon run into rough weather, needing a change. The policy has to be a production oriented policy and the first and foremost consideration which should go into its making is the determination of a remunerative cane price which would ensure the desired level of sugarcane output. The existing statutory minimum cane price of Rs 7.37 per quintal is not remunerative to the cultivators.

Also extension of cane acreage would be inevitable. Happily, with the advent of 'Green Revolution', food yields have shown substantial rise and it is imperative to divert some of the cultivated land to sugarcane. As it is, sugarcane accounts for a very small portion of the cultivated land, being only about 1.8 per cent. Even if it is doubled, sugarcane will not account for more than 3.5 per cent of the gross cultivated areas.

It must be pointed out here that a uniform increase in the statutory minimum cane price for all the regions may not be practical. Government may have to fix regional cane prices depending on the actual conditions obtaining in different regions in the matter of yields and parity realisation from other crops as also competition from gur and khandsari. The cane growers should, by and large, be assured of similar per acre returns in different regions. The cost disparities arising from different regional cane prices will have to be equalised through appropriate adjustments in the sugar excise. For this, if it is necessary to amend the Excise Act and Rules, this should be done in the larger interest of cane growers in different regions.

Need for an Integrated Approach

The sugar policy should also ensure a uniform treatment to all the three sweetening agents. The Government's approach should be integrated one. In the absence of this, sugar output has invariably suffered far more severe variations than gur and khandsari. In the last 10 years, while in the case of gur and khandsari the variations around 6.3 per cent have been modest, in the case of sugar they were as high as 22.1 per cent. In the recent past, the cane production in 1971-72 came down by 11 per cent as compared to the previous year. Against this, the sugar output has dropped by 27 per cent to 31 lakh tonnes in 1971-72. Thus, the shortfall in cane production has not affected uniformly all the three sweetening agents, and the brunt has been felt mainly by sugar.

With the rate of extraction of available sugar in gur and khandsari being only about 50 to 60 per cent against well over 90 per cent in a vacuum pan sugar factory, it stands to reason that even if the sugar factories do not get any preference they should not be at a disadvantage in the matter of cane supplies. Here lies the clue to a long-term stable sugar policy. It has to be an integrated policy embracing equally the three sweetening agents. For every stick of sugarcane which is diverted from factory areas to power crushers and khandsars, the country loses valuable sugar which it can ill-afford. Besides, Government also loses in excise, cess and other taxes.

Buffer Stocks

Sugar, being an agro-based industry, its output has been subject to a four-year cyclic variation which can not be entirely eliminated. Hence, there is a need for creation of buffer stocks to minimise the hardship to consumers, cane growers and the industry. It has to be an integral part of the long-term sugar policy.

Government should draw upon such stocks only in periods of shortages. It should not happen, as in the past, that efforts are made to liquidate surplus stocks through excessive releases regardless of future prospects of cane area, crop and market conditions. Such excessive releases, which amounted to as much as 5/6 lakh tonnes during certain months, have undermined stability and the industry's financial position which has affected production. The stocks earmarked as buffer stocks should be released only when required in the interest of the consumer.

Monthly Releases

During the last two years, the Government's policy of monthly releases had been somewhat unsteady. Very often excessive releases have been made without proper consideration of the market conditions. The industry has to sell sugar at a loss and consequently has to face financial difficulties. Such variations could be avoided through a policy of planned and judicious releases.

Early and Late Crushing

Depending on the size of the crop and the requirements of sugar, factories may have to start early and also continue crushing late in hot summer months. Late crushing becomes necessary when the prices of gur and khandsari come down and farmers divert their cane to sugar factories. This excess supply of cane has to be crushed in the interest of cane growers. Early and late crushing is highly uneconomical and factories need to be compensated through adequate rebate in sugar excise duty. This has a special significance for the ensuing season when factories should start early to secure maximum output during the months of October and November.

Bank Finance

Equally significant for the stability of the industry is the provision for adequate bank finance. The non-availability of bank finance commensurate with the stocks in the past has been primarily responsible for the accumulation of cane price arrears. When adequate finance is not available from banks, the factories are helpless, although, unfortunately, it is they who face the public criticism. It is necessary that the policy decision should also govern the bank advances to this industry. When factories don't receive adequate bank finance, they have two clear alternatives. They should either suspend working and leave the cane un-crushed to dry up in the fields or to crush it by deferring the cane payments. It would be disastrous for growers to pursue the first alternative. The cane, which is highly perishable, must be crushed in the larger interest of cane growers. If the factories, responding to the needs of the situation, opt for the second alternative, should they be blamed for delayed cane payments?

In order to find a solution to the problem of cane price arrears on the Association's suggestion, with the Food Ministry's approval and blessings, the Reserve Bank of India has directed all the nationalised commercial banks to segregate the bank accounts of the mills into two separate accounts — the cane account and general account. All the drawings from the bank are first credited to the cane account to provide for the cane dues and it is only the balance that is credited to the general account of the mills.

Increase in Sugar Production from Gur Sensitive Areas

Due consideration must be given to the peculiar problems of gur sensitive areas especially in the context of the need for an immediate increase in sugar output. For, it is in these areas that production can be stepped up within the shortest period without any further capital investment. Factories in these areas, through appropriate measures, should be enabled to prevent diversion of cane from their areas to gur and khandsari by paying competitive cane prices. In the present situation, it is essential that the capacity of such factories is fully utilised and this would depend mainly on the policy decision of the Government with regard to these areas.

Licensing of Capacity

For achieving higher sugar output, Government have already licensed adequate capacity. The licensed capacity currently stands at 53.04 lakh tonnes, against the planned production target of 52 lakh tonnes. The installed capacity achieved during the season 1971-72 is only 39.5 lakh tonnes and it is expected to go up to 41 lakh tonnes during the ensuing season 1972-73. But according to the present trend, it is not likely to exceed 43 lakh tonnes by the end of the season 1973-74, the last season of the Fourth Plan Period. We would thus be left with a gap of 9 lakh tonnes between the capacity actually achieved and the planned target of production of the Fourth Plan.

Cane Development

The essentials of an ambitious cane development programme are quite well-known and have received a wide measure of support from all concerned. The need has been recognised for provision of assured and adequate irrigation, drainage facilities, supply of manures and fertilisers good cane varieties and above all for sufficient availability of disease free seed material. Hitherto, however, availability of adequate finance has been one of the limiting factors resulting in a slow rate of progress in this behalf. While there is need for all the State Governments to utilise the entire proceeds of canecess/purchase tax on cane for cane development work, effective participation of the Central Government in the matter

through allocation of adequate funds is also very necessary.

Here, it may be mentioned that much better and more tangible results can be achieved provided a direct link between the cane growers and the sugar factories can be established. The Pasricha Committee which has recently submitted its Report to Government has also recognised the need for direct link between the sugar factories and the cane growers. This Committee has also made other valuable recommendation for accelerating cane development work. These should be implemented expeditiously.

Sugar Exports

A well defined export policy, particularly with regard to meeting of export loss, should also form an integral part of a long-term sugar policy.

Through sugar exports the country earns valuable foreign exchange. If we export our full quota of 3.5 lakh tonnes we could earn foreign exchange worth over Rs 30 crores annually. Sugar is one item of export where hundred per cent of the foreign exchange earned is retained by the Government. Keeping this in view, earnest efforts should be made to increase our export quota to at least 5 lakh tonnes when the present International Sugar Agreement comes up for revision in the International Sugar Conference to be held in early 1973.

The Madras Aluminium Company Limited

'Jayalakshmi'

Race Course, Coimbatore 18

Address of the Managing Director, Shri R Venkataswamy Naidu

THE following is the address to the Members of the Company delivered by Shri R Venkataswamy Naidu, Managing Director, at the 12th Annual General Meeting of The Madras Aluminium Company Limited held at the Registered Office at 'Jayalakshmi', Race Course, Coimbatore-18 on Wednesday the 28th June 1972.

I have great pleasure in welcoming you all to the 12th Annual General Meeting of the Company.

Eventful Period

Before discussing the affairs of the Company, I would like to dwell on the eventful period through which the country has passed recently. Nearly 10 million refugees poured into the country from the former East Pakistan. India had to bear the heavy burden of caring for the refugees. This caused a very heavy strain on the economy of the country. International Organisations had only lip sympathy for India's predicament and they were either unwilling or were unable to create conditions for the return of refugees. India had no alternative but to take necessary steps to solve this issue. The people stood united under the dynamic leadership of the Prime Minister. India's successful military operation in the former East Pakistan took only 14 days and the refugees were able to return to their homelands. This successful operation has enhanced the image of the country internationally as a military power of consequence.

Your Board of Directors' Annual Report, Balance Sheet as on 31st December 71 with the Profit and Loss Account and Auditors' Report have been with you for sometime. You would have noted that our turnover and gross profit have come down when compared to the previous year. You will recall that this was anticipated in the last Annual Meeting itself. The Government of India notified the prices of Aluminium and its products from 25th May 71. Though the Government offered a rebate in Excise Duty to small Producers like us, our net realisation has come down by nearly Rs 400 per tonne. This has affected our working results. Secondly, the cost of production has gone up considerably due to increases in the costs of all raw materials and services mainly due to governmental imposts. The increased cost of production has eroded into our gross profit considerably. In addition, we did not have the benefit of the Tax Credit (Excise Duty on Excess Clearance) Scheme for the year 1971, as the scheme lapsed on 31st March 1970. You will recall that under this Scheme about Rs 22 lakhs accrued to the Company in the previous accounting year. It is most unfortunate that the benefit of this scheme was available to the Aluminium Industry for only three years.

As we have a large quantum of unabsorbed development rebate, your Board of Directors have decided to transfer Rs 84 lakhs (practically the entire net profit) to development rebate reserve and to pay the Dividend on Preference as well as Equity shares out of General Reserve.

It has been the policy of this Company to plough back its profits after paying reasonable dividends to the shareholders. The profits have not been frittered away in any manner. The ploughed back profits have been utilised to bring the industry to international standards and to increase its productive capacity, resulting in the manufacture of industrial raw materials required by the nation and in creating remunerative employment potential.

Decision on Pricing

We have made strong representations to the Government of India that they should reconsider their decision on the pricing and allow us more remunerative prices. Though the Government order stipulated that any increase in the prices of Synthetic Cryolite and Aluminium Fluoride would be neutralised by sanctioning increase in the price of Aluminium and its products, so far, the Government of India have not deemed fit to sanction the increase in spite of the prices of these chemicals having gone up. In addition, the prices of all raw materials like Calcined Petroleum Coke, Pitch, Caustic Soda, etc, have gone up considerably. Moreover, the cost of raising steam is higher for us when compared to the other Aluminium Producers, as we use a costly fuel like furnace oil unlike other producers, who use coal for steam raising. We are also operating under a handicap of having a small plant producing less than 13,500 tonnes per year without the advantage of fabrication facilities. As I have indicated on an earlier occasion, in international parlance, even units of 50,000 tonnes capacity are not considered economic or viable. Even with our expansion, we will be producing only, probably, a little over 25,000 tonnes per year which, by no means, can be considered a very economic unit specially when compared to the huge production capacities executed and planned for the two private sector and the public sector projects. I request you to join me to appeal to the Government of India to extend the benefit of excise rebate upto a production of 30,000 tonnes per year.

From the working results, you will notice that we have increased the sale of our intermediary products like Alumina Hydrate, Calcined Alumina and Carbon Electrode Paste from Rs 49 lakhs to Rs 61 lakhs. This is a matter of gratification to us and I am hopeful that we would maintain the sales during this year also.

Expansion Programme

Based on the working results, I am quite sure that you will agree with me that only technical innovation and increased production with the diversification alone can improve the working of your Company in the years to come. Conscious of this objective, your Board of Directors have been pushing ahead with the expansion programme and in spite of various difficulties, we are trying to complete the expansion programme as per schedule. Due to the delay in the financial institutions' making available the term loans, the Company has been put to severe financial strain in its efforts to complete the expansion project. The physical progress is quite satisfactory and I am confident that additional production in the first phase will start in the course of the next month or two and that the entire expansion of metal production will be completed by early 1973.

In this connection, I wish to place on record the help rendered by our Collaborators M/s Montecatini Edison, who have been assisting us with the relevant data, drawings and engineering services, even without receiving in advance the fees that have been sanctioned to them.

As indicated earlier, the electrolytic pots of our expansion will operate at more than 100,000 Amps. Moreover, the Alumina Plant of the expanded capacity will be so designed that it will be able to process even Bauxite with low alumina content — literally the rejects from the Bauxite Mines. This will enable us to maximise the utilisation of our Bauxite, thereby, providing for the longevity of our Mines.

I may be pardoned, if I once again take pride in the fact, that as on date, we are the most technically advanced Aluminium unit in the country, as we operate our present electrolytic pot room at higher amperage. Moreover, we produce the largest proportion of EC grade metal in the country.

Training of Technical Personnel

As a matter of policy, at the initial stage, we decided not to employ engineers from other Companies. We decided to recruit young engineers and develop them to take positions of responsibility. Our Collaborators have assisted us in training several of our technical personnel. This policy has paid rich dividends in that our young engineers under the leadership of the technically qualified management have been able to reduce the imports for expansion to barely 5 per cent as against the local fabrication and utilisation of local machinery upto 95 per cent. The reverse was the case when the original plant was erected and commissioned. I believe that India cannot afford to go on importing machinery for developing her industries. But she must develop her indigenous talent for designing and fabricating machinery. Only by such a policy, the country can progress without the burden of foreign exchange loans. We, in this Company, being alive fully to our responsibility in this direction, have utilised the services of our young engineers in designing and fabricating of our indigenous equipments for our expansion. We are also willing to share our knowledge and experience with the Public Sector units also in the manufacture of specialised equipments to avoid imports.

As mentioned earlier, only technical innovation, increased production and diversification can help your Company to maintain its working against stagnating prices at uneconomic levels and against rising cost of production. With this objective, we have continuously given our attention for developmental work, apart from striving to complete the expansion project expeditiously. I am glad to inform you that from July onwards, we expect to market aluminium circles, which will come into production out of equipments designed, fabricated and commissioned by us. We are also in the process of producing Aluminium Alloy Rods for eventual manufacture of alloy conductors for use in specialised fields.

We have also undertaken necessary steps for manufacturing sheets and extrusions. I expect that we will be marketing sheets of larger dimensions in 1973 and possibly extrusions by end of 1973 or early 1974.

I am glad to inform you that labour relations during 1971 were smooth and cordial, though there has been labour unrest for the last two months due to inter-union rivalry unconnected with relations between management and labour. I wish to take this opportunity to assure our workers and staff that their welfare is of paramount importance to us. We are conscious of our social responsibility to our workers. I hope that our workers will identify themselves with the interests of the Company and share in its progress.

I am confident that your Company has a great future in view of its expansion and diversification programme. Moreover, the demand for Aluminium in the country is continuously growing. The production is not keeping pace with the growing demand. Your Company, being conscious of its responsibility to the Nation, is willing to extend its co-operation to the public sector units in sharing its experience in fabricating equipments indigenously. However, I wish to utter a word of caution that the Government should be very careful in allowing imports of Aluminium in order to avoid a situation like 1967/68 being repeated in the country, when due to depressed demand, Aluminium was exported from the country at low prices, while importing Aluminium at higher prices — the country losing foreign exchange both ways.

I also wish to appeal to the Government of India to reconsider the decision to abolish tax relief to the priority industries, the increase in the surcharge on the company profits and the withdrawal of development rebate concession after 1974.

I wish to thank Government of Tamil Nadu, M/s Mediobanca of Italy, Industrial Finance Corporation of India, Industrial Development Bank of India, Industrial Credit and Investment Corporation of India Limited, Unit Trust of India, Life Insurance Corporation of India, Punjab National Bank and Indian Bank and my colleagues on the Board and all our Senior Executives for their help and co-operation.

In conclusion, I request you to join me in paying tribute to our employees at all levels for their unstinted co-operation and loyal service.

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

Shree Digvijay Cement Company Limited

Speech of the Chairman, Shri G C Bangur

THE following are extracts from the Speech of Shri G C Bangur, Chairman, Shree Digvijay Cement Company Limited, delivered on June 29, 1972:

GENTLEMEN:

I have pleasure in welcoming you all to this 27th Annual General Meeting of the Company. The audited statements of account for the year ended 31st December, 1971 and the Directors' report thereon have been in your hands, for some time and with your permission, I take them as read.

In the past year, the world witnessed a chain of epoch-making events. Fast historical developments have taken place in the national and international scenes. Summit meetings were held at Peking and Moscow between Great Powers in search of world peace and it is hoped that these summits would pave way for greater understanding among them.

The Summit meeting now taking place between India and Pakistan, it is hoped, will open a new era in the subcontinent by paving a way for durable peace and lasting friendship between the two neighbours so that both the countries can divert their limited resources to achieve economic prosperity and higher standard of living of their people.

Our economy has withstood the serious strains and stresses of the war with a great degree of resilience. But there are distinct signs of slackening in industrial growth. The need to achieve self-reliance has assumed greater urgency in the context of curtailment in foreign aid. The economy has to be highly geared up by better utilisation of the existing capacities and the massive drive to build-up our exports, which will be possible only by increased production and productivity in the industrial sector. This can be achieved only by hard work and strict discipline enforced with the dynamic and imaginative economic policy directions from the Central Government.

Growth of Cement Industry has also sagged and touched a virtual stagnation over the past few years due to lack of self-generated resources. Unremunerative price policy followed by the Government over the years has denied to this industry adequate resources to be ploughed back for expansion, renovation and diversification which is necessary for any healthy industrial development. The Government has recently referred the case of Cement Industry to the Tariff Commission for a comprehensive review including revision of the price policy. If past experience is any guide, tariff inquiries will not take less than two years and, therefore, it is earnestly submitted that the Tariff Commission should give interim recommendation for increase in retention price. The industry's capacity to absorb constantly rising costs has reached saturation point, the margin having been seriously eroded. The industry needs to be given fair treatment, particularly when the cost increases are mainly due to various measures taken by the Government which is beyond the control of the industry.

Cement Industry is highly capital intensive and cost of new units and expansions has substantially gone up resulting in high incidence of depreciation and interest. At the current price, industry would not be in a position to provide adequately for payment of interest and the principal amount of loan. In view of this, price revision must come at the earliest to give the much desired relief to the industry.

Recently, the industry has been served with a charter of demands by the Federation of Cement Employees' Unions for substantial increase in wages and other amenities. But as stated earlier, in view of unremunerative retention price of cement, the industry at present has no capacity to bear any additional burden until the price is revised upward. Moreover, it is most essential that any increase of wages must be directly linked with the productivity, as is normally seen in other developed countries. We must strive to get out of the vicious circle of rising prices chasing wages with mounting costs.

As stated in the Directors' report, the working result of the Company for 1971 has shown fairly good improvement as compared with the previous year. Towards the end of the year, due to bombing by Pakistani planes in Jamnagar area, the plant's working was also affected. During the current year, the Company experienced some difficulty in production owing to power shortage for a short period. It is hoped that production deficiencies would be made up in the coming months.

The labour-management relations have been cordial at all the units of the Company in 1971. I would like to express my appreciation for the earnest and sincere devotion to duty of the workers and the staff at all levels of our organisation.

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

'Cost-Benefit' of Family Planning

WITH national family-planning programmes now under way in many Asian countries and with investment in them increasing, a rigorous evaluation is needed to ensure maximum effectiveness. So far very little has been done to assess the efficiency with which these programmes have been implemented or the social and individual benefits of reducing fertility. ECAFE, therefore, called some 20 specialists together at Bangkok to investigate the costs, effectiveness and returns of family planning activities.

Carl M Frisen, Chief of ECAFE's Population Division, reported that the US dollar cost of each new acceptor of some form of family planning varied widely—from $5 in some areas to $40 in others. As many as 400 million couples in the ECAFE region may be eligible for help in planning their families, in terms of age-group, and currently available figures indicate that the governments of the region were spending more than $100 million yearly. However, how many people are actually reached remains a mystery and data on this need to be improved.

The session at Bangkok was thus asked to find answers to questions such as: Is the increasing allotment of public funds to national family planning programmes by countries in the ECAFE region justified, and to what levels is further investment in these programmes warranted? Are the programmes being operated efficiently and what can be done to improve them? What are the best procedures of costing and assessing in economic terms, the effectiveness of family planning programmes? What are the gains to the economy of a country as a whole and to an individual family of averting unwanted births? How is the distribution of income affected by family planning?

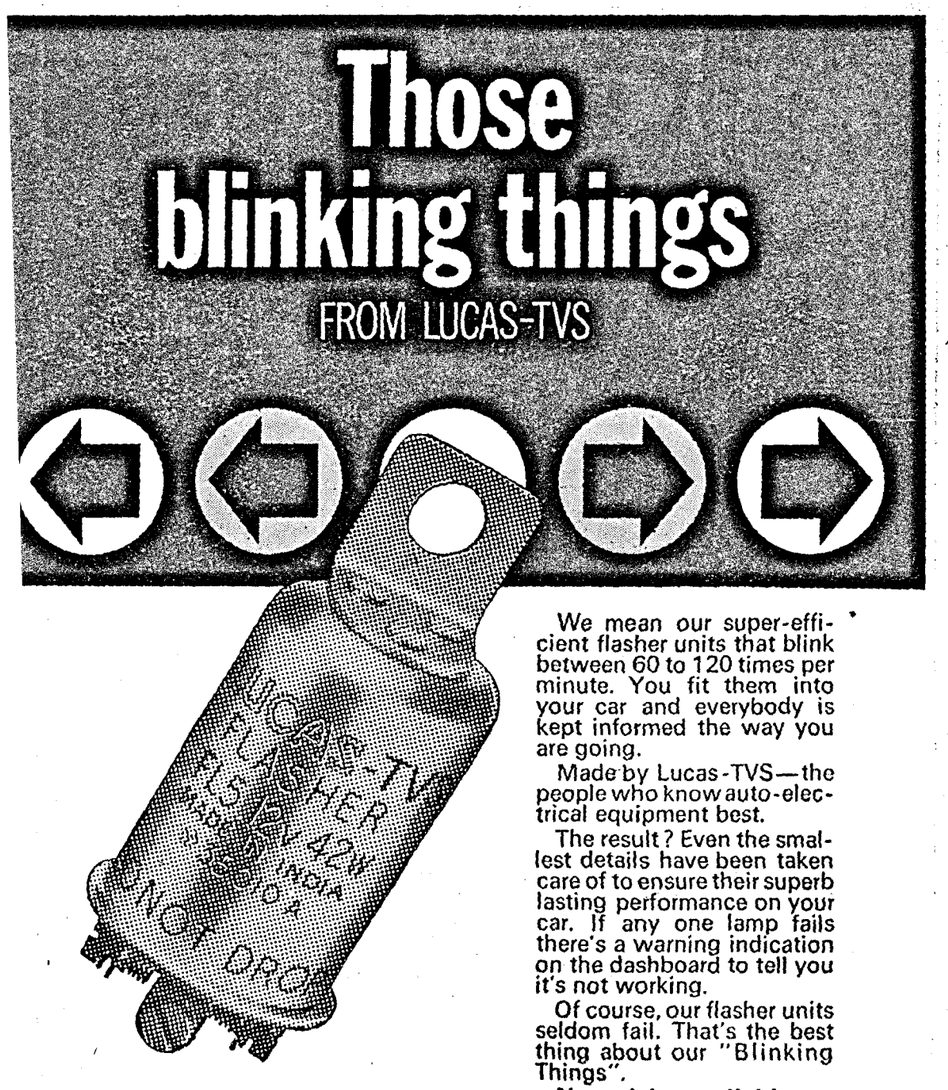
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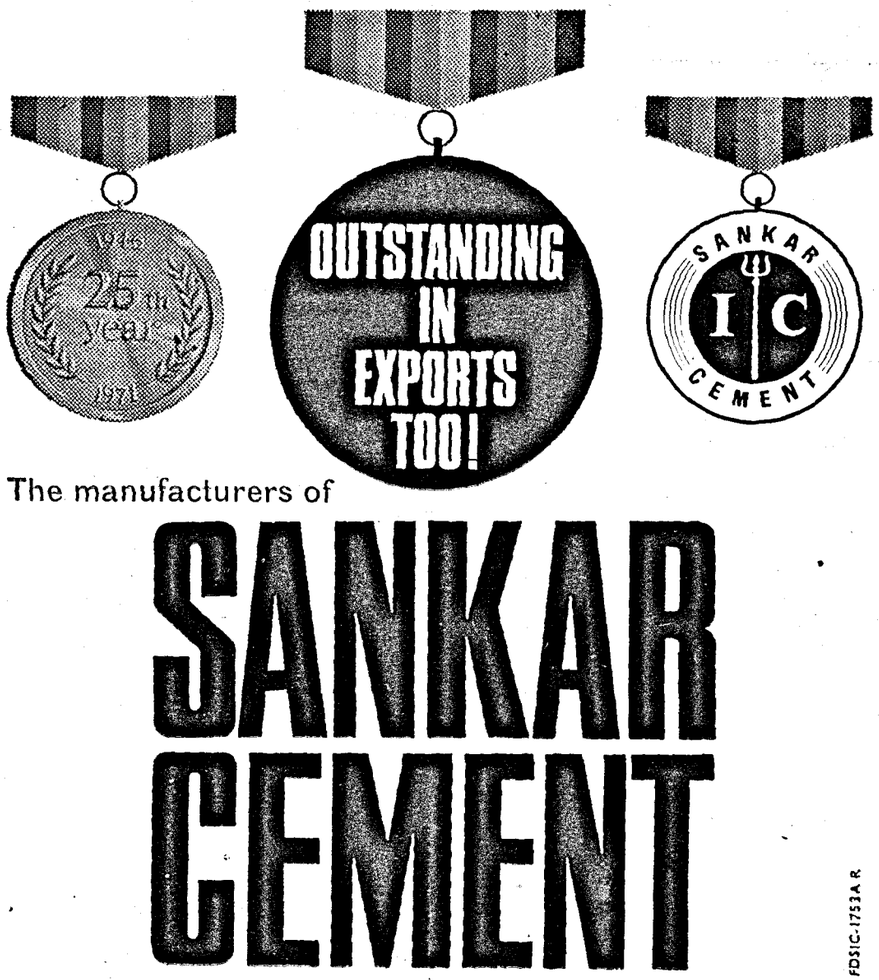
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Founder-Editor: Sachin Chaudhuri

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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, A A Dalvi

Ends and Means

THE descent from the finely-honed exercise in diplomacy in Simla to the work-a-day life of New Delhi cannot have been easy. So the Prime Minister's momentary loss of style at her press conference on Wednesday, when she flourished testimonials from the Aid Consortium and the International Monetary Fund to support her claim that there was nothing very much the matter with the economy, was perhaps understandable. However, it was not only style that was awry. On this occasion the Prime Minister was distinctly ill served by her economic advisers. How else does one explain her answers to questions about the recent sharp rise in prices? The rise was seasonal; it was also part of a world-wide phenomenon of rising prices; finally, some rise in prices was inevitable in the development process. These explanations certainly had the merit of novelty compared to the actual causes of the rise in prices which have all been well known for some time now — the bloating of money supply as a result of the Central and state governments' free spending sprees, the price support policies for agricultural products, the shortage of critical industrial items following from the prolonged investment holiday, the cost-plus method of price-fixing for manufactures, and so on. Not that an accurate listing of these factors by the Prime Minister would have been assurance of corrective action, but by taking resort to more esoteric explanations she succeeded in conveying an impression of cynicism and indifference, even callousness, which was not intended perhaps — or so one hopes.

However, there was nothing unintended about the particular brand of cynicism practised recently by some of the leading economic functionaries of the Central government in relation to the agriculturists' stir in Tamil Nadu. This is no doubt phase one of the bid to topple the only remaining non-Congress government worth the name in the country. But much more than the fate of the DMK government is at stake. The agitation in Coimbatore started with a demand for reduction in the rates charged on power supply to farmers. Once some concessions were made in response to this demand the Coimbatore District Agriculturists' Association came up with more demands; among these is one which, if conceded, would nullify an important experiment in progressive taxation of agriculture attempted by the government of Tamil Nadu. From 1955 the state government has offered to assessees under the agricultural income-tax the option of being taxed on the basis of the size of their holdings expressed in terms of 'standard acres'. The Madras Agricultural Income-Tax Act of that year defined a 'standard acre' as "one acre of wet land assessed to land revenue at the rate of Rs 8 and above per acre" or "one-third of an acre of land used for growing arecanut", or "three-fifths of an acre of land used for growing tea", and so on. Accordingly, the tax leviable was also stated in terms of two schedules, one in terms of income slabs and the other in terms of standard acres. Those who opted for being assessed in terms of standard acres had the advantage of not having to maintain detailed accounts of income and expenditure. To reduce the administrative costs of individual assessment of income the government also offered an incentive to assessees to opt for the compounding method; the rates of tax leviable on standard acres are lower than might have been applicable if they had been based on the actual income derivable from the holdings.

The Tamil Nadu government has recently attempted to widen the coverage of the tax and make it more progressive. It has enlarged the list of crops separately identifiable for the estimation of standard acres, modified the equivalence between different crops to conform more closely to the returns now obtainable from them, and stepped up the rates of tax. One acre of wet land assessed to land revenue at the rate of Rs 8 and above continues to be regarded as equivalent to a standard acre; the equivalence in terms of the area under arecanuts has however been changed, and one-sixth (instead of one-third) of an acre of land under this crop is now to be treated as a standard acre. Grapes, banana, rubber, groundnut, cotton, coconut, tobacco, etc, have all been brought in so as to bring within the purview of the tax the higher incomes now obtainable from growing these crops.

It is this more comprehensive system of compounded levy that is under fire from the Coimbatore District Agriculturists' Association. It is aided and abetted not only by all the parties that call themselves 'progressive' but by key Ministers in the Central government entrusted with responsibilites of planning and development. The merits of the Tamil Nadu system of taxation of agricultural incomes can perhaps be questioned, but what is extraordinary is that the system is being dismissed merely on the ground that it is too complicated and that this objection should have the support of persons who are urging

state governments to raise more resources by taxation of agriculture.

Such questions of principle and consistency do not apparently worry politicians who are interested above all in securing footholds where they have none. It is interesting that, while the toppling operation is being pressed forward in every possible way, a letter has been sent out by the Finance Minister, reportedly under inspiration from the Planning Commission, to all state governments suggesting alternative ways of raising resources from agriculture. One of these is simply a withdrawal of all concessions given hitherto in respect of land revenue (such as for holdings below 5 acres in size). The other is even more disarmingly simplistic. A surcharge is to be levied on the basic land revenue at graduated rates related to size — 75 per cent for holdings of 5 acres or more but not exceeding 15 acres, 100 per cent for holdings of 15 acres or more but not exceeding 25 s, and 125 per cent for holdings of 25 acres or more. Whether the basis of levy of the basic land revenue justifies such a system of progression being built on it has apparently not occurred to those who have thought up this proposal. But it certainly has the merit of being very simple, and perhaps this is all that is now wanted for achieving the political objectives immediately in view.

If the Planning Commission or the Ministry of Finance had such a simple formula to offer for introducing progression in agricultural taxation and for raising more resources, why did the government have to appoint a committee specifically for the purpose of studying the problem in depth and ask it to submit its report by the end of this September?

Banks

On Sound Haunches

IT has become difficult to make anything of the weekly changes in the scheduled commercial banks' assets and liabilities as shown in the returns issued by the Reserve Bank every Friday. Thus, during the week ended July 7, the data show a phenomenal rise in banks' liquid assets and credit. Deposits increased by Rs 74 crores. This rise supported a credit expansion of Rs 61 crores, a surge in cash and balances of Rs 47 crores and an investment spurt of Rs 58 crores, besides enabling banks to slash their borrowings from the Reserve Bank by Rs 38 crores to almost nothing. The weekly data are provisional. That and the delayed impact of window-dressing by banks for their half-yearly accounts as on June 30 perhaps account for the all-round expansion. It is also likely that the data were skewed by adjustments made for delayed cheque clearing, resulting from the Reserve Bank employees' strike in Bombay in the second half of June. The adjustments on this count must have been sizeable since one-third of the country's cheque transactions pass through the clearing house in Bombay.

But the weekly returns are all one has to go by to get a feel of the banking situation. On the assumption that over a period of time the cumulative data are fairly reliable, it is instructive to examine the changes in the assets and liabilities of scheduled commercial banks between April 28, when the busy season technically ended, and July 7. The data show that during the current slack season so far bank deposits have jumped by Rs 390 crores to Rs 7,597 crores against an expansion of Rs 274 crores to Rs 6,240 crores in the corresponding period of the 1971 slack season. How did banks funnel in the extra Rs 143 crores?

One wishes one could attribute the extra deposits to the 2,000-odd branches opened by the banking system in the smaller towns and the countryside since July 1969. This would be the official line of reasoning. Yet doubts arise. Surely, if the deposits came from outside the areas of business concentration, time deposits would have shown a more rapid growth? In fact, demand deposits increased Rs 217 crores to Rs 3,345 crores against Rs 103 crores to Rs 2,734 crores in the corresponding period of the 1971 slack season while time deposits increased by Rs 174 crores to Rs 4,252 crores against Rs 144 crores to Rs 3,506 crores. Of the extra Rs 143 crores, as much as Rs 114 crores came from demand deposits!

This is not the only reason for believing that the 2,000-odd branches opened in the post-nationalisation period remain largely outside the mainstream of banking activity. Take the changes in bank credit. Total bank credit expanded by Rs 249 crores to Rs 5,438 crores between April 28 and July 7 against Rs 206 crores to Rs 4,880 crores in the corresponding period of the 1971 slack season. Food procurement advances increased by Rs 242 crores to Rs 530 crores between April 28 and June 30 against an increase of Rs 176 crores to Rs 379 crores in the corresponding period on the 1971 slack season. It is likely that food procurement advances have declined since June 30. Assuming that these advances declined by Rs 38 crores — the amount by which banks' borrowings from the Reserve Bank declined during the week ended July 7 — the increase in these advances since the end of the busy season would be Rs 200 odd crores. The slack season credit expansion excluding food procurement advances is thus likely to have been of the order of Rs 40 crores, or roughly the same as that in the corresponding period a year ago.

Clearly, banks have failed to use the impressively large number of branches opened since nationalisation outside the major industrial and commercial centres to extend the coverage of their lending operations. Though banks today do not lack the resources for financing them, small industry and trade in the smaller towns remain the preserve of the usurious moneylender. At the same time, the momentum of bank financing of agriculture witnessed in the immediate post-nationalisation period appears to have been completely lost. Given the banks' lack of initiative and failure to build up the necessary organisational resources, the expansion of bank branches in the last three years serves mainly to adorn official statistics.

What is interesting is that this failure of the banks is sought to be made into a virtue. The growing investment by banks in the securities of the Central and state governments and semi-government bodies, inevitable given the banks' inability to use their rapidly growing deposits in advances, will, it is claimed, put the banks in a 'sound' position — that is, in a position from which they would be able to expand credit (in the coming busy season) without relying heavily and for prolonged periods on Reserve Bank accommodation. Blessed are we that we are able to pursue such 'sound' central banking policies in an economy where the greater proportion of borrowers have to rely on the usurious moneylender!

In the meantime, ways might be found to revive the organised sector's demand for bank credit. Along with the other relaxations that appear to be on the anvil, hints could go out to the banks that credit appraisals could be more liberal and that double financing of inventories was not the sin that they were once told it was. In that event, credit policy would be not only 'sound' but would also become 'production-oriented'.

Tamil Nadu

A Different Ball Game

A Correspondent writes:

THE goings-on in Tamil Nadu could, in other circumstances, be dubbed as pure Gilbert-and-Sullivan. But deaths and violence rob it of the quality of innocent divertissement. And one can certainly question how innocent the proceedings are. Consider the grotesqueness of Congress(R), Congress(O)

and the CPI pooling their resources together. Consider the further incongruity of the Deputy Chairman of the Planning Commission, ever worrying about the niggardly resource-raising efforts of the states, gleefully blessing a movement to force the Government of Tamil Nadu to rescind its decision to enhance power rates, which were hitherto inordinately low and, in many instances, even below cost. Also consider the fact of that great party of the toiling masses, the CPI, mobilising its cadres from all corners to defend the economic interests of the up-and-coming kulaks. Finally, consider the wonderlandish phenomenon of Congress(O), CPI and Swatantra party stalwarts leading joint processions and issuing joint statements condemning police violence and all that.

Karunanidhi, with his defences to the wall, must be currently in the mood to invoke Shakespeare dilating on the ingratitude of human beings, in this particular case, of one belonging to the female of the species. For what appears as a macabre farce is, after all, the dance of the marionette: the strings are being arranged and pulled from New Delhi. However compliant the DMK might try to be, there is, it is now obvious, no place for it in the Prime Minister's vision of things. They also indeed serve who stand and wait, but only for a time. Thus Jyoti Basu served in West Bengal, as much as Annadurai and Karunanidhi did in Tamil Nadu. For Basu, the tenure was over in early 1970; maybe for the DMK the bell will toll finally even as the autumnal harvests are being brought in around October of this year.

Karunanidhi might protest that, in his time, he has rendered some service to the Prime Minister. Clutching the primitive notions concerning parliamentary democracy, he might argue that he has a solid majority in the state legislature, and that it would be manifestly unfair to ask him to pack up before 1977. But such naivety deserves its own punishment. Through feats of mechanical engineering, a sizeable group of DMK legislators could be made to experience a revolution of conscience. The thirst for instant socialism, after all, must be quenched at all costs; and how could a sectarian, divisive, revanchist party like the DMK be an appropriate vehicle for socialism when a glamorous substitute is available?

And if that stratagem fails to click, the model of the Kerala Vimochana Samithi, vintage 1957, should come in handy: legend has it that Indira Gandhi herself was the President of the Congress party when that model had its trial run. A special team deputed by the present Congress president is now visiting Tamil Nadu: on its return to New Delhi, it is quite on the cards that it would recommend that only a liberation struggle, no less, can extricate the long-suffering people of Tamil Nadu from the tyranny of the Karunanidhi regime. The scenario from then on will run according to pattern. It is, as the Americans say and as Karunanidhi ought to know by now, a different kind of ball game altogether.

Innocenti Deal

Loss of Innocence?

A NEW giant scooter unit is to be established at Lucknow with an annual capacity of 100,000 scooters. The unit will be in the joint sector, with the Union Government holding 51 per cent of the equity, Automobile Products of India (API) 29 per cent and Innocenti, the foreign collaborator, 20 per cent. According to the agreement among the three parties, the entire scooter manufacturing plant of Innocenti located at Milan, together with drawings, designs and technical data for producing the latest models of Lambretta scooters, is to be bought by the joint sector unit from Innocenti. The unit is expected to start turning out scooters in about two years.

This is perhaps the first joint sector unit in the consumer durables industry with an appreciable element of foreign technical as well as financial participation. Details about royalty rates and technical fees have not been released so far, but since the unit at Lucknow has been granted exclusive rights in respect of Innocenti's business in Lambrettas, including export rights and also rights to licence manufacture of these scooters in other countries, a substantial sum must have been paid to Innocenti. It may be accepted that the new unit would have a number of advantages to start with, especially that of being the sole custodian of scooter manufacturing technology as developed by Innocenti, an internationally known firm. This would be significant if the unit proposes to enter export business in a big way or to offer scooter manufacturing technology to other countries.

When the Innocenti proposal was first mooted, the general impression was created that Innocenti's plant was being shifted to India so as to take advantage of the relatively lower wage costs here and to improve the competitive position of Lambretta scooters in the world markets. Under this arrangement, the scooters made by the plant relocated in India would have been mostly exported. This would also have been in conformity with the government's policy of permitting foreign collaboration in export-oriented industrial units. Now, however, the whole emphasis appears to have changed. The *raison d'etre* of the project is seen in terms of meeting the domestic demand for scooters.

If the primary purpose of shifting the Innocenti plant from Italy to India was to supply the domestic market, there was no justification for entering into a foreign collaboration arrangement with 20 per cent foreign equity holding. Scooter manufacturing technology is now available in the country and the API itself has been producing scooters in collaboration with Innocenti. The present foreign shareholding in API is negligible — about 2.5 per cent — compared to the 20 per cent allowed in the proposed new unit. It should not have been difficult for the government to bring one or both the existing scooter units — API and Bajaj Auto — into the joint sector, had it wanted to do so. If the API, which had applied for expansion of capacity, were to step up production from the present 24,000 scooters to, say, 125,000 scooters, it might have had to increase its equity over threefold, which would have given enough scope for the government to acquire a large share in its equity.

Special Number 1972

The Special Number 1972 of the *Economic and Political Weekly* will be published early next month. It will be a 180-page issue bound in art cover and will be priced Rs 10 per copy.

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

In view of the Special Number there will be no weekly issues on July 29 and August 5 and 12.

The point is that the Innocenti deal on the present terms — complete import of plant and equipment, substantial foreign equity participation, payments for purchase of technology, licensing rights, etc — makes sense only if the proposed new unit is going to concentrate on exports of scooters as well as scooter-making technology. If its production is intended mainly for the local market, as now appears to be the case, the deal has no justification and, in fact, involves breach of accepted government policy on such matters as foreign equity participation and repetitive import of technology. What, for instance, is the value of the purchase of exclusive rights to Innocenti's scooter manufacturing technology if export of technology is not going to be a major concern of the new unit?

If the Innocenti deal is to have any justification, the government needs to stipulate explicitly that the output of the proposed unit at Lucknow would be primarily, if not exclusively, for export. For meeting domestic demand, the existing manufacturers should be allowed to expand — on condition, if this is considered an essential element of government policy, that they allow equity participation by the government.

Man-Made Fibre

Social Cost-Benefit

THE chairman of the Tariff Commission some time back identified the 'crux of the problem' with regard to the man-made fibre industry as that of achieving "a rational system of distribution and supplies of yarn coupled with the maintenance of steady prices". In fact, the spinning industry has never needed such overt support. The handful of units in it have always operated like a cartel and confronted both the very numerous and widely scattered weavers as well as government with virtual *fait accompli* on prices. The Tariff Commission's recommendations in 1969 were shelved and earlier this year government acted as 'umpire' in the unequal negotiations between unwilling weavers (who wanted statutory prices) and spinners (who wanted a cost-incorporating raise in prices) — till the weavers more or less acquiesced.

While the Tariff Commission saw the problem in such limited terms — not surprisingly, considering the Commission's narrow interpretation of its own role —, the Association of Man-Made Fibre Industry has thought it necessary to spell out the relevance of the industry in the 'new approach' envisaged for the Fifth Plan. The chairman of the Association, V K Shah, is at pains to establish that man-made fibres can substitute cotton, in the process releasing the acreage under cotton for other crops and saving the foreign exchange currently spent on Egyptian cotton imports. Despite the uneconomically small size of the indigenous units, if prices of man-made fibres in India are high compared to those in other countries, this is because of the heavy exchange imposts which the industry has to bear. Granting that excise duties on the industry are heavy and that minus such duties prices of comparable qualities produced here and abroad would be on par, there is a further point that needs answering since the Association is seeking to establish its case for getting various special considerations from government — such as foreign exchange for raw material imports, assistance for expansion of capacity, freedom from price regulation, protection against imports, etc.

Rayon material for tyres accounts for just one-fifth of the industry's market, the rest being used for textiles manufacture. The claim of the industry would thus have to be justified in terms of the textile policy appropriate to the government's so-called new 'basic minimum needs' approach. If the Fifth Plan is to create significant additional employment and be oriented to meeting the basic needs of a large segment of the people, apart from foodgrains, the output of cheap cloth would have to be stepped up substantially. Given the resource constraints and the far greater profitability of the fine and superfine varieties, how is this shift towards cheaper varieties of cloth to be brought about? Past experience has shown that, notwithstanding the small penalty for not producing controlled cloth, mills found it worth their while to continue to produce the finer varieties. Here it is no argument to say that there has not been enough demand for even such quantities of the controlled varieties as have been produced. Surely, this cannot be taken to mean that such cloth is not needed by a large section of the population; only that given the income levels of this section, the prices fixed for this cloth are too high.

This is the context in which the case for the man-made fibres industry has to be viewed. The relevant question is not whether it enlarges the area of choice available to those who use fine and superfine varieties of cloth, but whether it can provide the answer to the problem of supplying cheap textiles to those who now use little or no cloth. Then there is the employment aspect to be considered. The increased incidence of 'sickness' among textile units in the last few years is linked to the expansion of the production of synthetic and mixed textiles. But since the labour employed in these mills cannot be allowed to be thrown out of employment, the government has been forced to take over these mills and keep them going more or less as an unemployment relief operation at the cost of very substantial subsidies paid out of government revenues. In a real sense, these subsidies ought to be reckoned as part of the social cost of expansion of production of the costlier fabric varieties, including synthetic and mixed fabric. Indeed, it is problematic whether the excise burden on the synthetic fibre industry, that V K Shah refers to, adequately covers this cost.

Nor must it be forgotten that even as rayon yarn claims to be able to substitute cotton yarn, it is competing for its raw materials with such other important industries as newsprint and paper. The pulp plant expansions granted and being considered have to be seen in this light.

The industry's record indicates that a lowering of prices is not going to be easy. Nor are exports of man-made fibres and textiles really feasible given our price levels without either a subsidy or a recovery of the losses through higher margins on expanding internal sales to the relatively affluent sections of the population.

Fourth Plan

Quiet Burial

A Correspondent writes:

WHETHER the 'Approach' document on the Fifth Plan results in a new approach to the next Plan or not, it seems to have served one unfortunate purpose. There is no longer any serious talk about the Fourth Plan, though the Plan has still two years to go. These two years are to be spent apparently in anxious waiting for the unborn Fifth Plan. Yojana Bhavan has prepared a detailed time-table extending over one and a half years from October 1972 to March 1974 for completing the necessary exercises on the Fifth Plan. This time-table serves as an appendix to the Planning Commission's now-famous paper "Towards an Approach to the Fifth Five-Year Plan".

A strange situation, indeed. It was only in December 1971 that a Mid-Term Appraisal of the Fourth Plan was presented to Parliament. The Planning Commission was honest enough to admit that the progress of the plan had been disappointing. The position had been summed up as follows:

> "Taking the economy as a whole, the required average annual rate of growth of net domestic product during 1971-72 to 1973-74 to realise the adjusted national income target is 6.2 per cent. Against this the actual rate has been 5.2 per cent in 1969-70 and 4.8 per cent in 1970-71. In 1971-72 a further decline in the rate of growth may occur due to the sharp decline in the rate of industrial growth during the first half of the year. The economy is expected to pick up during the second half of 1971-72 and gain a further momentum during the next two years. However, the average for the three-year period 1971-72 to 1973-74 is unlikely to reach the required rate of growth of 6.2 per cent a year. The savings estimates assumed an average rate of growth of 5.5 per cent in real income for the next two years. Even this would require a substantial improvement in the performance of the economy during the second half of the Plan period compared to the first half. In order to achieve that, among other things, it would be necessary to take vigorous corrective action to deal with the intersectoral and intrasectoral imbalances that have emerged during the first half of the Plan period, on account of wide and varied divergences in the case of several sectors and sub-sectors between the planned and the realised rates of growth."

The picture in regard to the progress of the different sectors of the economy was not very different. The situation in agriculture was not disappointing, though rice, the most important cereal, had registered only a small increase over base-year production. In jute and cotton, the output was actually below the base level. The overall performance of the industrial sector was unsatisfactory. There was a shortfall in power generation. The progress in education was uneven. Achievements in the health sector fell short of targets.

But instead of initiating remedial action in its remaining years, the Fourth Plan appears to have been given up as a bad job. The final blow was struck by the Approach paper which came out with the finding that all the earlier Plans had been fundamentally misconceived. Thus: "In elaborating our strategy of development in the earlier Plan documents, we seem to have assumed that a fast rate of growth of national income will by itself create more and fuller employment and produce higher living standards for the poor. We also seem to have assumed that, for reduction of disparities in income and wealth, the scope of redistributive policies is severely limited".

Has the Fourth Plan been finally given up, then? The Plan, it will be recalled, had been preceded by three years of planless planning, the unadmitted 'plan holiday'. We seem to be now in for two years of a forgotten Fourth Plan. Indeed, the Fourth Plan must have been born under a 'bad star', as they say.

Industrial Statistics

CSO Skeletons

A Correspondent writes:

THE Central Statistical Organisation's industrial statistics are again in the news. It has been reported that on the basis of its Annual Survey of Industries for 1966 the CSO has estimated that in that year industrial output of the small-scale sector had risen by 16 per cent. This has revived the controversy regarding the differential rates of growth of the organised industrial sector and the small-scale sector.

In 1970-71 the growth of industrial output on a wide front was known to have slackened and this was reflected in the CSO's regular index industrial production (Base: 1960 = 100). However, the Ministry of Industrial Development took refuge in the explanation that, after all, the CSO's index omitted the output of small-scale units and that these units were in fact showing rates of growth of 8 to 10 per cent when the official index, representing only large-scale units, had registered a growth of hardly 4 to 5 per cent. The Industry Ministry's Annual Report for 1970-71 had stated that "the annual growth rate has been about 11 per cent in the registered [small-scale] factories sector and about 8 per cent in the case of units which are smaller than registered factories" (p 92). This claim was duly incorporated in the Government's "Economic Survey, 1970-71" (p 15).

On a closer scrutiny, however, it was found that the claim had no basis. In fact, CSO's national income statistics concerning manufacturing, registered and unregistered sectors, appeared to point in the contrary direction. The output of the small-scale sector at constant prices rarely grew at a faster rate than that of large industries. This would hold good even after allowing for conceptual differences in the definition of 'small-scale industry'. The government has apparently accepted this and the "Economic Survey, 1971-72" makes this categorial assertion: "Nor can it be averred that the small-scale industrial units have performed so much better during the year than the organised ones..." (p 26). The confusion had arisen, it was thought, because the growth rates for the small-scale units were at current prices.

Now, the CSO should know the difference between output at current prices and at constant prices — and yet it has disclosed the fantastic growth rate of 16 per cent for the small-scale sector in 1966. According to CSO's White Paper on national income, income originating in the manufacturing registered sector, comprising both large and small industries, had shown an increase of 2 per cent each in 1965-66 and 1966-67 (at 1960-61 prices). For the same years the growth rates of the large manufacturing sector as shown in the index of industrial production were 7.0 per cent and 0.1 per cent, respectively. Given the relative weights of the large and small-sector in the computation of income originating in the manufacturing sector, the above rates of growth simply leave no room for a 16 per cent growth in the small-scale sector in 1966.

This brings us to the reliability and comparability of the entire gamut of official statistics. For instance, till recently the CSO had been publishing the finished steel capacity in the country as 3.64 million tonnes for all the years from 1961 to 1968 (see *Monthly Statistics of Selected Industries*, November-December 1968, p 61). By 1968 the finished steel capacity had actually reached 6.9 million tonnes. In the subsequent issues of the *Monthly Statistics*, finished steel capacity is not published. Similarly, the capacity for railway wagons is not indicated. An instance of the CSO's lack of statistical sense is the way it dealt with the transfer of some large-scale units (as defined originally) to the small-scale sector. Their production returns were simply excluded from the current index of industrial production, "but no corresponding adjustments have yet been made for the early years" ("Economic Survey, 1970-71," p 15). Since this publication from the CSO itself comes out with a time lag of nearly three years (the latest one is for March-August 1969), one is forced to look for other reliable sources. The Industry Ministry's Annual Report gives data on production and capacity for many industries but rarely does a figure given there tally with the figures which the CSO publishes.

BHEL

Slow Persuasion

THE Chairman of Bharat Heavy Electricals (BHEL) has reason to feel happy about the performance of the largest electrical plant in the country and the ninth biggest public sector project. In 1971-72 BHEL's production increased by 23 per cent to Rs 59.33 crores and, against a modest profit of Rs 65 lakhs in 1970-71, profit improved to Rs 319 lakhs in 1971-72. Both the Tiruchi heavy boiler plant and the Hyderabad heavy power equipment plant recorded profits, while the heavy electrical equipment plant a Hardwar — BHEL's sick baby — is reported to be well on its way to breaking even. BHEL has substantial orders on hand (Rs 190 crores) and is aiming to achieve a turnover of Rs 82 crores in 1972-73.

O S Murthy, who has since retired as chairman of the company, explains in his chairman's statement that lack of orders for the Hardwar unit had resulted in a gap in planning for manpower and materials. This not only affected production in 1971-72 but also resulted in creating a false impression that indigenous manufacturers, such as BHEL, were responsible for the present crisis in power supply in the country. The real causes of the crisis are to be found, according to Murthy, in the planning, organisation and execution of power projects. He points out that of the expected shortfall of 2.1 mn kw in generation capacity, nearly 33 per cent (or 0.69 mn kw) is on account of delay in the commissioning of schemes for which equipment was to be imported. Projects with a generating capacity of of about 0.54 mn kw, for which BHEL is expected to supply the equipment, had not been included in the Fourth Plan originally and orders for equipment for them were received by BHEL only in July-September 1970. (Of the total orders of turbosets for power stations in hand at Rs 190 crores, orders for about Rs 119 crores were placed only in late 1970.) Having delayed placing orders for equipment (which has a long manufacturing cycle), it is unreasonable to blame indigenous manufacturers for late delivery. Murthy, therefore, stresses the need to initiate advance action right now for power schemes in the Fifth Plan.

BHEL seems to have succeeded in its attempt to convince the government of the wisdom of placing 'imprest orders' as standing arrangements to fill up the gaps in its order books and to ensure a minimum level of production at the plants. In view of the long lead involved in procurement of sophisticated materials and in the manufacturing process, BHEL admittedly has a case in asking for adequate orders. While a close liaison with the Ministry of Irrigation and Power should help in this regard, this also brings to light the peculiar difficulties that BHEL faces. Most of its orders emanate from the State Electricity Boards and, the financial position of the Boards being what it is, BHEL has to balance the risk of idle capacity against the possibility of being left with high inventories of finished goods in case its goes ahead with anticipated orders which fail to materialise. The remedy may perhaps lie in initiating advance action against anticipated orders but backed up by a revolving fund set up by the Central government while simultaneously taking action to set right the weaknesses in the financial structure of the Electricity Boards.

BHEL's share capital increased by Rs 15 crores to Rs 80 crores in 1971-72 as a result of conversion of an equivalent amount of government loans. BHEL now has an equity to debt ratio of 1:1. By reducing its interest burden by over Rs 1 crore, the conversion is also to a large extent responsible for boosting its net profits to Rs 3.93 crores.

BHEL's chairman claims that a rational and realistic pricing policy, fair both to itself and to its customers, has been introduced. In the case of boilers and switchgears, the prices realised seem to be fair as they are quoted largely on the basis of open tenders while in the case of turbosets prices are negotiated with the Electricity Boards. This leaves out quite a few other important item of electrical control equipment, to the pricing of which there is no reference.

COMPANIES

Overpowered by the Unforeseen

Hansavivek

HINDUSTHAN-PILKINGTON GLASS showed a trading deficit of Rs 14 lakhs during 1971, against a surplus of Rs 30 lakhs earned in the preceding year, despite a 40 per cent rise in sales at Rs 384 lakhs. The sharp diminution of margins was due to mounting prices of raw materials and fuel — coupled with certain "extraordinary and unforeseeable" factors, most significant among which was the "acute wagon scarcity".

The wagon scarcity hit the company very badly since the company gets its requirements of practically all the important raw materials in bulk supplies from long distances — such as sand from Allahabad, dolomite from Jubbalpur, and soda ash from Saurashtra. Even transport of furnace oil from Budge Budge was seriously affected for want of tank wagons, and large quantities had to be carried by road at "exorbitant" rates. As manufacture of flat glass involves continuous process, the company had to resort to expensive road transport or transport by coastal vessels.

Morever, the reconstructed and modernised furnace of the sheet plant (the major unit of the factory), though commissioned for commercial production at the beginning of the year, could not be brought to the stage of optimum operational efficiency on account of repeated trouble with the compressor supplied by a "well-known Indian manufacturer". Similarly, on account of the difficulties in the procurement and transport of raw materials, the rolled plate unit of the factory (representing about half its total capital investment) had to be kept out of production throughout the year.

The report points out that there was also large increase in the labour cost, although the ratio of wages/sales showed a decline compared to the previous year. However, the current year is said to hold out promise of improved results. The rolled plate unit, which resumed production in February last, is expected to have a fairly long run. Meanwhile, with the modernisation of sheet furnace, the quality of sheet glass has reached a "new high". Steps are to be taken shortly on the recommendation of technical consultants to enlarge production for better economic results on an enduring basis. The directors expect that the company's working this year will be established on a "profitable basis".

GODFREY PHILLIPS INDIA has not yet received government sanction for the proposed merger with it of D Macropolo and Company, which was long ago approved by the Bombay High Court. D S Barron, chairman, says that although the merger itself will result in a "substantial" increase in the participation of the Indian public in the company, the authorities have suggested that such participation be further increased by issuing a large number of additional shares to the Indian public, but have not granted the company approval for the necessary expansion for employing these funds gainfully in the "interests of all shareholders". He adds that the Board has indicated its readiness, in principle, to increase Indian participation in the company's ownership and is now awaiting word that the merger is approved and that manufacturing capacity may be increased. Of GPI's total paid-up equity capital of Rs 60 lakhs, over Rs 55 lakhs are held by Godfrey Phillips (Overseas Investments) of the UK and its nominees. As per the terms of merger, the company will issue to members of D Macropolo 83,490 equity shares of Rs 10 each at par in proportion of 5 equity shares for every one of the 16,698 fully-paid equity shares in Macropolo of the face value of Rs 100. The scheme would be put into effect on the approval of RBI for issue of shares to non-resident shareholders of Macropolo. During the year ended December 1972, GPI increased its net sales by 20 per cent to Rs 13.28 crores and gross profit by 25 per cent to Rs 1.66 crores.

KOHINOOR MILLS gave disappointing results for the 77th year ended December 1971, with a trading profit of only Rs 27,139 compared to Rs 69 lakhs in the preceding year, following only a moderate decline in sales from Rs 1,329 lakhs to Rs 1,188 lakhs. After depreciation, there was a net loss of Rs 25 lakhs. The loss apart, no provision has been made in respect of doubtful debts and advances of about Rs 8 lakhs. Also, arrears of contribution to ESI amounted to Rs 9 lakhs and those of income-tax in respect of the assessment year 1971-72 to over Rs 3 lakhs. The directors explained the loss as due to rise in cotton prices, credit squeeze, and increased cost of labour, stores, etc. Production of synthetic cloth was also curtailed. Three directors, Shantanu N Desai, Chunilal L Kapadia and Jagdish J Kapadia, resigned membership of the board last year, but the report does not give any reason for their resignations. At the annual meeting, the chairman, Kantilal Nahalchand, disclosed at the instance of LIC that that institution, which holds about 15 per cent of the equity shares in the company, had suggested that two members of the Kapadia family out of the 5 on the 8-member board of the company should retire and that independent directors should be co-opted in their place in consultation with it. He also stated that LIC had rejected the board's counter-proposal to increase the strength of the board by co-opting two additional directors.

On Differential Rates of Interest

A Correction

There is a small error in my paper "On Differential Rates of Interest" (July 1, pp 1279-82). In my assessment of the marginal prime cost of lending I refer to the Reserve Bank rate and suggest that beyond a limit it coincides with the commercial banks' "own time deposit rate at the upper margin". This is not correct. The commercial banks' deposit rate at the upper margin is a long term rate and should not have been compared with the Reserve Bank rate. This does not, however, materially affect my assessment of the marginal cost of lending, which is based on the Reserve Bank rate of 6 per cent per annum, with a margin of 1½ per cent per annum to allow for contingencies.

A K DASGUPTA

The Week's Companies

(Rs in Lakhs)

	Hindusthan-Pilkington		Godfrey Phillips		Kohinoor Mills	
	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 31-12-71	Last Year 31-12-70	Latest Year 31-3-72	Year Last 31-3-71
Paid-up capital	212	212	90	90	110	105
Reserves	56	59	164	145	97	128
Borrowings	183	146	347	300	543	408
of which Term borrowings	43	50	—	—	14	9
Gross fixed assets	429	362	206	155	700	686
Net fixed assets	275	254	111	85	156	143
Investments	1	1	—	—	4	5
Current liabilities	89	99	168	110	276	255
Current assets	233	261	658	559	796	711
Stocks	78	130	522	452	571	461
Book debts	136	119	135	107	221	248
Net sales	384	274	1328	1104	1188	1329
Other income	9	5	4	3	16	21
Raw material costs	66	73	909	766	599	588
Wages	66	47	103	84	402	394
Interest	15	8	29	26	48	39
Gross profit(+)/loss(—)	—14	30	168	134	—	69
Depreciation provision	21	16	18	10	25	26
Tax provision	—	8	95	77	—	22
Net profit(+)/loss(—)	—35	6	55	47	—25	21
Development rebate provision	—	—	4	1	3	4
Transfer to reserves	—	—	29	10	—28	—2
Dividend						
Amount	—	E 14	E 21	E 35	—	19
	—	P 3	P 1	P 1		
Rate (per cent)	—	E 8	E 35	E 57.50	—	17
	—	P 9	P 6.68	P 6.8		
Cover (times)	—	0.43	2.38	1.29	—	0.90
Ratios (per cent)						
Gross profit/sales	—	10.95	12.65	12.14	—	5.19
Net profit/capital employed	—	1.44	9.15	8.80	—	3.28
Inventories/sales	20.31	47.44	39.31	40.94	48.07	34.68
Wages/sales	17.18	17.93	7.75	7.69	33.82	29.64

Lobbies to the Fore

Romesh Thapar

THERE's something very unreal about Delhi these days. The Prime Minister, after a prolonged stay in Simla, which covered the Indo-Pak Summit and the underplayed visit of Connally, Nixon's emissary; was expected to begin talks and consultations on the formation of a new ministry to coincide with the return of the President from his visit to Yugoslavia and Afghanistan. Not a move is evident. Maybe, these ministry-making calculations are intended to tremble on the edge of an auspicious moment. But imagine the wretched state of the present occupiers of ministerial chairs.

No Independent Base

The inherent lack of health in the present most unequal balance of forces in favour of the Prime Minister is underlined by the fact that every one of her colleagues does not possess a real base of political power in the country — or, for that matter, within the party and its organisations. Anyone can be ushered in, and anyone can be kicked out. Obviously, this opens the way to intense lobbying around the Prime Minister.

Speculation about the reshuffle, reports of correspondents and their prompt rebuttal, together with the familiar smear-campaigns and character assassinations, are very much part and parcel of that lobbying. Whenever reports are tracked back to their sources by independent observers or by Central Intelligence, the findings usually confirm the involvement of some of the colleagues of the Prime Minister. Clearly, we are witnessing the growth of a very special facet of the apparent anarchy that passes as Indian democracy!

Indeed, of late, this public and private lobbying has become a feature of the bureaucratic jungle in the Capital. If power is getting concentrated, the ability to make it accountable is diminishing visibly. Naturally, in this kind of situation, critical positions within the government apparatus become all most vital to the lobbyists and the hordes of minor manipulators who now crowd the corridors of power in Delhi. We have been witnessing extraordinary manoeuvres to get this or that person into some position of power and patronage — an activity which now obsesses rather important officials in the Capital.

The battle for the spoils of office is entering a critical phase. It is expected that some 30 ICS luminaries will retire by the end of the year. That's quite a slice of the machine. There are, apparently, hundreds of vacancies yet to be filled in areas which cannot be left leaderless. And, to top it off, the defence services are wondering what the hell's going on about senior appointments in the army, air force and navy. The battle is joined because the old system of promotion has broken down, while an alternative has not been worked out. We carry on, as in so many things, from one dreary day to another, without thrashing out relevant procedures and systems.

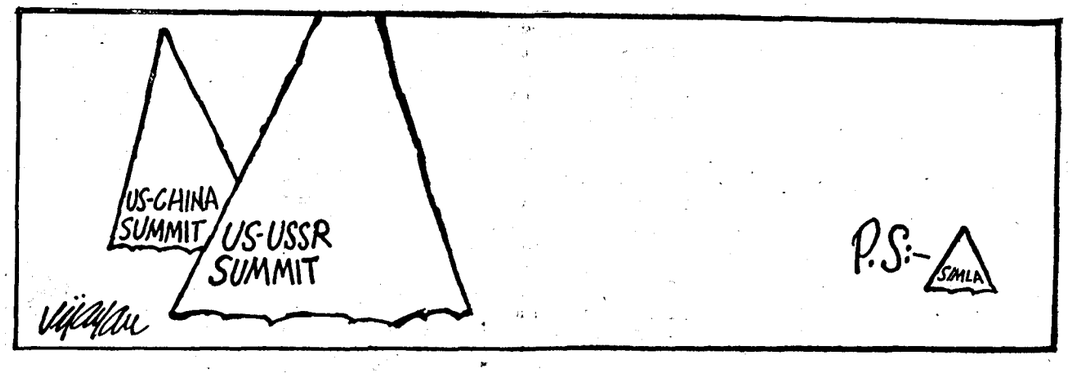
It is argued by some very cynical observers that the lobbing by various conflicting groups is so intense that the decision-making at the political level is paralysed. For one thing, politicians are essentially an isolated bunch, out of touch with the skills and talents they need. At another level, they are terrified of being taken for a ride. They tend to leave the final manipulation to their secretariats, hoping thereby to free themselves of responsibility. But the way in which key appointments are being made these days, someone is going to come a cropper.

Towards a Zero Rate of Growth

As for the nation's economy, the prospect is dim despite all the favourable factors. Hindustan Steel, Heavy Engineering, state trading, the banks, power, railways, airlines, and mining, are wallowing in crises. All the tall talk of ministers cannot hide the fact that these key sectors of the State are leading the dynamic drive to a zero rate of growth. The ever-mounting price index is a pointer to what we should expect. The present is, as I have said, an unreal kind of situation. For instance, the implications of the current sterling crisis have yet to enter the thinking of our political leadership. It has no time for these mundane things. The impending reshuffle of powerless men absorbs all our attention.

And so it goes on, this merry-go-round. I hope we'll have something to chew on next week....

July 10



Tangled Web of Centre-State Finances

Charvaka

THE Union government has strenuously sought to maintain that the constitutional provisions relating to Centre-state financial relations have stood the test of time and that there is no case for any substantial change in them. Yet, these relations have grown so complex over the years that time is ripe for a fresh look at them, even if it is to be within the existing constitutional provisions. The terms of reference of the recently appointed Sixth Finance Commission, however, fail to reflect any awareness of this need.

The founding fathers of the Constitution had visualised the Finance Commissions as *the* machinery to deal with matters relating to the devolution of taxes and grants from the Union to the states. But as things have turned out, a preponderant part of the transfer of resources from the Centre to the states falls outside the purview of the Finance Commissions. This is evident from Table 1. The Finance Commissions are charged with making recommendations regarding the distribution of income-tax, Union excise duties, additional excise duties and estate duty (other than that on farm land) between the Union and the states and *inter se* among the states as also grants to states in lieu of the tax on railway passenger fares. The Commissions have also to recommend the principles which should govern 'grants-in-aid of the revenues' to states in need of assistance. But the states get, besides these, loans and discretionary grants, for both Plan and non-Plan purposes, which are outside the purview of the Finance Commissions and which form nearly 70 per cent of the total resources transferred annually to the states. Further, out of the transferable resources falling within the ambit of the Finance Commissions, shared taxes form about 80 per cent and successive Finance Commissions have suggested only minor adjustments in their coverage and in the principles governing their distribution. In other words, there is in practice little scope for the supposedly high-powered Finance Commissions to effect any major changes in the quantum or distribution of resources transferred from the Centre to the states.

The fanfare that surrounds the appointment of the Commissions and, later, their deliberations which extend over one-and-a-half years and include a series of visits to state capitals, hardly seem justified considering that the Commissions' verdict makes a substantive difference only to the relatively meagre quantum of statutory grants given to states which have a deficit on revenue account after taking into account their share of the divisible taxes. Even in regard to these grants, as D T Lakdawala has pointed out, "not much progress seems to have been made" ("Union-State Financial Relations", p 71). It is well known how state governments are anxious to show large revenue deficits so as to stake a claim to large sums as grants. In the absence of basic data and because of their inability to determine a system of weights for the various relevant factors — budgetary needs, tax potential, economy in expenditure, the need to avoid wide disparities in the provision of basic social services and special national considerations — the recommendations of the Finance Commissions have been influenced by impressionistic arguments and their result has been to make the system of statutory grants inequitous (D T Lakdawala, pp 72-74 and minute of dissent by Swaminathan to the Fifth Finance Commission's Report, pp 99-103).

The importance of the Finance Commission is considerably eroded by the exclusion from its scope of a substantial part of loans and discretionary grants from the Centre to the states and by its own inability to conduct comprehensive studies and compile the type of data required for fulfilling even the limited task assigned to it. Considering the latter deficiency, there is much substance in the suggestion for a permanent Finance Commission which would keep constant watch over the finance of states, the tax and other revenues mobilised in relation to their respective potentials, the working of state government commercial enterprises and the progress of developmental activities and social services. A continuous study of this type by an independent body alone can help to determine objectively the quantum of Central grants (and loans) to states. This would also go much farther than the present system in achieving one of the major objectives of federal finance which is to reduce interregional disparities. Even on a more mundane level, the administrative cost of a permanent Finance Commission would not be very much more than what the present five-member Commissions, which normally function for about two out of every five years, cost. Such a permanent body would be better suited to laying down even the principles governing allocation of Plan loans and grants, which task is today performed by the Planning Commission, as well as the various discretionary grants extended by the Centre to the states.

In all these respects, the terms of reference of the sixth Finance Commission reflect no advance over those of its predecessors. The Central government continues to hold that all loans and discretionary grants, Plan and non-Plan, ought to remain the prerogative of the Planning Commission and other Central government departments. The argument that if the powers of the Finance Commission were extended to cover all financial transfers from the Union to the states it would interfere with the work of the Planning Commission is untenable. The Planning Commission can continue to perform planning functions such as laying down targets, estimating aggregate investible resources, determining their sectoral distribution and so on, whereas the Finance Commission would fix principles governing distribution of financial assistance — Plan and non-Plan, revenue and capital, normal and discretionary — to the federal units. Today the Planning Commission has usurped the function of the Finance Commission and, even after the *ad hoc* principles enunciated in the Fourth Plan (pp 54-55) regarding the allocation of Plan assistance, the allocation remains arbitrary.

Further, even if the principles enunciated for allocation of Plan assistance were considered acceptable, there remains a significant proportion of loans (over 50 per cent) and grants (about one-fourth) which are extended for non-Plan purposes. No rational norms appear to govern their dispensation. A functional classification of all grants (including statutory grants) given by the Centre to the states shows that about 30 per cent of the total amount is given for non-developmental purposes (*Reserve Bank of India Bulletin*, May 1972, p 800). The distribution of this largesse among the states is often decided by blatantly political considerations. The very substantial grants for 'famine relief' to Tamil Nadu and Rajasthan of recent memory are outstanding examples

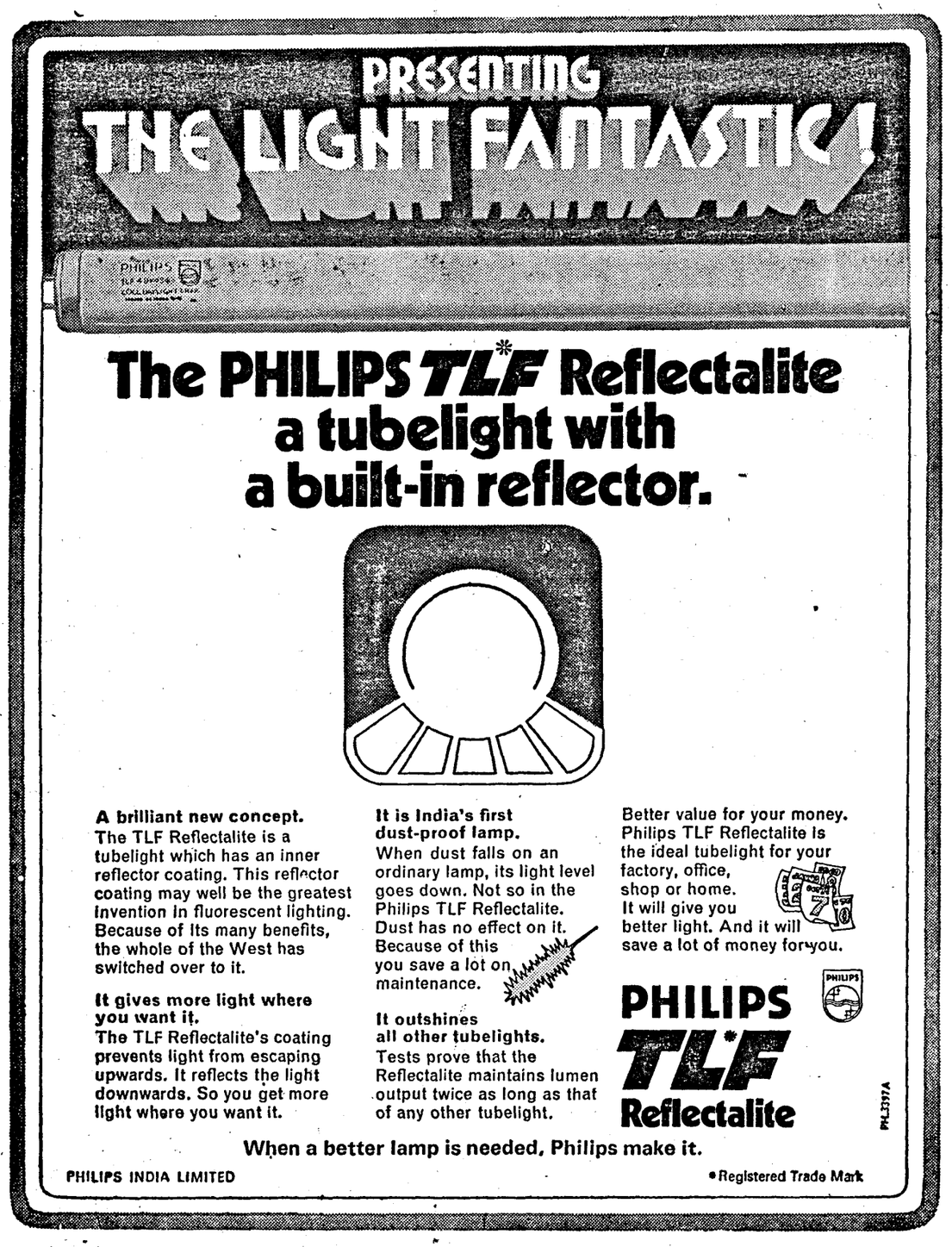


TABLE 1: RESOURCES TRANSFERRED BY THE CENTRE TO STATES AND UNION TERRITORIES

(Rs crores)

	1970-71 RE	1972-73 RE	1971-72 RE
1 Total Resources transferred (A+B+C)	2435	3128	3046
A Shared taxes	755	945	1055
B Grants (i + ii)	636	965*	889
(i) Non-Plan grants	311	580	292
Of which, those dispensed by the Finance Commission under substantive provision of Article 275(1)	142	141	147
(ii) Plan grants	325	385	597
C Loans (i + ii)	1044	1218	1102
(i) Non-Plan loans	551	681	566
(ii) Plan loans	493	537	536

* Inclusive of grants for relief of refugees from Bangladesh.
Source : Reserve Bank of India Bulletin, May 1972, p 775.

of this.

In this specific context of famine relief, the sixth Finance Commission has been asked to examine if a national relief fund could be established to finance relief expenditure of states facing natural calamities. In the past successive Finance Commissions have suggested the creation at the state level of a separate Famine Relief Fund by transferring the excess of budgetary provision each year for famine relief over the actual expenditure. But, as the Fifth Finance Commission lamented, no progress has been made towards this objective. This is hardly surprising. If the experience of the last few years is any indication, the amount actually spent by the state governments every year on famine relief is substantially more than what is originally budgeted so that the question of unspent balances does not arise at all (see Table 2). Incidentally, it is interesting to note that expenditure on famine relief incurred by the states during the past four years, which have been marked by fairly good weather conditions and rains, has been far higher than that incurred during the poor agricultural years from 1965 to 1967. During 1969-70, when famine relief expenditure was the highest, one-half was spent by only two states, Rajasthan (Rs 63.07 crores) and Tamil Nadu (Rs 13.24 crores). Further, and equally relevant, even if the Famine Relief Fund were established, the allocation of famine relief grants to the states would require an independent and permanent body to objectively study the extent of damage and the genuine requirements of the different states.

TABLE 2: REVENUE EXPENDITURE ON FAMINE RELIEF

(Rs crores)

Year	Budget	Actual
1965-66	13.8	17.2
1966-67	19.5	77.7
1967-68	55.8	86.3
1968-69	22.0	89.5
1969-70	56.6	159.4
1970-71 (RE)	48.8	109.6
1971-72	38.3	NA

Some other issues arising out of the terms of reference of the sixth Finance Commission deserve comment. The Commission has been asked to undertake a general review of the states' debt position with particular reference to the Central loans advanced to them and suggest changes in the existing terms of repayment. This is to be done having regard to the overall non-Plan capital gap of the states, the purposes for which the loans have been utilised and the requirements of the Centre. This task has been introduced into the Commission's terms of reference in the context of the steep decline — from Rs 638.5 crores in 1966-67 to Rs 282.6 crores (BE) in 1971-72 — in the quantum of loans net of repayment given by the Centre to the states.

Two dangers have to be guarded against in this context. First, any substantive debt repayment relief might encourage the states to relax their resource mobilisation efforts. Secondly, some of the state governments may become even more lax in recovering loans given to state government undertakings as well as to third parties so as to be able to show a relatively large non-Plan capital gap and extract the maximum debt relief. It also needs to be borne in mind that so far relatively high proportion of the resources transferred by the Centre has gone to the richer states. Now, at a time when the Centre is showing signs of responding to pressures to weight its financial assistance in favour of the poorer states, any debt relief going to the richer states would be at the cost of the poorer ones.

A rather inexplicable aspect of the terms of reference of the sixth Finance Commission is the specific stipulation that the emoluments of state government employees, teachers and employees of local bodies, as obtaining on a particular date determined by the Commission, would be taken into account in computing the claims of the states to grants-in-aid of revenue. These emoluments have always been taken into account in determining the quantum of grants-in-aid by successive Finance Commissions since they form an important component of the states' Revenue expenditure (see, for instance, Fifth Commission's Report, p 51). Whatever the intention behind this explicit stipulation, its effect might be to encourage state governments to resort to upward revision of their employees' wages since the additional expenditure would be covered by larger grants-in-aid — at a time when many of their productive schemes are starved of funds. Surely, this cannot be dressed up as another *garibi hatao* measure?

LUCKNOW

Not Worth the Paper . . .

THE UP Government has simultaneously introduced two bills, one stipulating ceilings on landholdings and the other on urban property. The Uttar Pradesh Ceiling on Landholdings (Amendment) Bill, 1972, is aimed at lowering the land ceilings fixed under the 1960 Act at between 40 and 128 acres, depending upon the quality of land. When passed, the Bill will come into retrospective effect from February 24, 1970. The earlier Act allowed ceiling exemptions for orchards, manure pits, land belonging to co-operatives, specialised, poultry and dairy farms. The 1972 Bill does away with some exemptions and modifies some af the remaining ones. For example, a ceiling of 12 hectares (about 26 acres) has been fixed on land belonging to intermediate colleges teaching agriculture and 20 hectares on land belonging to degree colleges. But no ceilings have been put on land belonging to post-graduate colleges or universities. The provisions regarding *waqfs* and endowments have also been modified, but the exemptions in respect of land used for industrial and residential purposes, tea, coffee and rubber plantations and a few other special categories (e g, mechanised herb farms and graveyards) have been retained.

The 1960 Act defined the family of the landholder so as to include husband

and wife, dependent father and mother, sons and grandsons and their wives or widows, and unmarried daughters and granddaughters. The 1972 Bill defines 'the family' as husband and wife, unless legally separated, and minor sons and unmarried daughters. This new definition of family is expected to provide surplus land for redistribution, but the authors of the Bill have failed to take into account the various other ploys used by landholders to defeat the purpose of lowering the ceilings, such as entering fictitious names under the category 'minor sons and unmarried daughters' or resorting to *benami* transactions. The 1960 Act had fixed the ceiling at '40 acres of good quality land' and if a family consisted of more than five members, eight acres were allowed for each additional member, subject to a maximum of 24 acres. The present Bill fixes the ceiling at 7.30 hectares (about 15 acres) of irrigated land, two extra hectares being allowed for each major son who does not own land in his own name, subject to a maximum of six hectares. The definition of irrigated land is land which yields two crops in an agricultural year with both the two crops being irrigated from any source — canal or tubewell. For unirrigated and orchard land, the Bill provides a conversion formula: 1.5 hectares of unirrigated land and two hectares of orchard land being equal to one hectare of irrigated land.

With all these legal devices it is expected that two lakh acres will become available for redistribution. But as official evaluations of land redistribution have shown, such land reform measures take place only on paper without adversely affecting large landholdings. There is no reason to assume that this pattern is about to change.

One suggestion which has often been made but continues to be ignored by government, is to settle landless labourers, not on an individual but on a co-operative basis, on the surplus land available near a village or group of villages. These tillers should then be given the right to inherit property and also to sell it, but only to government. This co-operative approach would ensure the supply of agricultural inputs, due to the lack of which a large number of landless labourers resettled under the Bhoodan movement, for instance, had to abandon their holdings after a year or so of occupation.

To forestall any outcry about discrimination against the rural sector, the UP Government has simultaneously introduced the Urban Property Ceiling Bill, 1972. This Bill defines urban property as such land or buildings as are located in towns with a population of 10,000 or more. Urban property, however, does not include any 'machinery or affixations' used for purposes of trade, commerce or industry. The ceiling is fixed at urban property valued at Rs three lakhs held by a person and his/her wife/husband, minor sons and daughters. Additional property upto Rs one lakh is allowed per major son, subject to a maximum of Rs two lakhs. The Bill does not recognise any *benami* or *mala fide* transfers of property made after April 1, 1969. It also prohibits acquisition or construction of new property exceeding the limit of Rs three lakhs (inclusive of property already held). The Bill exempts property owned by the Central, state and local governments as well as universities, public corporations, banks, public limited companies and clubs. Property which is used for public purposes, like temples, churches, industrial undertakings, cinemas and theatres, is also exempt from the ceiling.

As is immediately obvious, the urban Property Bill is most indistinct and reflects a great deal of confusion in the government mind. Most ominously, the UP Government has no idea as to how the surplus property accruing from the Bill will be redistributed or used.

NORTH

With Mop and Soap

FAITH in water diviners still prevails at high levels, even among scientists of repute. Proof of this comes through the communication received by the Punjab Government from M S Randhawa, Vice-Chancellor of the Punjab Agricultural University, suggesting "a register of genuine water diviners so as to eliminate quacks in the field". Now that the state government has set up a department to assess and manage surface and ground water resources, it does need dependable advice in this field. Whether water diviners would prove more useful than scientific experts, however, remains to be seen.

The new department has been necessitated by the proliferation of tubewells and pumping sets whose number is now estimated at 2 lakhs with an investment of Rs 140 crores. Most of them have been installed without firm data about the quantity of underground water. The fear that with the fall in the water-table because of heavy withdrawals, many wells might go almost dry is haunting tubewell owners. The entire farm economy would then be endangered. Since the area irrigated by tubewells is substantial (about 989,000 hectares against 1,293,000 hectares fed by canals) the 'green revolution' would languish with a sharp decline in the output of tubewells. To forestall such an eventuality, proposals for a closer study of the water-bearing strata and of sophisticated boring techniques are being considered.

Plugging Loopholes

To check corruption in the higher echelons of the administration the Punjab government has decided to require all officials to submit lists of property and other assets they and their family have acquired since joining service and also indicate how their acquisition was financed. Moreover, Deputy Commissioners will be required to send details of vacant lands in urban areas and state whether there have been any encroachments on government lands. The order follows the allegation that some officials and other influential people had put up buildings on government land. Zail Singh is evidently keen on creating a clean image of his ministers. The loopholes exploited by ministers during the Akali regime to feather their nests and make the best of their powers of patronage are being gradually closed. (The allegations of graft against former ministers are now being looked into by the Dave Commission.)

Efforts are also being made to give the ministry a socialistic image. On July 5, Finance Minister H R Sharma pleaded before the Central Pay Commission in Delhi that wide differences in salaries should be eliminated. He urged a 1:10 ratio (after deduction of all taxes) between the minimum and the maximum salary. In a more practical vein, he added that the Centre should bear half the additional burden of the emoluments sanctioned for state employees following the periodic revisions of grades and DA of Central government employees.

Punjab has also sought another power plant to help overcome the chronic shortage of electricity. A pooled price for industrial raw materials is being sought to offset geographical disadvantages. Two other decisions are also designed to serve the same purpose. The categories of industries entitled to 50 per cent government subsidy for employing jobless engineers (hitherto available to small-scale units with capital outlay upto Rs 7.5 lakhs) are to be extended to cover medium-scale units as well with capital upto Rs 25 lakhs.

Happily, the Union Finance Minister has promised all possible aid for Punjab's development schemes, including those for reducing unemployment. Incidentally, the glut of used woollen garments in the markets has posed a new challenge to some Ludhiana factories. An "Anti-Rags Committee" has been formed and it has threatened to close down the factories if the government fails to check the flow of ready-made woollens in the garb of "rags".

Following Punjab's example, the Himachal Pradesh authorities are also planning measures to end the misuse of quotas of essential commodities. At present the state earns about Rs 3 crores annually by way of various taxes, the number of quota holders being 300. Serious allegations have been made by legislators and others against quota holders. Many of them have no equipment for manufacturing goods and are guilty of under-the-counter deals.

The state government has also revised its industrial policy to offer further incentives to entrepreneurs. The high priority industries now include cement, newsprint, paper and paper pulp, fruit preservation and breweries and distilleries. But the Rs 30-crore newsprint project in the private sector facing uncertain weather again. For a decade there has been talk of a newsprint mill in Himachal Pradesh which has large forest reserves, but for one reason or the other the project has not gone beyond the blueprint stage. The major hurdle now is the price. A leading industrialist who signed the agreement for a plant one-and-a-half years ago has demanded a sharp increase in the newsprint price — from Rs 1,360 per tonne to Rs 1,800. This alone, according to him, would make the project economically viable.

NEW DELHI

'Social Control' of Urban Land

THE Housing Ministry has initiated a proposal for what has been pompously described as "socialising" urban land. Leaving aside the rhetoric so characteristic of the present government's policy proclamations, the Housing Ministry's proposal is of considerable relevance to urban development and planning. The idea is that all urban and "urbanisable" land should be converted into lease land and no part of it should remain freehold land. This conversion is proposed to be achieved within a short time, according to a time-schedule. This requires putting an immediate end to all sales of land as freehold.

In its note to the state governments on the subject, the Housing Ministry says: "Of particular importance from the point of view of raising resources for housing and urban development is the recommendation that all urbanisable land should be socialised at least in the large and growing cities. The state governments have to give serious attention to this recommendation and take suitable action with least possible delay. It is understood that some state governments and their Housing Boards continue to sell developed plots of land to beneficiaries on freehold basis. This is out of tune in the present day context." The note has outlined what is called a national policy on housing and urban development. It is suggested that land should be viewed as a primary natural resource; it should be brought under social control and speculative pressures on it should be ended.

Besides bringing urban land under "social control", the Centre is showing considerable concern over the tardy progress in providing free house-sites to the rural landless. In the midst of the controversy over ceilings on farm land ownership and on urban property, the Congress Working Committee recently passed a special resolution urging that provision of house-sites to the landless in rural areas should be completed by August 15 next year. The cost of the programme is placed at about Rs 300 crores and organisationally it will require a massive effort. Much of the expected expenditure will be on development of house-sites and provision of minimum amenities around them. There may also be some expenditure on land acquisition. However, a major portion of the land for house-sites for the landless will come from land available with the state governments in various forms. This is a Central scheme and is based on 100 per cent grant from the Centre to the states.

The question of providing house-sites for the rural landless was raised by the Centre with the state governments early in May. The state governments were asked to forward their programmes by the end of June. Actually, the scheme for the provision of house-sites to the landless is supposed to be in operation since October 1971 and in May the Centre had merely pressed the state governments to ensure that this scheme was completed by August 15 next year as desired by the Congress Working Committee. But the response of the state governments remains tardy. Except for Kerala, no other state has done anything very much about it. The Kerala government launched its scheme for providing house-sites to the landless in May and in the first phase of operation of the scheme it hopes to be able to provide sites to at least 86,000 families, or one-third of the total landless labour in the state. But even in Kerala it is doubtful if the target date of August 15 will be kept for providing house-sites to the entire landless labour population.

As for the other states, Andhra and UP have formulated statewide plans in this connection and forwarded them to the Centre, obviously with an eye to securing special financial accommodation under this head. Five other states have sent in schemes in the form of projects covering a few blocks in each state. Others have not paid much attention to formulating any schemes.

The state governments readily accept in principle the need to provide house-sites to the landless and bring urban land under social control. But the snag lies in implementation. They have indicated their reservations about fixing target dates for carrying out these programmes. Both these schemes are of particular significance in the light of the much-debated ceiling on both farm land and urban property and the speed and will with which they are implemented would indicate how serious the ruling party is about fulfilling its election promises.

★

The US Presidential envoy, Connally, is reported to have taken the stand in his talks with the Prime Minister that the many-sided assistance the US had provided in the past had saved the Indian subcontinent from communism. But for the American presence — here and in the South Asian region generally — both India and Pakistan might have been engulfed by the advancing tide of communism. He wanted that the role of the US and its policies in this part of the world should be appreciated in this light. He regretted that Indian leaders did not show this appreciation. He is also reported to have suggested to the Prime Minister that Indian leaders did not give due regard to American susceptibilities and sentiments, presumably with reference to Vietnam. He said that while the US was keen to improve relations with India, it sought a measure of reciprocity.

This presentation of the US position is unlikely to have helped matters. The Prime Minister is known to have taken the position that the issue of resumption of US economic aid should not be raised with Connally by any one from the Indian side. Explicit instructions to this effect are understood to have been given to all concerned.

JOINT SECTOR

Adapted to Private Ends

THE term 'joint sector' has become very popular recently. As with many popular words, its popularity is due to its vagueness and its suitability for being defined differently on different occasions. It has been used (and abused) by the spokesmen of the Government as well as by the leaders of industries. But what stands out is that everybody seems to welcome it and many consider it a solution to most of the current ills of industry.

The credit for introducing this phrase into the Indian industrial dictionary goes to the Industrial Licensing Policy Enquiry Committee, commonly known as the Dutt Committee. The Committee reviewed the licensing policy and, on the basis of its finding that a thorough change in policies was necessary, put forward a concept which they termed 'the joint sector'. To quote the Committee:

> "Where a very large proportion of the cost of a new project is going to be met by public financial institutions either directly or through their support, normally these projects should be set up in the public sector. This does not mean that ordinary shareholders and even some private concerns may not be associated with such projects. The Companies Act already has provisions relating to government companies under which equity in such companies can be shared by Central and state governments and private parties. There would be two main advantages of this policy. On the one side private interests — and in the case of large projects these are likely to belong to the Large Industrial Sector — would thus not be permitted to build up huge industrial empires and obtain the benefits accruing from them while essentially using in large part public funds and support for such development. On the other hand, the objection raised to permitting large projects to be developed, even though such a size might be necessary on techno-economic grounds, because of the fear that this would help build up a private industrial empire would become irrelevant. On both these grounds, therefore, it is necessary that such projects should be treated as belonging to the public sector."

The Committee, however, did not go into details. In fact, they made it explicit that they did not propose to go into the details about proportionate project costs to be met from the State sector or the details of organisational devices required to make the idea work. They desired that the Government should lay down policies in the matter, including on personnel and organisation, the private partners (Indian or foreign) that have to be associated with particular projects and their experience and background, and the extent of the private partners' participation. In the Committee's opinion, joint sector would include units which have both public and private investments, and *where the State takes an active part in direction and control.* The Committee considered it important that when the public sector provides financial assistance on a significant scale to the private sector, not only should an appropriate share in the benefits, accruing after the completion of the project, be available to the State but the project should necessarily be treated as belonging to the joint sector, with proper representation being given to the State in its management. The Committee hoped that the development of the joint sector will prove an important instrument for curbing the increasing concentration of economic power and that this policy would be more effective than licensing had been.

Watered Down, Not Crystallised

Until now, though three years have passed since the Dutt Committee made its report, those ideas have not crystallised nor the scope of the joint sector been properly examined or explained. Very recently, it has been reported that Government has 'assured' the industry that the terms of the 'joint sector' actually envisage a more liberal approach towards units coming under the purview of state governments and that even foreign majority companies and large industrial houses would be allowed to participate.

Evidently, there has been no clear thinking on this subject and there is an inadequate appreciation of the correct scope of the concept. It is essential to recognise the basic fact that 'joint sector' refers to a *form* of organisation of industrial enterprises and that it has therefore necessarily to be in accordance with the industrial *policy* of the Government. In other words, the joint sector cannot be used as a tool to modify the basic directions of industrial policy that have been laid down in the Industrial Policy Resolution. The Industrial Policy Resolution, though it was drawn up 16 years ago, still holds the field. Broadly, it defines certain areas as those in which the future development would be only and exclusively in the public sector and under public ownership. At the same time, it describes the field in which the private sector will be allowed to operate, though, for obvious reasons, under general regulation by State. In between, is an area in which there was a possibility for a certain measure of discretion. Whatever be its merits or demerits, the Industrial Policy Resolution has stood the test of time and, until it is revised and reformulated, it is obligatory on the part of the Government to conform and adhere to it.

The impression that the joint sector would enable private participation in *any* field of industrial activity is, therefore, misconceived. Clearly, the joint sector formula is applicable only to that limited area where the private sector is free to operate in accordance with the Industrial Policy Resolution. There is, for instance, no question of a new iron and steel unit being put up in the joint sector nor is the joint sector a substitute for either the public sector or the private sector.

What then is the true scope and merit of the idea of the joint sector? It is necessary to go back to the historical context in which Dutt Committee formulated its scope. Though it was not explicit, the approach of the Committee was clear. The Committee was concerned with the fact that even in respect of the so-called private sector, a large part of the funds were drawn from the public financial institutions or from Government. These were public funds used by the private sector for private profits. The Committee rightly considered that to treat such units as pure and simple private sector units while allowing them free use of public funds was inconsistent with the need to secure proper utilisation of public funds. Hence they recommended that these projects should be treated as belonging to the public sector in a wider sense of the term. This would ensure that management is conducted according to overall policies laid down by Government; that public interest and not mere private profit would guide the operations of these undertakings; and that this would also serve as an important means of curbing the concentration of economic power. This was in sharp contrast to the indifference of Government to the utilisation of public funds. It was in fact the Mahalanobis Committee, the Hazari Report, and the Dutt Committee that focused attention on the large-scale unregulated use of public funds by the private sector.

Examples of this nature are many. In TISCO, which is normally taken to be a private sector unit belonging to the House of Tatas, public financial institutions hold about 38 per cent of equity capital and constitute the single largest shareholder. In the Associated Cement Company (ACC), public financial institutions hold as much as 40 per cent of the equity capital. In VOLTAS, the financial institutions' holdings amount to about 30 per cent. And in ESCORTS, as much as 40 per cent. More striking is the case in Indian Iron and Steel Company where the holdings of public financial institutions constitute about 51 per cent of the total virtually making it a *de facto* Government company. All these have benefited largely from the use of public funds; but there has been little or no public direction of them in line with socio-economic policy of the Government. Indeed, many of them have drawn, apart from equity capital, substantial loans from the Government or financial institutions on which they pay a rate of interest very much lower than the rate of dividend they declare to the equity shareholders.

Herein lies the importance of the concept of joint sector—*viz*, that whenever public funds are invested in large measure, it is public interest that should prevail and not private interest. But thanks to the indecisive attitude of policy-makers, the concept has been twisted out of shape to be made into an instrument for the enrichment of the private sector. An impression has been created that there is a complete lack of managerial talent in the public sector, which has not lacked credibility because of lack of commitment on the part of the top public sector managers. It has been made out that it is, therefore, necessary to evolve a form of organisation in which even though the major share of funds would come from public financial institutions and Government, management will be left to the private sector.

But what this actually amounts to is that public funds would serve the purpose of private business interests and would be managed in accordance with the private sector's interests. There is already the example of Bolani Ores, where Government hold as much as 50.5 per cent equity though management is left entirely to the private sector. No wonder then that even the Federation of Indian Chamber of Commerce and Industries welcomes the emergence of the joint sector!

LONDON

Britain's Gulf War

Farrukh Dhondy

EARLY this year *The Guardian* reported, "It has emerged that two men of the Special Air Service Regiment have been killed and four wounded in military operations in the Dhofar region against the Chinese-supported rebel nationalist movement." The report went on to quote the British Foreign Office which was obviously embarrassed by the revelation. "A number of British seconded and contract officers are serving in the Sultan's armed forces. And other British personnel, the Special Air Service, have been giving training assistance as well." The incidents and casualties brought to light a secret war which no amount of public relations could explain away. The contract officers referred to are mercenaries bought by the state of Oman at £5,000 a piece a year. They have led the Omani forces in this eight-year long war in the Persian Gulf.

With Ulster on its hands, it is difficult to bring home to the British public that the soldiers in Dhofar were the first two since 1967 to be killed on active service outside the UK. Most people sincerely believe that Britain has finished with all that and the boys are safely at home. It is only in the Gulf that Britain has recently been engaged in a full-scale people's war. The lessons of Vietnam have, however, been learnt. The war has proceeded from the first with the equivalent of Vietnamisation. Britain has not intervened openly, but has lent its officers to the Sultan, given him arms, ammunition, an air force and even a tiny British commanded navy.

Last month eighteen more soldiers of the Muscat Regiment lost their lives and the British press (while not saying how many of them were British) has ventured to dip a toe into troubled waters, working on the principle that it ought to create as much confusion about the situation and about British involvement as possible, before the propaganda of the people of Dhofar begins to filter into Britain through the left press. The government knows the importance, after Vietnam again, of losing a propaganda war at home. With feeling about the use of troops in Ireland mounting, the government can ill afford an East of Suez scandal.

That it is a British war is not in doubt. About 70 per cent of Western Europe's (including Britain's) oil needs are met by the states around the Gulf. The Popular Front for the Liberation of the Occupied Arab Gulf (PFLOAG) is winning the war, having succeeded in setting up a people's government in the Dhofar province of Muscat and Oman. PFLOAG successes will lead to a further escalation of the war and that will mean, in one way or another, a more substantial military commitment from Britain. At present the British unequivocally support Qabus bin Said, Sultan of Oman. Before him they supported his father, Said bin Taimur, whom they succeeded in throwing out by engineering a *coup* in July 1970, in order to stem the tide of discontent against his mediaeval regime. In Qabus they have a better boy, trained at Sandhurst and willing to take some welfare measures in an attempt to off-set discontent.

There is, of course, more at stake than Dhofar. A revolutionary state adjoining the Gulf would mean a threat to the sultans and assorted royalty of several states. Already, Hussein of Jordan has sent guns and advisers, the Shah of Iran has sent an ambassador and Faisal of Saudi Arabia is negotiating to assist Oman's Sultan with money.

It is most unlikely that this money will, or could now, be used for the welfare of Dhofar's population, most of whom live in the mountains, mainly off agriculture of a primitive sort. Dhofar's geography and social conditions are ideal for guerilla warfare. The revolutionaries live among the people of Dhofar's main mountain, range which stretches for 200 miles, about 20 miles deep, along the coast. The Dhofar Liberation Front was set up in 1965. Two years later, as the struggle progressed, the PFLOAG was born out of a split in the Front. One section committed itself to Marxist principles, recruited an army of political militants and launched an offensive. They used a base in the Republic of South Yemen as their starting point, after the British were forced out of Aden. Through five years of constant war and the building up of mass support in the province, the revolutionaries have succeeded in largely chasing out the Sultan's British-led troops from Dhofar. They have consolidated their work by setting up lite-

racy and education programmes throughout the liberated areas. They have also built model farms, organised medical centres and constructed roads.

In the kind of war that is being waged, popular support is bound to be crucial leading to the total withdrawal of the Sultan's forces from Dhofar. The Dhofaris have effectively grown beyond the state of nationalism in which they had demanded independence from Oman and are now seeking to spread popular struggles beyond their province.

This is why the Sultan spends a third of Oman's £ 55 million annual oil revenues on defence. Other interests, such as American and European oil companies, are also trying to help the Sultan out. But if there is one lesson from contemporary history, it is that this sort of aid in a revolutionary situation is always too little and always too late.

CANADA

The Anti-Model

Stephen Clarkson

FOR two decades after World War II, Canadians prided themselves on being an immaculately conceived nation, an internationalist country that was leading the way beyond narrow nationalism towards super-national co-operation. It is taking the Canadian public as long to discard this myth as it is to perceive the reality of Canada's demise as a nation. For if Canada is leading in any field, it is in becoming ensnared by a complex of economic, cultural, military and technological dependencies that other countries should consider — and avoid. Canada may well serve as the anti-model of industrialised, modernised, Americanised dependency that other countries wanting to build a self-reliant policy would do well to heed. It is as if Canada has defied all the laws of political development which abound in social science textbooks, disproving one after the other the axioms of modernisation.

A glance at Canada's history will show that, far from following a steadily rising curve from colonial dependency to independent autonomy, the chart of the country's independence rose as it emerged from Confederation in 1867 through to Dominion status by the Statute of Westminster of 1932 only to fall into a new colonialism. 'National policies', aimed at accelerating economic development by tariff protection, resulted in the integration of the Canadian resource and manufacturing industries with the American economy through direct US capital investment. What is even more anomalous in this historical regression into dependency is the lack of a 'national liberation movement' which students of de-colonisation would normally expect as a response to such foreign exploitation. Only in the last five years has there been a tardy nationalist awakening among certain communities of the country. But in the main, the growing extent of foreign control has instilled a psyche of dependency rather than a spirit of resistance. Even though this is an unashamedly capitalist, consumer society, there is barely a hint of a bourgeois nationalist movement towards an independent capitalist economy. On the contrary, what capitalist class exists is known more for its predilection to *harakiri* by selling out Canadian firms to expanding foreign conglomerates than for its drive to innovate a national sector.

Translated into political terms, this means that the conventional view that political sovereignty constitutes the first step towards consolidating genuine economic independence is the antithesis of the Canadian experience: De-colonisation from the British empire only paved the way for a re-colonisation by the American imperium. Twenty-five years ago, at the end of the Second World War, Canada was a proudly independent State, the fourth strongest military and economic power in the world. Now, Canada is without rival as an 'advanced' nation so completely dependent on decisions made by government and business forces outside its borders, so fully integrated in a system of military alliances whose world view it no longer accepts, or so completely tied into a self-castrating reliance on imported technology. This does not mean that Canada has no indigenous political system. It has active political worlds operating energetically at the federal, provincial, and municipal levels. It has its own national flag and what passes as a national anthem. The problem is that these visible power symbols which express the mystique of independence are taken as reality, whereas the real institutions of power in Canada — the American controlled multi-national corporations, the American domination of the Canadian trade union movement, and the American government itself — are not visible to the naked eye and are even generally dismissed as only peripheral problems.

The discrepancy between Canada's international myth and its continental reality can best be seen in the paradox of its foreign policy. In the western community, Canada was an active midwife of the North Atlantic Treaty in 1948, proudly claiming considerable credit for dragging a would-be isolationist post-war US government into a peace-time collective security agreement to stabilise what was seen as a dangerously expanding stalinist threat in Europe. Now, Canada is a lower middle power that in its major foreign policy stances —such as its lack of pressure on the Vietnam war, its tardy recognition of communist China, and its passive role in North American defence — is little more than a diplomatic satellite of Washington. This does not mean that Ottawa has no differences with Washington. Canada recognised Bangladesh and exchanged diplomatic missions with China before the US did. Ottawa refused to co-operate during the Cuban missile crisis by not putting its military forces on alert. Nor does it mean that Canada is prevented from carrying out its own aid programme with the third world. But almost everything that Canada does internationally is done on tolerance. Canadian civil servants and politicians have a finely tuned sensitivity to what is acceptable and what would not be tolerated in Washington. Thus, when Canada extended very considerable aid to socialist Tanzania throughout the 1960s, this was not done behind the back of the American eagle; it was with the Americans' approval. Ford Foundation money, in fact, went to Canadian universities to extend technical aid to Tanzanian institutions, since Canadians were more acceptable to Tanzanians than were Americans. On the other hand, there is no thought given to exporting Canada's vast reserves of crude oil to India despite the mutual interests of the two countries — *viz*, Canada to sell oil and India to expand its public sector — because the oil industry in Canada is completely controlled by the international oil companies who would not allow their cartel's position in India to be undermined this way.

While Canada devotes considerable energy and resources to supporting nation-building in the third world, this does not mean that its own process of national consolidation has been completed. Quite the contrary; the theory that the modernisation process goes hand in hand with national integration is exploded in the Canadian case. By generally accepted notions of modernisation, there is no doubt that Canada is very high on the world pecking order. Its social welfare services are among the best; its educational system is generally admired; literacy is virtually total; the media technology is highly sophisticated; and so on. For all this 'progress', Canada remains an uneasy and unequal partnership of French-Canadians (six million), Canadians of British extraction (eight million), and the so-called ethnic groups — mainly immigrants from continental Europe plus the indigenous Eskimos and Indians (eight million). Far from acting as a unifying pressure, the so-called 'modernising' change of urbanisation has been a disintegrating force — radicalising the French-speaking Canadians to a fresh awareness of their collective identity and a demand for separate statehood. Even in English-speaking Canada, one can easily find examples of how modernisation undermines national integration. Canadian universities, for instance, can hold their heads high among universities of excellence in the world. Canadian campuses are, in fact, graduating more doctorate students per 100,000 of population than the Americans. Nevertheless, there are so few jobs available for the highly trained natural or social scientists that these graduates must either emigrate to the US or find some trivial job that does not use their qualifications.

Index of Dependence

Even in the economic dimension, the general assumption of social science literature, that economic development will lead to self-reliance, is manifestly untrue in the Canadian case. There is no doubt that economic development has taken place. Canada and Sweden compete for second place in the highest standard of living awards. There is an extremely active resource industry and a large manufacturing sector. Canada has the latest technology and computers. Yet almost every indicator of development is also an index of dependence: the Canadian automobile industry is almost entirely controlled by the three American giants: Ford, General Motors and Chrysler. For Canadians, the computer industry reads 'IBM'. For resource industry reads 'exploitation of raw materials to fuel and feed the American economy'. Behind two out of three brand names there is an American firm.

The growing Canadian dependency on the United States does not prevent two further paradoxes. While being part of the American imperium, Canada itself has a colonial periphery in the Caribbean. While claiming to be a country with no territorial ambitions, Canada's multi-national corporations nevertheless dominate the economy of the many ex-British Caribbean islands. Nor does the country's domination by Washington prevent the internal domination of French Canada by English Canada. These further contradictions in the Canadian dilemma complicate, but do not limit, the apparently unalterable decline of the country. While such pessimistic statements may seem overdramatic to the outside observer, it is nevertheless true that the only scenarios that are the subject for serious debate are forecasts of takeover of the country by the US. Whether it be the editors of *The Guardian* who predict 20 years or, television producers and film directors who prefer the year 1984, those who accept the general points made above have little else to do but play a guessing game of how long will the countdown take.

PERSPECTIVES

Bread or Circuses?

FOR the last several months, it has been an unending circus for the Press and issues concerning bread have naturally been crowded out. Priorities, after all, are priorities. In this stratified society of ours, and given particularly the ownership pattern of the newspapers, to discuss the non-availability or otherwise of bread will not be frightfully *a la mode*. There has thus been but scant reference in the papers to the fact that, in the week ending June 17, the wholesale price index for foodgrains was a neat 15 per cent higher than what it was a year ago. At the retail level — never mind the lack of official data, you just have to talk to an assortment of non-chic housewives to find out — the rise is much steeper. There can be little doubt of a further increase having taken place during the subsequent weeks. It would not perhaps be polite to point out that the over-the-year price rise is still larger in the case of sugar, salt, vegetables, milk and milk products.

Veil over Inferior Distractions

But so what? Nobody who matters seems to be worried. It is as if this phenomenon of galloping prices has not even a slender relationship with the quality of being in this country. Since circuses are aplenty, why bother about such trifling non-issues? Draw the veil over inferior distractions or turn your gaze to New Delhi, the Capital, and soak the carnival-like atmosphere. Summitry, any one? Toppling, any one? Eradication-of-poverty-mongering, any one? Be your age. What has spiralling prices to do with the problem of socialism? Has not the Prime Minister given her word that, once you strengthen her hands, the rest of the minor issues will be sorted out in no time?

It is thus all of a piece that alongside the small item conveying the information about the Economic Adviser's foodgrain price index showing a jump of 15 per cent over the year, the non-thinking newspapers print a parallel item. The Union Minister of State for Food and Agriculture was waxing eloquent in Calcutta: never in the history of this nation did we possess such a large stock of foodgrains, namely, over nine million tonnes, as we do now. We read the statement in hushed admiration. Do we dare to ask about the purpose behind such impressive stockpiling of grains? Since it is not being used to pump-prime and slash the ruling market prices of foodgrains, has the buffer been built purely for the sake of form, for quenching the inner thirst for poetry in some hearts?

Bizarre Edifice

These are perhaps jejune questions. And yet, rummage through official data: in the current year, the quantity of foodgrains issued through the public distribution system, month by month, is even less than what it was in the past year. It is a bizarre edifice that we have created for ourselves. With each year since 1968, the production of foodgrains has allegedly increased in the country. In each successive year, however, the price level of foodgrains has climbed still higher. Simultaneously, with each successive year, there has been a progressive dismantling of the public distribution system and a reduction in the total quantum of food releas-

ed through the ration and fair price shops.

This is then proving the edict of the Gita wth a vengeance. Procure and pile more and more stocks of grains, thereby fulfilling your obligation to the rich farmers; beyond that, you must not be overly concerned about the fruits of your efforts. Do not inquire what is the operational significance of such accumulation of food stocks for the level of living of the semi-starving, struggling, indigent majority of the population. Incentive to the top peasantry *uber alles;* it is therefore the government's bounden duty to pay the farmers a stiff enough procurement price. It is again in the implied line of duty to satisfy the mundane demands of the intermediaries, to rent more storage space, to pre-empt railway capacity for the movement of grains and, in general, to ensure that the surplus farmers are protected in all respects from the machinations of nature and other men. In this republic of ours, so reminiscent of the one Plato had idealised, the government's obligation to the remainder of the nation ceases once these chores have been looked into.

Wheat: a Precious Grain

If National Sample Survey data are to be believed, the landless labourers meet almost their entire need of foodgrains through market purchases; even the small farmers, that is, those owning less than 5 acres of land, buy from the market roughly three-quarters of their aggregate consumption of cereals. Unfortunately, almost none among the landless workers and the small farmers, who constitute more than half of the country's total population and who are affected much more than anybody else by the spurt in prices, can really afford to purchase the grains, which the government believes in stocking up, at the prices which the government has set for them. Of the current stockpile of over 9 million tonnes, roughly 7 million consists of wheat, precious wheat; the rest is an assortment of rice and the coarser grains. The issue price of wheat takes the grain beyond the pale of the poor and the needy; for precisely the same reason, the half a million tonnes of coarse grains or thereabouts lying in the godowns cannot be disposed of either.

Symmetry is not a strong point of official policy. It may be all right for the government to shell out a hundred crores of rupees annually to propitiate further the over-pampered wheat farmers in the north-western part of the country. It would, however, be a sacrilege to suggest that it should similarly invest a few extra crores to reduce the issue prices of coarse grains and the inferior varieties of wheat so that, in this season of distress, the poorer sections — in both the countryside and the urban areas — could get some relief. A still greater sacrilege would be to mention that, merely by withdrawing the support which high procurement prices imply, market prices can be brought down at one stroke by 15 to 20 per cent. Clever-clever economists will not be lacking in government to argue that, despite the spiralling prices, the very fact that grains are still being cleared in the market means that there is no dearth of purchasing power; it would be bad economics to lower the price and spoil the consumers.

After such enlightenment, where is the need for any further benediction? Lesser people may continue to feel puzzled that foodgrains prices have kept rising even as production has gone up over the year by 4 to 5 million tonnes. According to the official 'Economic Survey', in 1970-71 the output of foodgrains was of the order of 107.8 million tonnes, while this year it is going to touch nearly 112 million tonnes. Then again, if you listen to the half-whispered gossip along the catwalks of New Delhi, the figure of 112 million tonnes was inserted in the Survey only to ensure that the rate of growth of national income in 1971-72 attains a respectable magnitude. Since the rate of industrial growth was less than 3 per cent, unless agricultural output could be jacked up, there was a danger of the overall rate of growth appearing in an unfavourable light. This was not permissible. In international forums — for example, the Aid India Consortium — they have a habit of wanting to know about such things as the global rate of growth of the economy. Besides, have not the outsiders been told that the Green Revolution has, once and for all, licked the problem of production and the regime is now fast moving forward to tackle the residual problem of distribution?

The Aid India Consortium has met and dispensed with the expected favours. Connally too has come and done the pilgrimage to Simla. (It was a stroke of genius when, at the very last moment, the Prime Minister decided not to descend from the summit and the poor big Texan was made to crawl all the way to Simla *via* Chandigarh, Kalka and Solan. Style, some English poet had once written, is the man. Style, let us repeat, is what makes a regime.) The defences can now be let down. The latest that is being said is that food output in 1971-72 is unlikely to exceed 106 million tonnes, that is, a couple of million tonnes less than in 1970-71. Not only is the production of rice and the coarse grains somewhat down; in respect of wheat too, Uttar Pradesh has belied earlier expectations. But one must not lose one's sense of proportion. What is a couple of million tonnes when socialism is practically round the corner? Through resolutions and counter-resolutions, in the Central Land Reforms Committee and the Congress Working Committee, the problem of land ceilings is being tackled once and for all — and, after such hard labour, it would be churlish on the part of the poor to complain, three or five years hence, that the availability of land for them has not gone up one bit. What is more, Subramaniam's Fifth Plan will do all that one had failed to do for the down-trodden in the course of the past 25 years. A minor slip-up on the foodgrain front should not therefore bother anybody.

Having a Field Day

It is not bothering anybody. The Ministry of Finance has abdicted all its responsibilities. The budgetary gap continues to widen. The Reserve Bank has given up all pretence of credit control: what can it, innocent thing, do, with the liquidity position of most banks bulging and the advances-deposit ratio dipping below 70 per cent? Traders and speculators are having a field day. They are no less worthy than the kulaks, and haven't they contributed almost as much to the ruling party's coffers? Let peace reign on earth, all controversies be stilled.

What, after all, is the alternative left for the poor? The opposition parties are decimated. Economists, being economists, know which side their bread is buttered. Newspapers have learned to their cost the perils of playing with fire. In the circumstances, the poor should be left to their own devices. The issue of bread, let us all agree, is postponable. Meanwhile, let there be more of circus. As the most recent deliberations at the Congress Working Committee show, it will be double the fun if, occasionally, the circus is about bread. If you do not have bread, you will at least have the privilege of watching a circus on how to provide you bread in the millennium that is acoming.

Lord Robbins

A K Dasgupta

Autobiography of an Economist by Lord Robbins; Macmillan, London, 1971; pp 301.

WHY does one write an autobiography? There may be several reasons. One may find at one stage of one's life that the vicissitudes that it had gone through represent a series of experiments, with varying degrees of success or failure; one feels an urge to leave a record of these experiments behind for posterity to profit by. Gandhi's autobiography falls under this category. It may be also that one's life is a long struggle against misery and squalor leading in the end to success of a spectacular order. And one feels an urge to put on record how, given the will, man's genius can rise above wordly obstacles and compel society to the recognition that is its due. Chaplin's is such a success story, a romance as exhilarating as it is reassuring. Or again one may be the author of discoveries in science or philosophy so pervasive as to change man's mode of appreciation of the universe, and one may be impelled to unfold the inner processes of thought and the provocations that they experienced, for the world to have a more intimate knowledge of the spirit of adventure that led to these discoveries. One may refer to James Watson's "The Double Helix" as one such endeavour in recent years. It may also happen that big changes take place in the life of a nation, and one finds oneself, as did Nehru, at the centre of the scene, shaping events in a substantial way. One's life story then becomes a document for later historians to build on.

Lord Robbins' "Autobiography of an Economist" does not fall under any of these heads. Robbins has had a fairly easy life. The torments of a sort that he had in his youth are the usual torments of an inquisitive mind. They have none of the characteristics of what may be called "experiments with truth". Nor did he have a poor start in life to be placed in contrast with the success that he has had later. If he did not attend a public school, it was not due to lack of resources — it was because his father wished him not to. And it was the father who, at a later stage, provided the "wayward and intractable son" with adequate finance for study at the London School of Economics, then, as now, one of the finest institutions of its kind anywhere in the world. Robbins lived through troubled times — the war and its aftermath, which saw vast changes in the level and structure of the British economy, and he had an important part to play in shaping the processes of its adaptation to these changes. But he was not at the centre of the stage in the manner, for example, in which Keynes was. As for contribution to knowledge, our author will be the first to disclaim any whose origins needed revealing. It is doubtful indeed if the field of his specialisation, Economics, at all admits of spectacular discoveries: "It does not shatter atoms or weigh stars", to repeat Pigou's telling words.

Then why did Lord Robbins write his autobiography? If I were asked to answer the question, I would be inclined to say: "he did it to amuse himself". And I am almost certain that Robbins would agree that this comes nearer to the point than any other alternative answer. He was distressed by certain unseemly happenings in the London School of Economics in the late sixties when he was Chairman of its Court of Governors. And he sought relaxation in an attempt to re-live his past years at the School. Perhaps this is enough justification for the autobiography. For the story of the LSE since the twenties is also the story of the greater part of Robbins' life and activity.

II

Robbins spent his boyhood in a quiet way under the benign care of an understanding, though strong-willed, father and an indulgent step-mother. After Matriculation he went straight to the University College, London, for a degree course in literature. But his study was interrupted by the war. He joined the army, and at some stage of the war, was sent to the French border, received a bullet wound on his left arm and was despatched back home for treatment. Within a short time the war ended, and he found himself in the position of a demobilisation officer. His direct experience of fighting was thus meagre. But the horrors of war that he saw left an indelible impression upon his sensitive mind. He emerged out of the war, a disgruntled young man, intent on preparing himself for a "social revolution".

Thus came a period of "confused" wanderings during which he chose Guild Socialism as the panacea for the ills of the society. He joined the movement and, through the good offices of some friends, got an assignment under Arthur Greenwood, one of the leaders of the movement. Soon, however, he got disenchanted; the various discourses that he had with the leaders convinced him of "the irrelevance and sterility" of the Guild idea. He moved away from active participation in any revolutionary movement and found himself drawn to the idea of reverting to an academic course — this time not in literature but in social sciences. It is at this stage that he had an encounter, as sweet as it was decisive, with his father with whom he had previously quarrelled just on this issue, and who, knowing about the changed state of his mind, spontaneously offered him the finance that he needed for "a full university course". He opted for B Sc (Econ). And thus began his almost unbroken association with the London School of Economics.

What an extraordinarily fruitful association! He took in the best that was in the tradition of the LSE and gave of his best to the institution, creating new traditions himself. Those who, like myself, had an occasion to see Robbins at work at the LSE in the thirties, lecturing on principles of economic analysis in the big halls to a tense undergraduate audience, or conducting weekly seminars on economic theory in the Graham Wallas room, surrounded by responsive colleagues and senior students, or taking supervision of Ph D candidates at odd hours of the day — all these in the midst of multifarious administrative obligations — will appreciate what it is that he must have been pining for when he found himself in the midst of the revolt of the late sixties. The focal chapter in the "Autobiography", I should like to imagine, is "LSE in the Thirties".

III

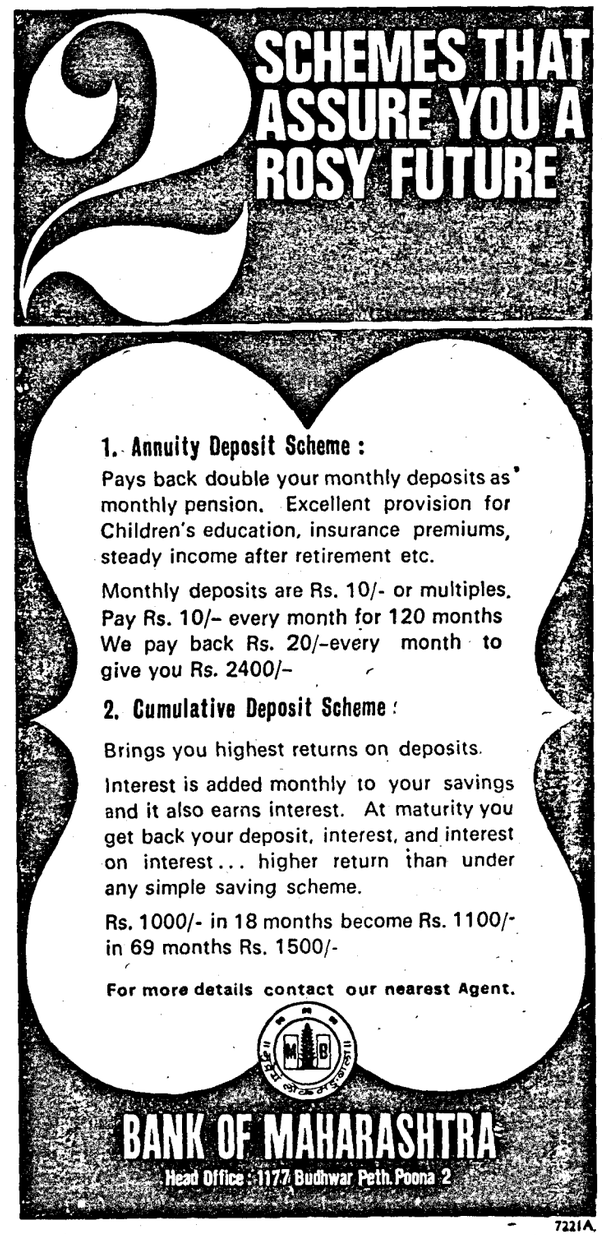
As an undergraduate student at the LSE, he came under the influence of teachers like Edwin Cannan, Graham Wallas and Hugh Dalton, all of whom

he adores. He does not have much sympathy for the politics of Dalton, and he puts his term as Chancellor of the Exchequer down as a failure. But he has all praise for him as a teacher. His reference to Harold Laski, who became his supervisor in his second year at the School, is lukewarm, to say the least; he got little "positive intellectual stimulus" out of Laski. This and other remarks that follow will surely puzzle admirers of Laski, of whom I confess I count myself as one. Nor does Beveridge, then Director of the School, come out clean in the narrative. There is obvious sympathy for the man and some appreciation of occasional fits of "idealism and generosity", but there is scant respect for his knowledge of economics or for his "skill in handling men".

Robbins' appointment as Professor must have been a surprise to many who knew the convention of British Universities in those days. Doubtless he had a brilliant academic record, and he had also made a reputation as tutor during his three years' sojourn at Oxford. He must also have made a mark as Lecturer in the School. But he was young, around thirty at the time, a B Sc(Econ) of only five years' standing. And his publications consisted of just about a couple of papers in the *Economic Journal* and a small monograph on "Wages", which he does not perhaps care to own now. One now gets a glimpse of how it happened. To those of us to whom Robbins as Professor and Dalton as Reader at the same time in the same School would appear as an anomaly, it is a revelation that it was Dalton who, more than any other single person, was responsible for bringing Robbins back to the School from his happy retreat at Oxford.

In retrospect, one must say without reservation that the appointment was a success — the authorities surely knew what they were doing. Those who know must put it on record, even though Robbins in his modesty may conceal it, that he brought new life to the Department of Economics at the School and raised it to the stature that it acquired in the thirties, that it was under his leadership that an atmosphere was created which gave impetus to the formulation of the main ingredients of Hicks' classic "Value and Capital", which he so fondly mentions as sufficient "justification of the ethos of the Economics Department of the School".

What was the relation of LSE in those days with Cambridge — the other great centre of economic studies? Robbins makes a tangential reference to it, only to suggest that, contrary to common belief, there was nothing like "group conflict" between the two centres. There were "differences of atmosphere" and occasional "conflicts of outlook", but there was collaboration, too — for example, in the running of the London and Cambridge Economic Service. All this may be true. But to an "outsider" it would appear that there was a certain lack of communication between the two centres which was conspicuous. While we in London were wrestling in the mid-thirties, more or less unsuccessfully, with Hayek's formidable lectures on



the pure theory of capital, we knew little about the path-breaking propositions of the "General Theory" that were being hatched in the other centre and were about ready to be delivered to the world. As I recall, some at least of the frustration that some of us felt in the wake of the "General Theory" could have been avoided had there been a little more understanding between the two centres. I know of at least one member of our Seminar (now a distinguished economist and author of many publications) who was so overpowered by the immediate impact of the "General Theory" that he came to my cubicle one day, almost in tears, to say that the entire approach to capital theory that he had hitherto adopted was wrong and that he had to scrap most of the work that he had done over the past two years! Such things are unlikely to happen nowadays.

Once only did I have an occasion to listen to Keynes at the LSE. That was prior to the "General Theory". The talk was on cheap money policy on which he had already written in *The Times*. He came at the invitation of the research students of the School. The Senior Common Room where the meeting was held was full. But not one of the stalwarts of the School was present. I have indeed a feeling that Robbins' appreciation of the greatness of Keynes as an economist came much later when, as Head of the Economic Section of the War Cabinet, he came into closer contact with Keynes, having had in the meantime a crystallisation of the "General Theory" from Hicks, Meade and Lerner. In the early thirties, one suspects, Keynes would be placed by Robbins as well as by Hayek as a mere monetary theorist, still struggling with the Wicksellian propositions on saving and investment which they had already mastered. How else could one explain his quarrel with Keynes over the question of increased public expenditure as a solvent of the depression of the thirties? The "Treatise" with its emphasis on "excess savings factor" and "excess bearish factor" came shortly after and one could see, unless one was completely impervious to the new approach, as Robbins apparently was at the time, that Keynes was already making it clear that saving depressed and investment stimulated an economy, and that from saving to investment there was no smooth passage. However, now that he has realised his mistake, he makes the most generous amends. Not only does he acknowledge his error, he goes to the length of repudiating his book, "The Great Depression", which is based on a theory which had misled him. The capitulation is complete: he reserves for Keynes the highest tribute that he pays to any man in the "Autobiography": "I would certainly regard Maynard Keynes as the most remarkable man I have ever met".

The episode is "painful" to Robbins. Yet it shows up the man, his courage, his integrity and his sense of social obligation.

IV

Undoubtedly Robbins is a controversial figure. His language is to an extent responsible for it — he often uses superlatives in his critical observations. But, of course, there is more in it than this. His social philosophy is out of tune with current trends. There are today many more even among so-called orthodox economists who are on the other side of the centre than there are towards his side, the former including some of his own students. He believes in private property. He believes in free trade and free enterprise. He believes in markets and prices as the regulator of resource allocation. It is true that he now concedes that aggregate public expenditure needs to be controlled in the interest of adequate employment. Yet he is still worried about the possible inflationary effect of such action and he insists on utmost caution. His publications are in the main an exposition of these principles with special emphasis on this or that element according to their respective relevance at different points of time. Here in the "Autobiography" we have a succinct account of each of these publications, and of the author's present attitude on them.

Now, there will be many among us who will accept these propositions in principle. Differences will arise concerning reservations. The alternative to "totalitarianism" is not complete exposure of the economy to free trade, free enterprise and market forces. Indeed if unrestricted market economy were the rule, the economist's role would be a frightfully easy one, now that the analytical theorems supporting it are already in our possession. It is the inevitability of reservations that brings in complications. What is the permissible limit to the size of individual property ownership, considering the level of an economy? Are market prices at all a reflection of the "social utility" of goods or a measure of the scarcity of services? In the context of aggregate expenditure, could one pay exclusive attention to the level of prices, irrespective of its implication for the level of employment? And what is one to say about allocation of resources over time — could market prices be depended upon to ensure an optimum rate of growth? These are the questions that a socialist planner would ask, and they are questions to which Robbins does not seem to have an answer. It was all right for Adam Smith to have argued, nearly two hundred years ago, for freeing the economy from the then existing controls and restrictions. We have travelled far since then, not only in respect of our appreciation of social norms, but also — and this is more important — in respect of the operational possibilities of attaining these norms. Surely it is a counsel of despair if we are still asked to rely solely on the Invisible Hand.

All this does not detract from Robbins' eminence as a scholar and as a teacher. His "Robert Torrens", by which he rightly wants to be judged as a scholar, is a model of exposition of an individual economist's contribution seen in a larger setting. And his "Essay", considering the times, is a courageous defence of economic theory against illegitimate intrusions. The criticisms that came in the wake of its publication were distressing to the author, for they were wide of the mark and based on misunderstanding. I remember Robbins lamenting to me one day that if somebody had written a book like that arguing for the purity of physics, scientists would be grateful to its author, whereas here was Lindley Fraser angrily asking why economic science should be free of value judgment and all that. He was right. The irony is that the physical scientist did not need this defence; the economic scientist did, at any rate at the time the book was written. And of course the "Essay" had its impact, in spite of its critics.

It is as a teacher that I found Robbins at his best. His publications do not reflect at all the rigour of analysis that he used to adopt in his lectures — whether on principles of economic analysis or on the history of economic thought. With all intricacies retained intact his lectures on economic analysis were an example of superb expository skill. It is a great pity that he was prevented by other preoccupations from bringing out a comprehensive book on principles of economics which he had promised in the Preface to his "Essay", and at which he had been working as late as the early sixties when he was called upon to preside over the Committee on Higher Education. It was a hard choice, he tells us, between the Education Committee assignment and his projected book on

principles. One could understand his decision in favour of the former, and yet one still hopes that he will not have abandoned the book altogether.

A great quality in Robbins' relations with his students is that he left them completely free to think for themselves. What he says about Dalton applies equally to him: he, like Dalton, would never impose his socio-economic views on his pupils, strong as they were. It is indeed not an accident that right in the thirties when he was caught up by the Mises doctrine of the impossibility of economic calculation in a socialist economy, two of his own students — Durbin and Lerner — came out with their challenging formulations which, together with the famous Lange paper, still form the basis of the socialist theory of price formation. Rosenstein-Rodan once told me half-jokingly that many more socialists and planners have come out of Robbins' seminar than from Laski's. He was very right.

V

Robbins has been the recipient of many titles, culminating in a life peerage. He has taken important part in public affairs at a crucial period in the history of the democratic world. He has been the architect of much that is and will be happening in the field of higher education in England. There are world famous Art institutions — the National Gallery and Covent Garden, for example, with which he has been actively associated as trustee or Board Chairman, and for whose successful management and financial progress he is largely responsible. He has acquired almost a legendary reputation as a teacher. Altogether, it is certainly true, as he claims in the opening paragraph of the "Autobiography" that he has had "a successful academic career".

Yet, with all this, one detects a certain craving for solitude, a certain inwardness in his disposition. His love for the arts is as strong as his passion for human understanding. And if the latter keeps him busy, the former gives him repose.

"To watch Fonteyn or Seymour dance the love and despair of Juliet or to arrive at that magic moment in *Fidelio* when the canon quartet takes over and the impossible and indeed absurd plot becomes more intense than real life — or to sit alone in the National Gallery with the great masterpieces on a summer evening when the people have gone home, or to stroll among them with my son Richard who, in my later years, has so often given me what I used, in my younger days, to to get from his uncle Clive, namely contact with and understanding of the creative artistic process — I count such experiences among my greatest privileges. I have had other sources of happiness, love and friendship, speculative thought, writing and teaching, but, in the world of contemplation, I ask for no better heaven than these" ("Autobiography", p 267).

This is the other side of Robbins. Had it not been for the war and the social milieu that he faced in its aft math, one does not know which si would get the better of him.

The "Autobiography" is almost sile about Lady Robbins. Perhaps right For, the lovely lines with which t book is dedicated to her are a mc eloquent acknowledgement than vol mes in plain words would be of t sweetness and felicity that she has pr vided all these years to Robbins' li and activity.

Manpower Control in China

Harold Lubell

Employment and Economic Growth in Urban China, 1949-1957 b Christopher Howe; Cambridge University Press, 1971; pp xix + 17(£ 3.

CHRISTOPHER HOWE'S fascinating little book unfortunately tells only half a tale. He describes China's efforts to cope with manpower direction and urban unemployment from 1949 to 1957 but stops at the crucial point in time when the state on paper took over full control of the urban labour market. Given the difficulties encountered by the Government in its efforts to administer the economy up through 1957, the reader is left wondering how the internal contradictions inherent in the policies followed up to 1957, as described by Howe, were resolved thereafter.

The manpower control efforts of China during the 1950s had two objectives: direction of labour to the State activities given priority in the Five-Year Plans; and avoidance of socially intolerable massive unemployment. The essential contradiction arose from the Government's inability to control hiring at the peaks of economic activity and to provide jobs in slack periods in an economy subject to violent fluctuations.

Population Shifts

According to Howe's analysis, it took China's planners several years to realise that their situation was not that of the Soviet Union in the late 1920s, that China could not possibly achieve urban full employment and a net transfer of productive labour from the rural sector to the urban sector during its First Five-Year Plan. By the writing of the Second Five-Year Plan, it was clear that the growth of the urban labour force during the First Plan period was excessive and that what was called for was massive labour absorption in agriculture, some outmigration from the coastal cities (particularly Shanghai), and a feasible growth of urban employment.

One of the remarkable facts recorded in Howe's book is the size of the popu lation shifts that occurred in 1950 Shanghai's population increased by 4 per cent per year from 5 million in la 1949 to 7.2 million at the end of 195 two-thirds by natural increase and on third by net migration. Gross immigratio (about 1.8 million) was about two and half times net immigration (0.7 million The good harvest of 1955 and the prc mise of high incomes following the Hig Tide of Socialism facilitated an outflo of 500,000 peasants from Shanghai to th rural areas in mid-1955 (compared wit the planned 1.0 million person reductio of the city's population for that year) But 1956 and 1957 saw an uncontrollabl gross return flow into the city of ove 800,000 persons.

The interesting questions, for th reader who is not a China specialist, ar by what methods and with what succes China has dealt with its own version o the developing world's problem of urbar unemployment. Howe's book answer them in part. In the early 1950s, th Government introduced a series of mea sures that combined attempts to contro participation in the urban labour force through population registration, to maintain redundant employees in their jobs, tc control hiring and firing, and to carry on registration and placement of the unemployed. The existence of a sizeable small-scale private sector through 1957 made effective direct control of the labour force impossible since the residual private sector provided a significant part of total urban employment, particularly in Shanghai. In the mid-1950s, each time the Government stepped up its efforts to increase the degree of control, it frightened the small-scale private sector proprietors into laying off employees and thus intensified the social problem of unemployment. When unemployment reached too extensive proportions, even the Labour Bureaux, the administrative organs responsible for labour control, had to fall back on the policy of encouraging small enterprises to increase employment outside the public sector.

Howe implies that the more intensive controls established in 1957 combined with the elimination of the last vestiges of capitalism in 1958 have removed the basic contradiction obstructing effective implementation of the Government's employment strategy. However, the detailed study ends in 1957 for lack of available information and the final chapter presents a set of optimistic speculations on the course of events since 1958 that ignore Howe's earlier warnings to avoid the temptation of accepting policy statements and administrative measures as parts of a coherent plan. The question of what has happened to employment in China since 1958 is not answered in this book.

SPECIAL ARTICLES

Poll Participation Slump

R Chandidas

The drop of six per cent points in voter turnout between the 1967 and 1971 elections has made many scholars apprehensive. This concern calls for an examination of the election results with a view to understanding the slump in participation in the last parliamentary elections.

Many dimensions need to be studied for a full understanding of electoral participation. Here an attempt is made to analyse voter turnout through four major dimensions. First, what has been the pattern of voting in past elections; second, how far is the de-linking of assembly elections from parliamentary elections responsible for a drop in the rate of participation; third, whether participation in elections is related to the degree of intensity of inter-party competition; and fourth, do certain select socio-economic variables explain variations in turnout.

OF the many preconditions to the successful functioning and sustenance of a democratic regime, the extent of participation is one. In polities where elections are a means to select rulers, the number of citizens exercising their franchise and the extent of legitimacy enjoyed by the ruling elites, are complemental political realities.[1] Putting it differently, "If democracy is going to be rule 'of the people, by the people, and for the people', the people, by definition, must be interested and active" in all participatory activities, of which, elections are one.[2] With its undiminishing importance, any ebbing of the growing participation rate, is prone to challenge the very representative character of a government. Therefore, the drop of six per cent points in turnout between the 1967 and 1971 elections, a rather substantive voter alienation, has made many scholars express their apprehensions. Some, basing their fears on the 1971 outcome, have gone to the extent of recommending a high-powered commission, presided over by a retired Supreme Court judge, to investigate low voter turnout in some Indian states.[3] This overall academic concern, therefore, calls for an examination of the election results with a view to understanding the serious slump in voter participation during the last parliamentary elections.

Though many dimensions need to be studied for a fuller understanding of electoral participation, certain dimensions just cannot, perhaps, be tapped through aggregate analysis. However, at an aggregate level, we can concern ourselves with at least four major dimensions and attempt to understand: first, what has been the pattern of voting in various past elections; two, how far the de-linking of assembly elections is responsible for a drop in the rate of participation; three, whether participation in elections has any relevance to party competition; and four, do certain select ecological variables explain electoral participation. These parameters mark the scope of our inquiry.

Let us begin our discussion by closely examining participation trends in various states over the past five elections to the Lok Sabha. All the southern states (except Kerala) together with Assam, Himachal and Orissa, have not behaved like other components of the Indian Union. Everywhere else a rather marked increase in participation from 1952 through 1967 is discernible. In some states, namely, MP, Rajasthan, UP and West Bengal, where just over one-third of the electorate voted in the 1952 elections, as many as over half of the voters exercised their franchise in 1967. Bengal has, especially, made great strides in this direction. Starting very poorly with 39.43 per cent in 1952, the rate of citizen participation, during the fourth elections, shot up to 66.03 per cent (see Table 1).

At the other end, there were states with fluctuating voter participation. All such failures in increasing voter turnout, were a consequence of the second general elections in 1957 which registered an insignificant improvement of only 2 per cent points over 1952. This shift, though positive, was very meagre. It rather depressed participation in most states and effected improvement in a few. Therefore, nearly all statewise voting trends which generally moved upwards in other elections, got subdued in 1957. If one chooses to skip a statewise scrutiny of 1957, the electoral data from 1952 through 1967 read quite differently. One would clearly discern an uninterrupted upward trend in the percentage of electors who went to the polls in all but two states. Orissa experienced a serious drop of about twelve per cent points from its performance in 1952. Jammu and Kashmir, on the other hand, showed more fluctuations. With an ambitious start of 71.0 per cent in 1962, it recorded only 55.16 per cent in 1967. In 1957 elections, however, 61.6 per cent of the electors exercised their vote.[4]

In the union territories, the voting percentages have definitely been moving

TABLE 1 : RATE OF PARTICIPATION IN ELECTIONS TO LOK SABHA FROM 1952 TO 1971
(Statewise)

	States and Territories		Elections				
	Name	Abbreviation*	1952	1957	1962	1967	1971
1	Andhra Pradesh	AP	56.45	**43.85**	64.72	68.67	**59.13**
2	Assam	AS	47.68	46.63	52.75	59.28	**50.29**
3	Bihar	BR	41.56	42.91	46.97	51.53	**48.86**
4	Gujarat	GJ	51.95	55.10	57.96	63.77	**55.50**
5	Haryana	HY	58.26	53.03	66.44	72.61	**64.35**
6	Himachal Pradesh	HP	31.32	**28.09**	**38.37**	51.20	**41.16**
7	Jammu and Kashmir	JK	00. 0	61.60	71.00	55.16	**64.01**
8	Kerala	KL	66.45	**66.56**	**70.55**	75.64	**64.53**
9	Madhya Pradesh	MP	37.70	37.98	44.79	53.46	**47.79**
10	Maharashtra	MT	49.76	55.98	60.44	64.75	**57.95**
11	Mysore	MY	54.03	53.20	59.30	62.95	**57.43**
12	Nagaland	NL	—	—	—	—	**53.77**
13	Orissa	OR	35.39	36.11	**23.56**	43.70	43.27
14	Punjab	PB	55.52	60.56	66.29	71.13	**59.90**
15	Rajasthan	RJ	38.96	39.00	52.42	58.27	**54.00**
16	Tamil Nadu	TN	53.23	49.20	68.77	76.56	71.82
17	Uttar Pradesh	UP	38.41	47.78	51.02	54.51	**46.00**
18	West Bengal	WB	39.43	48.55	55.75	66.03	**61.00**
	ALL STATES	—	45.60	47.62	55.29	61.20	55.12
19	Andaman and Nicobar Islands	AN	—	—	—	78.45	**70.15**
20	Chandigarh	CH	—	—	—	65.36	**62.92**
21	Dadra and Nagar Haveli	DN	—	—	—	78.28	**69.78**
22	Delhi	DL	57.92	**57.83**	68.75	69.49	**65.19**
23	Goa, Daman and Diu	GD	—	—	—	68.37	**55.88**
24	Laccadive, Minicoy and Amindivi Islands	LM	—	—	—	82.02	—
25	Manipur	MR	51.07	**52.70**	**65.34**	67.24	**48.86**
26	Pondicherry	PY	—	—	—	74.85	**70.10**
27	Tripura	TR	47.72	**64.69**	**67.96**	74.84	**60.85**
	ALL TERRITORIES	—	54.84	59.46	67.96	70.44	61.69
	ALL INDIA	—	45.67	47.74	55.42	61.33	5– 22

* Instead of exact names of states, these abbreviations have been used in this paper.
Note : The figures in bold relate to those elections to the Lok Sabha which were de-linked from state assembly elections.

upwards. However, most union territories, other than Delhi, Manipur, and Tripura, experienced elections for the first time in 1967. As such, much discussion on these political units is not relevant.

At the all-India level of aggregation, the picture is quite impressive. Starting in 1952, with 45.67 per cent of the electorate turning up at the polls, there has been a regular increment of active voters till fourth general elections. In 1967, as many as 61.33 per cent of electors voted.

Let us now turn to some of the events that brought about the 1971 mid-term elections. The first of these events was the defiance by many Congress legislators of the Congress party's whip to vote for Sanjiva Reddy in the 1969 presidential elections. As a consequence of this intraparty tension the historic split in the Indian National Congress took place. The ruling Congress (INC) ran the government on the support of left and parochial parties. This was followed by certain major socialistic measures by the INC government which were carried through parliament; but some like the abolition of privy purses failed for want of sufficient strength in parliament. A need for increasing the strength of the INC in parliament was felt. All these events taking place in a very short time of over one year, led to a highly competitive electoral situation where most of the national parties regrouped themselves into many poll alliances. As keen electoral competition is usually accompanied by a high rate of participation,[5] it was very natural for some to expect more than the 61.33 per cent turnout in the 1971 polls. However, a very important question missed the notice of all: Was this drop of six per cent points in voter participation between 1967 and 1971 a *real drop* in the true sense or were the entire electoral data misread by most of us?

The answer to the foregoing question lies in the fact that the fifth elections were exclusively for the Lok Sabha. All elections earlier to 1971 had been simultaneous elections both to the state and the national legislatures. This distinguished the 1971 elections from all previous elections and, therefore, rendered them non-comparable with the prior polls. Any attempt to directly compare the 1971 turnout with past turnouts is quite risky.

Voter identification with contestants for political office is an important stimulus to go and vote. We may hypothesise that the closer (to the voter) the level of political office, the greater the stimulus to vote. The same holds true of issue-salience in stimulating participation in elections. Of course, the best way to test this surmise is through surveys; but some degree of relationship can be ascertained through aggregate data.

Quite often in local body (especially, gram panchayat) elections, because the contenders for political office and the issues are very closely identifiable, nearly all registered voters take part. Identification becomes less close when it comes to participating in elections to state assemblies where the gap between the voter and the issues and contestants becomes wide. At national level identification with issues and the candidates becomes even more remote and probably weakens the voter's involvement in electoral politics.

Turnout at the last two assembly and parliamentary elections, when juxtaposed, reveals practically no differences in voting at the two levels.

TABLE 2: VOTER TURNOUT AT ASSEMBLY AND PARLIAMENTARY ELECTIONS IN 1967 AND 1971

	States	1967 Elections			1971 Elections		
		Assembly	Lok Sabha	Difference	Assembly	Lok Sabha	Difference
1	Andhra Pradesh	69.15	68.67	+0.48	—	59.13	—
2	Assam	61.83	59.28	+2.55	—	50.29	—
3	Bihar	51.51	51.53	—0.02	—	48.86	—
4	Gujarat	63.70	63.77	—0.07	—	55.50	—
5	Haryana	72.65	72.61	+0.04	—	64.35	—
6	Jammu and Kashmir	58.79	55.16	+3.63	—	64.01	—
7	Kerala	75.67	75.64	+0.03	—	64.53	—
8	Madhya Pradesh	53.49	53.46	+0.03	—	47.79	—
9	Maharashtra	64.84	64.75	+0.09	—	57.95	—
10	Mysore	63.10	62.95	+0.15	—	57.43	—
11	Orissa	44.05	43.70	+0.35	43.44	43.27	+0.17
12	Punjab	71.18	71.13	+0.05	—	59.90	—
13	Rajasthan	58.22	58.27	—0.05	—	54.00	—
14	Tamil Nadu	76.57	76.56	+0.01	71.39	71.82	—0.43
15	Uttar Pradesh	54.55	54.51	+0.04	—	46.00	—
16	West Bengal	66.10	66.03	+0.07	59.40	61.01	—1.61

Note : The percentage of voters in 1971 assembly elections in West Bengal is approximate as the elections in three constituencies were countermanded.

Differences between participation rates at these two levels are merely fractional (see Table 2). Keeping assembly performance as the base, in most states during 1967 the difference between turnout at assembly and parliamentary elections, is positive. In certain other cases, such differences are negative and, therefore, slightly puzzling. These negative differences are primarily due to procedural failures — sometimes by the election staff and, at others, by the voter himself.[6]

In Andhra, Assam and Jammu and Kashmir (JK), the gap between the two levels of participation is quite wide. This is mainly due to certain assembly or parliamentary constituencies returning their representatives without contest. As the maximum difference occurs in JK, so does the number of uncontested seats during 1967, i e, twenty-two out of seventy-five assembly, and two out of six parliamentary, constituencies are uncontested. Next to JK, the striking dissimilarity in proportions is noticed in Assam. Here again six assembly and one parliamentary seats are uncontested. A look at the 1971 elections in Orissa, Tamil Nadu and West Bengal reveals that as far as the first two states are concerned, the magnitude of difference in voting, at the two levels, is negligible. However, in West Bengal, it is not so. One of the reasons for this can be that as elections in three assembly constituencies were countermanded, the 1971 assembly voter turnout for West Bengal is approximate. Keeping these minor differences aside, one fact emerges from the analysis of Table 2: the participation at assembly level is comparatively high. Another interesting inference can also be made that so far in Indian elections, voting in assembly elections has been determining the turnout for parliamentary polls.

A very interesting way to bear this out would be a scrutiny of all the previous to 1971 mid-term elections. All such elections have been exclusively for state legislatures. Upto 1971, about thirteen such mid-term elections, covering ten states or parts thereof, have been held. The voter turnout nearly in all mid-term elections has been more than that in preceding general elections. All these mid-term assembly elections were de-linked from Lok Sabha elections. Yet despite the non-simultaneous elections, the turnout has usually gone up in each successive election (see Table 3). In this connection, the 126.69 per cent increase in the 1960 elections in Kerala, is as interesting a case for study as a decrease of 78.75 per cent in 1968, in Haryana.

Each successive assembly election has always mobilised a larger turnout. This has escaped nearly everyone's notice. The 1971 elections — which happen to be the first independent elections to the Lok Sabha — when compared to previous un-delinked elections, present a pronounced drop in participation in all states. This depression in turnout for national elections, however, just could not be ignored due to its uniqueness in the otherwise rising trend. Another observation can be made from Table 3: in mid-term as well as normal term general elections the voter turnout for assembly contests is moving upward.

The above has not been the case with delinked Lok Sabha elections. Scanning the electoral outcome from 1952 to 1971, we get four states where more than one election to the Lok Sabha was delinked (see Table 1). These four states provide us pure voting data on elections to the national parliament which can safely be compared with the 1971 delinked elections. Let us take up each state, one by one, and compare voter participation. In 1957, the Andhra region of Andhra Pradesh (AP) went to the polls only for parliament seats. As many as 43.85 per cent of the registered voters in the state cast their vote (see Table 4). Since, in the other half of the state, there were elections for the assembly too, the 43.85 per cent voter turnout figure is misleading. Figures in Table 4 reveal that in its delinked Lok Sabha election the Andhra region showed a striking drop of 20 per cent points in participation. On the other hand, the Telengana region, in a joint Lok Sabha — state assembly election situation, showed an increase of about 3 per cent points in voter turnout. However, in about fourteen years, i e, from 1957 through 1971, the voting percentage in AP has shot up to 59.13.

Himachal, where the assembly, as a result of states reorganisation, was abolished, experienced a voter turnout of 28.09 per cent for the Lok Sabha elections in 1957. This further improved to 38.37 per cent in 1962. In the fifth elections to the Lok Sabha, the rate of participation in Himachal shot up to 41.16 per cent.[7] It is clearly a case of an upward trend in turnout.

Kerala, with a declining participation in Lok Sabha elections, is an exceptional case. Beginning with 66.50 per cent in 1957, it improved to 70.55 in 1962, but in 1971 it seriously slumped to 64.53 per cent. This is puzzling at first sight. However, one must not overlook the fact that the Kerala electorate, in the last twenty years, has participated in eight elections. As against this, certain other states have experienced only four elections. It is quite probable, therefore, that areas having frequent elections, largely fail to maintain voter interest.[8] It is, therefore, likely that with the decline in interest in elections, the percentage of electors turning out to cast their vote should concomitantly drop. This, perhaps, has pulled down the voting percentage in Kerala.

Among the union territories of Delhi, Manipur and Tripura the trend is quite haphazard. Delhi has shown an increase in participation: in 1957, as many as 57.83 per cent voted. In 1971, turnout further improved to 65.19 per cent. In Tripura the East Bengal

TABLE 3 : PER CENT CHANGE IN PROPORTIONS OF VOTER TURNOUT AT MID-TERM AND PRECEDING GENERAL ELECTION

States as of 1971		Areas Participating in the Mid-Term Poll	Mid-Term Election Year and Voter Turnout		Preceding General Election Year and Voter Turnout		Per Cent Increase in Voter Turnout in Col (4) over Col (6)
			Year	Voter Turnout	Year	Voter Turnout	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	Andhra Pradesh	Andhra	1955	60.14	1952	58.38	103.01
2	Bihar	Bihar	1969	52.79	1967	51.54	102.43
3	Haryana	Haryana	1968	57.21	1967	72.65	078.75 (Decrease)
4	Kerala	Travancore-Cochin	1954	74.00	1952	69.86	105.93
		Kerala	1960	84.40	1957	66.62	126.69
		Kerala	1965	75.08	1960*	84.40	088.96 (Decrease)
5	Nagaland	Nagaland	1969	78.37	1968	76.40	102.58
6	Orissa	Orissa	1961	36.60	1957	35.58	102.87
7	Punjab	PEPSU	1954	61.01	1952	58.93	103.53
		Punjab	1969	72.27	1967	71.18	101.53
8	Pondicherry	Pondicherry	1969	81.59	1964	79.28	102.91
9	Uttar Pradesh	Uttar Pradesh	1969	54.00	1967	54.55	098.99 (Decrease)
10	West Bengal	West Bengal	1969	66.51	1967	66.10	100.62

* Since no general election took place between 1957 and 1962 the 1960 mid-term election has been treated as a general election in this analysis.

troubles may have been responsible for the dislocation of the electorate at the time of the 1971 elections. Manipur was very much in the midst of Naga turmoil. Both these areas were therefore, quite susceptible to sudden demographic shifts. This in turn, might have caused the electoral rolls to be quite inaccurate. A natural consequence of this might have been the proliferation of non-voters. There can be other similar reasons to render the electoral registers outdated.[9] However, our discussion of Table 3 and Table 1 provides us with ample evidence to prove that most of the earlier percentages of voters turning out for elections, in each state, conceals the 'true' participation in Lok Sabha elections.

Another approach to reinforce our foregoing inference, can be an examination of bye-election statistics. Between 1967 and 1971, thirty-two Lok Sabha and one hundred and twentyseven assembly bye-elections have taken place. Admittedly the rate of participation is usually low in all bye-elections, but it surely does not mean that such depressed voting percentages are uniform both at assembly and parliamentary elections. Each election level has its own importance to the voter and, as such, the degree of stimulus to vote varies with the level. In all the bye-elections held between the last two elections to the Lok Sabha, the drop in turnout for parliamentary election, in contrast to assembly, is accentuated (see Table 5).

One major conclusion emerges: whereas delinking did not have much impact on the voter turnout in assembly elections, it greatly lowered the turnout for parliamentary elections. Putting it differently, we may conclude that linking of parliamentary and assembly elections has always concealed the true participation rates in parliamentary elections. Therefore, any comparison of 1971 electoral turnout with previous elections is not free from risks. All previous rates for parliamentary elections, with the exception of some pointed out in Table 1, are relevant to assembly elections only. All trend analyses on turnout, therefore, should be made with due caution.

Besides other factors, party competitiveness is equally important in mobilising voter participation. It has been observed that, in general, "The more competitive the parties, the greater the likelihood of high rates of participation" in elections.[11] Of the many ways in which an election can be characterised as competitive, the following three are important: (i) the number of candidates running for a seat; (ii) the distribution of voter preferences; and (iii) the margin of victory, i e, the per cent points difference between the returned and runner-up candidates. Taking into account the first two items, Goyal and Hahn have built an elaborate classificatory scheme, and have quite successfully attempted an aggregate analysis of party competition.[12] A major part of our discussion here shall be based on this classificatory scheme. We shall, at constituency level, attempt to ascertain whether party competition has any bearing on voter turnout.

At an all-India aggregate level, it is quite obvious from Table 6 that, both in the 1967 and the 1971 elections, the parliamentary constituencies recording the highest voter tnruout fall in two categories, namely, (a) "Two Party Constituency dominated by one Party" and (b) "Competitive Two-Party Constituency". These voting percentages, in each election, are four to five per cent points more than the total national turnout. However, in the "non-competitive" category, the voting in 1971, is 59.44 per cent and it needs be explained.

On scrutiny of constituency-wise detail, it has been found that the entire "non-competitive" class accounted for thirteen constituencies[13] or, say, 2.5 per cent of the total seats in the Lok Sabha. Kerala and Himachal were not as conspicuous as others. In Andhra, all the four seats were won by Indian National Congress (Ruling) (INC). The contest in two constituencies was between INC and Indian National Congress (Opposition) (INO). As INO was routed in the entire state, voter alignment in these two seats was, not surprisingly, strikingly skewed, thereby enlarging the margin of win. In the other two seats, a sitting INC member of parliament and another new INC entrant were challenged by completely fresh Swatantra and Communist candidates. In Maharashtra, again, all the three seats were bagged by INC. In two out of three, Congress got re-elected in the face of a very weak opposition from purely local left parties. In the third constituency, the sitting Peasants and Workers Party candidate disaffiliated himself to contest as an independent. Likewise in Mysore, in two constituencies, the INC was directly challenged by independents. INC

TABLE 4: 1952 AND 1957 GENERAL ELECTIONS — ANDHRA PRADESH

Areas and Year of Election		Electorate	Votes Polled	Voter Turnout	Linked or Delinked Elections
Andhra Region	1957	14,680,293	5,837,682	39.77	Delinked
	1952	12,941,473	7,774,847	60.08	Linked
Telengana Region	1957	7,489,915	3,885,132	51.87	Linked
	1952	6,551,396	3,230,878	49.32	Linked
Andhra Pradesh	1957	22,170,208	9,772,814	43.85	Both
	1952	19,492,869	11,005,725	56.46	Linked

annexed both these seats by great margins. In the third seat, the Congress incumbent retained the seat with practically no opposition. These details make the abnormal results, in "non-competitive" situations, more or less understandable. Let us also add here that in two constituencies, one each in Andhra Pradesh and Maharashtra, two central ministers were contesting which, perhaps might have been another additional factor in inflating the margins of victory.

Between 1967 and 1971, the incidence of "One-Dominant Party" constituencies has tremendously increased. However, when compared with total turnout, the pattern of voting in the majority of these constituencies is, comparatively, unchanged. It has already been argued earlier that as party-competition becomes diffused, participation rates, in most cases, start slumping. This pattern, though maintained in 1967, does not remain consistent in 1971. However, in certain classes of constituencies where the competition is fragmentary, the turnout shows two patterns: it stays either slumped or almost parallel to total average. One of the reasons for such a haphazard distribution of rates of participation in diffused and multi-party constituencies, is the shifting nature of competition. With various political parties, forming electoral alliances, the 1967 patterns have failed to remain fairly constant in 1971. This new trend in India's electoral politics is, perhaps, responsible for making any classification of competitive constituencies slightly ineffective. For instance, in Tamil Nadu, a sizeable aggregation of constituencies under "Marginal Two Party" type is discernible in 1971. If the INC-DMK electoral alliance fails in the state, in the next elections, it may proliferate or, perhaps, polarise electoral competition. Therefore, the entry of both the 1971 partners of the alliance, as political opponents may, perhaps, upset the voting percentages in such a manner as to revert the 1967 turnout pattern. What we are, precisely, trying to suggest here is that any negation of the influence of electoral alliances may, allow the above classificatory scheme to work more independently. In spite of the special situation created by the political settings of 1971, the analysis of Table 6 broadly supports our earlier contention that highly competitive constituencies with two major contenders for a seat stimulate comparatively more voters to exercise their franchise.

As pointed out earlier, another approach to understand the impact of party competition on turnout, is through a bivalent analysis of the number of parliamentary constituencies distributed on the basis of per cent electors voting and the margin of victory over the immediate runner-up in an electoral contest. As "competitive parties tend to produce a close vote",[14] the margin of victory or the "closeness of the vote" is very closely related to electoral competition. In comparison to the 1971 elections, the 1967 elections were more keenly contested. Out of 499 contested seats in all the Indian states, 46.7 per cent were won by a margin of less than 11 per cent points; another one-fifth with a margin varying between 11 and 20 points; and these percentages kept on neatly tapering off as the margin points increased (see Table 7). In other words, in about half the constituencies, as a result of keen party-competition, the vote was very close. In regard to participation, as many as one-third of the constituencies experienced a turnout of more than 65 per cent. In yet another one-third, the turnout was between 56 and 65 per cent. The distribution of the remaining seats was: 23.45 per cent of total seats recorded a turnout of 46 to 55 per cent and the other 9.22 per cent recorded 25 to 45 per cent voter participation. The fact that two-thirds of the total seats during 1967 were won by margins ranging upto 20 per cent points and recording voter turnout beyond 55 per cent essentially suggests a high degree of keen party-competition plus its relevance to voter turnout.

Contrastingly, the 1971 dispersion of constituencies over margins of victory and turnout intervals was not similar to 1967. The nature of party-competition had changed and so had the turnout pattern. Out of 499 contested constituencies, less than one-fifth recorded turnouts of more than 65 per cent as against one-third in 1967. However, the areas where turnout ranged from 46 to 65 per cent were slightly more than in 1967. Also, over the last two elections, the proportion

TABLE 5 : EXTENT OF SHIFT IN RATE OF PARTICIPATION IN ALL THE BYE-ELECTIONS HELD BETWEEN 1967 AND 1971

Extent of ± Shift (in Per Cent Points)	Parliament				State Assemblies			
	No of Constituencies	As a Per Cent of ΣN for Parliament			No of Constituencies	As a Per Cent ΣN for Assembly		
		Total	Negative	Positive		Total	Negative	Positive
Uncontested or No election	2	06.25	—	—	10	07.87	—	—
0 - 5	4	12.50	03.12	09.38	61	48.03	28.34	19.69
6 - 10	5	15.63	15.63	—	30	23.62	13.38	10.24
11 - 15	7	21.88	21.88	—	13	10.24	04.73	05.51
16 - 20	5	15.63	15.63	—	6	04.72	03.93	00.79
21 - 25	3	09.37	09.37	—	5	03.94	03.94	—
26 - 30	3	09.37	09.37	—	1	00.79	00.79	—
31 - 35	1	03.12	03.12	—	—	—	—	—
36 - 40	2	06.25	06.25	—	1	00.79	01.79	—
ΣN	32	100.00	84.37	09.38	127	100.00	55.90	36.23

Note : ± Shift has been worked out by keeping 1967 general elections as the base.

TABLE 6: PARTY COMPETITION AND VOTER PARTICIPATION AT CONSTITUENCY-LEVEL

		Total		Non-Competitive One Party Constituency		One Dominant Party Constituency		Transitional Multi-Party Constituency		Multi-Party Constituency Dominated by Three Parties		Diffused Multi-Party Constituency		Fragmented Multi-Party Constituency	
		1967	1971	1967	1971	1967	1971	1967	1971	1967	1971	1967	1971	1967	1971
1	AP	68.67	59.13	UC	61.17	—	61.10	70.55	64.75	—	63.53	—	—	—	—
2	AS	59.28	50.29	UC	—	—	54.27	66.63	—	—	—	—	—	—	—
3	BR	51.53	48.86	—	—	—	48.64	50.84	47.13	48.78	57.02	48.78	48.87	41.30	55.60
4	Gj	63.77	55.50	—	—	62.48	50.03	51.76	—	—	—	—	—	—	—
5	HY	72.61	64.35	—	—	—	58.94	70.87	—	—	—	—	—	—	—
6	HP	51.20	41.16	—	38.27	51.70	42.16	52.23	—	—	—	—	—	—	—
7	JK	55.16	64.01	UC	—	—	59.79	—	—	—	—	—	—	—	—
8	KL	75.64	64.53	—	46.79	—	53.85	—	—	—	47.70	38.57	—	—	—
9	MP	53.46	47.79	—	—	—	49.74	73.51	—	—	—	71.34	—	—	—
10	MT	64.75	57.95	—	—	51.63	59.27	52.11	44.17	—	—	61.39	—	—	—
11	MY	62.95	57.43	—	62.28	63.16	57.63	70.27	62.62	—	—	—	—	—	—
12	NL	UC	53.77	—	59.07	68.84	—	65.33	55.90	—	—	50.27	—	—	48.41
13	OR	43.70	43.27	—	—	—	43.99	—	53.77	—	—	—	—	—	—
14	PB	71.13	59.90	—	—	—	56.92	48.34	—	—	—	—	—	—	—
15	RJ	58.27	54.00	—	—	72.20	57.41	—	—	—	—	—	—	—	—
16	TN	76.56	71.82	—	—	62.29	72.80	73.51	44.17	—	—	—	—	—	—
17	UP	54.51	46.31	—	71.34	—	42.11	52.11	62.62	—	—	—	—	—	—
18	WB	66.03	61.01	—	—	54.67	—	70.27	55.90	—	—	—	—	—	—
All States		61.20	55.06	—	59.44	60.68	54.31	73.96	53.77	—	—	—	—	—	—
Union Territories		70.44	61.69	—	UC	—	65.72	64.97	64.97	—	—	—	—	—	—
All India		61.33	55.16	—	59.44	60.68	54.68	64.97	59.82	—	—	—	—	—	—

		Marginal Multi-Party Constituency		Competitive Two-Party Constituency	
		1967	1971	1967	1971
1	AP	66.94	53.39	69.75	51.82
2	AS	54.00	48.18	—	—
3	BR	52.99	47.02	53.55	55.44
4	Gj	—	—	64.90	57.38
5	HY	72.62	—	76.24	65.81
6	HP	44.75	—	53.41	—
7	JK	—	—	51.35	53.19
8	KL	—	—	78.04	66.48
9	MP	49.49	54.12	56.03	49.88
10	MT	65.04	59.62	66.94	66.28
11	MY	63.75	—	63.08	—
12	NL	—	—	—	—
13	OR	—	43.45	26.14	30.37
14	PB	—	65.54	72.56	60.18
15	RJ	49.48	58.11	55.74	52.61
16	TN	—	—	76.51	71.04
17	UP	51.38	46.21	52.24	46.83
18	WB	—	56.66	66.17	61.63
All States		—	49.96	66.26	59.47
Union Territories		57.03	—	72.23	58.92
All India		68.97	49.96	66.38	59.47

UC = Uncontested elections.

TABLE 7 : PARLIAMENTARY CONSTITUENCIES BY MARGIN OF VICTORY AND VOTER TURNOUT

Margin of Victory / Per Cent Voter Turnout	1967 Elections						1971 Elections					
	0-10	11-20	21-30	31-40	Above 40	N	N	0-10	11-20	21-30	31-40	Above 40
Below 25	—	—	—	—	—	—	3 (0.60)	33.33	33.33	33.34	—	—
25-35	70.00	10.00	10.00	10.00	—	10 (2.01)	32 (6.41)	28.13	21.88	15.62	12.50	21.87
36-45	27.78	27.78	27.78	13.89	2.77	36 (7.21)	75 (15.03)	22.67	13.34	17.33	18.66	28.00
46-55	51.28	26.50	9.40	10.25	2.57	117 (23.45)	129 (25.85)	23.26	20.16	24.03	10.85	21.70
56-65	42.38	25.17	21.85	7.95	2.65	151 (30.26)	164 (32.86)	25.61	22.57	17.68	12.80	21.34
66-75	51.16	29.46	7.75	6.20	5.43	129 (25.85)	88 (17.65)	35.23	27.27	15.91	3.41	18.18
Above 75	46.43	26.79	23.21	1.79	1.78	56 (11.22)	8 (1.60)	37.50	25.00	37.50	—	—
N	233 46.70	133 26.65	78 15.63	28 7.81	16 3.21	499 100.00	499 100.00	133 26.66	107 21.44	96 19.24	56 11.22	107 21.44

of constituencies recording less than 46 per cent voting has doubled. As a consequence, more than 22 per cent of constituencies are low turnout areas.

The margins of victory in 1971 do not taper off as sharply as in 1967. However, the single largest concentration of constituencies in margins above 40 per cent points clearly indicates the proliferation of one-party dominated constituencies. Nearly half the constituencies in 1967 were won with not more than a 10 points margin, but during 1971 we observed only one-fourth in this margin area. This means that between the two elections a serious reduction of constituencies in the highly close-vote area has greatly impaired the growth of party-competition. In the last election this indirectly pulled the voting percentage down. Whereas in 1967 we had as much as over one-third of the constituencies (37.07 per cent) in above 65 per cent turnout areas, we have as little as about one-fifth (19.25 per cent) of the seats in high turnout categories during 1971.

In seeing how constituencies falling under each turnout category get distributed among different margin categories, we discern that in the majority of constituencies turnout and margin of victory are quite closely related. However, some of the constituencies lying in either extremely low or high turnout regions demonstrate somewhat erratic behaviour. For instance, there are 10 constituencies in the 25-35 percentage turnout category in 1967. In 1971, there are three in the below 25 and eight in the above 75 categories. These cases, to some extent, distort our analysis of Table 7. With a view to making the last two elections comparable and also in order to analyse our data more meaningfully, let us skip all constituencies in the below 35 and above 75 per cent turnout categories. In other words, our analysis here will disregard over 13 per cent of the constituencies in 1967 and about 9 per cent in 1971.

Over four-fifths of the constituencies recording 36-45 per cent voting in 1967 are evenly distributed over margin ranging from 0 to 30 per cent points. And about 14 per cent of the seats are concentrated in the '31-40' points margin. However, the constituencies in this turnout group show the highest voting proportions in the '21-30' and '31-40' margin points categories. The '46-55' turnout class, though otherwise all right, shows an unexpected aggregation in the '0-10' margin points area. The distribution of constituencies in the '56-65' and '66-75' turnout categories suggests a reasonably close relationship between participation and margin of victory in 1967.

There is a slightly heavier clustering of 1971 constituencies in the 36-45 per cent turnout area in the '0-10' points margin class. The rest of the constituencies are distributed in such a manner that as the margin points increase the proportion of constituencies in a given turnout-class also improves. As a result, this turnout category records the highest percentages in the '31-40' and 'above 40' margin points areas, i e, 18.66 and 28.00, respectively. The concentration of 24.03 per cent of constituencies in the '21-30' margin points class being an exception, the distribution of constituencies in the '46-55' margin class is more or less all right. In the '0-10' to '31-40' margin categories, the cas s in the 56-65 per cent turnout class get distributed in a descending order. This tapering off of percentages is further accentuated in the 66-75 turnout area. Here we observe, as compared to all other turnout categories, the highest concentration of cases in the '0-10' and '11-20' margin points classes and the least clustering in the other three margin classes.

The foregoing analysis reveals the nature of and the degree of change in party-competition over the last two elections. What it really brings out quite clearly is the fact that party competition is essentially related to voter participation. It also reinforces the fact that the "closeness of the vote" is positively related to voter turnout.

We have observed that voter participation, in all previous elections, varied from one state to another. In other words, electors inhabiting certain parts of the country are comparatively more active in electoral participation than those dwelling in other regions. Naturally, each region is characterised by a differential aggregation of environmental, demographic and ecological variables which provide a community with a structural context. That the structural context largely influences voting behaviour is subscribed to by many.[15] In India, rapid industrial and other development is causing great positive shifts in many indicators of modernisation, such as, literacy rate, urbanisation, and population density and growth. Because of the INC appeal to women voters to support it in 1971, we have, with a view to seeing whether this relates to turnout, included sex-ratio in this analysis.

Various Indian states are at different levels of electoral participation, such as, 41.16 per cent of the electors voting during 1971 in Himachal and 71.82 per cent in Tamil Nadu. This wide range

places many states at unequal stages of electoral development. Similarly, we observe great differences in the socio-economic conditions of these states. For example, we have states recording literacy rates as low as 18.30 per cent or as high as 60.16 per cent. The same is the case with urbanisation and density of population (see Table 8). Even the growth rate of population and the sex-ratio vary from state to state.

It has been sufficiently established through research surveys that education has a definite bearing on political participation. So much so that some cross-national studies have found consistent international patterns. One of these studies concludes "That education has a greater impact on political behaviour than the other components of socio-economic status (income and occupation)".[16]

Though educational levels would make our analysis more sophisticated, pure literacy rates are useful. Our analysis supports the contention that literacy is highly positively related to turnout. We have, elsewhere, used the literacy rate for analysing voting behaviour and are fairly convinced of the predictive power of this variable.[17] Employing the same indicator and working out Spearman's rank order correlation (rho), we obtain co-efficients as high as +0.4387. However, this rho is significant at 0.1 per cent level which, perhaps, could have been further sharpened had we used educational levels instead of pure literacy rates. But this was not possible.[18]

The centres of political power, in general, are located in urban areas. Therefore, urban voters are closer to political activities than rural voters who always happen to be on the periphery. The abundance of opportunities for better interaction, communication, and nearness to centres of power makes an average urban elector highly politicised. Participation in electoral politics is, therefore, greater in urban areas. The 1971 turnout when related to the percentage of urban dwellers in the 1971 census, provides us with an rho as conspicuously high as +0.6691. This co-efficient of correlation is significant at 0.01 per cent level. In other words, urbanisation is a very relevant factor in predicting electoral participation.

Another interesting demographic variable, namely, density of population per square kilometre, though seemingly overlapping urbanisation, is equally important in explaining voter turnout. It may be largely true that urban areas are densely populated, but Kerala, for

TABLE 8 : RELATIONSHIP OF SOME SELECT ECOLOGICAL VARIABLES AGGREGATING AT STATE LEVEL WITH THE RATE OF PARTICIPATION IN 1971

Variables (Basis : 1971 Census)	Co-efficients of Correlation (rho)	Levels of Significance (Per Cent)	Variable Range	
			Maximum	Minimum
1 Literates as per cent of total population	+.4387	0.1	60.16	18.30
2 Urban population as per cent of total population	+.6691	0.01	31.20	7.06
3 Density of population per square kilometre	+.5196	0.05	548	62
4 Growth rate of population between 1961-1971	+.1887	Not Significant	34.37	19.82
5 Sex-ratio (Females per 1000 males)	—.1225	Not Significant	1019	873

Note: The Density of Population for Jammu and Kashmir has been worked out by excluding Rajauri, Punch and Ladakh districts, as parts of these districts are under the illegal occupation of Pakistan and China. It is, therefore, not possible to work out density of population for the entire state.

Source : Government of India, Registrar General and Census Commissioner, India, "Census of India 1971: Provisional Population Totals—Part I of 1971-Supplement, (Series-1)", The Manager of Publications, Delhi, 1971.

instance, has high population density but is not highly urbanised. Moreover, in India, classifying any area as urban is very much dependent on definitional considerations and, therefore, may differ from urbanisation indicators in other countries. However, density of population is a very straightforward indicator and its standardisation is universal. As such, its relationship to turnout may be more meaningful. Like urbanisation, though at a slightly lower scale, the density of population also enhances opportunity for interaction and communication. Therefore, density of population also stimulates voter participation. The 1971 electoral data when compared with the 1971 density, give us an rho positively high enough (+0.5196) to reinforce our foregoing argument.

The growth rate of population between the 1961 and 1971 censuses was included in this analysis with the implicit idea that the higher rates increase pressure on land as well as on other economic resources. This indirectly increases frustration with the present government and may result in two opposite attitudes: (1) it may alienate a large number of electors and reduce participation; (2) it may stimulate voters to bring about a change in the government through the electoral process. Another indicator, sex-ratio in the 1971 census, was also introduced in this analysis. It was primarily done because of the ruling Congress's appeal to women voters to turnout in large numbers and support the party. Since the ruling Congress contested over four-fifths of the total seats in the country we expected to find some kind of definite relationship with turnout. On actual examination of the electoral and demographic data, we find that both these components of the structural context are too poor to predict voter turnout.

Yet another variable added to this analysis was the number of villages with a population of less than 1,000. The reason for selecting this variable is the country's electoral system. Turnout in a way is the output of election arrangements. The election rules of the country require that, as far as practicable, not less than 600 or more than 1,000 voters should be attached to a polling station.[19] Moreover, in clubbing together villages or parts thereof, a voter shall not be made to travel a distance of more than two kilometres in reaching a polling station. These conditions may be technically satisfied, e g, a village attached to a polling station may be within the prescribed limit of two kilometres but the actual path to the polling station may be very arduous. In many states more than one village is attached to a single polling booth. Each Indian village is traditionally a compact unit. Therefore, in those states where more than one village is attached to a polling station, the government's electoral arrangements are inadequate and seriously impede people from voting. In southern India, especially in the extreme south, the villages are exceptionally large and the number of polling stations with more than one village attached to them is very small. As a result, in the southern states, we have substantially high rates of participation. The western states also show a similar

TABLE 9 : RELATIONSHIP BETWEEN SIZE OF VILLAGES AND VOTER TURNOUT

States	Number of Villages and Proportion of Villages with Less than 1,000 Persons		Voter Turnout		Rank in Descending Order of Proportions		
	Total	Villages with Less than 1,000 Inhabitants	1962	1971	Villages with Less than 1,000 Persons	1962 Voter Turnout	1971 Voter Turnout
Orissa	46,466	93.58	23.56	43.27	1	14	
Madhya Pradesh	70,414	93.43	44.79	47.79	2	13	12
Assam	25,702	90.75	52.75	50.29	3	9	10
Rajasthan	32,240	87.49	52.42	54.00	4	10	9
Uttar Pradesh	112,624	84.97	51.02	46.00	5	11	13
Bihar	67,665	83.07	46.97	48.86	6	12	11
West Bengal	38,530	80.10	55.75	61.00	7	8	3
Mysore	26,377	79.80	59.30	57.43	8	6	7
Maharashtra	35,851	76.27	60.44	57.95	9	5	6
Punjab	21,269	76.19	65.41	59.90	10	3	4
Gujarat	18,584	74.27	57.96	55.50	11	7	8
Andhra Pradesh	27,084	61.40	64.72	59.13	12	4	5
Tamil Nadu	14,124	37.31	68.77	71.82	13	2	1
Kerala	1,574	01.52	70.55	64.53	14	1	2

Note : (i) Co-efficients of Correlation (rho) between villages with less than 1,000 inhabitants in 1961 Census and voter turnout in 1962 = —.9209.
(ii) Co-efficients of Correlation (rho) between villages with less than 1,000 inhabitants in 1961 Census and voter turnout in 1971 = —.8462.

pattern. For instance, Kerala, which recorded the highest percentage of turnout from 1952 to 1967 and the second highest in 1971, happens to have only 1.52 per cent of its villages with less than 1,000 population. At the other extreme, Orissa, which has 93.58 per cent of its villages with less than 1,000 persons, has constantly recorded the lowest turnout among all the states (see Table 9).

On comparing the proportion of villages with less than 1,000 population with the proportion of voters participating in the 1962 and 1971 elections, we observe a very significant negative rho (— 0.9209) in the 1962 elections and again a quite significantly negative rho (—0.8462) in the 1971 elections. The difference between two co-efficients could, perhaps, have been completely wiped out, had the 1971 census figures been available to us. Since the 1971 rho is based on the 1961 census and also no care has been taken about the trifurcation of Punjab, the expectation is that with the latest census data the result would be definitely better.

Our analysis of Table 9 brings out that as long as there are many thousands of small villages in the country and efforts are not made to provide, say, one polling station per village, the voter turnout in this country is going to be very closely negatively related to this variable. In brief, this variable does explain, very precisely, much of the fluctuation in rates of participation from one state to another

To sum up, five major conclusions emerge from this discussion on the slump in electoral participation during the 1971 elections. One, whereas the de-linking of parliamentary and assembly elections had no impact on voter turnout for assembly elections, it had serious implications for participation in parliamentary elections. The participation rate was seen to be closely linked with the level of the elections, i e, higher voter turnout for state than for national elections. Probably, this is related to the "central-peripheral" dimension which surely is an acceptedly important factor in political participation.[20]

Two, though very closely overlapping the above but all the same needing separate mention, is the finding that any direct comparison of the 1967 and 1971 elections is sure to lead to spurious conclusions on voter turnout. The best way to understand the shift in the turnout for parliamentary elections is through a comparison with earlier de-linked elections as well as with bye-elections which usually take place in rather highly encapsulated conditions. Using these comparisons, we have sufficiently established that turnout in parliamentary elections has in fact increased and the apparent slump is not real.

Three, the unequal rates of participation among the various states are, to some extent, a result of the degree of party-competition. In highly competitive constituencies more electors participate, but as competition becomes fragmented or polarised, turnout suffers a setback. Further, the margin of victory or the "closeness of the vote" is positively related to participation. Along with the widening of margins of victory the rate of voter abstention also increases.

Four, the socio-economic configuration of an area definitely fashions people's attitudes towards electoral involvement. States with a high concentration of literates, greater urbanisation, and high density of population,

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show higher rates of participation in elections. Though these three variables are very important correlates of electoral participation, the growth rate of population and the sex-ratio have no significant relevance to participation.

Five, electoral arrangements are very crucial to participation. Wherever more than one village is attached to a polling station, the rate of participation definitely drops. This holds true both for assembly and national elections. We have observed that as the proportion of small villages declines, the rate of electoral participation improves. When mutually related, the rate of participation and proportion of small villages bring out a negative correlation (rho) as high as — 0.9209 for 1962 and — 0.8462 for 1971.

From these findings it can be safely said that the drop in turnout between 1967 and 1971 is purely a result of de-linking. A close examination of electoral statistics, from 1952 to 1971, reveals that turnout for parliamentary elections has improved. With regard to variations in the rates of participation among states, the disparity in electoral participation cannot be removed as long as there are disparities in the socio-economic make-up of each state. The most important obstruction which largely hampers participation in elections is the inadequate government input in the electoral process. Unless the electoral administration in the country stops religiously following arbitrary prescribed limits about the number of electors per polling station and the placing of polling booths within the stipulated distance from the voter but without considering obstacles to easy access, the rate of participation just cannot be improved in states with a large number of small villages.

Notes

1 Robert A Dahl, "Who Governs", Yale University Press, New Haven and London, 1966, pp 246-8.

2 Lester W Milbrath, "Political Participation" Rand McNally, Chicago, 1965, p 142.

3 "The Problem", *Seminar* No 144, August 1971, p 13.

4 Craig Baxter, "District Voting Trends in India", Southern Asian Institute, School of International Affairs, Columbia University, New York, 1969, p 92.

5 Lester W Milbrath, *op cit*, p 96.

6 The election procedure is that in all cases the polling officers shall issue first the assembly ballot and after the voter has cast his assembly vote, he shall be issued a parliamentary ballot. With little voter education and inadequately trained electoral staff (who are generally drafted from other non-electoral agencies of the state governments), the chances are that a voter might exercise his assembly vote and might leave the polling booth without demanding his parliamentary ballot. In such cases, the difference in participation at two levels is going to be positive, if assembly is kept as the base. In other circumstances, the inadequately trained staff might issue parliamentary ballot first. In such cases, the difference is likely to be negative. But these types of slips are so few that differences become insignificant — rather totally absent — if we do not care to look at percentages beyond the decimal points.

7 In Table 1, it is very interesting to note that when in 1967 the Legislative assembly was revived in Himachal and elections for the assembly were held along with Lok Sabha elections, the participation jumped from 38.37 per cent to 51.20 per cent. This is another instance of spurious rate of participation in Lok Sabha elections.

8 Lester W Milbrath, op cit, p 95.

9 J Blondel, "Voters, Parties and Leaders" Penguin Books Ltd, 1966, p 53.

10 J Blondel, *ibid*, p 52.

11 Milbrath, *op cit*, p 96.

12 For a detailed definition of this classificatory scheme, see O P Goyal and H Hahn, "The Nature of Party Competition in Five Indian States", *Asian Survey*, (VI: 10), October, 1966.

13 Bobbili, Rajahmundry, Amalapuram, and Chittoor in Andhra Pradesh; Mandi in Himachal, Mavelikarra in Kerala; Kolaba, Ramtek and Karad in Maharashtra; Madhugiri, Kolar and Kanakapura in Mysore; and Madurai in Tamil Nadu during 1971 elections.

14 Milbrath, *op cit*, p 102.

15 See Blondel, *op cit*, pp 60-65 and Milbrath, *op cit*, pp 98 and 129.

16 Milbrath, *ibid*, p 122.

17 See my, "Fluctuating Voter Loyalties: Budhalada Assembly Constituency in 1969", *Economic and Political Weekly*, March 6, 1971, p 592.

18 The detailed 1971 census volumes are still to be published. This makes the relevant data inaccessible.

19 Election Commission of India, "Hand-Book for Returning Officers", Election Commission of India, New Delhi, 1969, p 5.

20 Milbrath, *op cit*, pp 110-114.

China's Crude Oil Production

COMMUNIST CHINA has moved, within the past three years, from 19th to 14th place in the world league of oil-producing countries. Output is believed to have at least doubled between 1968 and 1970 when, according to Chou En-lai, it reached a figure of around 20 mn tonnes. It has now been officially announced that there was last year a further increase of 27.2 per cent, raising the total to about 25.5 mn tons.

Much leeway had to be made up in 1969 and 1970, after the disturbances of the Cultural Revolution, but last year's advance seems to indicate a successful effort to add to the country's productive capacity. Established reserves of natural crude oil in China have recently been estimated at 5,669 mn barrels or about 780 mn tonnes, not including recently discovered reserves in west Tsaidam and elsewhere, but many of the fields are in remote and difficult areas and cannot be easily utilised.

The official statement on crude oil production in 1971 also asserts that output was in excess of what had been planned. Some of the oil is said to be from entirely new discoveries, apparently at convenient locations. Production in the celebrated Taching area went up by around 26 per cent, and new wells also went into operation in the Yumen, Chinghai, Sinkiang and Szechwan areas. There was, at the same time, a 25 per cent increase in the country's still relatively small production of natural gas, presumably as a result of the reported discoveries in Chekiang province. Refinery capacity was raised during the year by 16 per cent — significantly, less than crude oil production — and petroleum products were among a small group of commodities whose sale prices were cut during July-December.

— *Petroleum Press Service*, February 1972.

Drug Price Control: An Evaluation

V L Mote

H N Pathak

This paper sets out to achieve the following three objectives :

(1) to develop a framework for examining the problem of price control in the context of the drug industry;

(2) to use this framework for considering whether there is a conflict between the short-term and the long-term benefits of the price control to the consumer; and

(3) to use this framework again to analyse the Tariff Commission Report and the Position Paper on Drug Prices submitted by the OPPI.

Lack of adequate empirical data made it difficult to achieve the second objective. In our analysis of the Tariff Commission's Report and the OPPI Position Paper, it became evident that there was considerable difference of opinion between the two on what should be the 'adequate rate of return' and on methodology for its measurement. These differences are discussed in detail.

One of the positive aspects of the Price Control Order is that it has once again brought into sharp focus the problem of maintaining profitability through higher sales at lower prices.

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IN August 1966, the Government of India asked the Tariff Commission to examine the prices of 18 basic drugs and their 69 formulations. The Tariff Commission submitted its report in August 1968. Based on this report, in May 1970, the Government issued the Drugs (Price Control) Order. The Control Order fixed the prices of the 18 basic drugs and laid down a formula for determining the prices of the formulations from these and other drugs. It so happened that, for certain non-ethical drugs, the prices computed according to the formula were higher than the prices prevalent before the Order. Amendments to the Order were therefore issued subsequently to bring down the prices to the pre-May 16, 1970, level.

The price control has inevitably led to a controversy between the Government and the industry. The industry believes "... that under misguided enthusiasm and for some short-term advantages, Government, though its Price Control Order, sacrificed the long-term consumer interest".[1]

The pharmaceutical industry is important to society's well-being, so the impact of price control is an important issue meriting close examination. In this paper, we attempt first to develop a framework for examining the problem of price control, and secondly, to use this framework for answering the question whether there is in fact a conflict between the short-term and the long-term advantage to the consumer.

Unfortunately, major manufacturers in the industry have not been able to share with us data regarding product profitability or to discuss with us, in quantitative terms, their views on the impact of price control, on the product-mix and on investment decisions. Consequently we have not had much success in determining whether there is a conflict between short-term and long-term consumer interests. It has not been possible to decide on the basis of empirical data whether or not there will be any conflict between the short-term interests of the consumer and the long-term interest of the industry. Nevertheless, we believe that the framework developed in this paper for analysing price control problems is useful.

Before we develop our framework we examine the case for and against price control, as put forward by its respective advocates. While we have not found any explicit statement of the reasons for advocating price control, these seem to be as follows:

Case for Price Control:

(i) the industry is oligopolistic and hence competitive forces do not play a major role in determining prices;

(ii) the return on investment in the pharmaceutical industry is unduly high as compared to in other industries;

(iii) compared to pharmaceutical units in advanced countries, the industry in India spends very little on research and development; and

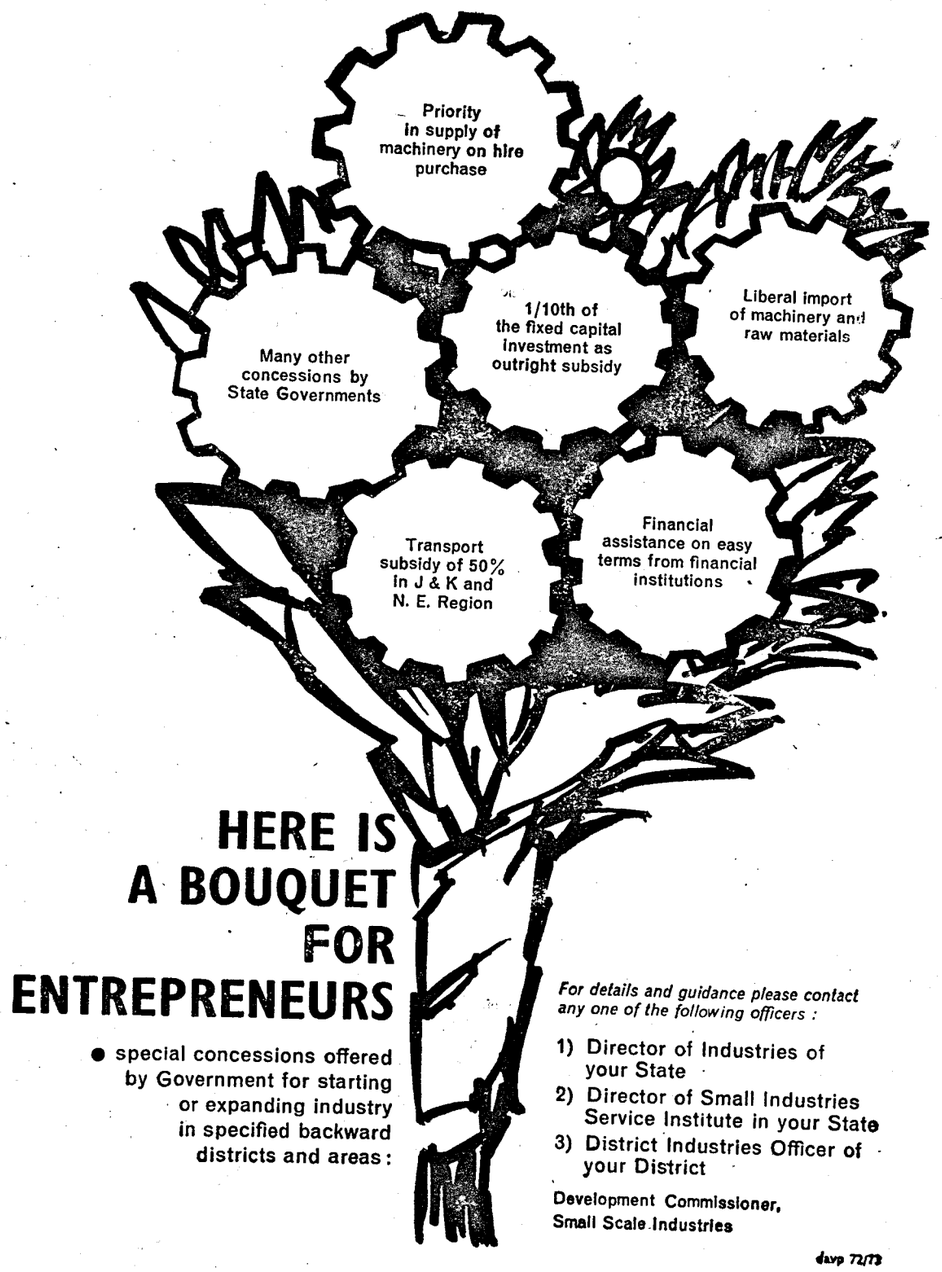
(iv) the industry has large unutilised capacities.

Each of these reasons merits consideration and is examined in some detail below.

Table 1 gives data on the sales of the various large pharmaceutical units in 1966. It can be seen that 50 per cent of the market is shared by the top 10 firms and that the first 25 firms account for 74 per cent of the total market.[2] Though the market shares have been calculated on the basis of the 1966 data (owing to non-availability of more recent data), it will not be unreasonable to assume that the situation has not changed radically. Table 2 presents data on the installed capacity for various basic drugs, of the different manufacturers as of 1969, and the actual production value in 1969. A study of this Table indicates that, in most cases, a particular drug is produced by only a few manufacturers (43 drugs out of 69 were produced at the most by two manufacturers). The fact that a small number of companies account for a major portion of the industry's sales and that only a very limited number produce the same basic drugs is indicative of the oligopolistic nature of the industry.

Another major characteristic of the industry is its dependence on foreign participation. An examination of the ranking of the firms shows that, out of the first 15 firms ranked by sales, only four firms are wholly Indian-owned.

Table 3 gives data on the research and development expenditures in the pharmaceutical industry in India and in other advanced countries. In 1968, the Indian pharmaceutical industry spent only 1.5 per cent of its sales on research



and development as compared to an expenditure of 8.5 per cent of sales on research and development in 1966 by the American drug industry.

Financial Analysis

The Reserve Bank of India Bulletin reports the balance sheets and income statements of public limited companies in drugs and pharmaceuticals, chemicals, and all other industries. Analysis of these data gives an insight into the profitability in the pharmaceutical industry as compared to the profitability in chemical and other industries.[3]

Table 4 shows the profitability of the companies in the three industries.

From this we can see that the profit after tax to net worth for the drug industry was consistently higher than that for the chemical industry — which itself was higher than the return on investment for all manufacturing units. An earlier study by Hazari and Lakhani[4] gives the magnitude of return on the investment made by some selected companies in the industry. Their main finding is that "...out of 87 companies studied, 38 wholly owned Indian companies made losses in 1964. For the remaining 49 companies, the profit after tax, but before depreciation, (cash earnings) was 31 per cent on net worth".[5]

The reasons for this high return on investment are twofold:

The pharmaceutical industry has a higher sales to fixed assets ratio. As its balance sheet (Table 5A) shows, it has a lower percentage of net fixed assets. Hence it has to carry a lower burden of depreciation, which increases its profitability. This is substantiated by the fact that profit before interest and tax to total capital employed for the pharmaceutical industry is about three times that for all industries (22.6 per cent for drugs *vs* 6.9 per cent for all industry in 1968). But when the ratio of the funds generated[6] to capital employed is compared, it is 9.9 per cent for the drug industry as against 6.0 per cent for all industries in 1968.

The second reason is that the contribution[7] in the pharmaceutical industry is about 53 per cent, whereas it is 41 per cent for the chemical industry and 38 per cent for all industries. It is true that the fixed costs are higher for the pharmaceutical industry but the difference in fixed costs among the industries does not fully account for the differences in contribution. (In 1968, the percentage of fixed costs to total sales was 36.8 per cent for drugs, 30.6 per cent for chemicals and 33.2 per cent for all). It is claimed that

Table 1

(Amounts in Rs lakhs)

S No	Name	1966 Sales	Cumulative Sales	Percentage
1	Glaxo Laboratories (I) P Ltd	1645	1645	9.4
2	Pfizer Limited	1270	2915	16.6
3	Sarabhai Chemicals Ltd	1160	4075	23.3
4	CIBA	994	5069	
5	Atul Products Ltd	728	5797	33.1
6	Hindustan Antibiotics Ltd	539	6336	
7	Alembic Chemical Works Co Ltd	539	6336	39.7
8	Parke-Davis (I) Ltd	527	7490	
9	Cyanamid India Ltd	504	7994	
10	Hoechst Pharmaceuticals Ltd	491	8485	
11	Geoffery Manners (P) Ltd	488	8973	51.3
12	Dey's Medical Stores Mfg (P) Ltd	431	9404	
13	May and Baker Ltd	334	9738	
14	Roche Products	313	10051	
15	Merck Sharp and Dohme of India Ltd	313	10364	
16	Calcutta Chemical Ltd	275	10639	
17	Bengal Chemicals and Pharmaceutical Works Ltd	269	10908	
18	East India Pharmaceutical Works Ltd	263	11171	
19	Bengal Immunity Co Ltd	224	11395	
20	Synbiotics Ltd	222	11617	
21	Unichem Laboratories Ltd	220	11837	
22	Boots Pure Drug Co (I) Ltd	218	12055	
23	Sarabhai Merck Ltd	215	12270	
24	Standard Pharmaceuticals Ltd	182	12452	
25	Boehringer-Knoll Ltd	155	12607	
26	Burroughs Wellcome and Co (P) Ltd	145	12752	
27	Bayer (India) Ltd	125	12877	
28	Wyeth Laboratories Ltd	123	13000	74.2
29	Biological Evans Ltd	121	13121	
30	Neo pharmaceutical (P) Ltd	120	13241	76.0

Source: Adapted from Tariff Commission Report, Vol II, pp 541-543.

the high contribution is justified by a higher research and development expenditure, which at any rate is not true for the Indian pharmaceutical industry. This points to the fact that drugs were higher priced in India.

A study of data presented in Table 3 points to the presence of large unutilised capacities in the basic drug sector of the industry. For example, in 1969, in the antibiotics category, with the exception of one where the capacity utilisation was 81 per cent in the others utilisation of capacity ranged between 25 per cent and 61 per cent. Similarly, in the alkaloid and allied drugs category, with the exception of one where the capacity utilisation was 80 per cent, in others utilisation of capacity ranged between 6 per cent and 60 per cent.[8]

In addition, the technology and the knowhow in the pharmaceutical industry do not easily permit entry into the market, especially in the manufacture of certain basic drugs. Coupled with the oligopolistic character of the industry and the Patent Laws, this fact indicates how the field of enterprise is limited and further is restricted in the case of certain basic drugs.

Thus reasons for price control, as advocated by its proponents, rely on certain aspects of the drug industry and can be restated in the following terms:

(i) oligopolistic structure of the industry
(ii) domination by foreign companies in the industry,
(iii) lack of adequate indigenous research and development base in the industry,
(iv) high profitability of the industry,
(v) barriers to entry owing to technology constraints and existence of patent laws.

According to the advocates of price control, all the above aspects and the fact that large unutilised capacities exist in the industry, build a strong case for price control.

Case Against Price Control

The opponents of price control, largely represented by the industry, build their case as follows:

In the industry's view, the oligopolistic nature of the industry is found mainly in the manufacture of certain basic drugs but not in the formulations. Even in the basic drugs, though for individual drugs there are only one or two manufacturers because of possibilities of substitution of one basic drug by another, competitive forces do operate to a certain extent. Unfortunately, there are no published quantitative data of on this aspect. Promotional expenditure for drugs could be the other

indicator of the presence of competitive forces. Thirdly, the need for price control should be felt when the industry is operating at full capacity and not when there is underutilisation of capacity.

In the industry's opinion, price control at this stage will not be able to protect the long-term interest of consumers and the industry. A healthy and more beneficial development of the industry can be secured in their view by:

"(i) using forces of competition at all levels to check prices,

(ii) allowing the industry to grow and make profits which will ultimately encourage basic research, especially in the field of tropical diseases, and

(iii) looking upon the industry as a responsible partner and resolving issues in a persuasive manner rather than resorting to compulsion."[9]

Framework for Analysis

The reasons for and against price control as stated so far seem to indicate that on the one hand, the industry by taking advantage of its oligopolistic nature attempts to make higher profits at the cost of the consumer, whereas on the other hand, the government is seeking through the price control mechanism to guard the interests of the consumer at the cost of the industry.

As the industry has pointed out, price control is not the only way of checking prices. Encouraging competition is another, equally efficient, alternative. We agree that this alternative is worth exploring, particularly in the light of the fact that units in small-scale sector account for about 30 per cent of total production and of the fact that the market for drugs is very large in India. In the "Position Paper" prepared by the OPPI, unfortunately, no mention is made as to whether this alternative is feasible and, if it is not feasible, what concrete steps have to be taken in the future to make it viable. The Tariff Commission too has very little to say on this point.

This alternative, of keeping prices down through competition, is really part of a much larger question in the context of the economic and social environment, and an examination of this issue is beyond the scope of the paper. We limit ourselves to the present alternative chosen by the government — *viz* that of controlling prices for protecting the interests of consumers.

The case for and against price control suggests that the interests of the two — that of the consumer and that of the

Table 2

S No	Name of Drug	Unit	No of Mfg Units	Installed Capacity 1969	Production 1969
I	**ANTIBIOTICS**				
1	Amphotericin	Kg	1	800	196.00
2	Chloramphenicol and its esters	Tonnes	3	59.2	30.39
3	Penicillin	MMU	4	292	161.70
	Streptomycin	Tonnes	3	210	170.94
5	Tetracycline and its derivatives	Tonnes	4	38.6	25.45
II	**ANTIDIABETIC DRUGS**				
1	Chloropropamide	Tonnes	3	9.2	6.29
2	Insulin	MU	1	1500	733
3	Tolbutamide	Tonnes	3	42	30.43
III	**ANESTHETICS**				
1	Procaine	Tonnes	2	90	44.90
2	Xylocaine	Kg	1	5000	2607
IV	**ANTIMALARIALS**				
1	Amodiaquin	Tonnes	2	36.6	15.58
2	Chloroquin	Tonnes	2	8.0	14.04
V	**SULFA DRUGS**				
1	Sulpha cetamide	Tonnes	4		40.59
2	Sulpha diazine	Tonnes	1		81.20
3	Sulphadiamidine	Tonnes	2		109.32
4	Sulphamoxole	Tonnes	1	975	5.60
5	Sulphaguanidine	Tonnes	1		216.25
6	Sulphanilamide	Tonnes	1		70.50
7	Sulphaphenazole	Tonnes	2		63.50
8	Sulphapyridine	Tonnes	1		14.08
9	Sulphasomidine	Tonnes	2		96.77
10	Sulphathazole	Tonnes	2	975	89.16
11	Other Sulpha Drugs	Tonnes	6		3.47
VI	**VITAMINS**				
1	Nicotinic Acid	Tonnes	4	89	17.15
2	Nicotinamide	Tonnes	4		39.40
3	Vitamin A	MMU	2	25	31.58
4	Vitamin B-1	Tonnes	1	30000	18.02
5	Vitamin B-2	Kg	1	5000	2166
6	Vitamin B-12 Cyanocobalomin	Kg	4	76.2	113
7	Vitamin B-12 Hydroxo-cobalomin	Kg	3		20.37
8	Vitamin C	Tonnes	1	180	148.48
9	Vitamin D-2	Kg	1	1000	34.51
10	Vitamin D-3	Kg	1		1.28
VII	**ANTIDYSENTERY DRUGS**				
1	Halogenated Oxyquinolines	Tonnes	15	89.8	85
VIII	**ANTILEPROSY DRUGS**				
1	DDS and its derivatives	Tonnes	4	18.4	9
IX	**ANTI-PYRETICS/ANALGESICS**				
1	Asprin	Tonnes	2	600	610
2	Phenaccetin	Tonnes	2	112	69
3	Paracetamol	Tonnes	4	71	31
4	Metamazol	Tonnes	1	10	10
5	Amidopyrin	Tonnes	1	40	3
6	Pethidine HCl	Kgs	1	230	100
X	**ANTI-TB DRUGS**				
1	INH	Tonnes	9	79.8	30
2	PAS and its salts	Tonnes	4	402	300
3	Thiacetozone	Tonnes	4	15	11
XI	**SYNTHETIC HORMONES**	Kg	6	6720	11470
XII	**ALKALOIDS AND ALLIED DRUGS**				
1	Caffejne	Kg	3	23200	1515
2	Phetine Hydrochloride	Kg	1	150	95
3	Ephedrin	Kg	1		

(Continued)

industry — seem to conflict. In order to understand whether they do in fact conflict, and if they do from where does the conflict arise, it is necessary to make some explicit statements about the interests of these two segments.

The interests of the consumer are aptly stated by the OPPI:[10]

(1) He should be in a position to get the best possible drug for his condition known to science in the safest and most hygienic form.

(2) Such drugs of highest quality should be available to the consumer at reasonable prices.

The interest of the industry is that the funds generated from its operations must be adequate to yield, at least, the minimum return that investors expect for the capital they make available to the industry.

In addition to these two parties, there is a third party involved — *viz*, the retail trade — whose interests also matter. Implied in the interests of the consumer, that the drugs should be readily available, is the fact that there should exist channels of distribution which will make these drugs available to the consumer. It, therefore, follows that the agencies in the distribution channel must also get an adequate return on the capital they use for making drugs available to the consumer, and this consideration should therefore form part of any attempt to fix prices.

The framework of analysis for considering the pricing problem must take into account the interests of all these three groups. According to this framework, the reasonableness of prices to the consumer is not to be considered in isolation. It has to be related to a satisfactory return to the manufacturer on the one hand, and to the agencies in the distribution channel on the other. In particular, our framework judges the 'reasonableness' of the drug prices to the consumer in terms of:

(i) whether the consumer gets the latest drugs,

(ii) whether they are available as and when he requires them,

(iii) whether the return to the manufacturers based on these prices is substantially higher than the minimum return desired by the investors. Also, how does the minimum return desired by the investors investing in the drug industry compare with that in other comparable industries?

When viewed in this way, the apparent conflict between manufacturers and consumers would be resolved. We would now like to analyse the Tariff Commission report and the "Position Paper" on Drug Prices submitted by the OPPI within this framework.

Table 2 (continued)

S No	Name of Drug	Unit	No of Mfg Units	Installed Capacity 1969	Production 1969
4	(a) Natural	Kg		1800	610
	(b) Synthetic	Kg		3000	1459
5	Opium Alkaloids	Kg	1	2000	5560
6	Quinine	Kg	2	60000	50355
7	Strychnine and Brucine	Kg	3	36000	20407
XIII	**OTHER DRUGS**				
1	Calcum Gluconate	Tonnes	6	247.7	132
2	Ferrous Gluconate	Tonnes	4	48.2	23
3	Nikechamide	Tonnes	5	10.2	3
4	Saccharine	Tonnes	4	119	62
5	Diethyl Carbamazine Citrate	Tonnes	3	59	15
6	Meprobamate	Kg	1	1800	1149
7	Buclizine	Kg	1	120	190
8	Meclozine	Kg	1	300	385
9	Hydrozxyzine	Kg	1	300	640
10	Promethazine	Kg	1	500	656
11	Pyrrolidinomethyl Tetracycline	Kg	1	600	475
12	Digoxin	gm	2	26000	4676
13	Dextravan	Ltrs	1	259,200	28965
14	Phenobarbitone	Tonnes	1	10	5
15	Aril Malcate	Tonnes	1	2.5	2
16	Deiphen Hydramine HCl	Kg	2	7800	1030
17	Folic Acid	Kg	1	1000	42

Source: "Various Aspects of Pharmaceutical Profession" M K Rangnekar, *Eastern Pharmacist*, January 1971, pp 16-17.

When we examine the terms of reference of the Tariff Commission and the "Position Paper" on Drug Prices prepared by the OPPI, it is evident that both of them view the problem essentially in the same perspective. For example, one of the important terms of reference of the Commission was to examine the extent to which the prices of the 18 basic drugs can be lowered keeping in view the economics of their manufacture. This, in effect, is the same as the industry's objective to meet the consumers' drug requirements at a reasonable price which would give an adequate rate of return to the industry as well. Therefore, we would like to state that the difference of opinion seems to concern the adequacy of the rate of return and the basis of measuring this return.

We believe that, had the problem been formulated in such explicit terms, it would have been easier to understand the differences of opinion on these two crucial questions — *viz*, the adequacy of return and the basis for measuring this return. This understanding itself would have gone a long way to resolve the controversy.

Approach of the Tariff Commission

We now examine the approach of the Tariff Commission in the light of our framework to illustrate the above point.

The basic approach of the Tariff Commission has been to work out a price which would give the basic drug manufacturers a 15 per cent pre-tax return on the net fixed assets plus working capital, and a 15 per cent mark up on the sales turnover for the formulators. The implicit assumption here is that the 15 per cent mark up for formulators gives an adequate return on capital employed by them. We will say more about this later. Another implicit assumption is that there will be an increase in the sales volume because of reduction in prices. The Tariff Commission has computed the cost after adopting "... utilisation of capacity to the extent warranted by the actual installation which exists and the extent to which this can be worked with reference to future requirements."

The OPPI on the other hand argued against using an increase in sales volume for the determination of cost. They suggested that "... The basis for arriving at the manufacturer's cost will be the actual installed capacity presently being utilised, and not the maximum installed capacity as appears to have been assumed by the Tariff Commission".[12] More will be said about this later.

In computing the capital employed, the Tariff Commission:

(i) valued all assets at book value;

(ii) computed the after-tax profit required to pay a minimum dividend of 8.5 per cent on paid up capital and provide some cushion for retention. It further worked out for the 12 companies (out of the 34) on which the study was made, what should be profit be-

TABLE 3

(In millions of $)

Country	1960	1961	1962	1963	1964	1965	1966
Production of the Pharmaceutical Industry							
USA	3214,000	3311,000	3541,000	3716,000	3929,000	4386,000	4667,000
UK	538,000	591,000	594,000	626,000	686,000	784,000	
West Germany	536,000	577,000	639,000	690,000	849,000	906,500	1017,000
France	544,000	600,000	670,000	740,000	838,000	945,000	1026'000
Japan	433,000	559,900	631,900	785,500	947,500		
Research and Development Expenditures							
USA	212.0	238.0	251.0	270.0	282.0	365.0	399.0
UK	21.0	21.8	23.2	—	29.1	32.5	—
West Germany	—	—	—	—	40.0	40.0	—
France	—	—	—	24.36	27.6	28.42	—
Japan	10.3	19.0	19.8	27.9	36.9	—	—

Note: In 1969, the Indian pharmaceutical industry spent roughly Rs 2.5 crores on Research and Development and the industry's sales were Rs 235 crores.

Source: OECD Report: Pharmaceutical Gaps in Technology, 1969.

fore tax in order to obtain the desired profit after tax as computed above. Further, this profit was expressed as a ratio of the capital employed. The capital employed in these companies has been defined as net fixed assets plus working capital. It is their contention that the definition of capital employed does not really matter since, "employed capital has been adopted as a basis for reference".[13] Their observation has been that this ratio varied from 13.3 per cent to 20.7 per cent. It has been finally argued that, based on this observation, a 15 per cent pre-tax return on the capital employed is adequate. To put it in the commission's own words, "the quantum of profit needed has been determined on the basis of the amounts due to the industry for the purposes of meeting its liabilities and commitments".[14] It is not clear whether the Tariff Commission has included interest as an item in the other costs of manufacturing a product. However, we presume it has done so.

Earlier, we have said that the difference of opinion between the industry and the government was on the adequacy of return and the basis for measuring the return. We therefore, begin our analysis with this part.

Let us examine the implication of the Tariff Commission's fixation of 15 per cent pre-tax return on capital employed. Using 1965-66 data contained in the Commission's report, this would mean a 6 per cent profit after tax on the capital employed (assuming a tax rate of 60 per cent). The financial structure of the industry[15] in 1965-66 comprised a 42 per cent paid up capital, 37 per cent reserves, and 21 per cent long-term borrowings.[16] According to the above formula, a dividend of 8.5 per cent on paid up capital, i e, 3.6 per cent of capital employed, is paid out as dividends. Thus, only 2.4 per cent of capital employed is retained in the company for purposes of future growth.

Also, the return on net worth (profit after tax to net worth) based on this financial structure works out to only 7.6 per cent. The return to the investor is then not 8.5 per cent as envisaged by the Commission but in fact 7.6 per cent. More will be said on this aspect when we discuss the Commission's methodology for determining the return.

It is surprising that the Tariff Commission does not spell out its reasons for stipulating the adequacy of this retention policy. It is equally surprising that the industry has no comments to offer on the impact that this retention policy would have on its ability to attract capital for growth and expansion. Similarly, it is surprising that neither the Tariff Commission nor the OPPI has anything to say about this 7.6 per cent return on net worth. Noting, particularly, the fact that in 1970 the Unit Trust of India paid a dividend of 8 per cent and that a long-term deposit in banks fetched anywhere between 6 per cent and 8 per cent this return of 7.6 per cent is inadequate by any standards.[17]

TABLE 4: COMPARATIVE PROFITABILITY IN THREE GROUPS OF INDUSTRIES

	Drugs			Chemicals			All	
	66	67	68	66	67	68	67	68
Profit after tax to net worth (per cent)	18.2	17.2	18.3	11.7	12.4	10.6	8.9	7.0
Profit before interest and tax to total capital (per cent)	27.8	27.8	22.6	15.0	15.3	11.8	8.8	6.9
Profit before depreciation but after tax to total capital employed (per cent)	13.1	12.4	9.9	9.5	9.6	7.6	7.2	6.0
Dividend payout to profit after tax (per cent)	52	52	66	59	55	64	61	73
Sales to fixed assets	2.08	2.15	2.05	1.42	1.37	1.31	1.25	1.23

Source: *RBI Bulletin*, October 1970.

Of course, it would be possible to improve this return on net worth by resorting to larger borrowings. Unless, therefore, the Tariff Commission has made an assumption that, in future, the financial structure would remain unaltered, it is difficult to understand how the definition of capital employed is insignificant. Here, too, neither the industry nor the Tariff Commission has discussed the limits upto which borrowing is feasible in the pharmaceutical industry.

In our view, the absence of discussion on these vital matters by the "Position Paper" of OPPI and the Tariff Commission reflects the lack of a clear framework. The industry should have formulated, in quantitative terms, the minimum expectation of the investors and then pointed out, again in quantitative terms, the cutbacks in their investments if these expectations were not fulfilled.

A word or two might be appropriate on the methodology followed by the Tariff Commission. They have measured the return to the shareholder in terms of the dividend paid to him alone. In our view, the correct measure of the return to the shareholder is the profits to net worth ratio.[18] When the Tariff Commission worked out this 'adequate return' of 15 per cent, the combined capital structure of the 34 companies it studied consisted of 42 per cent paid up capital, 37 per cent reserves, and 21 per cent long-term borrowings. The total capital employed remaining the same, if the proportion of paid up capital and reserves were different, the Tariff Commission could have come up with a different recommendation. The final comment which we want to make concerns the Tariff Commission's approach to deciding what should be the adequate return to the share-holders. The adequacy of this return should be judged not by legal provisions alone but by the alternative opportunities for investment that investors have. Unless the expectation of a minimum return by the investor is carefully appreciated and steps are taken to ensure this, it would be difficult to attract the requisite capital.[19] Lastly, the question of return has also to be linked to the risk in the business. The Tariff Commission has certainly taken note of this fact. It has argued very forcefully that there may be elements of risk in the drug industry in the advanced countries but that this does not apply to the drug industry in India. The "Position Paper"

TABLE 4A: PROFITABILITY OF A CHEMIST WITH A TURNOVER OF RS 1 LAKH A YEAR

1 Investment:

Investment required to attain a sales target of Rs 1 lakh a year is as follows:

	Rs
Working capital	30,000
Fixtures and furniture	20,000

2 Fixed Expenses

	Rs per month
Rent for premises	150.00
Municipal taxes	150.00
Salary for one qualified person	50.00
Two other employees	200.00
Part time accountant	250.00
Miscellaneous expenses	75.00
	150.00
Total	875.00

Anuual expenses = Rs 10,500 (875×12)

3 Contribution from sales 1,00,000×.108* =Rs. 10,800

4 Profit per year =Rs 300

* The margin of 10.8 per cent on sales is arrived at on the following basis:

Type of drug	Margin permitted	Proportion of total sales
Ethical Drugs	12 per cent	40 per cent
Non-Ethical Drugs	10 per cent	60 per cent

Average Margin: 10.8 per cent

TABLE 4B: PROFITABILITY OF A CHEMIST WITH A TURNOVER OF ABOUT RS 3 LAKHS

1 Investment:

	Rs
Working Capital	80,000
Fixtures and furniture	20,000

2 Fixed Expenses

	Rs per month
Rent	200.00
Municipal taxes	65.00
Salaries to 2 qualified persons	400.00
Salaries to two other employees	250.00
One Accounts Clerk	150.00
Miscellaneous expenses	300.00
Total	1,365.00

Total annual expenses = Rs 16,380

3 Contribution from sales: 3,00,000×.108=Rs 32,400

4 Profit: 32,400—16,380=Rs 16,020

5 Return on Investment: From the above profitability it is seen that the return on investment is approximately 16 per cent. The common pattern of financing in this business is to borrow money from friends and relatives and put one's own money. Assuming a 50:50 mix the capital structure would look as follows:

	Rs
From friends and relatives	50,000
From one's own funds	50,000

The cost of funds borrowed from friends and relatives is approximately 12 per cent. Thus, the retailer gets 20 per cent before taxes on his own capital outlay.



by OPPI, what is more, gives little evidence to the contrary.

The other point that we would like to comment on concerns the Tariff Commission's approach of not permitting any return on the funds generated by depreciation and employed in business. Without an involved argument, it is quite easy to see that if these funds were not used they would have been required to be substituted by a combination of debt and equity. It would therefore be legitimate to claim return on such funds. In the Tariff Commission's opinion, depreciation was not included in the capital employed because, "since the element for depreciation has been added as an item of cost it cannot be accounted twice over as an item on which return is to be allowed, even if it has not been used. Where the amount allowed as depreciation has already been utilised for increasing the assets, the company in addition to the advantage of its being reckoned as an item of cost, also gets return on the amount or such amount as may have been added to the assets for the purpose of return."[20] It is not then clear why the same argument was not used against permitting any return on funds raised through debt and equity which are used in financing the fixed assets. The magnitude of depreciation funds used in the business was about Rs 280 lakhs in 1968.[21]

Measurement of Return

The preceding analysis pertains to the adequacy of the return and the decision regarding what elements of capital employed should be permitted to earn a return. We now turn our attention to the other aspect, *viz*, the basis of measuring the return.

The first important question in the measurement of return is, how quickly should the assets be written off. In other words, the measurement of return depends on the period in which the invested capital and the return are to be recovered. The Tariff Commission has taken the view that the time period as suggested by the depreciation rates specified by Income Tax authorities would be adequate. For instance, if a 15 per cent depreciation rate is permitted by income tax, then the period required for writing off the entire asset is 20 years. Clearly, the write-off period for an asset should not be related to its physical life but rather to its economic life. On this point also, the OPPI position paper gives no quantitative data to indicate the obsolescence of product and technology.

Some informed men in the industry have indicated to us that the product obsolescence in this business is very rapid. It is their claim that 80 per cent of the products used in 1950 are now completely outdated. We do not have any factual information to check this claim, and we do not have any quantitative estimates about the investment in these products.

We now come to the last aspect of measurement of return, *viz*, the question of valuation of assets. The point raised by the OPPI, that the assets should be valued at market value rather than at book value, merits consideration though we do not wish to go into this question here.

Coming to the aspect of pricing the formulations, it is surprising that, while the report goes to great lengths to establish each of its other recommendations, the suggestion to allow 15 per cent mark-up on sales turnover is not at all established. As this suggestion has become a bone of contention between the industry and the government, the lack of details here is indeed unfortunate.

Short-Term Product-Mix

So far, we have considered the impact of price control on total profitability and, therefore, its impact on the long-term investment decisions in the industry. We would not like to consider the impact of this method of fixing prices on the short-term product-mix decisions by individual units.

In a unit manufacturing many products which thus share a common faci-

Table 5 A : Balance Sheets

(Rs lakhs)

	Drugs			Chemicals			All		
	66	67	68	66	67	68	66	67	68
Equity	3339 62	3891 62	4206 59	15686 59	17650 55	18789 51	184887 56	197026 52	205879 51
Borrowings	2055 38	2336 38	2959 41	10977 41	14673 45	18068 49	147057 44	180146 48	200850 49
100 Per Cent	5394	6227	7165	26663	32323	36857	331944	377172	406729
Gross fixed asset	3956	4414	4989	22874	28086	31857	315356	358293	390701
Less : Depreciation	1420	1645	1902	7283	8965	10706	132183	148776	166425
Net fixed assets	2536 47	2769 45	3097 43	15590 58	19120 59	21151 57	183174 55	209517 51	224275 55
Investments	143 2	151 2	150 2	615 2	673 2	687 2	15350 5	15953 4	16476 4
Current Assets									
Inventories	2648	3232	3628	10140	11915	14095	136646	153515	168169
undry debtors, loans and advances, etc	1631	1934	2241	5565	7155	7524	75932	86990	93564
Cash	579	467	428	1550	1537	1444	13042	14049	13124
Other assets	54	61	69	496	650	989	5912	6950	7159
Advance of income tax	1385	2036	2302	2735	4219	4799	23798	28367	29608
Total current assets	6298	7730	8667	20486	25477	28762	255350	289871	311624
Current Liabilities									
Trade credit	1233	1377	1446	4696	5764	6244	74957	86584	94531
Misc liabilities	35	40	42	35	40	42	557	469	505
Provisions	2315	3006	3251	5295	7143	7457	46396	51106	50610
	3583	4423	4739	10028	12947	13743	121910	138169	145646
Net working capital*	2715 51	3307 53	3928 55	10458 40	12530 39	15019 41	133420 40	151702 45	165978 41
100 Per Cent	5394	6227	7165	26663	32323	36857	331944	377172	406729

* Net Working Capital = (Cash + other assets + Advance Income Tax + Loans and Sundry Debtors + Inventories— Provisisons— Trade Credit—Misc Liabilities)

Source : "Finances of Public Limited Companies, 1967-68", *Reserve Bank of India Bulletin*, October 1970, pp 1667-1688.

TABLE 5B: INCOME - STATEMENTS

(Rs lakhs)

	Drugs			Chemicals			All		
	66	67	68	66	67	68	66	67	68
Net sales*	8231 (100)	9499 (100)	(100)	32490 (100)	38408 (100)	41856 (100)	447713 (100)	481166 (100)	
Variable cost**	3839 (46.5)	4495 (42.4)	4954 (48.5)	18849 (58)	22652 (59)	25307 (60.5)	278413 (62)	301501 (62.5)	
Contribution	4392 (53.5)	5004 (47.6)	5273 (51.5)	13641 (42)	15756 (41)	16549 (39.5)	169300 (38)	179665 (37.5)	
Fixed cost	2832 (34.4)	3192 (34.5)	3530 (34.6)	9256 (28.5)	10377 (26.6)	11599 (27.6)	131661 (29.2)	144371 (30.0)	
Profit before tax and interest and depreciation	1811 (22)	2084 (22)	2023 (20)	5910 (18.2)	7036 (18.2)	6719 (16.1)	56337 (12.5)	54850 (11.3)	
Less depreciation	251 (3.04)	272 (2.86)	280 (2.74)	1525 (4.6)	1657 (4.3)	1769 (4.2)	18698 (4.1)	19556 (4.0)	
Profit before tax and interest	1560(18.96)	1812(19.14)	1743(17.26)	4385 (13.6)	5379 (13.9)	4950 (11.9)	37639 (8.4)	35294 (7.35)	
Interest	147 (1.7)	190 (2.0)	245 (2.4)	772 (2.4)	964 (2.5)	1155 (2.75)	12964 (2.9)	15498 (3.2)	
Profit before tax and other income	1413 (17.2)	1622 (17.1)	1498 (14.7)	3613 (11.1)	4415 (11.5)	3795 (9.1)	24675 (5.5)	19796 (4.1)	
Other income	89	114	129	383	535	571	8499	8294	
Tax	894	1066	1024	2156	2618	2374	15724	13640	
Profit after tax	608 (7.4)	670 (7.05)	603 (5.9)	1840 (5.7)	2332 (6.05)	1992 (4.75)	17450 (3.5)	14350 (3.0)	
Dividends	317 (3.9)	352 (3.7)	396 (3.88)	1082 (3.2)	1231 (3.2)	1269 (3.03)	10695 (2.4)	10548 (2.2)	
Retained earnings	291 (3.5)	317 (3.3)	207 (2.0)	758 (2.5)	1101 (2.8)	723 (2.72)	6755 (3.1)	3802 (.8)	
Profit before depreciation but after tax	708 (8.1)	775 (8.15)	707 (6.9)	2540 (7.8)	3112 (8.1)	2796 (6.7)	27260 (6.1)	24350 (5.03)	
Total fixed cost	2979 (35.1)	3382 (36.5)	3375 (37.0)	10028 (30.9)	11341 (29.3)	12754 (30.4)	144625 (32.1)	159869 (33.2)	

* Net Sales=Sales net of rebate and discount—excise duty and cess—selling commission.
** Variable cost=Raw material cost—inventory adjustment + Stores and spares + power and fuel + other manufacturing expenses.
Source: "Finances of Public Limited Companies, 1967-68", *Reserve Bank of India Bulletin*, October 1970, pp 1657-1666.

lity, determining the cost of a product becomes difficult indeed. The variable cost of each of the products is easy to determine. The allocation of the other fixed costs to each of the products, to arrive at the total cost of the product, can be misleading. The reason is that the other costs do not change in proportion to the production of individual products. The profitability of products calculated on the basis of 'full costs' is, therefore, not correct. If the prices of the products are determined, on the basis of full costs, the question that arises is how will the contribution[22] of the individual product change and, so how will the product-mix change. Is it likely that some products drop out of the product-mix because of the adverse effect on contribution. It was here that the need for empirical data was the greatest. But, as pointed out earlier, such data are impossible to gather — perhaps for good reasons.

Case of Retailer

We now turn to the profitability aspects of the retailer. The Tariff Commission gives us no evidence as to why the margins it recommended would give adequate return to the retail channels. Some of the evidence that we have collected points to the contrary. The details of profitability of a retailer are shown in Tables 4A and 4B. These data indicate that a retailer with an annual sales turnover of Rs one lakh gets virtually no return. This is also based on the assumption that there would be no change in sales volume because of a reduction in drug prices. We, of course, do not make any claim about the data being realistic or otherwise. We would like to see the fallacies to be pointed out, perhaps by a more intensive study of the economics of retail distribution channels. In terms of our basic framework, this forms part of the study of drug price control.

How the product-mix decisions and future investments change will have to be watched. Whether this would mean dropping of certain essential drugs and formulations from the product-line of the manufacturers and inadequate maintenance of stock by retailers due to low profits, remains to be seen. As has been stated earlier, discussion of these issues, in quantitative terms, with the leading manufacturers is not possible in the near future.

The empirical evidence that has accumulated after the Drug (Price Control) Order indicates that the increase in sales volume has far exceeded even the most optimistic estimates of the industry. This is contrary to the industry's belief that the sales may not increase — which perhaps, was the basis for its suggestion that only the actual capacity presently being utilised be considered for arriving at the manufacturer's cost. Evidence on this needs closer examination. Nevertheless, once again, it has underlined the question of whether profitability can be maintained through higher sales at lower prices.

Notes

1 See page 21, paragraph 26, on Drug Prices, Organisation of Pharmaceutical Products of India, 1970, hereafter referred to as OPPI.

2 Some units in the small-scale sector claim that the contribution of the small-scale sector to the industry sales is of the order of 15 per cent. In terms of production, however, the contribution is about 30 per cent. Unfortunately, no data are available with us to verify this claim. Nevertheless, it does indicate the extent of the influence of the organised sector of the industry in fixing the prices.

3 The Tariff Commission has pointed out that the companies included in the Reserve Bank study account for only 25 per cent to 35 per cent of the total industry sales. The Tariff commission does a study of balance sheets of both private limited and public limited companies which account for 65 per cent of the total industry sales. Unfortunately the data given by the Tariff Commission is not amenable to the type of analysis which we wanted to do. We have, therefore, used the Reserve Bank of India study. The Tariff Commission's sample, however, would have been more appropriate had it reported the data in the same form as reported in the Reserve Bank of India study.

4 R K Hazari and H G Lakhani, 'Pharmaceutical Companies in Maharashtra — Financial Structure and Ownership', *Economic and Political Weekly*, Volume 2, 1967, pp 1169-1182.

5 If cash earnings are being considered, then these should not be compared to net worth but to capital employed. It might so happen that for those companies the proportion of borrowings may be small and hence the picture may not change. We could not recompute the ratio because the total capital employed is not reported in the Hazari study.

6 'Funds generated' means profit after tax plus depreciation.

7 'Contribution' is defined as net sales minus variable cost. Variable cost includes raw material costs, fuel costs, stores and spares costs, other manufacturing costs and adjustments for inventory.

8 M K Rangnekar, 'Various Aspects of Pharmaceutical Profession', *Eastern Pharmacist*, January 1971, pp 16-17.

9 For detailed statements see "Position Paper" on Drug Prices, OPPI, pp 21-23.

10 "Position Paper" on Drug Prices. Chapter on Social Responsibilities, p 1, OPPI.

11 Tariff Commission Report, Volume II, p 583.

12 "Position Paper" on Drug Prices, OPPI, para I, OPPI Proposals.

13 See Tariff Commission Report, Volume II, Page 708

14 *Ibid.*

15 This includes only the 34 companies studied by the Tariff Commission.

16 Long-term borrowings has been calculated on the difference between the capital employed and networth. See Tariff Commission Report, Volume II, p 546.

17 While the OPPI has suggested to the Tariff Commission that it consider, among other factors, the prevailing rates of return in the money market for arriving at a fair rate of return for the industry, no quantitative data are furnished in the report. See "Position Paper" on Drug Prices, OPPI, chapter on Tariff Commission Enquiry, Para B(v) 6, p 2.

18 Strictly, in financial circles, the return to the shareholder is measured in terms of the earnings per share to the average market price of the share. Admittedly, this approach would pose many practical problems and hence the next best alternative would be to measure profitability in terms of profits to net worth.

19 In this context the following remark by the Tariff Commission is worth noting. "……considering that the drug industry is oriented to humanitarian services it should not hanker after the high profits, and we have assumed a low rate of dividend and consider that the stability of companies as well as higher margins earned on their side activities would be conducive to the attraction of the requisite capital. Tariff Commission Report, Volume II, Para 31.8, p 709.

20 Tariff Commission Report, Volume II, Page 703.

21 This refers to the RBI study of 39 public limited companies. *RBI Bulletin*, October 1970.

22 Contribution again is defined as net revenue minus variable costs.

Punjab National Bank

Balance Sheet as at 31st December, 1971

1970	CAPITAL AND LIABILITIES	Rs. P.	Rs. P.
Rs.			
	1. PAID-UP CAPITAL :		
2,00,00,000	(wholly owned by Central Government)		2,00,00,000.00
	2. RESERVE FUND AND OTHER RESERVES :		
4,41,40,656	(*i*) Reserve Fund	4,96,40,655.94	
1,50,000	(*ii*) Development Rebate Reserve	90,000.00	
1,27,28,000	(*iii*) Other Reserves	1,27,88,000.00	
5,70,18,656			6,25,18,655.94
	3. DEPOSITS AND OTHER ACCOUNTS :		
194,05,35,935	Fixed Deposits	238,61,80,190.20	
163,52,40,144	Savings Bank Deposits	191,90,62,060.94	
101,70,71,094	Current Accounts, Contingency Accounts, etc. (including Staff Housing Fund)	106,23,32,570.02	
44,32,769	Employees' Security Deposits held by the Bank itself	46,50,317.51	
459,72,79,942			537,22,25,138.67
	4. BORROWINGS FROM OTHER BANKS :		
26,70,925	(*i*) In India	7,23,281.17	
Nil	(*ii*) Outside India	2,66,921.41	
26,70,925	Particulars :		9,90,202.58
25,85,018	(*i*) Secured by part of Government Securities lodged	6,14,501.03	
85,907	(*ii*) Unsecured	3,75,701.55	
6,85,04,522	**5. BILLS PAYABLE**		6,52,02,052.14
	6. BILLS FOR COLLECTION BEING BILLS RECEIVABLE AS PER CONTRA :		
31,30,70,180	(*i*) Payable in India	30,93,79,692.46	
4,05,38,131	(*ii*) Payable outside India	2,92,44,893.01	
35,36,08,311			33,86,24,585.47
	7. OTHER LIABILITIES :		
16,38,31,571	(*i*) Branch Adjustments	14,45,37,394.57	
4,14,253	(*ii*) Dividend and Interest on Advance Calls unclaimed	4,08,170.07	
19,71,853	(*iii*) Rebate on Bills Discounted	26,90,654.66	
16,62,17,677			14,76,36,219.30
526,53,00,033	Carried Over		600,71,96,854.10

Punjab National Bank

Balance Sheet as at 31st December, 1971

1970	PROPERTY AND ASSETS			Rs. P.	Rs. P.
Rs.					
	1. CASH :				
36,75,07,746	In hand and with Reserve Bank and State Bank of India including Foreign Currency Notes				41,99,11,496.12
	2. BALANCE WITH OTHER BANKS :				
		Current Account	*Deposit Account*		
1,04,95,901	(*i*) In India	1,08,11,827.42	—		
65,20,626	(*ii*) Outside India	72,82,373.85	—		
1,70,16,527					1,80,94,201.27
2,55,00,000	**3. MONEY AT CALL AND SHORT NOTICE**				12,67,00,000.00
	4. INVESTMENTS AT OR BELOW COST :				
114,59,59,696	(*i*) (*a*) Securities of the Central and State Governments including Treasury Bills of the Central and State Governments			129,16,58,790.77	
20,09,43,261	(*b*) Other Trustee Securities			26,18,16,424.50	
134,69,02,957				155,34,75,215.27	
	(*ii*) Shares :	*Fully Paid-up*	*Partly Paid-up*		
3,28,000	Preference	3,28,000.00	Nil		
1,27,29,687	Ordinary	82,14,187.40	73,75,000.00		
1,30,57,687				1,59,17,187.40	
37,75,388	(*iii*) Debentures of Indian Stock Companies			36,64,451.00	
4,50,000	(*iv*) Other Investments : Contribution to initial capital of Unit Trust of India			4,50,000.00	
Nil	(*v*) Gold			Nil	
136,41,86,032					157,35,06,853.67
	5. ADVANCES :				
	Other than bad and doubtful debts for which provision has been made to the satisfaction of the Auditors :				
	1. Loans, Cash Credits, Overdrafts, etc. :				
249,22,60,636	(*i*) In India	269,09,69,879.72			
Nil	(*ii*) Outside India	Nil			
249,22,60,636				269,09,69,879.72	
	2. Bills discounted and purchased (excluding Treasury Bills of the Central & State Governments) :				
50,75,30,968	(*i*) Payable in India	68,79,22,777.41			
3,19,03,201	(*ii*) Payable outside India	4,02,89,138.85			
53,94,34,169				72,82,11,916.26	
303,16,94,805	(Particulars of Advances—as per Schedule attached)				341,91,81,795.98
	6. BILLS RECEIVABLE BEING BILLS FOR COLLECTION AS PER CONTRA :				
31,30,70,180	(*i*) Payable in India			30,93,79,692.46	
4,05,38,131	(*ii*) Payable outside India			2,92,44,893.01	
35,36,08,311					33,86,24,585.47
61,62,68,315	**7. CONSTITUENTS' LIABILITIES FOR ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS PER CONTRA**				63,17,37,009.57
577,57,81,736	Carried Over				652,77,55,942.08

Punjab National Bank

Balance Sheet as at 31st December, 1971

1970	CAPITAL AND LIABILITIES				
Rs.			Rs. P.	Rs.	P.
526,53,00,033		Brought Forward		600,71,96,854	.10
61,62,68,315	**8. ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS AS PER CONTRA**			63,17,37,009	.57
	9. PROFIT AND LOSS ACCOUNT :				
2,14,00,887	Profit for the year brought from the Profit and Loss Account		2,45,20,317.89		
1,10,00,000	*Less* : (*i*) Provision for Bonus to Staff	1,29,00,000.00			
43,00,000	(*ii*) Transferred to Reserve Fund in terms of Sec. 3(6) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970	55,00,000.00			
1,53,00,000			1,84,00,000.00		
61,00,887	Balance being amount to be transferred to Government in terms of Section 10(7) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970			61,20,317	.89
	10. CONTINGENT LIABILITIES :				
59,66,784	(*i*) Claims against the Bank not acknowledged as debts (See Note 1)		58,48,614.61		
37,85,66,261	(*ii*) Moneys for which the Bank is contingently liable including :		39,35,86,132.86		
11,818	Guarantees on behalf of Officers		11,818.14		
37,85,54,443	Guarantees on behalf of customers		38,81,24,314.72		
Nil	(*iii*) Bills of Exchange rediscounted		Nil		
17,99,45,514	(*iv*) Outstanding Forward Exchange Contracts		10,55,53,508.07		
63,75,000	(*v*) Liability for calls on partly paid shares		76,25,000.00		
588,76,69,235			TOTAL	664,50,54,181	.56

Notes : 1. A writ petition has been filed in the High Court of Delhi by the Punjab National Bank Limited and three of its shareholders in November, 1970, claiming payment of ad-interim dividend of Rs. 24 lakhs sanctioned by their Board of Directors on 16-7-1969; the said claim has not been acknowledged as a debt and has not been included in the amount of Contingent Liabilities.

2. The affairs of Lahore and Karachi branches of the Banl have been in charge of the Custodian, Enemy Property, Pakistan. No returns having been received from these branches, it has not been possible to compute the Profit and Loss Account and the unaudited Balance Sheets as at 30-6-1965 have been incorporated in the accounts as on 31st December, 1971.

3. The inter-branch balances are in the process of being reconciled. Urgent steps are under way to reconcile these balances.

ANNEXURE TO OUR REPORT OF DATE

A. F. FERGUSON & Co.
KHANNA & ANNADHANAM
M. C. BHANDARI & Co.
Chartered Accountants

New Delhi
Dated : MAY 17, 1972

G. D. KHANNA
Chief Accountant

Punjab National Bank

Balance Sheet as at 31st December, 1971

1970	PROPERTY AND ASSETS				
Rs.			Rs. P.	Rs.	P.
577,57,81,736		Brought Forward		652,77,55,942	.08
	8. PREMISES LESS DEPRECIATION :				
	(*a*) Premises :				
1,57,39,471	Cost as on 1-1-1971		1,59,55,052.37		
2,15,581	Additions during the year		41,063.85		
1,59,55,052			1,59,96,116.22		
30,45,763	*Less* : Depreciation written off to date		33,07,841.58		
1,29,09,289			1,26,88,274.64		
73,000	(*b*) Buildings under construction		4,77,900.00		
	(*c*) Premises in respect of which execution of title deeds is pending :				
8,18,749	Cost as on 1-1-1971	10,87,412.32			
2,68,663	Additions during the year	1,73,507.47			
10,87,412		12,60,919.79			
74,469	*Less* : Depreciation written off to date	1,17,132.00			
10,12,943			11,43,787.79		
1,39,95,232				1,43,09,962	.43
	9. FURNITURE AND FIXTURES LESS DEPRECIATION :				
2,80,69,827	Cost as on 1-1-1971		3,17,17,590.92		
38,59,726	Additions during the year		45,20,296.65		
3,19,29,553			3,62,37,887.57		
2,11,962	*Less* : Deductions during the year		2,89,337.49		
3,17,17,591			3,59,48,550.08		
1,78,39,864	*Less* : Depreciation written off to date		1,99,33,633.38		
1,38,77,727				1,60,14,916	.70
	10. OTHER ASSETS :				
2,37,49,579	(*a*) Interest accrued and outstanding		2,79,71,958.13		
82,68,905	(*b*) Prepaid expenses, advance payments and amounts recoverable		68,92,326.90		
5,52,729	(*c*) Property not used as Bank premises less depreciation		5,48,878.77		
7,99,886	(*d*) Library, Motor Cars, Cycles and other vehicles less depreciation		10,27,457.18		
37,44,424	(*e*) Stationery and Stamps		39,48,542.78		
36,90,750	(*f*) Amount paid for purchase of Trustee Securities		92,75,750.00		
4,31,91,267	(*g*) Advance payment of tax and tax deducted at source		3,72,91,446.59		
8,39,97,540				8,69,56,360	.35
17,000	**11. NON-BANKING ASSETS (ACQUIRED IN SATISFACTION OF CLAIMS) (at or below cost)**			17,000	.00
588,76,69,235			TOTAL	664,50,54,181	.56

4. In respect of two branches, the branch auditors have not expressed an opinion on advances aggregating Rs. 60 lakhs, as they have not been able to examine the documents and as these are under investigation. These advances have been incorporated in the accounts on the basis of the classification made by the bank.

5. In the case of some branches, the branch auditors have not been able to examine the documents in respect of some advances as they were not available for inspection at the branches at the time of branch audits. These advances have been incorporated in the accounts on the basis of the classification made by the bank.

6. At a few branches, the subsidiary records have not been reconciled with the control accounts. Steps are being taken to have these reconciled at an early date.

S. C. TRIKHA
Custodian

A. K. DUTT
A. S. KAHLON
M. ABDULLA
T. S. PAPOLA
V. M. JAKHADE
Directors

B. K. VORA
Dy. General Manager

SITA RAM
General Manager

Punjab National Bank

Profit and Loss Account for Year Ended 31st December, 1971

INCOME

(Less provision made during the year for bad and doubtful debts and other usual or necessary provisions)

1970 Rs.			Rs. P.
27,64,04,457	1.	Interest and discount	33,99,64,233.61
4,18,51,095	2.	Commission, Exchange and Brokerage	4,67,07,519.86
22,35,101	3.	Rents	23,52,361.44
13,71,238	4.	Net profit on sale of investments, gold and silver, land, premises and other assets (not credited to Reserves or any particular Fund or Account)	16,13,776.99
Nil	5.	Net profit on revaluation of investments, gold and silver, land, premises and other assets (not credited to Reserves or any particular Fund or Account)	Nil
Nil	6.	Income from non-banking assets and profit from sale of or dealing with such assets	Nil
Nil	7.	Transfer fees	Nil
32,18,61,891			39,06,37,891.90

EXPENDITURE

Rs.			Rs. P.
15,64,59,225	1.	Interest paid on Deposits, Borrowings, etc.	20,18,76,098.76
11,61,44,478	2.	Salaries, Allowances and Provident Fund (including Rs. 49,34,027.64 being Contribution to Employees' Gratuity Fund Trust and Rs. 2,57,352.60 to Superannuation Fund Trust)	13,19,37,093.20
31,775	3.	Directors and Local Committee Members' Fees and Allowances	65,875.24
97,50,470	4.	Rent, Taxes, Insurance, Lighting, etc.	1,12,16,011.58
3,86,879	5.	Law Charges	1,64,331.47
41,73,075	6.	Postage, Telegrams and Stamps	47,30,474.31
3,58,350	7.	Auditors' Fees	3,98,250.00
29,18,328	8.	Depreciation on and repairs to the banking company's property	34,72,893.88
42,07,066	9.	Stationery, Printing, Advertisement, etc.	48,78,846.37
Nil	10.	Loss from sale of or dealing with non-banking assets	Nil
60,31,358	11.	Other Expenditure	73,77,699.20
2,14,00,887	12.	Balance of profit (after providing for taxation but before provision of bonus)	2,45,20,317.89
32,18,61,891			39,06,37,891.90

Notes: 1. Particulars of remuneration to Chief Executive of the bank:

(i) Salary Rs. 72,000.00 (Rs. 72,000.00) *(ii)* Contribution to Provident Fund Rs. 6,750.00 (Rs. 6,750.00) *(iii)* Contribution to Superannuation Fund Trust Rs. 10,800.00 (Rs. 10,800.00) *(iv)* Monetary value of the benefit of the use of a house (taken @ 12 1/2% of the salary as the Municipal valuation is in dispute) and use of car calculated according to the Income-tax Rules Rs. 12,000.00 (Rs. 12,000.00) *(v)* Medical Aid including Insurance under Hospitalisation Scheme Rs. 1,607.44 (Rs. 1,823.67)—Total Rs. 1,03,157.44 (Rs. 1,03,373.67)

2. The amount shown against item 9 Stationery, Printing, Advertisement includes expenditure of Rs. 14,36,961.69 (Rs. 11,51,394.13) on Public Relations and Publicity.

3. Previous year's figures have been regrouped wherever necessary.

S. C. TRIKHA
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ANNEXURE TO OUR REPORT OF DATE

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Dy. General Manager

G. D. KHANNA
Chief Accountant

SITA RAM
General Manager

New Delhi
Dated: MAY 17, 1972

Punjab National Bank

SCHEDULE OF PARTICULARS REQUIRED BY THE BANKING REGULATION ACT, 1949 (ACT X OF 1949) ATTACHED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31ST DECEMBER, 1971

1970	PARTICULARS OF ADVANCES		Rs. P.
Rs.			
269,58,16,579	(i) Debts considered good in respect of which the Bank is fully secured		287,78,36,424.71
17,97,50,065	(ii) Debts considered good for which the Bank holds no other security than the debtors' personal security		11,52,68,770.98
24,61,28,161	(iii) Debts considered good secured by the personal liabilities of one or more parties in addition to the personal security of the debtors.		42,60,76,600.29
Nil	(iv) Debts considered doubtful or bad not provided for		Nil
303,16,94,805			341,91,81,795.98
	(v) Debts due by Directors or Officers of the Bank or any of them either severally or jointly with any other persons:—		
41,899	Directors	11,599.31	
42,08,010	Officers	70,17,599.45	
			70,29,198.76
Nil	(vi) Debts due by Companies or firms in which the Directors of the Bank are interested as Directors, Partners or Managing Agents or in the case of private companies, as members		Nil
	(vii) Maximum total amount of advances including temporary advances made at any time during the year to Directors, Managers or Officers of the Bank or any of them either severally or jointly with any other persons:		
56,955	Directors	41,899.26	
42,43,825	Officers	70,17,599.45	
			70,59,498.71
Nil	(viii) Maximum total amount of advances including temporary advances granted during the year to the companies or firms in which the Directors of the Bank are interested as Directors, Partners or Managing Agents or in the case of private companies, as members.		Nil
1,37,66,656	(ix) Due from Banking Companies.		1,26,79,200.63

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Dy. General Manager

G. D. KHANNA
Chief Accountant

SITA RAM
General Manager

New Delhi
Dated: MAY 17, 1972

Auditors' Report

The President of India:

We have audited the attached Balance Sheet of Punjab National Bank as at 31st December, 1971 and also the annexed Profit and Loss Account of the Bank for the year ended on 31st December, 1971, in which are the returns of 21 branches audited by us, 382 branches audited by other auditors, the unaudited returns as at 30-6-1965 of the Pakistan branches (see note 2) and the unaudited returns in respect of 417 branches not visited by us, for the exclusion of which branches from audit, concurrence of the Reserve Bank of India was obtained.

2. The Balance Sheet and Profit and Loss Account have been drawn up in Forms 'A' and 'B' respectively of the Third Schedule of the Banking Regulation Act, 1949. Accordingly, they disclose such matters as were required to be disclosed in the case of banking companies prior to nationalisation by virtue of the provisions of the said Act as read with the related provisions of the Companies Act, 1956. Subject to the limitations of such disclosure and on the basis of the audit indicated in the first paragraph and subject to Notes 3, 4, 5 and 6 on the Balance Sheet we report that:—

(*a*) In our opinion and to the best of our information and the explanations given to us and as shown by the books of the Bank:

(*i*) The Balance Sheet read with the notes thereon is a full and fair Balance Sheet containing necessary particulars and it is properly drawn up so as to exhibit a true and fair view of the affairs of the Bank as at 31st December, 1971,

(*ii*) the Profit and Loss Account read with the notes thereon shows a true balance of Profit for the period covered by the Account.

(*b*) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and have found them to be satisfactory.

(*c*) The transactions of the Bank which have come to our notice have been within the powers of the Bank.

(*d*) The returns received from the branches of the Bank (except for Pakistan branches—see note 2) have been found adequate for the purposes of our audit

A. F. FERGUSON & Co.
KHANNA & ANNADHANAM
M. C. BHANDARI & Co.
Chartered Accountants

New Delhi
Dated: MAY 17, 1972

Tata Engineering and Locomotive Company Ltd

Statement of the Chairman, Mr J R D Tata

THE following is the Statement of Mr J R D Tata, Chairman, Tata Engineering and Locomotive Company Limited, for the year 1971-72:

The past year was one of the most eventful years in the country's history, in which a great human crisis was successfully overcome, thanks to the outstanding leadership of our Prime Minister and the efficiency of our armed forces.

Production

The Company continued to make good progress during the past year. Production, which had already exceeded rated capacity last year, was marginally higher at 25,075 vehicles, while the production and sale of spare parts rose by 30 per cent over the previous year. As a result of the latter, as well as of the introduction of the new direct injection engine, which, although higher priced, has been well received by operators because of its greater operating economy, the turnover at Rs 158.49 crores was Rs 22.25 crores or 16.3 per cent higher than in the previous year. However, the continuing inflation in costs from which we, along with all industry suffered, prevented the radio of profit to turnover from improving.

Production in excess of rated capacity and the highest turnover on record was achieved in spite of many difficulties, including irregular supplies, sporadic though minor labour troubles and repeated failures in power supply. The latter are, incidentally, becoming more and more frequent in Bihar, as elsewhere in the country, and are making the smooth operation of industries increasingly difficult.

Quite apart from such specific handicaps, the operation of large and complex industries involving the mass production of sophisticated products such as ours, containing about seven thousand separate parts, entails problems and strain on management personnel which are almost totally absent in other countries. In Germany and the USA for instance, the task of the truck manufacturer is made immeasurably simpler than our own by the easy, prompt and regular availability of raw materials, bought-out equipment, electric power, rail and road transport, foreign exchange, and by the freedom of decision enjoyed by management, all of which are a source of perpetual worry in our country, aggravated by the need for licences, permits or Government approval in some form or other in respect of every need of industry. In the circumstances, the fact that production at Jamshedpur was maintained in excess of rated capacity for the second year in succession, reflects great credit on our management and staff at Jamshedpur.

Inflation

Apart from operational difficulties, we have to function under unrelenting inflationary pressures which increase the cost to us of raw materials, bought-out items and wages. Thus, since 1965, the price of our principal steel raw materials has increased by an average of 16 per cent per year, materials and items bought from ancillary industries, including tyres, have risen by over 10 per cent per year, and so has the level of our wages. We have always attached special importance to the interests of the users of our vehicles and the fact that our price for them has increased over the same period by an average of less than 6 per cent per year, despite the constant introduction of improvements or new features incorporated in our trucks, often at considerable cost, indicates the extent to which we have been able to absorb cost increases beyond our control. This has been achieved mainly through an increase in production year after year. Now that our production has reached, and even exceeded, our rated capacity, little or no savings can be made from increased production, except in respect of spare parts.

It is true that the customer pays today a higher price for our vehicle than he did a few years back, but it still gives the transport operator the best value for his money, as evidenced by the overwhelming preference for it, and the improvements incorporated in it year after year compensate him for the increase in purchase price because of the longer life and the lower operating costs which they make possible .

Our sustained efforts to satisfy our customers and compensate them for higher costs do not end with the delivery to them of better vehicles. We realise that the large investment they have made and the crushing initial and recurring burden of tax they have to bear as road transport operators, require that their trucks or buses be kept operating and earning continuously if they are to be operated at a profit. We have therefore set up the finest service organisation in the country which we are constantly extending and improving. We go out of our way to train our dealers' representatives in the repair and maintenance of our vehicles and assist them in other ways. We have extended the warrantly period from 10,000 to 32,000 kilometers, and we are increasing as rapidly as we can the production of critical spare parts at our Works in order to reduce the downtime of our vehicles. Had Government not taken two years to sanction the urgent expansion of our spare parts capacity, our customers would have been saved the delays and loss to which they are still subjected.

Expansion Programme

As stated in the directors' Report, the Government of India have approved of the Company's project, mentioned in the *Directors' Report* and my statement to the shareholders last year, and issued to us on the 29th of June a Letter of Intent the main terms and conditions of which have been mentioned in the Report. If all goes well, the industrial licence for the project may be expected within, say, the next six or eight months, i e some two years after the application was made. In a free economy, or even under the conditions in which industry was allowed to operate in India only a few years ago, we would by now have been half way through completing the programme. While we are grateful to Government for having approved our project, in what may be considered under our licensing system, a reasonably short period of time, I cannot say that we are entirely happy with all the conditions that Government have chosen to impose on the issue of a licence, the most important of which is the requirement that 20 per cent of the added production should be exported over and above our present level of exports so that our total exports reach a minimum of Rs 20 crores per annum. While we appreciate Government's desire to specify a certain minimum volume of exports to be achieved many years hence, I wonder if they are fully aware of the uncertainties and difficulties involved in exporting sophisticated

engineering products in competition with the largest and most efficient producers in the world, who can, whenever it suits them, cut prices without seriously affecting their overall financial health, and who have substantial inherent advantages over us, arising from their much largest volume of production, and freedom from onerous conditions and handicaps under which industry has to operate in India.

Apart from international, political, economic and monetary factors over which neither we nor the Government of India can have any control but which can drastically affect exports from India, there are also, nearer home, major hindrances to exports. For instance, we do not have, as exporters from more advanced countries do, the assured and reliable port facilities which are essential to meeting tight export schedules and ensuring low costs. This requires not only well equipped ports, but also a high degree of efficiency and reliability in their operation, qualities notoriously lacking at Indian ports, and particularly at Calcutta. The delays occurring at India's major ports are often so serious and unpredictable as to make shipping a nightmare for Indian exporters. Furthermore, the delays and extra costs caused by the longer turn-round time of ships at our ports, and other factors, have resulted in freight rates from India to other countries being much higher than they are from foreign ports to the same destination. Shareholders may be interested to know, for instance, that shipping freight rates from India to Australia are higher than the rates from England to Australia!

We shall point out that the export target can only be achieved provided conditions prevailing in India and abroad at the time will be such that our efforts, however strong and sustained, are not frustrated by causes beyond our control.

Another important condition imposed by Government and mentioned in the Report is that the full production of 12,000 additional vehicles at Jamshedpur and Poona must be reached not later than the 31st March, 1978. Assuming that the necessary industrial licence will be issued to us by December this year, this will give us about five years in which to achieve the rated output. Assuming again that it will take a couple of years from the beginning of manufacturing operations to overcome initial difficulties and build up regular production, we shall have a tight schedule time of three years for the construction and installation of the plant and the recruitment and training of personnel. Based on our past experience, and on the highly competent and enthusiastic organisation we have built up over the years, we are confident of our ability to adhere to it barring unforeseen circumstances, and are, therefore, accepting this condition.

We shall, however, point out to Government that the completion, in time, of our own programme alone cannot by itself ensure production of the necessary number of trucks by the stipulated date. About 45 per cent of the vehicles will consist of items bought out from ancillary sources which, incidentally, we ourselves have been largely responsible in developing over the years. These ancillary manufacturers will, naturally, have to undertake a substantial expansion of their own capacities in order to meet our own expanded requirements. At the moment they are able to deliver the requisite products of the equality specified by us for our present levels of production. Whether they will be able to expand their capacities and production in time to ensure the specified output of additional vehicles by March, 1978 is a matter that will be largely outside our control. They have their own licensing difficulties and their own financial, labour, import and other problems which could prevent them from meeting our requirements in time and therefore affect our own ability to meet the dead line. We are drawing Government's attention to this important factor and urging them to minimise uncertainties and delays by expeditiously granting to ancillary manufacturers the licences they might require for their own expansion and also by encouraging the development of such new sources of supply.

The third important condition imposed by Government in their Letter of Intent is that the economies of scale achieved by this expansion programme should be passed on to the consumer. Actually, the main economies of scale which can arise from the programme will be in the modest increase of production at Jamshedpur of 3,000 vehicles of the type that are being currently made there. The manufacture of 9,000 vehicles of a heavier and altogether new type at Poona cannot be considered a large scale operation. Economies of scale in their production will only be achieved if and when the output is increased under some later expansion project.

In their interpretation of this clause, Government have specified that the pricing of the products made under the programme should be such that the rate of gross profit, after allowing interest but before depreciation, development rebate and taxation, should not exceed the base rate of 11.85 per cent of gross profit to net sales achieved in the years 1968-69 and 1970-71.

Subject to clarification on some points, the conditions as proposed by Government are acceptable to us, and we expect that an industrial licence will be issued to us in due course. On that assumption, we are taking all preliminary steps required to launch the project thereafter as quickly and efficiently as possible.

Jamshedpur and Poona

On the completion of this programme, the Company will have powerful centres of production at both Jamshedpur and Poona, in two factories equipped with the most modern plant and machinery available for the type of products made in them. While Jamshedpur will remain the larger producer of the two, Poona will also play a powerful role in the total production programme of the Company. It will not only make 9,000 new heavy vehicles but also will continue, as it has already begun, to make equipments for Jamshedpur including the production of special purpose machine and press tools and spare parts for our vehicles, the total number of which on the road today is over 250,000.

The fact that manufacturing, research and training facilities are spread over two such production centres has added great strength to the Company as a whole. It will not only diminish its vulnerability to any unforeseen events or incidents which might interrupt production at one centre, but will ensure that production at each place is on a scale and of the nature best suited to it.

There is a practical limit beyond which an increase in size of a plant in the Auto industry not only fails to provide real economies of scale but makes operations and management more difficult and burdensome. We believe that, with the present limited programme of expansion at Jamshedpur, we shall have reached such a situation there. Thereafter, Poona will provide the necessary scope for being built up ultimately to more or less the same size as Jamshedpur.

Conditions for creating and operating a modern industry in Maharashtra are particularly favourable because of that State Government's wisdom and understanding of industry's requirements and problems. I am glad that the Government of Bihar have realised that the industrial climate in their State has in recent years offered less inducement

to private enterprise to establish new industries or expand old ones, than that of other States into which, as a result, industries have flocked, and have shown willingness to extend special facilities and inducements to new industries established in Bihar. In contrast with this new spirit, however, the Bihar Land Reforms (Amendment) Bill, 1972, which has chosen to treat as if they were agricultural lands the area covered by the Works and Township of Tisco and Telco, and other Companies at Jamshedpur, is a most unfortunate and disturbing legislative enactment. As a result, we shall, once the Bill has received the President's assent, become tenants of the Government of Bihar instead of being tenants of the Tata Iron and Steel Company as at present, and control over the area of the works and township we have created there will be subject to such conditions as Government may choose to impose. We shall do our very best to co-operate in every way with the authorities and hope that they will themselves want to see that the beautiful city of Jamshedpur to the development and maintenance of which we have ourselves contributed much, will remain unspoilt and not be allowed to turn into the kind of slums which Government have allowed to develop all around the city.

Bihar is blessed with magnificent mineral and other resources and ample labour. It could, and should, become one of the great industrial centres of the world bringing widespread employment and prosperity to its people. This, however, will require, over the years, massive investments by both the public and private sectors.

With the great majority, in value, of Tata and associated enterprises centred in Bihar, I have a special feeling of loyalty towards the State, and am distressed at the fact that its 56 million under-privileged have been denied the benefits which much larger-scale industrial development could have brought them. I can only hope that the Government of Bihar will realise that their State is today a far less attractive part of the country in which to establish new industries or expand old ones than many other States which have seen the light and into which, as a result, industries have flocked in recent years.

So far as we are concerned, we certainly have no intention of forsaking Bihar and, over the next years, during which we shall implement our expansion programme, we shall spend at Jamshedpur some Rs 25 crores on expansion, improvements and replacements.

The Future

On the completion of our expansion programme the country will have at its service an engineering complex unparalleled in the country in its layout, equipment, organisation, skills and managerial talents.

During the many years of hard work and effort it took us to reach such a stage of development those in charge of the venture steadfastly adhered to the basic principles of Modern Industry so often ignored in our country. They knew that success in establishing a complex industrial enterprise is not achieved merely by providing money, land, building and machinery and recruiting labour, but rather by the human skills and expertise invested in it. This requires, amongst many other factors, a vigorous and continuous programme of training at all levels, the use of the most modern planning and management techniques, a relentless pursuit of excellence, the highest standards of supervision and maintenance, the nurturing of the design and other creative talents required for fruitful research and development, the maintenance of high morale and good human relations.

If your Company has achieved so much in its relatively short history, it is because your Vice-Chairman and Managing Director, who has been the chief architect and builder of this great enterprise during the past twenty years, has ensured from the start that these all-important human inputs were adequately and constantly provided and has devoted so much care and effort in building up a young, able and dedicated management team imbued with his own ideas and traditions. In them lies the greatest strength of the Company today and in the years to come.

In closing, may I on your behalf and mine, express to our Management, staff and workers at Jamshedpur, Poona and elsewhere, our thanks for the hard work they put in during the past year and the excellent results they have achieved. We are also grateful to our dealers, suppliers and customers whose support and loyalty is a source of continuing strength to the Company.

JRD Tata
Chairman

Bombay, 7th July, 1972

World Economic Survey

THE "UN World Economic Survey" for 1971 notes that the world economy made unspectacular progress in 1971 — a year overshadowed by the international monetary crisis. Output rose only about 4 per cent, slightly better than 1970, but below the 5.3 per cent average of the 1960s. The 'developing' countries averaged a [illegible] per cent increase, the centrally planned economies of Eastern Europe and the Soviet Union together recorded an average 6.4 per cent rise and the 'developed' market economies, a combined 3.4 per cent. China, which has been excluded in the "Survey" for the time, increased its aggregate industrial and agricultural production by 10 per cent in 1971.

The 'developing' countries were in general not seriously affected by the difficulties that confronted the 'developed' market economies. 1971 saw a trend towards greater self-reliance in the 'developing' world and a growth rate which, though it was slightly below the 6 per cent target of the Second United Nations Development Decade, followed two good years of growth and was better than the average for the 1960s. This fact, the "Survey" believes, "augurs well" for the long process of narrowing the gap between the rich and the poor nations.

A slackening in agricultural growth, despite, in some cases, progress in the green revolution, makes the 1971 performance all the more noteworthy. But group averages were affected by substantial improvements in a few countries. These included some of the largest, with a corresponding impact on the overall figures. 'Developing' countries in the Western Hemisphere stepped up total output by 6.5 per cent in 1971 (compared with 6.8 per cent the previous year), while in Africa the increase was 4.5 (4.5); West Asia, 7.7 (6.7); and Southern and South-Eastern Asia, 4.5 (5.3).

The volume of goods exported by the 'developing' countries increased by about 5 per cent in 1971. This was below the 8.2 per cent increase in 1970 and also short of the 1960s average of 6.5 per cent. The slackening was largely a reflection of reduced demand in the 'developed' market economies, with the slowdown most pronounced in Africa, where a 10 per cent expansion in 1970 was followed by a decline in 1971; and West Asia where annual growth decelerated from 12 per cent in 1970 to 3.3 per cent in 1971.



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